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

MONTHLY REPORT

MAY 1993

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A. Program Activities — Russian Federation

Legal and Policy Developments

Most of the team's work in this area during May involved assistance in drafting and commenting on laws related to land ownership and use. The Supreme Soviet is considering the law "On Real Estate and Registration of Real Estate Transactions." This law was submitted to the Supreme Soviet by the St. Petersburg Soviet under a procedure permitting the origination of national laws by local soviets. The version under consideration was drafted last summer. At that time consultant Steve Butler had extensive discussions about the law with Olga Kaganova who passed the comments to the St. Petersburg Soviet. The law incorporates most of the suggestions he made.

Butler's suggestions on the Law on Mortgage were incorporated into the final draft under consideration by the working group advising the Supreme Soviet committee that is preparing the Law.

At the request of the Ministry of Economy Consultant Steve Butler completed a detailed commentary on the draft Fundamentals of the Land Law of the Russian Federation.

Housing Finance

After reviewing and commenting on several proposed governmental regulations and Presidential Decrees on the structure of housing finance long term advisor Ray Struyk and Nadezhda Kosareva drafted a regulation on this topic and distributed it to key players in the on-going policy development process, including Deputy Minister Vavilov (Finance), Alexander Khandruev, Deputy Governor of the Central Bank, officials at the Ministry of Finance and Gostroi, and Goluborvich at Menatep Bank, which is advising the governor of the Central Bank.

Kosareva and Struyk have been active participants in the discussion on the future of the Russian housing finance system. At the request of Andrey Vavilov, First Deputy Minister of Finance, requested that Kosareva met with Yuri Romanov, of the ministry staff, to hammer out a joint Urban Institute-Ministry of Finance proposal for the system. At a meeting of all the major players in the housing finance discussion which the team organized, the draft regulation prepared by Struyk and Kosareva was the base document used for discussion. The result of these discussions was that tentative decisions were made for the draft government "Procedure" that will direct the housing lending of Sberbank (the former state savings

bank) and which will give some guidance to private commercial banks. The preparation of the Procedure is required by the letter of instruction that accompanied the Law on Fundamentals of Housing Policy in the Russian Federation, passed last December.

After initial differences, developments of the Procedure which focuses primarily on Sberbank and the draft Presidential Decree on the broader housing finance system are now in sync. It was agreed at the meeting that development of the two documents would proceed together with the Procedure being given precedent because of Sberbank's pivotal role in long-term lending. Struyk and Kosareva participated in the meeting of Government (Ministries of Finance and Economy and Gostroi), Central Bank, and Sberbank that is preparing the "Procedure" under which Sberbank will make long-term housing loans. With the exception of two issues involving decisions by the Central Bank, a final draft was decided upon. It is supposed to be submitted to Government by June 1. The provisions of the Procedure will have important implications for mortgage lending by commercial banks other than Sberbank, although it is not directly applicable to them. Therefore, it was important for our team to participate energetically in this process.

Consultant Michael Lea and Urban Institute employee Marisol Ravicz completed their work with Sberbank and Mosbusinessbank to determine how to price mortgage loans. The particular question being addressed is the size of the spread above the cost of funds that should be charged for credit risk, intermediation risk, administrative costs, profits, and other factors. Lea and Ravicz completed two products in connection with their work. The first will be guidelines for doing pricing that can be used by any bank interested in doing mortgage lending. The second product will be recommendations to both banks for their pricing above the cost of funds.

Struyk had an extensive meeting with Mikhail Gavrilin, Head of the Credit Department at Sberbank, to discuss the AID-Sberbank cooperation program. AID agreed in December to work with the bank to help it change its mortgage lending from a fixed rate instrument to an indexed instrument more suitable for Russia's chaotic economic conditions and which would ensure profitability of housing lending to the bank. The work program has been going forward, but it has become increasingly clear that the bank's ardor for change has diminished. Gavrilin spoke of the bank's worries about suggesting such a progressive step to the Central Bank and cited a number of recent disruptions to orderly progress on obtaining the approval within the bank for this change, including the resignation and replacement of the bank's president. Ultimately, Struyk proposed that a meeting between Sean Walsh and the bank's new president on this point might be in order.

Walsh and Deikun met with S. Ivanov and M. Gavrilin of Sberbank to discuss the bank's reform program in mortgage lending and assistance being provided by the Urban Institute team. Gavrilin stated that Sberbank remains highly interested in reforming its mortgage lending operations but expressed reservations and problems with some of the suggestions the team has offered for the reform process. Despite these impediments, the Urban Institute team will continue to work with Sberbank. The next step is for the bank to give Deikun a list of outstanding issues/problems impeding action on reform.

Struyk met with Arkady Ivanov, President of the Joint Stock Mortgage Bank, who, together with the president of the St. Petersburg Mortgage Bank, has created the Association of Mortgage Banks. The association is in the process of being registered, a process that is expected to be completed by about July first. Banks which have already expressed a commitment to join the association include Mortgage Standard Bank, Expobank, Novosibirsk Mortgage Bank, Mosbusinessbank, and banks in Krasnodar and Saratov. Mr. Ivanov is very interested in the possibility of creating a "center for mortgage finance." The team has suggested the creation of such a center to act as a training and technical assistance facility for member institutions.

Assistance to Mosbusinessbank continues. This period the team provided MBB with a draft loan servicing manual from HDFC (India) prepared by consultant R. Subramaniam. The team also received the draft loan origination and underwriting manual prepared by consultant Michael Rosenberg. Two senior members of the bank's mortgage finance team arrived in Washington this month for an intensive study tour on loan underwriting and loan servicing.

The team met with representatives of the Association of Commercial Banks-Russia who were anxious for our cooperation in informing their members about housing finance. The association is small, consisting of 103 member banks, most of which were formerly branches of the state Zhilsots Bank. The association appears to have the same goals and aims as the Union of Russian Banks. The team agreed to make a presentation at a conference they will hold in late August.

Housing Allowances

The team's work program of weekly meetings with the Institute for Housing Economy (IHE) on housing allowances continues. Quadel consultant Gene Rizer continues to meet weekly with IHE staff to educate the staff on how to design and implement of a housing allowance program. Rizer's presentations to IHE staff have included explanations of the administrative costs of implementing and operating the program and the relationships between the national government and local agencies administering housing allowances programs. Rizer delivered to the Institute for

Housing Economy a simple model of staffing for a housing allowance program and description of considerations for pricing consulting services. IHE will use these in their consulting with local governments on housing allowances.

USAID and the Institute for Housing Economy (Moscow) co-sponsored a two-day conference on reform in the rental housing sector on May 19 and 20 in a Moscow suburb. Over 250 officials from across Russia attended the event. Most participants were from housing departments of local government, i.e., those responsible for actual implementation of the new laws. While a number of issues were discussed, two topics were dominant in the presentations: guidance to "republican" and local governments on strategies for raising rents to cover full operating costs combined with the introduction of housing allowances, and the shift to private management for the municipally owned rental stock. The Urban Institute team made four of the 12 substantive presentations; three of these were on rent increases and housing allowances and the fourth, by Angus Olson, was on the private housing management demonstration. James Norris, AID Mission Director, was among those presenting opening remarks. Others were Valery M. Dolgov, Head of the Committee on Communal Economy (formerly the Ministry for Building Maintenance), and Anvar Shamouzafarov, Head of the Housing Department of the State Committee on Architecture and Construction.

Military Housing

Struyk and Kosareva met with Walsh, Deikun, Hanson and others on the team for a general discussion. At Hanson's request Struyk made an appointment for him with the Deputy Chairman of the Moscow Department of Construction to check various cost estimates and other facts obtained from other sources.

B. Program Activities — City of Moscow

Housing Maintenance Pilot Project

The pilot project has been in operation for two months. The initial judgement of the "owners" and long term advisor Angus Olson about the performance of the three contractors is in: two appear to be doing excellently, and the third is rated as fair-to-poor. The main problem with the third firm, OLSO, is that they handled a recent emergency situation badly--the result was that all the units in two entry ways of the Kutusovsky building were without electricity for 24 hours. OLSO was informed that additional occurrences of problems of this scope would be group for dismissal.

Preparations are underway for the addition of several thousand units of former departmental to be included in the pilot. Olson toured the departmental units which have been transferred to the municipal - some of which will be included in the

management pilot program. Selection of the buildings to be included will be finalized soon. The fifteen managers to attend the "owners" training course are selected next week and classes will begin June 4. Olson has completed lesson plans for this course based on the identical course he delivered last fall. The Institute for Housing Economy (IHE) is organizing itself to present the training program over an eight week period, concluding the week of July 26. The only problem has been a delay on the part of IHE in determining the fee to charge for the training program. Lev Shibalov, Director of High Rise Administrative and Dwelling Houses (the city's office for managing former departmental housing), needs this figure to obtain the budget necessary to pay for the training.

Housing Allowances

Mrs. Kuznetsova, Deputy Director of the Department of Communal Services and the person in charge of implementing allowances, provided Rizer the long awaited feedback on the previously submitted outline of topics for the workplan. Based on this feedback, Rizer developed the detailed plans for implementation of the housing allowances in Moscow. Rizer, Puzanov, and Urban Institute employees Jennie Daniell, and Karen Angelici had an extensive meeting with Mrs. Kuznetsova to obtain feedback on the draft workplan for the implementation of housing allowances. The focus of the meeting was on adjusting the workplan for the additional time it will take for approvals within the Moscow government for key products along the way. (In this regard, she later had a meeting with Mr. Maslov, who heads the Government's committee on housing policy, who agreed to support the overall description of tasks necessary for implementation.) A key product is the Procedures Manual; Rizer is drafting some sections to show as examples to members of Government and Mossoviet.

The Ministry of Finance of the Russian Federation has declined to endorse the City's proposal that its housing allowance program be treated as an experiment and therefore be permitted to be implemented prior to Federal guidance being issued. The City will try to appeal this decision. It is also likely that the Federal guidance will be issued before October. The strategy is to continue with the implementation program with an October target date.

Daniell and Angelici completed a new set of estimates of the number of households expected to participate in the Moscow housing allowance program for October 1993. Because incomes have risen so much faster than expected six months ago when the original projections were made, the number of participants is cut by about two-thirds to 80,000. In light of this result, the schedule of planned rent increases may well be adjusted upward.

Condominiums

The team provided Mrs. Terokina, in the Office of Privatization within the Department of Municipal Housing, with the training materials on condominiums that had been prepared by Carol Rabenhorst and translated into Russian by ICMA for use in Armenia. They should be of tremendous help, as her office has no other background materials for preparing training materials for condominium associations.

C. Program Activities — General

Sector Monitoring

Struyk met with Tanya Belkina the principal researcher on the housing indicators project to discuss various issues connected with the development of indicators for 1992. Belkina also reported that she has identified and met with a broker that specializes in illegal sublets of municipal housing. This is a high volume operation, with about 40 new units listed daily. She believes that she can obtain data on these sublets from the broker. This would be extremely valuable information as it would give us the first systematic information on the major private rental market. We agreed that, if we can obtain the data, the project will cover the cost of having it computerized and that we would jointly analyze the data with Belkina.

Struyk met with Alla Guzanova, the researcher who will conduct the second wave of household interviews in the 2,000 apartments included in the management pilot project, to finalize the questionnaire. The interviews will be done beginning on May 22.

As part of the large conference being organized by the European Network for Housing Research in Budapest in September there will a full day devoted to an assessment of the effectiveness of western assistance to Eastern European countries in the shelter area. The team will present its findings at the conference, in a session at which Struyk will describe the overall program and specific project the team elects to assess. Struyk, as a member of the steering committee, has been asked by the conference organizers to enlist two senior Russian analysts to conduct an assessment of parts of our overall program.

Daniell and Angelici have prepared some initial data analysis for the early evaluation of the housing maintenance pilot program. The tabulations prepared this week compare the units included in the pilot with all units in the municipal housing inventory.

The second wave of household interviews of tenants living in the buildings in the pilot project is being done this week, and we will take delivery of the data by the first of July. Also, next week experts from the Institute for Housing Economy will do the second round of physical inspections. All of these data will feed into the evaluation.

Dissemination

Michael Lea held a seminar at the Joint Stock Mortgage Bank on the pricing of mortgage instruments. The presentation was attended by about 55 bankers and government officials. Staff from at least eight commercial banks were present. The event was held at the Joint Stock Mortgage Bank. Lea also gave an interview to the daily Commersant on mortgage pricing that will soon be published. TV channel 1 covered Lea's seminar (arranged by Arkady Ivanov). The pictures will be used on a popular show on Friday night, with a voice-over discussing mortgage lending.

Struyk and Kosareva had an article published in economics section of the weekly newspaper VEK (Century) on the effects to date of housing reform in Russia.

The Russian periodical, Construction Economy, published the article by Struyk and Kosareva, "The Structure of a Housing Finance System for Russia," in its April issue.

Program Management

World Bank/AID Loan Project

At an AID-World Bank coordination meeting, Struyk briefed the World Bank on the team's work program and recent developments in the housing sector.

Struyk and Kosareva had separate end-of-mission meetings with Bob Buckley and Kevin Villani and with David Liebson, the Office of Housing staffer assigned to work with the Bank team over the next year. At Liebson's request Struyk prepared a couple of pages of commentary about the Aide Memoire prepared by the Bank team and presented to the Government.

D. Notable Developments Concerning the Housing Sector

The results of the Yeltsin-Clinton summit and the G-7 pledges of more assistance to Russia are becoming evident. The summit has two immediate implications for the housing sector. First, there is the AID pilot program for constructing housing for army officers who are retiring as they leave assignments in

Eastern Europe. In part these are officers who are ready to retire in the normal course of their careers and in part they are officers who are being forced out of the service as part of the down-sizing of the military; the occasion for the RIF is the rotation home or disbanding of their units.

The second is a major (reportedly \$400 million or more) World Bank loan to support residential construction--the idea is to get the construction industry working again (last year about half the housing constructed in 1988 was constructed), which will have a stimulating effect on the overall economy. AID is supporting the preparation of this loan.

Teams for both initiatives have arrived in Russia. The very fact that teams are already in Russia suggests the importance being attached to getting concrete results absolutely as soon as possible.

Housing completions in the first quarter of 1993 was 102 percent of activity for the same period in 1992. The amount of individual housing construction was 111 percent compared with 1992, and cooperative housing construction was 123 percent. Overall, the industry constructed about half of the units in 1992 as in 1988.

E. Logistics and Planned Travel

Logistics

Alexander Matrosov, director of the Department of Communal Services, signed the order designating space to be prepared for Olson's new office. The room will be in the Department's headquarters building, placing him near the people with whom he is working most closely.

Planned Travel

Legal consultant **Steve Butler** will travel to Moscow from **June 8-June 26** to assist officials drafting the Law on Mortgages and the Fundamentals of Land Legislation.

Roberta Graham of Quadel Consulting will travel to Moscow from **June 12-July 18** to develop a procedures manual and other training material for implementing housing allowances.

Michael Rosenberg will travel to Moscow on **June 22** to assist Mosbusinessbank in developing procedures for loan servicing and underwriting.

Leonard Neuman will travel to Moscow at the end of June to assist Mosbusinessbank in developing computer software for loan servicing and underwriting.

F. Budget and Level of Effort Summary

Budget (Actual expenditures, excluding UI fee)

May 1993	\$122,953
Project to date	\$484,732

Level of Effort (person-months)

May 1993	10.5
Project to date	51.9