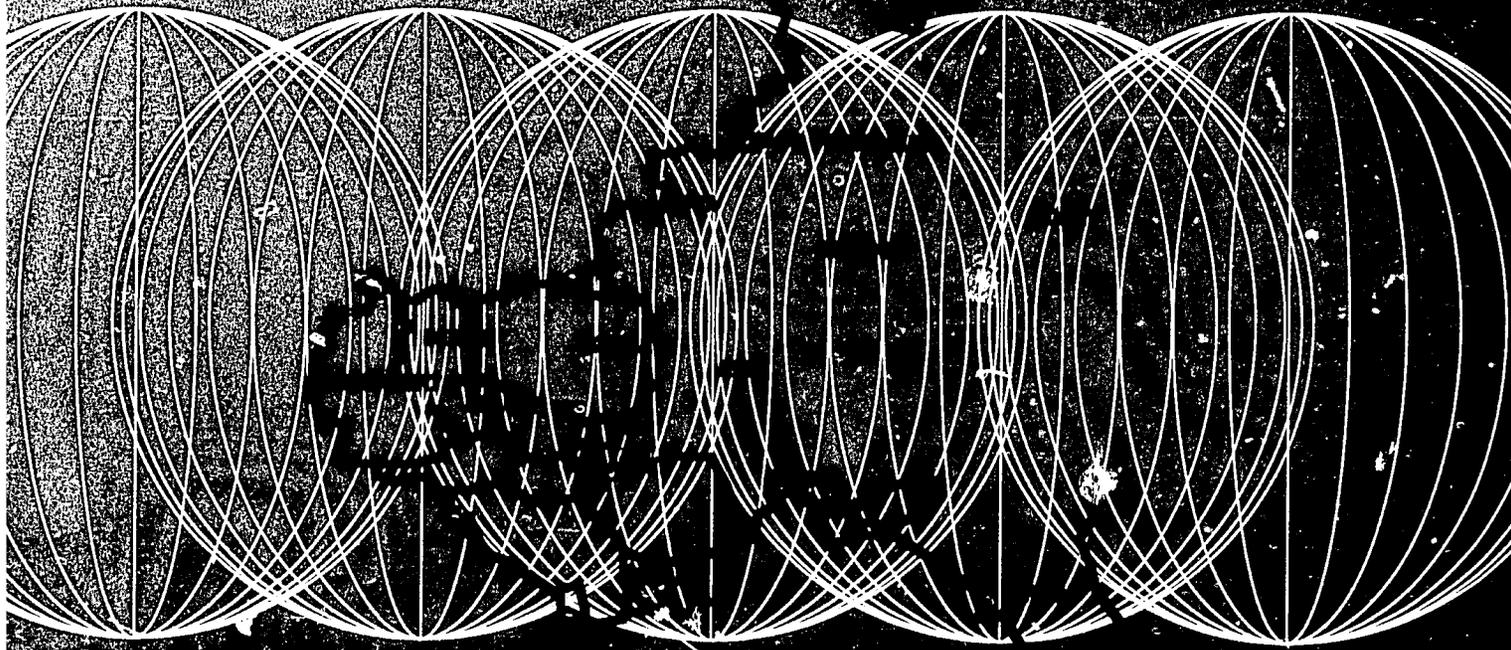
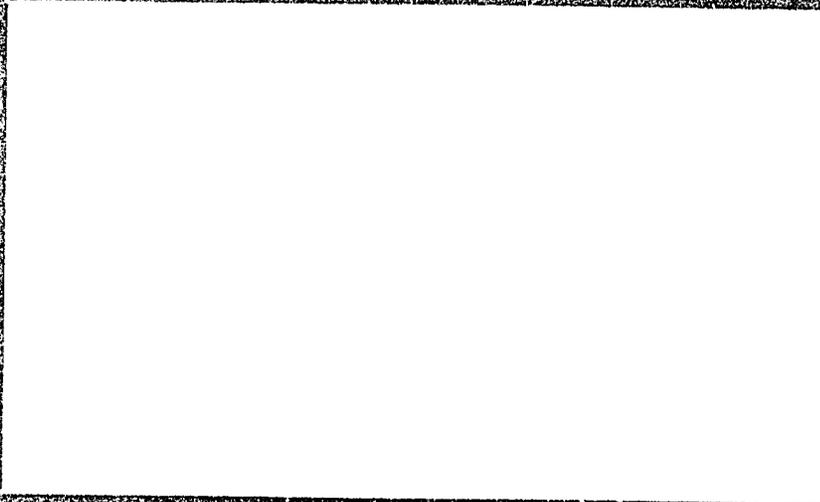


**FROM PLANNING TO MARKETS  
HOUSING IN EASTERN EUROPE**



**THE URBAN INSTITUTE**  
**Prepared for the Office of Housing and Urban Programs (USAID)**

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

**MONTHLY REPORT**

**FEBRUARY 1993**

Prepared by

Raymond Struyk  
Jeff Telgarsky

The Urban Institute  
2100 M Street, NW  
Washington, DC 20037

Project 6306-01  
March 1993

Prepared for

Shelter Sector Reform Project, Russian Federation/City of Moscow  
Project 110-0008

U.S. Agency for International Development, PRE/H/NIS  
Contract CCS-0008-C-00-2055-00

## **MONTHLY REPORT — FEBRUARY 1993**

### **SHELTER SECTOR REFORM PROJECT RUSSIAN FEDERATION/CITY OF MOSCOW**

#### **A. Program Activities — Russian Federation**

##### **General**

Ray Struyk (SSRP Resident Advisor), Nadezhda Kosareva (CCN Consultant), James Norris (USAID Mission Director), and Michael Lippe, Sean Walsh, and George Deikum (Office of Housing and Urban Programs) met with Minister Efim Basin, Deputy Chairman Krivov and Anvar Shamosafarov (Head of the Housing Department) of the State Committee on Construction and Architecture (Gostroi) on January 29 to review the technical assistance program. Norris raised the possibility of a Housing Guaranty loan to support development and implementation of pilot projects, and the idea was positively received. The following week, Norris sent a letter to Minister Efim Basin this week inviting Mr. Basin to visit Washington in late March or April to meet with counterparts in the U.S. government and to brief U.S. developers and investors about the change in the investment climate for residential construction that resulted from the passage of the Law on Fundamentals of Housing Policy in the Russian Federation in December. Mr. Norris will also invite Nikolai Maslov, coordinator of the Moscow program, to participate in the visit. Tentative dates for the trip are March 27-April 6.

Pavel Zhikharev, President of Sberbank, has sent a letter to Norris requesting AID assistance in restructuring the bank's long-term housing lending along the lines the team here has been advocating. This is an extremely important development because Sberbank's choice of mortgage instruments and its advocacy for an up-front (downpayment) subsidy, instead of an interest rate subsidy, will have a profound affect on the choice of instruments by other banks. Assistance for this purpose has been programmed in anticipation of such a request, and Struyk has worked out a tentative schedule which is being discussed with AID and Sberbank.

##### **Development of the Legal Framework**

According to the recently passed "Law on the Fundamentals of the Federal Housing Policy", Moscow City Government was granted the authority to set policies on rent increases and housing allowances. Previously, Moscow was only empowered to set policy for the social norms of housing. Ludmilla Kusnetsova of the Department of Engineering Provision is preparing the policy proposals.

Struyk met with Igor Aristov, who has been given the lead responsibility by Anvar Shamosafarov for drafting the Presidential Decree on "nonbudget sources of finance for housing construction," which includes provisions for the development of the housing finance system plus the ear-marking of certain non-budget revenue

sources, such as proceeds from privatization sales, to housing finance. Though the draft is not yet complete, we believe that some of the provisions of the draft are a direct result of our consultations with Shamosafarov. The draft is to be tabled at a meeting of Government on March 11.

As part of its responsibilities for implementation program of the Law on the Fundamentals of Housing Policy in the Russian Federation passed in December, the Central Bank has ordered Sberbank to prepare proposals for making mortgage lending widely available by March 22. AID technical assistance to Sberbank to help it shift to an indexed, non-subsidized mortgage instrument will provide a basis for the bank's proposals.

### **Housing Finance**

Steve Butler (SSRP Legal Advisor) Worked intensively with MOSBUSINESSBANK (MBB) staff on legal aspects of mortgage lending. His report contains working drafts for MBB of all of the principal documents used in loan origination that have significant legal implications, including the application, commitment letter, disclosure form, loan contract, and promissory note. The working group at MBB is now to draft their legal forms, based on the edited model documents Butler provided and the discussions led by Butler over the past two weeks. Once prepared these will be sent to Butler for review and he will meet with MBB staff on them when he returns in April.

In a meeting between Sberbank and representatives of the Office of Housing, bank managers discussed the need for the "center for Russian mortgage finance," the proposed training and consulting entity that would be owned by a consortium of banks. They said that Sberbank was prepared to take a leadership role in creating the center and asked for help from AID in establishing it. Walsh gave a positive response, but indicated that a formal request should be made at the time when at least several banks were formally committed to creating the new center. The tentative plan is for Sberbank to host a meeting of interested banks at the end of March, having distributed the concept paper in advance and with Deputy Chairman Baraash having held preliminary meetings with a couple of key bank presidents. Interest in the center has been expressed by Akardy Ivanov (Joint Stock Mortgage Bank) and Dr. Sokolovskaya (MBB).

Struyk and Kosareva met with Dr. Sokolovskaya and other members of the working group on mortgage finance at MBB to discuss the ongoing work program. MBB is anxious to begin thinking about funds mobilization and an initial meeting is being arranged to learn about MBB's current sources, terms, and cost of funds and their general strategy. As part of the work on mobilization, Sokolovskaya, Struyk and Kosareva met with Lenoid Paydiev, Head of the Finance Department of the Ministry

of Economy, to discuss the possibility of pension funds and insurance companies investing in securities based on residential mortgages.

The group of four from the Russian Federation departed for the U.S. on February 23 to attend the ten-day housing finance conference/training course being organized by the University of Utah. The group consists of: Viktor Bukato, President of Mosbusinessbank; Dr. Glyna Sokolovskaya, head of Mosbusinessbank's group developing mortgage lending; Dr. Ludmila Moiseeva, Head of the Credit Department, Ministry of Finance; and, Dr. Nadezhda Kosareva, Institute for Economic Forecasting and consultant to the Urban Institute.

### **Housing Allowances**

Sasha Puzanov (CCN Consultant) and Kosareva began working with staff at the Institute for Housing and Communal Economy (IHE) in early February to review the concept of the allowance program and to teach them how to use the housing allowance simulation model (HASM) developed under the SSRP assistance program to the City of Moscow. A team from IHE is making a marketing trip this week to The Republic of Udmurt and its principal city, Savapol, hoping to win a contract for helping the republic design its housing allowance program. While IHE has general TA contracts with several republics in the housing area, this would be the first explicitly for allowances.

Struyk and Kosareva met with Igor Bychkovsky and Irina Minc (IHE) to further plan our cooperative work on helping local governments design their rent increase-housing allowance programs. Our conference with the Institute on "Approaches to Implementing the Housing Reform Law," will be held on May 12-13. Most attention will be given to housing allowances. An agenda is being prepared by IHE; we will distribute it to all as soon as it has been received and translated.

The team has developed plans to do a comparative study of a program of raising rents and introducing housing allowances in Moscow, Ufa (Bashkiria), and Novosibirsk that will be a kind of guide for cities which are addressing program design issues. We have the data necessary to simulate housing allowances for Ufa and (Bashkiria); some corrections and further information are required, but preliminary analysis is underway. (These data were provided to us through our cooperation with UN-Habitat program.) This is a high priority and we hope to complete it within three weeks after receiving the necessary data for Novosibirsk.

## **B. Program Activities — City of Moscow**

### **General**

Mayor Luzhkov last week signed a decree that concentrates responsibility for formation of the City's housing policy in the Department of Municipal Housing, headed by Pyotr Saprykin. In practical terms, this means that Nikolai Maslov, Director of the Office of Housing Privatization and our program coordinator, will have the principal policy formulation role. Maslov explained in a meeting this week that this transfer of responsibilities, particularly from the Department of Communal Services, will be gradual and that we should continue to work with staff there on implementation of the housing allowance program.

Struyk and Kosareva met with Yevgeny Spirin, chairman of the committee of Mossoviet dealing with housing finance issues. The committee has completed a draft concept and is trying to garner support for it. The objective is to help middle income and lower income families obtain new housing; obviously numerous subsidies are involved. At the same time, they are trying to help set conditions that would make housing lending more feasible for banks. A short paper, prepared by Jennifer Daniell (UI staff), was presented to Spirin on alternative homeownership subsidies, giving real world examples of three types (interest rate, downpayment, and end-of-term payoff on DIM loans).

### **Housing Maintenance Pilot Project**

Commitments for the funding of the Pilot Program have been received from both Matrosov (Head of the Department of Engineering Provision) and Bryachikin (Prefect of the Western Prefecture). It is projected that 42 million Rubles (as of March 1, 1993) will be required for funding the Pilot.

A press conference by Maslov, Matrosov, and Bryachikin to publicize the RFP was held in mid-February; the timing coincided with the advertisements that Olson has placed in three Moscow newspapers. Twenty four private firms expressed interest in being hired under contract to maintain residential buildings under the pilot project. The pre-bid conference was successfully held—eight firms attended and about 10 bidders were expected to submit proposals.

Meetings were also held with the tenants in the two sub-districts where buildings will be placed under new management. The Deputy Prefect of the West Administrative District, who clearly was not used to such open format meetings, made a poor presentation in one case and did not show for the second meeting. Angus Olson (SSRP Resident Advisor) had to step in to salvage both meetings.

In the end, six bidders submitted a total of eleven bids for the three "packages" of buildings being competed. (A firm could bid on more than one of the packages.) Olson participated in the opening and scoring of the bids, the interviews with each of the proposers and the final decision meeting for selecting the winning companies. Olson was impressed by the quality of the proposals received and by the seriousness with which the competitive process of run by City officials. The panel of Moscow officia's decided to award two contracts, with one firm being awarded contracts for two of the packages.

Contracts with the winning firms should be signed on March 1, 1993. This program is exactly on the schedule drafted last July—a significant accomplishment given its complexity.

The "Owners Study Tour" returned from the U.S. on February 11. Olson debriefed the three Moscow participants; the feedback was extremely positive, on both the substance and the arrangements.

### **Housing Allowances**

The team (Kosareva, Struyk, Pusanov, and Daniell) met with Mrs. Ludmilla Kuznetsova (Deputy Head of the Department of Engineering Provision) to discuss proposals on administrative arrangements for implementing the housing allowance program. It was an extremely productive meeting, with tentative agreements reached on nearly all elements.

Struyk and Kosareva participated in a meeting chaired by A.S. Matrosov, Director of the Department of Communal Services and Member of Government, and attended by the City's top housing officials, at which concrete plans for implementing the housing allowance program were first discussed. Matrosov asked our team to take several assignments having to do with detailing the administrative structure, identifying the duties of the housing allowance office, and designing a training program for city officials. As work of this type is in our approved Work Plan, we were able to accept the assignments.

The target for implementation for the first, modest rent increase remains the first of April.

### **Condominiums**

Butler provided Maslov with critical comments on the draft of the condominium regulation which has been prepared by the city lawyers using Butler's draft as a major input (the city believes that legislation is not needed). Maslov had already made some of the changes, based on conversations with Kosareva. At the

end of February, final changes were made to the draft law. We believe that we obtained the critical changes we sought. We believe, but are not certain, that the final version resembles in its essentials the draft law prepared by Steve Butler. Nikolai Maslov was to send the regulation to Mayor Luzhkov for his signature.

Struyk and Kosareva met with Maslov to discuss assistance with the development of the newly created office on condominiums. He is still in process of staffing the office. The plan is for there to be a three-person office at the City level that would set policy, etc., and an additional three-person office in each Administrative District that would do actual implementation work, including helping with the creation of condominium associations. The assistance is planned in two parts: (a) an initial trip of a couple of weeks that would help the City office define its duties and generally help these new people understand condominiums better; and (b) a second, three week trip in which training for the staff in the offices in the Administrative Districts would be prominent. The timing of the trips remains to be set.

### **C. Program Activities — General**

#### **Sector Monitoring**

Puzanov has examined the data from the 2,000 observation household survey and found them to be in good shape. Puzanov and Daniell have begun analyzing the data and will prepare two papers over the next month—one on privatization and the other on the quality of the housing stock.

Kosareva and Struyk have reviewed the draft housing indicators report for 1989-1991 and have provided written comments to the team at the Institute for Economic Forecasting (IEF) which is doing the work. The IEF team has addressed many of them and make further revisions. While this is turning out to be a labor intensive process, we are hopeful that the data for 1992 will be assembled with much less trouble. Realistically, we do not now expect to receive this report in final form until April.

Butler submitted his report on existing laws and legal developments over the past six months in housing area. (The report is a standard part of the program's monitoring activities.)

#### **Dissemination**

Butler gave a seminar on February 9 on existing legal provisions for mortgage lending in Russia and modifications to the law that appear to be appropriate. The

seminar was attended by about 50 persons from the banking community, Federal ministries, and the city of Moscow. The seminar was timely because the Supreme Soviet is considering exactly these issues in the context of a new draft mortgage law at this time.

Butler also gave a seminar on legal aspects of housing finance, focusing on amendments needed to existing laws. The seminar was attended by about 40 Russian bankers, attorneys, and government officials. This is another in the series of seminars that short-term experts working intensively with Mosbusinessbank are providing to the wider housing finance community.

The project has now distributed about 6,000 copies of twelve papers to interested persons since August. Our address list is now over 400. Word about our papers has spread quite widely and on a typical day three or four persons from outside Moscow will visit our office and ask for copies of the papers. As noted in an earlier report, at least two organizations are reprinting some of our papers and selling them on commercial terms.

Struyk and Kosareva held their second meeting with a reporter from *Commersant*, the local major business newspaper, to explain mortgage finance in detail. *Commersant* will begin a new real estate publication and this reporter will be responsible for housing finance reporting. We hope that he will use our "backgrounders" as the basis for several stories.

We have been approached by the editors of one of the major economic journals, *Problems of Economics*, about co-sponsoring with them a special issue of the journal dealing with housing reform in Russia. The journal has a circulation of 23,000, extremely large by U.S. standards. The proposal is for us to work with the editors or soliciting and selecting papers. Our team would contribute several papers, some already produced and some new, like the two we are preparing using data from the 2,000 household survey. Russian experts would be invited to contribute articles on specific topics; these papers would go through the standard review process. This appears an excellent opportunity to have our material reach a large audience, that otherwise would not, and to also be able to send some of "regular contacts" additional information in a different format.

### **Other**

Struyk met with Frank Friel, General Services Attache at the U.S. Embassy, and two men from the Office of Foreign Buildings Operations, who were in Moscow working on USG staff housing. The discussion focused on the current situation in the housing market.

Struyk met with Ted Priftis of the AID NIS Task Force. Priftis is heading the NIS-wide public administration project, which begin work in Moscow and Nizni-Novograd. Struyk advised Priftis on who in the Moscow City government the project might work with. Priftis offered help to our project in dealing with public administration issues.

Struyk met with the principals of Delta Developers International, a New Hampshire firm that continues to explore the possibility of building housing in Cherepovets as city several hundred kilometers southeast of Moscow. The city contains an enormous steelworks (45,000 workers) and fertilizer plants which earn a large amount of hard currency from exports. Delta has submitted an application to the Embassy for a grant to do a feasibility study. The developers reported that in Cherepovets, there is little single family housing being built despite a real demand for it; contractors are simply not available.

#### **D. Notable Developments Concerning the Housing Sector**

The results for housing privatization in 1992 in the Russian Federation show that 2.55 million units were privatized in the year, with 638,000 privatized in December alone. In Moscow 366,000 were privatized by the end of 1992. In mid-February 1993, the City crossed the 500,000 mark.

Alexander Matrosov, Chairman of the Department of Communal Services, Alexei Bryachikhin, Perfect of the West Administrative District, and Nikolai Maslov, Director of the Office of Privatization in the Department of Municipal Housing held a joint press conference on Wednesday to announce formally the initiation of the pilot program of shifting municipal housing to private, competitive management, which has been developed by Angus Olson as part of the USAID technical cooperation program. The conference received widespread attention and there were numerous follow-up stories in the press. The City leadership is clearly very pleased to be able to tell the citizenry about some concrete action aimed at improving the maintenance of the housing stock. The importance of U.S. assistance was highlighted at several points.

#### **E. Logistics and Planned Travel**

##### **Logistics**

We were evicted from our space in the building belonging to the Supreme Soviet on Novi Arbat and have moved into a small (10 square meter) room to use on an interim basis from Maslov. At the suggestion of Anvar Shamosafarov, Struyk sent

a letter to Minister Basin in mid-February renewing our request for additional office space; the Minister approved the request, but space has yet to be allocated.

Mr. Matrosov has said he would provide us three rooms in a City building near the Prospect Mira metro (two metro stops to the north of our office in Furkasovskiy Pereulok). We accepted the offer, but it will take some time for us to actually receive the space because current occupants will have to be evicted.

The electricity was off for approximately one week to permit repairs in the building in which our offices are located. It came on briefly one night with a 380v current which caused damage (repairable, fortunately) to our FAX machine, a computer, and dot matrix printer.

### **Planned Travel**

The following travel is planned:

#### *Assistance to MOSBUSINESSBANK*

M. Rosenberg (Loan Underwriting Specialist)	March 22 - April 2
R. Subramanian (Loan Servicing Specialist)	March 22 - April 2
M. Ravicz (Mortgage Instrument Specialist)	April 5 - 17

#### *Assistance to Sberbank*

M. Lea (Mortgage Pricing Specialist)	April 12 - 24
--------------------------------------	---------------

#### *Housing Allowances*

G. Rizer (Quadel Corporation)	April 12 - June 19
-------------------------------	--------------------

### **F. Budget and Level of Effort Summary**

Budget (Actual expenditures, excluding UI fee)	
February 1993	\$114,010
Project to date	\$591,759
Level of Effort (person-months)	
February 1993	4.60
Project to date	34.06