



PLANNING AND DEVELOPMENT COLLABORATIVE INTERNATIONAL, INC.

Draft Final Report

WORKING GROUP SESSIONS ON CONSTRUCTION FINANCE

**St. Petersburg, 7-10 June 1994
Nizhny Novgorod, 14-16 June 1994**

Prepared for

**United States Agency for International Development
Bureau for Private Enterprise
Office of Housing and Urban Programs
Washington, DC**

Prepared by

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PADCO, Inc.
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Washington, DC 20001**

Contract No. CCS-0008-C-00-2057-00, TO #37

July 1994

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Draft Final Report

WORKING GROUP SESSIONS ON CONSTRUCTION FINANCE **St. Petersburg, 7-10 June 1994** **Nizhny Novgorod, 14-16 June 1994**

1 Introduction

The purpose of the Working Group Sessions on Construction Finance was to provide training and technical support to private commercial lending institutions, municipalities (principal landowners), developers, and builders to assist them in financing new housing development and rehabilitation of existing housing stock to be developed with World Bank assistance. As part of USAID's housing sector reform activities in Russia, PADCO, Inc. was asked to deliver two working group sessions on housing construction finance, representing a preliminary step toward the development and institutionalization of housing finance and management in Russia. The working group sessions were designed to provide practical policy and analytical tools for private developers and bankers as well as municipal officials immediately involved in the implementation of the World Bank project.

2 Objectives

The working group sessions were intended to provide participants with basic knowledge and skills relevant to implementing housing construction finance programs. The specific defined objectives of the construction finance working group sessions were as follows:

- to identify the role construction lending should play in housing development;
- to share professional experiences and exchange views on real estate lending in general and construction lending in particular;
- to identify impediments and what methods and approaches are likely to be successful; and
- to develop action plans to address impediments and to implement promising approaches to construction lending.

The overarching objective of the working group sessions was to create opportunities for dialogue and exchange of views among municipal officials, developers, and bankers.

3 Participants

The PADCO team, represented by Hank Henward, real estate specialist, William Mawhinney, banking specialist, and Susan Schuman, training specialist, designed and led the working group sessions. Participants in the St. Petersburg session included representatives from the public sector and the private banking, real estate, and construction industries in the cities of St. Petersburg, Novgorod, Tver, and Barnaul. Alain Davet represented the World Bank at the St. Petersburg sessions. The Nizhny Novgorod session was attended by

representatives from the public and private sectors in Nizhny Novgorod and Rostov-on-Don. (See Annex 1 for participant lists.) In total, more than 50 individuals attended the working group sessions. About 20 individuals participated fully in each session in addition to members of the press and faculty from the School of Management of the University of St. Petersburg and the Human Resources Center at Nizhny Novgorod.

The working group sessions were specifically designed and planned primarily for bankers and developers with representatives of the municipalities playing a minimal role as observers and reporters. This mix of participants was critical to the concepts addressed as well as the pedagogical design of the workshops. In fact, however, the actual mix of participants was radically different, requiring substantive alterations to the original agenda. This was especially the case in Nizhny Novgorod, where the majority of participants were municipals officials whose technical needs and backgrounds were not necessarily congruent with the original intent of the working group sessions. While the sessions were well-received and participants enthusiastic, the audience was ill-suited to the original intent and content of the workshops.

While participation was anticipated from the city of Barnaul for the Nizhny Novgorod sessions, only one individual from Barnaul attended in the St. Petersburg workshop and none attended the Nizhny Novgorod sessions. On the other hand, three participants from Rostov-on-Don enthusiastically attended the Nizhny sessions, unaware and uninformed by Gosstroj that their city was no longer in the World Bank program. The absence of representatives from USAID, Gosstroj, and the World Bank, with the exception of Mr. Davet, at both working group sessions, was acutely felt as many participants had come with key questions concerning the World Bank loan.

The invitation process may have been a contributing factor to composition of the audience for the seminars. The Working Group Sessions were to be held under the auspices of the World Bank and USAID. Invitations to the preselected participants therefore should have been sent by either the World bank or by USAID. Instead, PADCO was left to send out the invitations. This led to considerable confusion about who was sponsoring the seminars and who was responsible for preparing the participant list. Many of the desired participants declined to attend and other, less suitable participants were recruited by the respective cities.

4 Content

The working group sessions addressed topics relevant to the World Bank Project and to ongoing reforms in housing construction finance in Russia. (See Annex 2 for agendas.) The topics covered included:

- construction lending principles and process;
- costing analysis;
- risks and benefits of construction finance;
- lending criteria;
- assessment of project viability; and
- loan repayment strategies.

The training curriculum was designed so that each topic would be considered in relation to its applicability within the Russian context, both actual and projected. Topics were presented in short micro-lectures by PADCO specialists followed by small group work, case study applications, and discussions in which participants were requested to directly recast the material under consideration into their professional context and requirements. The hands-on, experiential training model was purposely designed to provide participants with opportunities to relate and adapt the concepts presented by specialists to the existing conditions in the Russian context. Participant Evaluation rates the training approach as successful because it encouraged open and candid exchange of views and fostered problem-solving.

5 Recommendations

At the conclusion of each working group session, participants prepared recommendations regarding steps to address implementation issues for promising approaches to construction lending. Principal impediments to housing construction finance and lending in Russia were:

- appraisal and valuation;
- credit information;
- land registration;
- lack of mortgage lending;
- cost/income ratios;
- taxation policy; and
- legislation (especially regarding land transfers, acquisitions, sale, implementation).

See Annex 3 for participants' recommendations.

6 Participant Evaluation of Working Group Sessions

An evaluation form was administered to participants at the end of each session to assess the utility of the session to participants' needs, the appropriateness of the content and activities, preparation, site, etc. Results of the evaluations can be found in Annex 4. Responses, rated on a scale of 1 to 5, were generally favorable, averaging 4.1 out of 5. While specific suggestions on how to improve the working group session varied, many participants noted that the presence of high-level policy makers would be desirable, that examples of U.S.

practices and policies were especially helpful, and that case study work and guided discussions were very helpful. To reiterate, participants very much appreciated being exposed to concrete "real life" examples from the U.S. and other countries and having opportunities to apply these examples to their own context without "lectures."

7 Lessons Learned from the Working Group Sessions

1. Opportunities for exchange and dialogue are essential to the reform process. The working group sessions provided an excellent and much-needed forum for discussion, particularly during the critical period where both parties are in the process of redefining their roles and establishing new rules of the game.
2. While most participants are able to identify reforms that must take place in order to establish operational systems for housing construction lending and finance, they lack many of the necessary analytical tools and basic knowledge, experience, and skills to chart strategies for implementation.
3. Opportunities to learn from concrete examples from the United States and Eastern European countries, i.e., the how-to steps of project implementation, are highly beneficial by creating a practical knowledge base from which adaptations can be made to the Russian context.
4. The application of methods and techniques used in the United States and elsewhere to existing or proposed projects, i.e., immediate and hands-on practical experience, is the most effective approach to training. This allows participants to make sense and meaningful transfer of information presented.
5. There is a need for more thorough information and systematic orientation to the World Bank project components and procedures. Many participants had unrealistic expectations and misguided understandings about the implementation process for the project, e.g., who will get the loan, who will qualify, how, etc.

The lack of representation from the World Bank, from USAID, and from Gosstroï at the working group sessions was particularly critical in this respect. The absence of direct communication with funding representatives is not constructive to the overall goals of the World Bank program or those of USAID as it leads to significant confusion and misinterpretation of critical elements that are part and parcel of the ultimate success of the World Bank project.

6. Careful and systematic selection of participants is essential in order to bring together key decision-makers in the public and private sectors who are in a position to formulate strategies and advance the reform process. Influence can be brought to bear by the World Bank and USAID to encourage participation of top-level individuals. A training strategy

would formulate a hierarchy of activities from general information sessions to policy reform strategies, to technical information and practical implementation skills sessions.

7. Detailed Needs Assessment for training greatly enhances the success of workshops. While some individuals were quite familiar with concepts and techniques regarding construction lending and finance, others have very limited knowledge and understanding of the basic components of lending and finance, e.g., costing, assessing project viability, appraisal, etc. Substantially more input and time needs to be spent on identifying specific problems, issues, concrete concerns, ways of working, and actual projects that prospective participants want to address. This up-front investment of time contributes significantly to productivity and outputs of the working sessions.

8 Next Steps

Now that appraisal of the World Bank project has been completed, the following steps are suggested:

1. A series of one-day seminars for senior level bankers, developers, and public officials for the purposes of reviewing the terms and conditions of the loan, providing information on criteria for program qualification and lending, and gauging genuine interest in participation in the program. The seminars would be held in each of the cities participating the program. The seminars would be an opportunity to obtain a firm commitment to send key representatives for more in-depth construction lending workshops.
2. In-depth construction lending workshops specifically tailored to the World Bank program, to be held in each of the participating cities. The training agenda would be constructed around specific project sites and actual land development areas with known lending criteria. Participants would be carefully selected in advance and a firm commitment of attendance would be required. The previously successful interactive experiential training approach would be retained.

**LIST OF PARTICIPANTS OF
WORKING GROUP SESSION ON HOUSING CONSTRUCTION FINANCE
NIZHNY NOVGOROD
14 - 17 JUNE 1994**

NIZHNY NOVGOROD

Bobiliev V.V.	Land Bank - marketing
Slesareva L.V.	Land Bank - deputy manager
Samartzev V.V.	Nizhegorodsky Credit - chairman
Walter E.I.	Radiotech Bank - capital construction
Maksakov U.V.	Association Bank - department head
Suckarkov N.A.	Vibor Joint Stock Company
Schurov	Construction Academy
Bazenov	Oblast Administration
Okluikova	Oblast Administration
Kazakov V.A.	Prioksky District Administration -land development
Babenko J.M.	Prioksky District Administration - financial development
Banakh L.A.	Sovietsky District Administration - head of finance department
Koroljev N.I.	Sovietsky District Administration - head of regional construction and urban planning
Shipilov G.J.	Sovietsky District Administration - head of construction department
Fjedorova G.V.	Moskovsky District Administration - finance department
Koniashov	Oblast Administration
Zakharov	Oblast Administration
Charkasova	City Administration
Malokostov	City Administration
Rumiantsev	City Administration

MOSCOU

Souchkov Andrei	Urban Institute
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ROSTOV-ON-DON

Kanter M.M.	City Administration
Borisovsky S.S.	Vneshtorgbank
Siniavsky	construction firm

PADCO

Hank Henward	
William Mawhinny	
Susan Schuman	

**LIST OF PARTICIPANTS IN ST. PETERSBURG SEMINAR
ON CONSTRUCTION FINANCE 7-10 JUNE 1994**

William R. Mawhinney	PADCO
Hank B. Henward	PADCO
Susan E. Schuman	PADCO
Nikita I. Maslennikov	PADCO
Dwight M. Jaffee	University of California (Berkeley)
Jury V. Pashkus	School of Management SPby
Valery S. Katkalo	School of Management SPby
Natalia V. Komarova	School of Management SPby
Nikolai V. Raskov	School of Management SPby
Alain Davet	World Bank
Sergei N. Maximov	Academy of Real Estate

St. Petersburg

Valery V. Balmacheev	MAYOR'S OFFICE OF ST. PETERSBURG
Sergei N. Khrmagin	"Renaissance of St. Petersburg"
Vadim I. Kapustkin	"Renaissance of St. Petersburg"
Vadim V. VFnoc	General Construction Corp.
Viktor A. Makarov	ROSTRO
Alexander V. Kretov	KS Invest
Dmiteiy V. Pankin	Bank Reconstruction St. Petersburg
Jury N. Pilipwnko	Bank Petrovsky
Ganna G. Smirvova	Bank Baltiysky
Natalia V. Kadilina	Bank Baltiysky
Alexander I. Filonenko	Land Bank
Maria A. Zhuravleva	Central Bank of Russia
Galina S. Kozlova	Central Bank of Russia
Irina V. Ekimova	Spetsinvestproject Corp.
Viacheslav M. Strugov	Baltiyskaia Construction Co.

Tver

Anna V. Kudrjavzeva	Tver Universal Bank
Pavel A. Bartenev	Mayor's Administration
Stanislav K. Fedorovsky	Tver Universal Bank

Norgorod

Jury P. Chermashenzev	City Council
Natalia N. Nikolaenko	City Council
Pavel D. Alexandrov	Novo Bank
Taisia A. Jakovleva	TO SMU-57
Vladimir A. Kondratiev	Corporation VOLKHOV

Barnaul

Fiodor E. Shakalov	ANTRON
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**WORKING GROUP SESSION ON HOUSING CONSTRUCTION FINANCE
7 - 10 JUNE 1994
ST. PETERSBURG**

OBJECTIVES OF WORKING GROUP SESSION

- ▶ to identify the role construction lending should play in housing development;
- ▶ to share professional experiences and exchange views on real estate lending in general and construction lending in particular;
- ▶ to identify impediments and what methods and approaches are likely to be successful; and
- ▶ to develop action plans to address impediments and to implement promising approaches to construction lending.

AGENDA

Tuesday, June 7, 1994

9:30 a.m. **Session 1.1: OPENING AND INTRODUCTIONS**

- ▶ Official Opening and Welcome
- ▶ Introductions
- ▶ Goals and Expectations
- ▶ Working Group Session Objectives
- ▶ Guidelines
- ▶ Overview of the proposed World Bank loan project

Session 1.2: INTRODUCTION TO CONSTRUCTION LENDING

- ▶ Objectives
- ▶ A definition of construction lending
- ▶ Roles of developers, bankers, and city officials
- ▶ Road Map for Construction Lending

Session 1.3: OVERVIEW OF KEY LENDING PRINCIPLES

- ▶ Valuation and appraisal
- ▶ Loan repayment terms and schedules
- ▶ Negotiable elements of a loan
- ▶ Loan underwriting procedures and approval process

11:20 a.m. **COFFEE/TEA BREAK**

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11:30 a.m. **Session 1.3** continued:

- ▶ Disbursement of construction loan and potential problems
- ▶ Risks and rewards of construction lending
- ▶ Loan repayment and take-out financing

12:00 ▶ Panel discussion: Legal and risk assessment issues in the application of lending principals in the Russian context

13:00 p.m. **LUNCH**

14:00 p.m. **Session 1.4: ASSESSING PROJECT VIABILITY**

Session 1.5: MODEL CASE STUDY

- ▶ Objectives
- ▶ Key issues
- ▶ Case study analysis

16:30 p.m. **COFFEE/TEA BREAK**

16:40 p.m. ▶ Team presentation of case study
▶ Discussion of case study

17:45 p.m. **SUMMARY AND CLOSURE**

- ▶ Burning questions
- ▶ Feedback and evaluation of the day
- ▶ Preview of Day Two and homework assignment

Wednesday, June 8, 1994

9:30 a.m. **WARM-UP AND QUIZ/REVIEW OF DAY ONE**

Session 2.1: DETERMINING CONSTRUCTION COSTS

- ▶ Presentation of scenario and costing framework
- ▶ Team work
- ▶ Team presentations and discussion

11:20 a.m. **COFFEE/TEA BREAK**

11:30 a.m. **Session 2.2: TEAM CASE STUDIES**

- ▶ Development of team case studies based on actual or proposed projects

13:00 p.m. **LUNCH**

- 14:30 p.m.
- ▶ Completion of worksheets and pro forma
 - ▶ Presentation of case studies to “loan approval committee”
 - ▶ Discussion

17:30 p.m. **SUMMARY AND CLOSURE**

- ▶ Lessons learned
- ▶ Feedback from participants
- ▶ Preview of Day 3

Thursday, June 9, 1994

9:30 a.m. **WARM-UP AND FEEDBACK REPORT**

Session 3.1: BURNING QUESTIONS ANSWERED

- ▶ Insurance issues

Session 3.2: LOAN REPAYMENT STRATEGIES

Session 3.3: CONSTRUCTION LENDING IMPEDIMENTS

- ▶ Identification/prioritization of major impediments to implementation

11:20 a.m. **COFFEE/TEA BREAK**

- 11:30 a.m.
- ▶ Recommendations
 - ▶ Discussion

13:00 p.m. **LUNCH**

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14:00 p.m. **Session 3.4: ACTION PLANS**

- ▶ Development of specific action plans for follow-on activity based on analysis of impediments

PARTICIPANT EVALUATION OF WORKING GROUP SESSION

SUMMARY AND CLOSING REMARKS

Friday, June 10, 1994

[Optional] Individual consultations with working group specialists may be arranged.

**WORKING GROUP SESSION ON HOUSING CONSTRUCTION FINANCE
14 - 16 JUNE 1994
NIZHNY NOVGOROD**

AGENDA

OBJECTIVES OF WORKING GROUP SESSION

- ▶ to identify the role construction lending should play in housing development;
- ▶ to share professional experiences and exchange views on real estate lending in general and construction lending in particular;
- ▶ to identify impediments and what methods and approaches are likely to be successful; and
- ▶ to develop action plans to address impediments and to implement promising approaches to construction lending.

Tuesday, June 14, 1994

9:30 a.m. **Session 1.1: OPENING AND INTRODUCTIONS**

- ▶ Official Opening and Welcome
- ▶ Introductions
- ▶ Goals and Expectations
- ▶ Working Group Session Objectives
- ▶ Guidelines
- ▶ Overview of the proposed World Bank loan project

Session 1.2: INTRODUCTION TO CONSTRUCTION LENDING

- ▶ Objectives
- ▶ A definition of construction lending
- ▶ Roles of developers, bankers, and city officials

11:30 a.m. **COFFEE & TEA BREAK**

- 11:45 a.m. ▶ Purpose of a construction lending program
- ▶ Benefits of construction lending
 - ▶ Road map for construction lending
 - ▶ Risks and rewards of construction lending

1:00 p.m. **LUNCH**

- 2:00 p.m. ▶ Legal Framework and risk assessment for construction lending in Russia: Panel

Discussion

2:45 p.m. **Session 1.3: MODEL CASE STUDY**

- ▶ Introduction to case study, purpose, and objectives
- ▶ Construction costing
- ▶ Evaluation of equity and assets
- ▶ Team work analysis of case study

5:30 p.m. ▶ Discussion of case study

5:45 p.m. **SUMMARY AND CLOSURE**

- ▶ Burning questions
- ▶ Feedback and evaluation of the day
- ▶ Preview of Day Two and homework assignment

Wednesday, June 15, 1994

9:30 a.m. **Session 2.1: WARM-UP AND REVIEW**

- ▶ Open forum: questions and answers

Session 2.2: MODEL CASE STUDY

- ▶ Presentation of team work
- ▶ Discussion

11:15 a.m. **COFFEE & TEA BREAK**

11:30 a.m. **Session 2.3: IMPEDIMENTS TO CONSTRUCTION LENDING**

- ▶ Identification of impediments
- ▶ Steps and strategies to overcome impediments

1:00 p.m. **LUNCH**

2:00 p.m. **Session 2.4: ACTION PLANS FOR IMPLEMENTATION**

- ▶ Actions and measures to create conditions for construction lending
- ▶ Recommendations

3:00 p.m. **Session 2.5: LESSONS LEARNED & SUMMARY**

PARTICIPANT EVALUATION OF WORKING GROUP SESSION

3:30 p.m. **CLOSING CEREMONY**

4:00 p.m. [Optional] Individual consultations with working group specialists may be arranged.

5:00 p.m. **RECEPTION**

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PARTICIPANT RECOMMENDATIONS

Legislative Reform

- new taxation laws, prepared by professionals
- create special conditions and incentives for domestic manufacturers
- set up tariffs on imported construction materials
- improve/implement bankruptcy laws
- enforce laws and eliminate loopholes
- laws must be issued with implementation specifications
- adopt legislation regarding mortgages including legal ramifications of default, registration of real estate, acceleration of remedies for creditors
- improve ability to enforce contractual obligations
- clarify rights of banks, developers and buyers under foreclosure

Taxation

- promote tax incentives on investment, control hustlers and speculation
- provide tax breaks to domestic manufacturers of building materials
- decrease taxes and simplify/reduce number of taxes
- improve registration of property rights
- introduce property taxes
- remove 23% VAT tax on investments in R.E.

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Property/Privatization Issues

- complete privatization process on property
- stimulate domestic production
- activate production of services and increase affordability
- introduce new building techniques to decrease construction costs
- follow market mechanisms as outlined in WB project

Finance Issues

- municipalities should consider an on-line budget contribution to "facilitate housing"
- use commercial land/space to raise capital for housing
- household loans secured by other collateral

Development/Construction Issues

- demonstration projects for land development and housing development to demonstrate market mechanisms
- market has many distortions, needs further development
- introduce new building materials to reduce costs

CONSTRUCTION FINANCE WORKING GROUPS PARTICIPANT WORKSHOP EVALUATION SUMMARY

1. Were the objectives of the Working Group clear to you prior to your arrival?

1 = not completely

5 = perfectly clear

St.P average: 3.5

NN average: 3.53

To what extent did the Working Group session meets its objectives?

1 = low

5 = high

St.P average: 3.75

NN average: 4.0

What other objectives would you have liked included?

Comments:

- more discussion on the mechanisms of the World Bank loan
- financial planning
- collateral mortgage security
- more examples of US and Western European projects

2. To what degree will the session help you in your work?

1 = did not help

5 = helps greatly

In getting new/more complete information?

St.P average: 3.75

NN average: 4.0

In acquiring new skills?

St.P average: 3.5

NN average: 4.1

Creating new ideas?

St.P average: 3.5

NN average: 3.9

3. Which sessions were the most interesting/useful to you?

- costing
- discussions (especially of problems and real projects)
- project evaluation (valuation and appraisal)
- case study
- team work
- site development
- World Bank project in Nizhny Novgorod

4. Which session were of least interest?

- discussion on legislation and tax policy
- introductory session

5. Workshop organization and content

1 = poor

5 = good

a) length of the workshop	St.P average: 4 NN average: 4.5
b) amount of work and content covered	St.P average: 3.75 NN average: 4.0
c) selection of topics	St.P average: 4 NN average: 4.5
d) amount of time given to each topic	St.P average: 3.6 NN average: 4.1
e) depth of explanation of topic	St.P average: 3.5 NN average: 3.9
f) balance of presentations and group work	average: 4.25 NN average: 4.6

6. Evaluate the training methods used in the workshop

1 = poor

5 = good

a) presentations	St.P average: 4.2
	NN average: 4.6
b) group work	St.P average: 4.4
	NN average: 4.6
c) case study	St.P average: 3.9
	NN average: 4.2
d) discussion of practical situations	St.P average: 4.4
	NN average: 4.6

7. To what extent did the workshop respond to the demands of your work?

1 = Not at all

5 = very well

St.P	average: 3.5
NN	average: 4.2

8. Suggestions to improve the quality of future Working Groups?

- activities of real estate firms in the U.S. and sources of their financing
- experiences of similar workshops in Eastern Europe
- workshops and training in the U.S.
- methods of project valuation and appraisal of solvency of a potential borrower as done in the U.S.
- legislative framework for real estate and banking in the U.S.
- mortgage lending in an inflationary climate
- more concrete projects in U.S. and Russia