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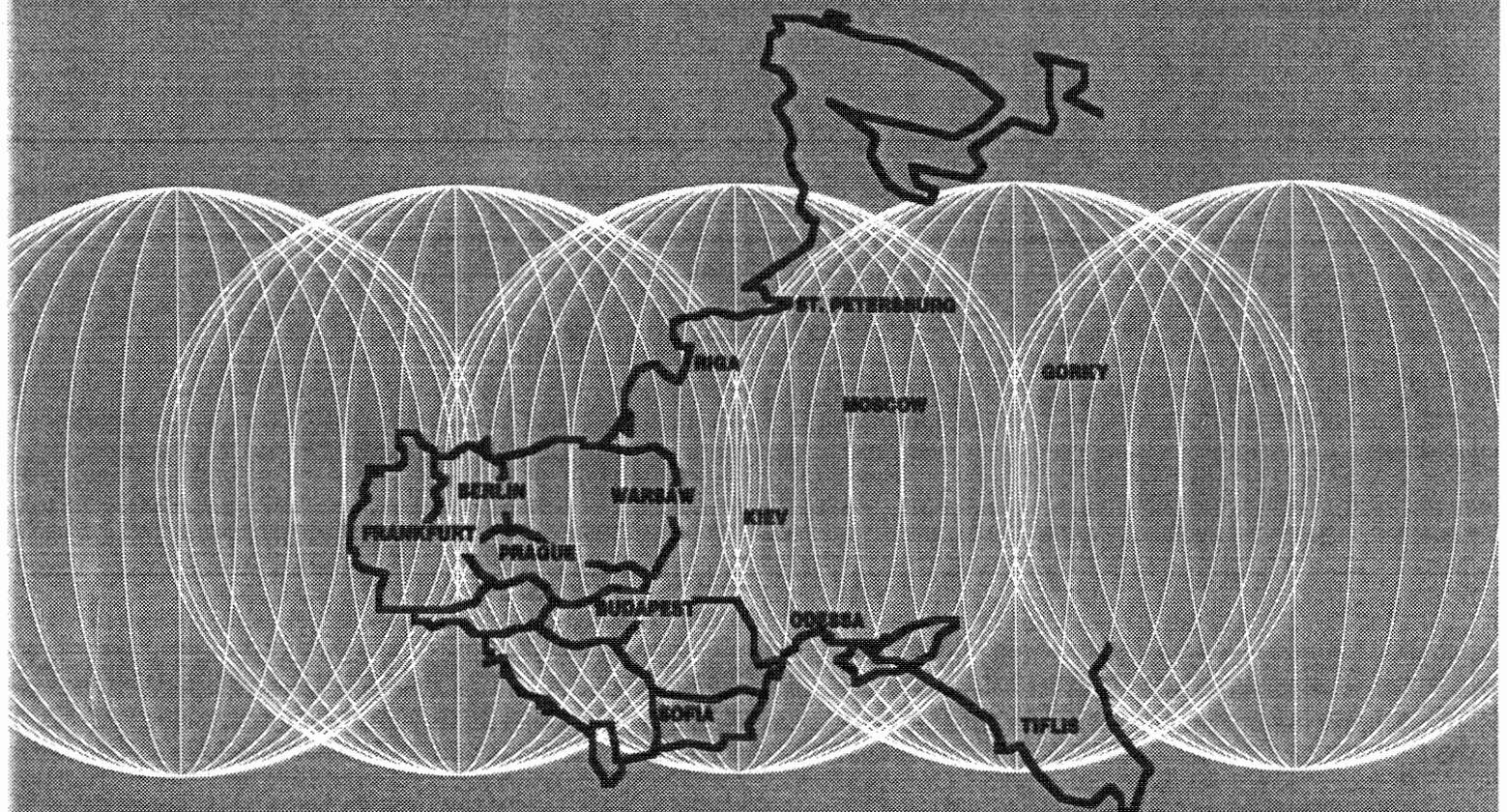
FROM PLANNING TO MARKETS

HOUSING IN EASTERN EUROPE

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

ANNUAL REPORT

SEPTEMBER 1993 - AUGUST 1994



THE URBAN INSTITUTE

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

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In March 1992 the United States Agency for International Development signed memoranda of understanding with the Russian Federation and three Russian cities to provide technical assistance in reforming the shelter sector. The initial term of the agreements was for two years and included the stationing of long and short term advisors at both the Federation and municipal level. In May 1992 a team of Urban Institute housing experts and consultants, under contract to USAID, began providing technical assistance to the Russian Federation and City of Moscow. Permanent long-term advisors began work on the Housing Sector Reform Program (HSRP) in September 1992.

At the end of June 1994, The Minister of Construction, Efim Basin, signed the Memorandum of Understanding on a two-year extension of the HSRP. It was then signed by Deputy Ministry of Economy Sergei Vasiliev and First Deputy Minister of Finance Andre Vavilov. In July, James Norris, USAID Mission Director, signed the renewal of the Technical Cooperation Program in Housing between USAID and the Russian Federation. In addition, in July, Mayor Yuri Luzhkov signed the two-year renewal of the agreement between USAID and the City of Moscow for the technical cooperation program in housing. It was signed by Mission Director Norris in August.

This report describes the activities of the HSRP in its second year of full implementation and changes in the laws, policies, and program of the government of the Russian Federation and its cities from September 1993 to August 1994.

The HSRP focussed on the following initiatives this year:

- Facilitating the necessary legal and policy changes to support a private housing market; this year's work included: home purchase subsidies, a Law on Mortgage, housing debentures (a real estate security), condominium regulations, general parameters for housing lending, and land issues.
- Assisting Mosbusinessbank, Menatep Bank, The Joint Stock Mortgage Bank, and others to initiate mortgage lending.
- Working with the Association of Mortgage Banks to offer housing finance training.
- Working with the Moscow and cities throughout the Russian Federation on raising the rent in municipal housing to market levels and implementing housing allowances.

- Working with the City of Moscow to privatize the maintenance of municipal housing with a goal of 250,000 units under private management by the end of 1994.
- Implementing a project to form condominium associations in the six cities slated to receive World Bank housing sector loans.
- Aiding the World Bank in its preparation for a housing sector loan program by managing data collection for a housing indicators survey and hosting a major conference.
- Expanding program activities to Nizhni Novgorod.

A. Program Activities — Russian Federation

Legal and Policy Developments

Early in the program year, housing reformers were energized by the combination of President's Yeltsin move in October in dissolving the Supreme Soviet and the re-entry of Yegor Gaidar in the government. At a meeting called on September 27 by Sergei Vasiliev, then head of the Economic Reform Working Center (established by Gaidar), Ray Struyk (SSRP Resident Advisor) presented a list of elements that could be included in a Presidential housing reform initiative which had been prepared by the housing finance team. The meeting was attended by Gaidar's housing person and senior people from the Ministry of Economy and Gosstroï¹.

The package included:

- A Law on Mortgage to be issued as a Presidential Decree or Government Regulation;
- A Government Regulation on providing up-front (downpayment) subsidies for home purchase;

¹ During the program year numerous administrative changes occurred in the Russian government agencies responsible for housing. In January, the Committee on Municipal Economy was abolished and its functions were absorbed by Gosstroï. In the summer, Gosstroï was once again elevated to ministry status. (It was downgraded in the fall of 1993 to the status of State Committee). The new title is Ministry of Construction and its acronym is again Minstroï. The former Committee on Housing and Communal Economy was incorporated into the ministry as a department. In this report, the name Gosstroï will be used to refer to events which occurred before the name change.

- A Government Regulation on housing debentures, a form of real estate investment trust; and
- A Government Regulation on "Improving the Organization of Housing Maintenance," which requires the privatization of state maintenance companies and the procurement of maintenance services by state organizations on a competitive basis.

On October 26, a package which included these proposals plus the following additions was officially presented to Yegor Gaidar by the Ministry of Economy and the Ministry of Finance:

- A Presidential decree on the structure of the housing finance system;
- Regulations on condominiums;
- Regulations on procedures for clarifying ownership of partially constructed residential buildings and transferring ownership to entities who will complete construction; and
- Regulations on clarification of procedures for free-of-charge housing privatization.

The combined package formed a blueprint for much of the team's activity this program year. For details of specific team contributions towards making these policy objectives a reality, please see below.

Law on Mortgage

Although the Law on Mortgage was not heard on the Duma floor before the end of the program year, the HSRP team played an important advisory role in a long, complicated process. This winter, Albert Sokin and Mrs. Volkava at GKI championed a version of the mortgage law drafted by Steve Butler (HSRP Legal Advisor). Butler emended his version, based on their and others' suggestions, and sent it to Leonid Paydiev, the official at the Ministry of Economy responsible for piloting the law through the government's review process. Ultimately, a different more conservative draft prepared by Alexander Makovsky which had received wide publicity was chosen as the working draft.

By the end of June, the Ministry of Economy had resolved all conflicts among various ministries on the Law on Mortgage and sent it to the Cabinet for review before submission to the Duma. The Duma also requested that Makovsky prepare a new draft using the previous draft of the likely Government's bill and his earlier draft.

Throughout the summer the HSRP team participated in various discussions related to the legislation. Nadhezda Kosareva (CCN Consultant) participated in the regular meetings of the Duma working group on the Law on Mortgage, headed by G. Zadonski, MP, which featured much confused discussion about selling mortgages and even about some of the basic concepts. In mid-July, Andrei Suchkov (CCN Consultant) joined a discussion the group had on the problem of land and property rights registration. The following week, Kosareva and Suchkov took part in a discussion of the legal issues of property rights registration. Despite some serious differences in approaches, it was agreed that the creation of an integral system of property rights registration and the development of adequate laws is urgent. Kosareva and other participants stressed the necessity to adopt temporary regulations to provide the legal framework for existing real estate development.

Purchase Subsidies

On December 8, 1993, the government of the Russian Federation issued an Order which created a new form of subsidy to support home purchase that would replace existing subsidies that reduced interest rates on long term loans. The new subsidies are "downpayment" subsidies, i.e., cash payments paid to sellers at the time of purchase transaction. Subsidies paid by oblast, municipal, and federal governments are covered by the Order. For subsidies paid by the federal government, the Order specifies a range of downpayment subsidies from 5 to 70 percent of the price of a modest unit of the size appropriate for the particular family. Larger subsidies are targeted to families with lower income and more years on the waiting list. Those eligible to receive federal subsidies are those on municipal housing waiting lists and in certain privileged groups, e.g., retired military officers. The UI team worked intensively with Gosstroi to prepare implementing guidelines for the program.

In February, with a great deal of assistance from our team, Gosstroi 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." This document serves as guidelines for the December program.

Housing Debentures

Housing debentures are a type of tradeable security issued by finance companies that are denominated in square meters, i.e., an investor purchases a security which is worth one square meter of housing. When the investor amasses sufficient securities, he can use them to purchase a unit; the availability of a unit is guaranteed by the finance company. Alternatively, the investor can cash in his certificates. The value of the security is indexed by the cost of construction. Certificates are already offered in about 40 cities and have been wholly unregulated.

Throughout the year, the HSRP team met numerous times with the principals at Gosstroi who were working on drafting regulations on the issuance and use of these securities. In the spring, Kosareva and David Khodjaev of Gosstroi did significant work on a Council of Minister's draft regulation and prepared it for review after agreement was reached on securities issues with the Ministry of Finance and the Central Bank. In June, President Yeltsin signed a decree regulating the securities as part of an early summer housing effort to issue decrees related to housing.

Private Maintenance

In January, a draft version of the Federation Regulation on the privatization of maintenance which was amended by Marina Shapiro (CCN Consultant), was reviewed by GKI and passed to Gosstroi through the Ministry of Finance. On April 1st, Gosstroi Chairman Basin signed the Regulation "On the Procurement of Competitive Housing Maintenance in the Russian Federation." This regulation introduces the procurement procedure used by the HSRP in the privatization of maintenance pilot as the model for the procurement of competitive maintenance services by all public and private housing owners. An owner may not use non-competitive maintenance for a term exceeding one year, at which time Gosstroi recommends competitive procurement of maintenance using our procedure.

Condominiums

In late December, President Boris Yeltsin signed a decree that established national regulations for the creation and operation of condominium associations. Ultimately these regulations will be replaced by a law passed by the Federal Assembly. In the meantime, local governments can use these regulations to initiate the creation of associations.

In January, GKI and Gosstroi requested that Butler help them work out a comprehensive condominium charter, based on the model foundation and by-laws documents he prepared earlier. In the summer, Tanya Belkina (CCN Consultant) edited the Russian version of the Model Charter, authorized by Butler. The Charter structure was modified, along with proposals to improve the legal basis for condominiums, to comply with the provisions of the Presidential Decree.

June Activity

In the first week of June, Sergei Vasiliev, now Deputy Minister of Economics, who is heading a team organized by the President's office to take initiative in economic reform, asked us urgently to propose policy initiatives that could be taken under the President's power to issue decrees. Nadhezda Kosareva and Anvar

Shamouszafarov (Director, Department of Housing Policy, Minstroi) met with him to discuss possible initiatives. It was decided to accelerate the passage of five regulations and laws then in the "policy pipeline," which included some of the measures proposed in October. Kosareva worked intensively with Gosstroi to deliver a package of five draft Presidential Decrees to Vasiliev. The same package was delivered to First Deputy Premier Soskovets. The package contained draft decrees on the following topics:

- Regulations on the issuance and redemption of housing certificates (formerly called housing debentures);
- Regulations on long-term residential mortgage lending;
- Regulations on completion of unfinished residential construction projects;
- An order for rub 600 billion to be allocated for downpayment subsidies and subsidies for housing cooperatives; and
- An order granting tax privileges to construction projects for retired military officers funded by the U.S. Government.

On Friday, June 10, President Yeltsin signed decrees on the first three subjects which will do the following:

- Set the general parameters for housing lending in Russia, including long-term mortgage lending. The regulation explicitly permits the use of deferred payment and variable rate mortgages, sets the maximum loan-to-value ratio (70 percent) and provides other guidance.
- Establish the regulatory framework for the issuance and redemption of housing certificates or housing debentures.
- Establish procedures for clarifying ownership of a large volume of partially completed housing, whose construction was initiated during the former regime; the procedures also specify how the proceeds from selling the projects are to be shared. This is expected to break the legal bottlenecks that have prevented completion of these projects for several years.

In addition, at a meeting of the Gosstroi collegium the last week in June, Minister Basin announced that the Prime Minister has signed several new Council of Ministers' resolutions and orders concerning housing. Those signed include:

- An order for investors using federal funds to finance housing to pay 30 percent of cost in advance. Until now, disbursements were only made with progress. The advances will be a substantial relief to the construction companies.
- Approval of subsidies to families in housing cooperatives whose buildings were put under construction before January 1994. This extends the previous subsidies which cover construction cost increases—very large and poorly targeted subsidies.
- An order for the budget to allocate rub 600 billion to the new downpayment subsidy scheme which is targeted to those on municipal housing waiting lists.

Land Issues

On December 10, the Council of Ministers promulgated federal regulations on auctions and competitions for land allocation as called for by the October Presidential Decree "On Regulating Land Relations and the Development of Agrarian Reform." These regulations were subsequently repealed by the December 24 Presidential decree, "On Modifying the Land Laws on the Russian Federation to be in Accordance with the Constitution of the Russian Federation." This December 24 decree not only repeals the auction/competitions regulations, but repeals a number of provisions of the 1991 Land Code, as well as a provision of the 1991 RSFSR law "On Land Reform," the 1990 RSFSR law "On Peasant Farming," and the October 1992 decree "On Regulating Land Relations and the Development of Agrarian Reform." A December 11 Presidential decree entitled "On State Land Cadastre and Registration of Documents on the Rights to Real Property" was promulgated calling for the creation within one month of a federal unified system of land registration.

Butler worked with Roskomzen on the preparation of the land code by preparing the initial concept and extensive comments on the draft code. At a spring meeting with Anvar Shamouszafarov it appeared that a somewhat more progressive version drafted primarily by Roskomzem (compared with earlier versions from the same agency) would be sent to the Duma. In June, the Government sent the land code to the Duma for consideration.

Agency for Mortgage Lending

Another activity of the HSRP legal and policy team was the preparation of a regulation on the Agency for Mortgage Lending. With the assistance of Jack Goodman, Senior Economist at the Board of Governors of the Federal Reserve System, the team prepared a regulation on the Agency for Mortgage Lending early in

the year. In the first week of February, we submitted a revised version to Andre Vavilov, First Deputy Minister of Finance as requested. Two versions were prepared: one in which the Agency had an explicit regulatory function and another in which it did not. There was 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. She and Vavilov solicited and received review comments on the draft regulations from the Ministry of Economics, GKI, and Gosstroi. Kosareva then worked with the Ministry of Economy to draft a charter based on the comments. She also met with the First Deputy Chairman of the Central Bank, Khandruev for his input. Both the charter and regulations turned 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.

Foreclosure Legislation

In August, Minstroi completed the draft of a Presidential Decree that will clarify and strengthen the ability of banks to foreclose on residential mortgage loans in default and to evict the residents, if necessary. A clause under which the bank would rent a unit for a one year period for the defaulting borrower, if the unit in question was the borrower's primary residence, was added with input from the HSRP team. After one year if the borrower did not voluntarily find alternative housing, the borrower could then be forcibly evicted from the unit. The cost of the rental would be deducted from the funds due to the borrower after sale of the unit at auction.

In August, the Nizhni Novgorod Interregional Land Bank drafted a resolution on foreclosure for the Nizhni Novgorod oblast. In meetings with the bank and oblast officials, Struyk and Kosareva suggested an approach similar to the one suggested to Minstroi.

Housing Finance

This program year the HSRP housing finance team worked with Mosbusinessbank, Menatep Bank, Joint Stock Mortgage Bank and Nizhni Novgorod Interregional Land Bank to initiate mortgage lending. At the end of the program year, the HSRP began work with East Siberian Mortgage Bank and Baltschug Bank with BecSAMBIC corporation and established relations with Kreditprombank and Pskovabank. In addition, the HSRP team and consultants worked intensively this year with Vladimir Orlov and the Association of Mortgage Banks. Work centered on two areas: organizational development and on assisting the association with holding mortgage finance training courses. Work in the fall and winter focussed on preparing for the first course offering in February. In the summer, attention shifted to organizational development and to preparations for a series of courses to be offered

in October 1994. Finally, the HSRP enabled several groups of Russians to attend housing finance study tours in the United States.

Mosbusinessbank

On December 21, The Board of Mosbusinessbank formally decided to go forward with forward with market-oriented, long-term mortgage lending. The bank decided that the initial loans would be made to staff members, largely to provide a controlled environment in which to initiate operations. It made its first mortgage loan in May, 1994. The bank is using the dual rate mortgage (the "DAIR"--Deferred Adjustable Instrument for Russia) developed by the Housing Sector Reform Project. They are servicing the loan using the loan servicing software developed especially for use in Russia by the Len Newman (UI Consultant). Because Mosbusinessbank is widely viewed as a highly conservative, careful bank, its beginning mortgage lending has had significant impact on the thinking of other banks.

The HSRP team and numerous consultants worked intensively with the bank through the fall and winter to help it become a leader in mortgage lending in Russia. Newman designed and installed loan servicing software, wrote a manual and trained two Russian programmers in its use and installation. Newman and the programmers also worked on installing similar software at Menatep and the Joint Stock Mortgage Bank. Kenneth Odenheim (UI Consultant), an expert on appraisal, worked with the bank's mortgage group on the organization and management of the appraisal process in mortgage lending. Thomas Healy (UI Consultant) examined the skeleton business plan prepared by the bank and constructed a more comprehensive one. He also reviewed a marketing letter on soliciting mortgage loan applications which was prepared by bank staff. Rajagopal Subramaniam (UI Consultant) assisted the bank in developing loan servicing and underwriting programs and gave a four day seminar on loan servicing which was also attended by seven other banks.

As lending was about to start, Struyk met with the Mortgage Center on two occasions once with Galina Sokolovskaya and once with Oleg Klementiev to discuss the program. The bank added a couple of new loan requirements, designed to reduce the bank's credit risk, which might have the effect of reducing the demand for loans. One requirement is that the buyer and her family members *not* record the address of the new unit in their *propiskas*, so that eviction in case of default would be easier. The staff of the Mortgage Center were fully aware of the arguments for and against such restrictions, but senior bank management became extremely conservative as actual lending operations were about to begin.

Finally, at the end of the program year, James Cook (UI/Moscow), Suchkov, and Lena Klepikova (CCN Consultant) met with Oleg Klementiev to discuss areas of further assistance to the bank. The bank was closing an average of two loans per

week to its employees and had about thirty applications in the pipeline. Future plans call for making the mortgage department a subsidiary of the bank and expanding mortgage lending to the bank's customers.

Menatep

Menatep is one of the largest banks in Russia and has been classified by the World Bank as an "international standard bank." Struyk and Suchkov from the HSRP team met initially with Alexander Androsov and Alexy Golubovich in December to discuss the bank's plans for mortgage lending. The bank had already begun making dollar denominated loans to its staff a few months before. At a February meeting Androsov requested the HSRP's assistance and explained that the senior management of the Investment Department had decided to establish a new subdivision for mortgage lending to complement its existing construction lending program. In early March, Kosareva and Senior Banking Consultant Thomas Healy provided information on the DAIR and discussed drafting a mortgage lending business plan.

Throughout the late spring and summer, the HSRP team met numerous times with the manager of the new housing lending division, Nikolai Shitov, and Androsov. James Cook worked with the bank on developing the structure of mortgage lending for "Menatep Town" a 62-tract development of single family homes outside of Moscow. In response to comments on the initial agreement for the development, the bank agreed to tone down the original wording of the forfeiture clause. The Board had been reluctant to make this change, believing that they had very little competition and could get away with it. The bank's role in inspecting the property during the construction phase was also discussed. Menatep had believed that it would be protected by the clause that made the builder responsible for any defects in construction for three years after completion. Based on discussions concerning the idea that it is in bank's interest to protect the value of the collateral for the life of the loan, Shitov decided to adopt a procedure for regular unannounced inspections during the course of construction.

Joint Stock Mortgage Bank

In the winter, Struyk met with Arkady Ivanov, President of the Joint Stock Mortgage Bank, to discuss a program of technical cooperation between the bank and USAID similar to that between Mosbusinessbank and USAID which would ultimately result in the bank offering mortgage loans on market terms during 1994.

In the early spring, the bank launched a contract savings scheme which will lead to mortgage loans. Initially, participation is limited to the bank's 40,000 individual shareholders. The minimum savings period is one year and at least 30

percent of the price of the unit must be accumulated in the savings account. Savings are dollar indexed, which makes them one of the highest earning savings accounts available. The bank plans to initiate significant mortgage lending operations when the initial savings contracts mature in a year. By the end of the program year, the bank had opened 132 "downpayment" savings accounts, with the first mortgage loan scheduled to close in March 1995.

Nizhni Novgorod Interregional Land Bank

In the spring, the team met with the bank which was making good progress in designing the procedures to administer the downpayment subsidies program and on organizing mortgage lending operations. In June, Cook, Suchkov and Klepikova met with Valeri V. Bobilev to work out a program for assistance to the bank in beginning mortgage lending. It was decided to work on the loan originating process; the installation of the loan servicing software; and developing consumer information on the DAIR which can be used by all banks using the instrument.

East Siberian Mortgage Bank

In mid-August, Cook and Suchkov journeyed to Irkutsk to meet with Sergey Kurilov, Director of Mortgage Lending at the East Siberian Commercial Bank to discuss the initial stages of a work program. (Struyk had met with Kurilov at our housing finance training course in June.)

The bank is in a good position to start mortgage lending and has established close ties with Vincent (a local construction/development company), local enterprises, and the oblast administration. Cook and Suchkov also met with Sherbakov Vladimir, Director of Vincent and with Ivan T. Smolianin, Chairman of the Committee on Architecture and Construction for the oblast. The oblast had established a fund of 35 million rubles for social housing, which the bank hoped to use for up-front subsidies. Smolianin was very interested in how the administration can help our program and requested the HSRP to submit recommendations on how the subsidy program could be administered. In addition, he requested a proposal on tax breaks for construction companies and mortgage companies so that these may be included in next year's budget. We decided to propose a program similar to Nizhni Novgorod's and recommend that the rub 35 million for social housing be used in the form of downpayment subsidies.

Baltschug Bank & BecSAMBIC Corporation

In early August, Cook and Kosareva held an initial meeting with Valery I. Mikheev, Managing Director of BecSAMBIC Corporation, to discuss possible cooperation on developing mortgage banking with Baltschug Bank. The following

week, Cook and Suchkov met with Mikheev again to discuss a work program. Alexander Prozorov of Baltchug Bank and Victor Grevenikob of Moscow United Bank (owned by Baltchug Holding Company) also attended the meeting. Baltchug Bank is working with the Department of Municipal Housing to start a pilot program in three prefectures of Moscow (southern, western, and south-western) to target people on the waiting list for housing. At the end of the month, Cook and Suchkov met again with Mikheev and with Vyacheslav Tsybulnikov, President of Baltchug Bank, to go over the proposed underwriting procedures and the pre-qualifying worksheet. The bank will need training in mortgage lending, computer software for the DAIR, and the development of mortgage lending procedures and materials.

Pskovakobank

In the summer, Cook, Suchkov, and Klepikova met with the senior management of Pskovakobank to discuss the bank's expressed interest in possibly initiating mortgage lending. The housing finance team also presented a one-day seminar on mortgage finance to give the bank a more realistic idea of the risks involved and what would be necessary to begin.

Kreditprombank

Struyk and Kosareva met with Vladimir Tsargorodstev, Chairman of the Board of Kreditprombank, and Mikhail Gavrilin, Director of the Credit Department, at the bank's request. We were asked for assistance in two areas: developing a mortgage lending program for retired officers who will receive 75 percent downpayment grants, with mortgage covering some of the remaining 25 percent; and, working with the training center of the Association of Banks "Rossiya." The training center option is problematic due to our commitment to the Association of Mortgage Banks (see below).

Association of Mortgage Banks

In February the Association of Mortgage Banks, in cooperation with the HSRP, 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, Michael Robertson (UI Consultant), Butler, Marisol Ravicz (UI/Washington), Kopekin, and Healy. Robertson, a professional mortgage trainer, did much of teaching. In addition to the HSRP contribution, about a dozen Russians made presentations on present practices in Russia.

In early June, Ruth Sando and Dale Bottom from FNMA held intensive meetings with Vladimir Orlov, President of the Association of Mortgage Banks, on developing its training program, creating a business plan under which its training programs would be self-sufficient in two years, and enhancing its membership activities.

At the end of July, Sando, Struyk, Klepikova, and Suchkov met with Orlov to assess the Association's progress. In June and July, the Association recruited six new members, prepared the documentation necessary to apply to be registered as an educational institution (which would exempt course fees from the VAT), made major strides in collecting overdue membership fees from members, published the first "information bulletin" for its members, and secured free advertisement of its upcoming courses in the bulletin of the Association of Russian Commercial Banks. In addition, Orlov also appointed Alexander Kopekin to be the Director of Training for the Association.

At the end of August, negotiations were concluded between the Association and the St. Petersburg Mortgage Bank concerning arrangements for the fall courses. The St. Petersburg Academy of Real Estate agreed to provide major help with organizational and promotional tasks. The Academy, in turn, plans to use the facilities of the International Banking Institute.

Suchkov and Klepikova prepared information kits about the Association, UI, and FNMA that will be used in preparing publicity for the courses, including a projected early September press conference. In addition, they also assembled a package of materials with Cook's assistance to give to banks that might be interested in joining the Association. Vladimir Orlov and the FNMA team also reviewed the documents.

Center for Mortgage Business

This year the Center for Mortgage Business published five volumes in the "Mortgage Handbook Series." 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); loan origination; pricing mortgages; and loan servicing.

Study Tours

A team from Mosbusinessbank participated in a study tour to the U.S. on mortgage loan servicing organized for the Institute by Abt Associates.

Ten Russian bankers nominated by our program including, 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, attended the housing finance construction course offered by Dick Pratt and Associates in Utah.

Suchkov, Klepikova, and Kosareva attended a three week housing finance course offered by the Fels Center of the University of Pennsylvania.

Other Housing Finance Work

In June, at the urgent request of First Deputy Minister of Finance, Kosareva and Struyk prepared a proposal outline of how "surplus" funds from the Central Bank could be used to stimulate new construction. The principles outlined included no subsidies on refinancing of long-term mortgage loans by the Central Bank, only modest funds available for each loan (to maximize the number of purchasers helped), and the Central Bank making commitments only as loans are presented to it which would be closed within 30-45 days so that there will be competition among banks to access the available funds quickly.

In addition, Cook and Klepikova worked on a consumer information brochure on mortgages and the DAIR for banks' use in introducing mortgage loans to their customers. Cook also began work on a mortgage math course, to be offered this fall as part of the regional training seminars. The course content will cover basic mortgage math, the calculation of annuities, and various financial schemes.

Housing Allowances

This program year, regions and cities throughout Russia began raising rents and issuing housing allowances. The HSRP team played a major role in this milestone development by assisting with a national conference on housing reform; providing support and technical assistance to municipalities; and working on computer software with a Russian training facility which is working directly with municipalities. Towards the end of the program year attention shifted to establishing a system for monitoring the successes and challenges of the change.

Government Decrees

On September 24, Prime Minister Chernomyrdin signed the Council of Ministers Regulation implementing the program to raise rents in state housing to cover full operating costs over a five year period and requiring governments to implement housing allowance programs when rents are raised. Raising rents is the cornerstone of sector reform and implementation of this provision of the Law on Fundamentals of Housing Policy represented a real victory for reformers within government.

In addition in January, the Council of Ministers issued an order which removed the mandatory step-by-step process in raising rents and granted localities the right to adopt any pattern of increases they wish as long as operating costs are fully covered by rents in 1998.

HSRP Activities

In early February, 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. 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 HSRP team made four major presentations at the conference. We also produced, packaged and distributed all of the materials given to participants.

To facilitate the beginning of the national program, Alexander Puzanov (CCN Consultant) wrote a procedures Manual for the program; Gene Rizor (Quadel/Washington) and Puzanov worked with Mr. Bychkovsky of the Institute of Housing and Communal Economy (IHE) to review the software developed to assist IHE in its work with oblasts and cities to estimate housing revenues, eligibility for allowances, subsidy levels, and administrative costs under various program options; and Rizor and Puzanov also worked with IHE staff to improve their knowledge of housing allowances and to answer questions they had encountered in working with local governments. Puzanov also advised numerous local governments on the technicalities of beginning the program.

Adoption of the Program by Local Governments

The district of Gorodets in Nizhni Novgorod implemented the first housing allowance program in the country in January. Later in the winter, Governor Nemstov signed an order for allowances to be implemented in all parts of the Nizhni Novgorod oblast by May 1. In June, the Nizhni Novgorod region submitted data on housing allowance implementation in 46 districts, excluding the administrative center, as of May 1994. Payments for housing and communal services had increased eight times. The data indicated that 2.5 percent of families in municipal housing and 4.6 percent in departmental housing were receiving housing allowances.

By spring, other cities around the country began implementation of the program. The krai in which Vladivostok is located raised rents to 20 percent of total

operating costs (about a 17 times increase) on March 1 and initiated housing allowances. The Krasnoarsk Region implemented the program in April. In June, the city of Vladimir, with which Puzanov has been working, began issuing housing allowances. Officials reported a substantial volume of applicants. In July, three weeks after a briefing on housing reform by Puzanov the city of Ivanteyevka adopted a full package of local decrees and regulations and established a housing allowance office. On August 1, Ivanteyevka became the first city in the Moscow oblast to convert to the new system.

Monitoring

Throughout the spring and summer, Puzanov advocated at Gosstroi for the establishment of a system for monitoring the implementation of the housing allowance program. In the late summer, Puzanov, Bychkovsky, and Minc met with Andeyev (Head of the Department for Municipal Economy of Gosstroi) and his deputy Mr. Tchernyshov. It was agreed that UI and IHE would produce a joint analytical report for an August meeting of the Gosstroi Board on implementation of the Decree N935 on rent and housing allowance reform. In August, Roskomstat agreed to collect data on the implementation of rent increases and housing allowances beginning in 1995. A form prepared by Minstroi was adopted in principle.

Condominiums

In the late spring, The Regional Condominium Program began work in Ryazan, Tver, Nizhni Novgorod and took over a Bain Link project in Jaroslavl. The project will work with the six cities included in the USAID/World Bank loan project to assist them in the creation of necessary local regulations and training programs for the development of condominium associations.

In preparation for implementation of the program, in February, Carol Rabenhorst, Jeff Telgarsky and Sheila O'Leary (all from UI/Washington), prepared a detailed work plan for the program. In March, Rabenhorst and O'Leary made an initial visit to Nizhni Novgorod. In late May and early June, Rabenhorst, Richard Leeds (UI Consultant), Karen Angelici (UI/Moscow), and Tanya Belkina (CCN Consultant) visited Nizhni Novgorod a second time and Jaroslavl, Ryazan, and Tver to initiate work programs. Leeds gave a seminar in each city on establishing a private housing management firm.

By the end of August, Robin Warsaw (Quadel/Moscow) and Struyk had developed a long-term plan of action for the Program to include priorities and strategies for gaining participation by World Bank cities; establishing criteria and procedures for providing assistance to other inquiring cities; training and education for UI Russian Staff; and selection of written materials; and the use of newsletters

and other communication vehicles to inform regions on progress and issues of condominium programs. In addition, it was decided not to work in St. Petersburg based on a meeting with Maxim Boyko, Director of the Russian Center for Privatization, because the Center has a new agreement to work with the City of St. Petersburg on developing condominiums. Preparations also were made for an October national conference on condominiums. For a more detailed description of work in each city, please see below.

Nizhni Novgorod

Rabenhorst and O'Leary spent two days in mid-March holding initial discussions about the creation of condominium associations with municipal and oblast officials. As part of their visit they gave a half day seminar on the concept of condominiums and the practical steps of creating these bodies to a group of about sixty persons.

In July, Belkina held numerous meetings with the oblast where she met with Novokreschenov, Deputy Director of the Department of Housing Construction and Community of Nizhedgorodskaya Oblast, and came to an agreement for a cooperative program on condominiums in Nizhni Novgorod. The joint project will include: organization of a study course for tenant initiative groups; assistance to the Administration on local condominium legislation; and assistance to tenant initiative groups on foundation documents.

From August 29-31 Belkina, Warsaw and Tanya Koutakova (CCN Consultant) visited the city for separate seminars/work sessions with city officials and oblast officials. At that time, the City had identified buildings for forming associations; resolutions on Condominium Organization had been drafted at the oblast and city levels and draft condominium charters for two smaller cities had been discussed.

Jaroslavl

In June, the team met with local officials and members of a Bain Link team that has been working on a condominium project for some months, and under which five condominium associations have been registered. Our team was highly impressed with what had been accomplished to date.

Ryazan

By June 14 condominium associations had already been registered and the city was working with tenant groups as well. Importantly, the city carried out its program with no external assistance—demonstrating that it can be done without substantial outside help. In June the team met with local officials including Deputy

Mayor Anpilogov to assess progress to date, review draft documents and procedures, and make plans for future work. During August 4-5, Warsaw and Masha Tikhomirova (CCN Consultant) traveled to the city for a series of meetings with the Mayor, his staff and condominium board presidents.

In addition, when Tikhomirova had visited Ryazan in July, she had provided them with a copy of the Gosstroi regulation and a package of UI documents to help them establish a Privatization of Maintenance Program. On August 4, Ryazan's Mayor signed the regulation on the competition for maintenance and repair of housing stock in Ryazan. The regulation is identical to Minstroi's regulation except it mandates that 50 percent of the registration bidding fee be spent on the procurement process. The committee of entrepreneurship has already prepared a list of nine maintenance companies interested in performing maintenance of the housing stock. Ryazan is planning to create a special board to coordinate all organizational aspects of the bidding process. The city planned to organize the DEZ by the end of August and to begin operations in the beginning of September. It was agreed that shortly after September 1 would be a good time to introduce a program on Privatization of Maintenance and UI will provide any technical assistance they may need.

Tver

During August 9-10, Warsaw and Tikhomirova traveled to Tver to discuss condominiums and privatization of maintenance with the municipality and the First Deputy Mayor. The city had received a request from the residents of a one-year-old building to establish a condominium. Warsaw invited the appropriate municipality staff to come to the UI/Moscow offices in early September to finalize a draft city resolution on Condominiums and a Charter. However, two weeks later, two representatives from Tver City Administration's Legal Department made an unexpected visit to our office. They provided us with a list of training and educational documents relating to various city issues, including but not limited to the condominium and privatization of maintenance programs.

Housing Codes

On July 12-21, Tikhomirova accompanied government officials of the Russian Federation, the Housing and Communal Services Department of Gosstroi and the Moscow Municipal Inspection on a study tour of Housing Codes and Housing Inspections in the United States (organized by Quadel Consulting Corporation and USAID). Soon after the tour Minstroi drafted a resolution of government for signature by the Prime Minister which would establish a legal framework for a national system of housing codes.

B. Program Activities — City of Moscow

Housing Maintenance Pilot Project

The Housing Maintenance Pilot Project went into full swing this year. In the fall, Mayor Luzhkov signed the Order approving the results of the pilot project and mandating that the pilot be expanded into all Moscow Administrative Districts by January 1, 1994. The Order also admitted condominium associations to the pilot as owners. The project set a goal of 250,000 units by the end of 1994. This year contracts were signed in Mitino, Orekhevo-Borisovo, and Timiryazevsky. The pilot has not been trouble free, however. There have been on-going problems, for example, with the local governments paying the contractors in a timely matter. The pilot team has met on a regular basis with the principal actors in the city government on this and numerous other issues throughout the year.

Work with City Government

In the early winter, Mrs. Medvedeva was designated citywide coordinator for the expansion. On December 3, Alexander Matrosov, Director of the Department of Communal Services, and First Deputy Mayor Nikolsky met with all Prefects to plan the expansion of the pilot. In January, Mrs. Medvedeva took the lead in drafting the Department of Engineering Provision's new standard contract for maintenance services for both private and public maintenance. It was notable for its similarity to our model contract and for adopting policies that we had recommended. In February, there was an administrative changeover in responsibility for the program from Mrs. Kuznetsova's office (Economics) to Mr. Bitsukov's (Maintenance).

Mid-year recommendations for program improvements outlined at a meeting of Angus Olson (HSRP Resident Advisor) and Bitsukov and Kuznetsova included: revision of procurement documents to make owner and contractor responsibilities more specific; recommendations to the City Duma by Kuznetsova to make public and private maintenance tax exempt; preparation by Bitsukov of a paper on how critical maintenance equipment could be leased by the city to private contractors; and the convening by Strazhnikov of a meeting with private contractors to discuss program issues and to assess the need for an association representing the contractors.

In the first week June, Marina Shapiro (CCN Consultant) worked with Medvedeva, Osipova and Savina (Strazhnikov's Chief of the Board of Organization of Maintenance of the Housing Stock) to revise procurement documents to make owner and contractor responsibilities more specific, including revising the scope of work. A new standard maintenance contract was drafted including an inspection document that will create an objective analysis of building deficiencies at the time of the contract signing.

Financing emerged as an issue at the end of the program year. Mayor Luzhkov signed a resolution decreasing the level of funding for housing maintenance city-wide in the current year to 84 percent of current levels. In order to accommodate the reduced funding, he proposed reducing the scope of work of the REU's and the private contractors equally to the "minimum level to maintain the housing stock." He recognized the necessity of paying contractors 100 percent of the contract, but he insisted that they must not be paid more than REU's. He suggested reducing the scope of work of current private contractors, which would, of course, require amendments to the contracts and threaten the contractors' ability to honor them. The private contractors are able, in general, to do more with less, by operating more efficiently than REU's. Ineffective and inefficient REU's continue to be paid for deficient service and cause a massive drain on resources for very small return.

Two chronic problems with the lower levels of local government were: seriously delayed payments to the contractors and the unwillingness of the DEZs (who are supposed to be acting as owners) to do on-site inspections of the quality of service provided. The HSRP met with various government officials to discuss these problems. In January, Olson drafted a letter to Mrs. Kuznetsova on this issue. Olson, Shapiro, and Tikhomirova also met with N. Maslov to discuss the problem. Maslov reaffirmed his strong commitment to the Program, and vowed that he would meet with Mayor Luzhkov, Deputy Mayor Nikolsky, and Matrosov to correct this problem. In the third week of April, a meeting was held between Struyk, Kosareva, Shapiro and Tikhomirova and Aleksey M. Bryachikhin, Prefect of the West Administrative District, to discuss the deteriorating relations between the "owner" (the two local DEZs) and the three firms. The pilot originated in his district, with three contracts signed in March 1993. The DEZs had been late in making payments to the firms which resulted in a substantial arrears totaling rub 155 million in April of which the first rub 55 million was due in 1993. In addition the DEZs were negligent in performing the necessary on-site inspections.

In July, David Murrell (Quadel/Moscow) and Shapiro met with N.V. Tikhonov in Koshtoyantso, Chief of Directory No. 12 of the Department of High-Rise Buildings, at his invitation. Upon arriving, they were presented with a notice of termination addressed to San Technica Kompleks (STC). After discussing the circumstances with Tikhonov and STC's on-site manager, N. Karpov, it became apparent that, again, there were no objective reasons to terminate the contract. After negotiating mutual expectations and obtaining agreement from both sides, the termination notice was withdrawn by Tikhonov.

Training

To facilitate the rapid expansion of the pilot, the basic training course was streamlined and shortened to one month. Quadel Consulting Corporation (QCC) and

Olson added new modules oriented towards the contractor to the existing training. The four new modules were: "Landlord Tenant Relations," "Rent Collection," "Tenant Turnover Repair," and "How to Write a Business Plan." The business plan material was contributed from Ruth O'Sullivan's USAID program in Novosibirsk.

The project had some difficulty with the training firm IHE in arranging trainings and with the quality of trainers they employed. To create some competition we sought out a new training entity: the MosLift Training Center which began training in April.

Bidders and New Contracts

The Mitino "new town" committed 23,000 units to the project, most of which were new units to be occupied by the end of 1994. The training of owners at the Mitino new town was completed on November 26 by IHE. On February 25, San Technica Kompleks (STC) signed the contract for the first 3,295 units (20,000 unit commitment) at Mitino. The pre-bid conference was attended by eleven firms, five of whom eventually bid and were selected for interviews.

This summer, STC signed a contract with the Northwest Prefecture to maintain another 4,500 newly constructed units in Mitino. This represented the first independent action by the contractor and displayed the confidence of the DEZ and the Prefect in the work of the private contractor.

In mid-March the Orekhevo-Borisovo District doubled their commitment to the Program from 15,000 to 30,000 units. With the exception one REU, this put the entire District under competitive maintenance. This represented an extraordinary commitment to the Program and set a precedent for "DEZ-sized" increments of units to be recruited in the future.

In early April, Gennady Sidorov, Sub-Prefect of the Timiryazevsky District, committed an entire REU consisting of 6,616 units to the program. Training began in the last week of April which marked the start of our expanded training effort using MosLift Training Center. In August, AKVA Cooperative, an experienced firm serving 100,000 units in two REU's, signed a contract for all 12,000 units at rub 360 and rub 250 per square meter, respectively, in REU No. 50 and REU No. 54. The pre-bid conference was held on June 28 and attended by only ten contractors as the Mayor's office neglected to publish the standard announcement in the newspapers.

In late July, Shapiro and Murrell met with the Deputy Chief of the Sub-District and Chief of the DEZ to discuss setting up the next training program in Marijno. The total number of units enrolled at that time was less than hoped for: 6,000 vs. 16,000.

Expansion in the Prefectures

By the end of August, Murrell and his team were well underway in discussing expansion of the program with the city's ten Prefects. At Murrell's request I.V. Bitsukov of Engineering Services set up multiple meetings with Prefect leaders including meetings with: First Deputy Prefect, I.S. Reikhanov, and 17 Sub-Prefects in Northeast Prefecture; Prefect and Sub-Prefects of the Northern District, First Deputy of the Central Prefecture, Mikhail Bilyaev; and Southwest Prefect. The Sub-Prefects are also beginning to respond to earlier presentations to the Prefects. In the Eastern Prefecture, especially, a conversion occurred: Vitalij I. Zhilyakov, Deputy Sub-Prefect of Bogarodsky Sub-District; The Chief of REU No. 6, Sergej S. Chernyakov, of Izmailovo Sub-District and The Sub-Prefect at Metrogorodok all requested and received additional presentations. In the Northeast Prefecture, Otradnoye Sub-District met with program staff on August 29. They were anxious to begin the program for two REUs at the earliest possible date.

Press Coverage

On July 15, Murrell and Shapiro escorted one reporter each from the *Moscow Times* and Engineering Services' *Kvartirier* on a visit to AKVA's offices and the units under contract. Lisa Glazer, *Moscow Times*, worked on a short article on the privatization of maintenance. In addition, an article in the June 24 issue of *Moskovskaya Pravda* shed some light on the political problems in Orekhovo-Borisovo involved in privatization of maintenance.

On August 11, Nikolai Maslov (Deputy Director, Department of Municipal Housing) held a press conference about the city's housing program. It was attended by approximately 15 persons, mostly low-level representatives of the Prefects, and four reporters (*Kuranti*, *Kvartirier*, *Ehkonimika i Zhizn* {Economics and Life} and *Moskovskaya Pravda*), the Deputy Chief of Mayor's Press Center, and Chemonics. As a result of the conference, The Sub-Prefect of Otradnoye Administrative District requested assistance for one REU, comprising 14 buildings.

Housing Allowances

In March of this year the Moscow City Duma, after numerous delays, finally passed the regulation which raised rents and introduced housing allowances. In August, the city implemented the program. The HSRP has been and will continue to be an integral part of this major transition.

There were innumerable delays until final passage by the Moscow City Duma. In the fall, the former city government decided to delay consideration of the legislation until the new Duma took office in December. The Duma held 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 was then selected to prepare a final draft of the proposal. One new provision in the February draft was the creation of a joint Duma-City Government working group headed by Vice Mayor Nikulski that would adopt all procedures for housing allowance allocations. On March 9, the Moscow Duma voted 16 "for" and 14 "against" the final draft. Since 18 votes were needed to pass the regulation, the legislation had to be reconsidered. Finally, at the end of March, the city Duma passed the resolution. Unfortunately, the version that passed changed the program in two ways: (a) income below the per capita poverty line would be disregarded in computing program income (because the household contribution rate is fixed, this means a significant loss of revenue to the city) and (b) "overhoused" families, i.e., those living in units which are larger than the social norm, will have to pay three times the normal rent on the extra space. The provision on overhousing will stimulate housing adjustments, but it may also bring thousands of overhoused pensioners into the streets.

The HSRP was intimately involved in getting the legislation passed: Puzanov and Kosareva briefed the Duma numerous times; Puzanov and Angelici ran multiple versions of simulations of the results of various versions of the housing allowance program design for Duma and City officials; and Kosareva also attended numerous meeting with a working group in the Mayor's office, led by Kemer Norkin.

Work on preparing the city to implement the program also proceeded throughout the year. Puzanov, Kosareva, Rizor and others met on a regular basis with Mrs. Kusnetsova and Mrs. Romankina, who was nominated to serve as the Head of the city's Center for Housing Subsidies, the agency within the Department of Communal Services created to administer the allowance program.

In December, a group of eight persons including the Director of the Institute for Housing Economics (with whom the team is working to provide knowledge of the allowance program outside of Moscow), key administrators of the Moscow program, Puzanov, and the member of the Nizhny Novgorod Oblast Administration responsible for allowances, participated in a one week study tour to the U.S. on the administration of housing allowances. The tour was organized by Quadel Consulting which has extensive experience with the U.S. Section 8 and voucher programs.

Rizor designed software for applicant intake, payment calculations, management report generation, etc. He traveled to Moscow in January, but had to return home early due to the programmatic uncertainties caused by the belated Duma vote. He and Puzanov also worked on the development of a "trainer of trainers" program on housing allowances for city staff. In March, Rizor and Sasha Puzanov held a week-long training course for key City housing allowance program managers.

On August 1, the City began implementing its program of rent increases and housing allowances. Charges for maintenance fees and communal services, exclusive of electricity and telephone which are billed separately, for a typical 3-person family living in a three room flat increased from rub 531 to rub 4,448 per month, or 737 percent. Because of inflation since the new charges had been set, the new charges covered about 10-12 percent of full operating costs.

Puzanov was very active in final preparations for the increase. For example, in June, he did a detailed review of the software being developed for administering the housing allowance program with the contractor BANSO and he also contributed to an information sheet, of which three million copies were printed for the housing allowances public outreach campaign.

In the first month twenty-two housing allowance offices opened. There were some problems with start-up due to the fact that Mrs. Romakina, the head of renamed Office of Rent Calculations and Subsidies, had insisted in making the final preparations for the start of the program without assistance from us or from other parts of the City government.

At the start of the program it appeared that the staff had been inadequately trained, so on August 4 and 5 Puzanov gave seminars for local HAO staff at the request of the Department for Communal services in its conference hall. About 60 people attended. The lively questions and discussions proved the staff was quite interested in the job and motivated. He also began to receive regular calls from local HAO's asking for his advice on how to treat concrete family situations.

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

The information campaign in Moscow media also expanded in the late summer. Most of the published materials were compiled from what the HSRP staff had produced. At the request of Mrs Kuznetsova, Puzanov met with Galina Sugak, Press Center of Moscow Mayorate, to prepare a special issue on housing reform in Moscow which would include a section titled "Simulations on Consequences of Rent Reform in Moscow," for which Puzanov did calculations using data for August 1994. In August the percentage of eligible families was about 2.5 percent and for more than 10,000 families the subsidy would exceed their housing and communal services cost.

Housing Codes

Towards the end of the year, the Office of Housing Inspection become more important to our program because of its direct connection with the maintenance privatization program and the general need to modernize the Office's standards and procedures. Rizor, Puzanov and Struyk met with Alexander Straznikov, director of the office, to discuss a series of topics. The increasing role of the Office of Housing Inspection in monitoring the performance of private contractors was also discussed.

Veda Watts and William Connolly (QCC/Washington) delivered a two-day seminar the second week of June to about 50 students on the development and implementation of housing codes. Attendees included officials from the Federation level as well as the relevant offices in the Moscow Administration and City Duma. In addition, Watts, Connolly and Puzanov worked with the Office of Municipal Housing Inspection on developing concrete procedures for the city. By all accounts both the seminar and the consultation were highly successful.

C. Nizhni Novgorod Program

In December, Struyk and Kosareva visited Deputy Governor Frolov of the Oblast of Nizhni Novgorod to begin negotiating a work program on housing sector reform.

The principal areas of assistance to the Oblast by American and Russian experts tentatively agreed upon were:

- Work with the Nizhni Novgorod Academy of Architecture and Construction to develop courses during 1994 in housing economics and the economics of investment decisions in housing construction and to offer these courses to the Academy's students;
- Provide expert review of documents prepared by the Oblast on housing reform, including rent reform, housing finance, and the privatization of housing maintenance services;
- Work with the Oblast on the design and implementation of its program for raising rents and introducing housing allowances during 1994;
- Work with the oblast administration to determine its appropriate role in fostering the development of a housing finance system in the oblast and to work with a bank in the oblast to begin long-term mortgage lending on market principles.

An official agreement between the oblast and USAID was prepared and signed by Jim Norris later in the winter.

This winter, Kosareva and Struyk worked with Governor Nemstov on developing a housing finance strategy and drafted an appropriate order for his consideration. Nemstov signed the order after Struyk and Kosareva spent two days in mid-March working with oblast officials on the reorganization of the housing maintenance function within the oblast and on implementation of the new program. The decree also authorized the experiment in mortgage lending with the N.N. Land Bank. Finally, in May, the Oblast Assembly passed the 1994 budget which included 15 billion rubles for downpayment subsidies. To our knowledge this was the first region in the country to adopt the new subsidy form and Governor Nemstov pushed hard for it as a key element in the housing finance strategy we had helped design.

Governor Nemstov made the introduction of private maintenance for municipal and *raion* housing an early priority. His staff visited Moscow in March for intensive meetings with our team on the process and observed the procurement and bidding process in action. The city also signed a contract with IHE to conduct a one week training for "owners."²

D. World Bank/USAID Housing Construction Loan

This year the HSRP worked with the World Bank in preparation for the housing sector loan. The HSRP contracted out baseline data collection for the Housing Indicators Survey to four firms and held a major conference in January, entitled "Six City Seminar on Land Use, Title Registration and Land Allocation," which was co-sponsored by the World Bank and USAID.

Housing Indicators Survey

In October, in response to the RFP for data collection in the seven impact cities, the team received six proposals. AUREC, Polis-3, H-Center and the Pchelintsev group were chosen. By the end of December most of the work plans for the surveys had been approved and work began. Data and reports began to arrive in the HSRP office by February. The data sets and reports were reviewed by Jennifer Daniell (UI/Washington) and Angelici.

² For more details of programmatic activities with the city, please see references to Nizhni Novgorod under Russian Federation: Housing Allowances, Condominiums and Housing Finance.

In the first week of June, copies of all reports—whether draft or final were made for David Leibson and forwarded to the World Bank Project Review Unit for onward shipment to Washington.

Daniell also completed an analysis of effective demand for housing in Moscow which 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.

Six City Seminar

In January, a three-day conference: "Six City Seminar on Land Use, Title Registration and Land Allocation," co-sponsored by USAID and the World Bank was held in Moscow. USAID Mission Director James Norris and Minister Basin opened the conference which was attended by more than 100 people. UI had primary responsibility for conference logistics, including translation, assembly of materials, payment of per diems, etc. Butler and Joe Eckert (World Bank Consultant) were the organizers and O'Leary was involved in finalizing all the details of the seminar along with Natasha Kalinina at the World Bank.

Participants in the conference were from the six cities where the loan resources will be concentrated: St. Petersburg, Novgorod, Nizhni Novgorod, Tver, Rostov on the Don, and Barnaul. There were also participants from several federal agencies, including Gosstroi, Rozkomzem, Ministry of Justice, Ministry of Finance and the federal Property Fund.

Russian speakers at the conference included: Marianna Vitt, Chief Counsel to Rozkomzem; Svetlana Tiurina, Vice-President of the Russian Agency of Investments and Real Estate; Professor Sergei Sokolov from St. Petersburg; and three real estate professionals from the cities of St. Petersburg, Novgorod and Nizhni Novgorod who discussed their demonstration projects in title registration. American speakers included Jerry Kayden, Dennis Robinson and Bob Einsweiler from the Lincoln Land Institute, along with Butler and Eckert.

D. Other

Dissemination/Seminars/Presentations

The HSRP presented papers at the following conferences this year:

- The European Network for Housing Research Housing Policy Conference held in Budapest from September 7-September 10. About 300 researchers and government officials participated in the conference. Struyk was a keynote speaker and a member a panel discussing technical assistance in housing finance in Eastern Europe and the CIS; both were plenary sessions. Kosareva presented a paper on developments in housing finance in Russia and Olga Kaganova (AUREC/ St. Petersburg) on developments in the real estate sector. There was also a session devoted to the presentation and assessment of the USAID technical assistance program, as conducted by UI, in Moscow and the Russia Federation.
- Butler made a presentation on condominiums and Suchkov made a presentation on housing finances at a regional housing conference on Common Ownership and Mortgage Finance organized by the administration of Ryazan.
- Olson and Puzanov made presentations on privatization of housing maintenance and housing allowances at a conference in Kazakhstan held to give an in-depth discussion of the provisions of the new Presidential housing decree.
- Suchkov, Kosareva, and Struyk gave one-day seminars on mortgage lending in Novosibirsk and Ekaterinburg. The day-long program in Novosibirsk constituted one of a two-day conference sponsored by the Association of Mortgage Banks. In Ekaterinburg Mark Brown (PADCO) organized the event.
- Kosareva gave a two hour presentation on financing in the housing sector and Shapiro gave a presentation on the municipally-owned housing privatization program at a seminar organized by Gosstroi for about 30 municipal administrators.
- Puzanov gave consultations on housing allowances to officials from Yerevan (Armenia), Belograd, Vladimir and Rostov on Don.
- In Irkutsk, Struyk, Kosareva, Suchkov and Kopeykin made presentations at a two-day seminar on housing finance. About 140 officials and bankers

attended the event organized by the local realty firm "Vincent," and the mortgage subsidiary of the East Siberian Commercial Bank.

- Struyk, Kosareva, and Puzanov participated in the Leontief Center's International Seminar on "Real Property Markets and Urban Development: Russian Reform and International Practice." At the conference of about 75 persons, they made the following presentations: Struyk: "Introducing Competitive Private Management for Moscow's Municipal Rentals: Evaluation of the Early Experience;" Kosareva: "Recent Developments in Mortgage Lending in Russia;" and Puzanov: "Reform of the Rental Housing Sector."
- Kosareva and Struyk made the same presentations at the conference, "Housing Problems and the Real Estate Market in Russia," organized by Professor Toda of Florida State University and the Institute for Economic Forecasting of the National Academy of Sciences in Moscow.
- Suchkov and Shapiro participated in a national conference on "Housing Reform" organized by the Institute for Housing Economy. Suchkov made two presentations on housing finance and Shapiro made one on use of private firms to maintain municipal housing. About 200 people, mostly local officials, attended the conference.
- The housing finance team—Cook, Suchkov, Klepikova, Kosareva, and Struyk—gave a one-day seminar in Pskov on mortgage finance. The seminar was organized by the Oblast administration and about 30 persons attended.
- Belkina gave a lecture entitled "Perspectives for the Organization and Legislation Basis of Condominiums in Russia" to employees of the Central Interministry Institute of Qualification Improvement for Administrators and Construction Specialists.

The HSRP participated in the organization of the following conferences this year:

- On October 12-13 the team co-sponsored a national conference on "Housing Reform in the Russian Federation," with the IHE. About 225 people attended from all over Russia. Presentations were made on four topics: the privatization of housing maintenance, condominiums, introduction to housing finance, and housing allowances. HSRP staff and consultants (Kosareva, Olson, Puzanov and Struyk) made four of the twelve major presentations; Ruth O'Sullivan (PADCO) made a presentation on the maintenance privatization program in Novosibirsk. Arkady Ivanov (Joint

Stock Mortgage Bank) made a presentation in the housing finance session.

- The team presented its standard two-day seminar on housing finance and housing allowances in Togliatti on December 16 and 17. The event was hosted by Jack Horowitz, a Peace Corps volunteer stationed in the city who works with the administration.
- The USAID-World Bank Six City Conference on Land Allocation was held from May 16 to May 18 in Nizhni Novgorod. About 55 persons from the six cities and the federal government attended. The main presenters were Butler, David Madway (UI Consultant), Brown, and Kaganova. The objective of the conference was to educate officials about alternatives to the standard Russia/Soviet practices of land allocation. The new methods would rely on various forms of competition and would give land purchasers much greater latitude in the specific use of the plot within the city's general zoning requirements.
- Struyk briefed a delegation of U.S. Senators on the HSRP at a breakfast meeting. The delegation included, among others, Senators Nunn, Lugar, Exon, and Glenn.
- A two-day conference, "Urban Housing Markets in Russia: Results from Surveys Conducted in Seven Cities," was held in Moscow. The conference was organized by UI and sponsored by USAID and the World Bank to disseminate the results of the ambitious research program carried out in support of the appraisal of the World Bank/USAID housing sector loan. Introductory presentations were made on behalf of the World Bank by Piet Nankman, Struyk for HSRP, and Anvar Shamouszafarov for Gosstroi. Fourteen substantive presentations were made by the four contractors: Tikhomirova presented the results of the work Daniell, Angelici, and she have done on housing demand. The presentations were very well received by the 250 participants who came from throughout Russia and were drawn from government, industry, and research institutes. Those chairing sessions included Blair Ruble, President of the Kennan Institute in Washington. The main papers will be published in a special issue of *Voprosi Ekonomiki*.

Publications and Media

- Olga Kaganova and Struyk prepared a newspaper article discussing the merits and limitations of implementing a land tax in Russia modeled after that proposed by Henry George.

- The HSRP team engaged a Russian film company to produce a 13 minute video on housing reform in the Russian Federation and the role of the USAID program in housing sector reform. About 120 Russian officials, bankers, and realtors attended a social event at which the video had its official debut. The video is available in Russian and English in European and U.S. formats.
- Struyk and Kosareva completed a major report monitoring developments in the housing sector, "The Russian Housing Market in Transition: 1991-1993." 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" also gave valuable inputs on developments in the finances of maintenance operations and on the disposition of departmental housing.
- Struyk completed the paper he and Daniell had been writing which analyzes the determinants of housing privatization in urban Russia. The paper uses the household survey data from the seven cities which was assembled to support the housing sector loan appraisal. The results are highly consistent and show that privatization is more likely for higher valued units and by elderly pensioners living alone but less likely for departmental rather than municipal units.

Press Coverage

- Celestine Bohlen of the *New York Times* interviewed Struyk and Kosareva for her November 13 story on how the combination of macroeconomic conditions and the transfer to a market economy is effecting the housing of low income Russians.
- Struyk and Kosareva were interviewed by *The Moscow Times* on Moscow's decision to increase rents sharply in 1994. They were quoted in the paper's story on Friday, November 12.
- Olson was interviewed for a November 12 *Evening Moscow* story on the expansion of the maintenance Pilot Program.
- All-Russia TV channel One carried a ten minute story on the maintenance privatization program. The program was produced by the woman who produced the video on the Housing Sector Reform Program. She drew on some of footage from that program plus interviews with Moscow officials.

- Moscow's largest circulation daily newspaper, *Moscow Komsomolyets*, carried a half page article explaining housing allowances.
- Kosareva was interviewed on mortgage lending for the national TV program "Real Estate Market," which airs at 9:00 am three days a week on Ostankino (Channel 1). Alexander Vysokovsky (Polis 3) had appeared on the program the week before to explain how housing development is occurring in Moscow, based on the research done under our project. He managed to give the project a plug.
- Struyk and Kosareva were interviewed by four reporters about housing reform and our program—three with Moscow newspapers and one from *The Economist*.

Evaluation/Monitoring

This year Alla Guzanova (CCN Consultant), with the assistance of Angelici and Daniell, completed the second and third waves of the survey of 2,000 Moscow households. The survey team succeeded in interviewing occupants of 1,900 of the 2,000 units in which interviews were conducted a year earlier. In January, Angelici also analyzed the third wave of survey data from tenants in the first 2,000 housing units placed under private management as part of our program evaluation. In addition, Angelici and Tikhomirova analyzed this data, comparing before and after conditions at the projects.

Daniell also did 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.

Struyk, Angelici and Tikhomirova also completed a draft of the "before" and "after" surveys of 400 tenants in the second batch of 4,000 units (initially, the program included 5,000 units, but 1,000 were omitted due to participant protest).