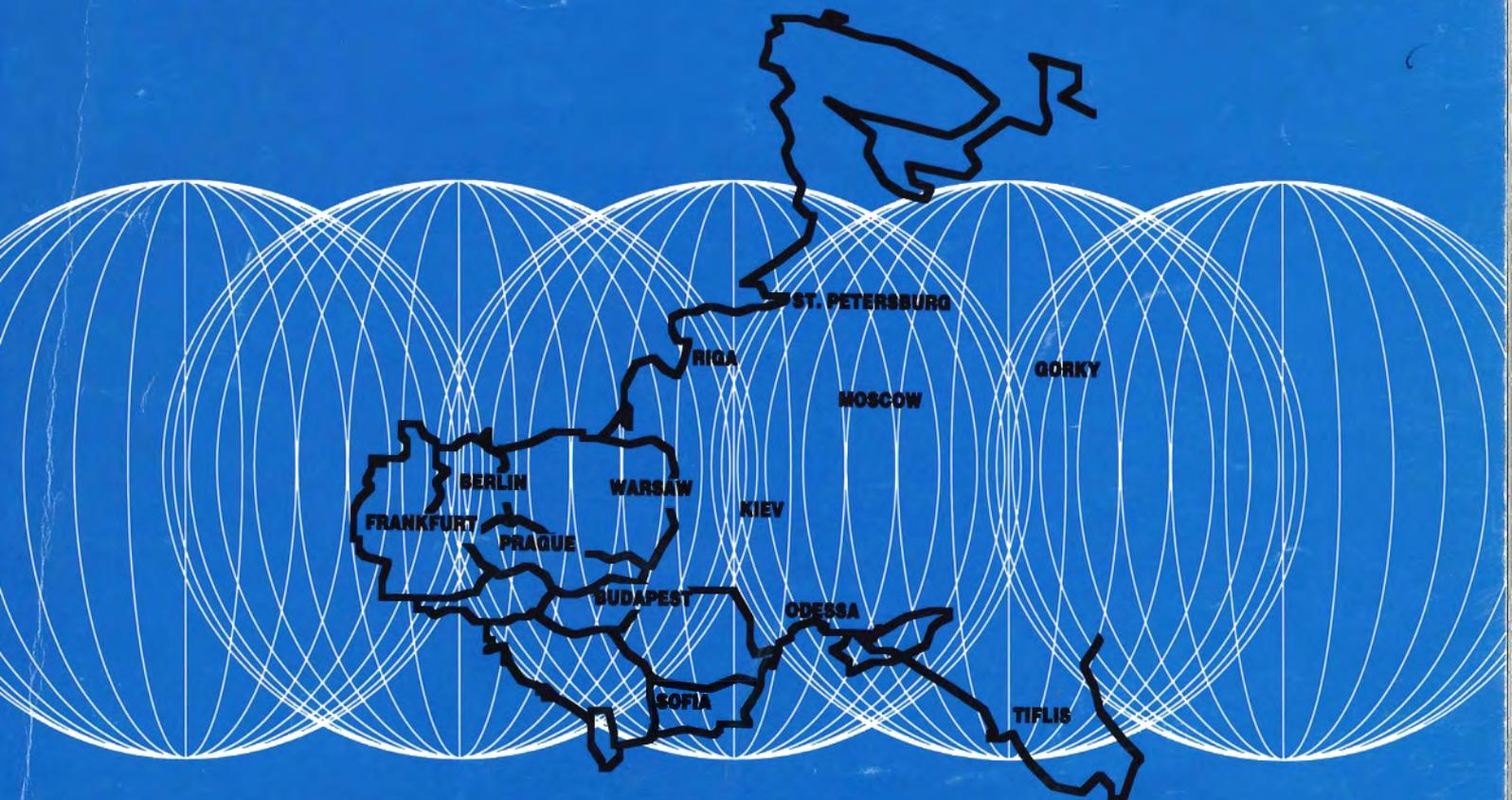


AN INTERNATIONAL ACTIVITIES PROJECT

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

**RUSSIA
HOUSING SECTOR REFORM PROJECT II**

**WORKPLAN
OCTOBER 1995 - SEPTEMBER 1996**



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

RUSSIA
HOUSING SECTOR REFORM PROJECT II
WORKPLAN
OCTOBER 1995 - SEPTEMBER 1996

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EXECUTIVE SUMMARY

The Housing Sector Reform Project II continues and expands the work begun successfully under its predecessor—HSRP I. The new project concentrates its resources on several high priority demonstration activities in four locations: Moscow, Ryazan, Vladimir Oblast, and Nizhni Novgorod Oblast. In the latter two cases, some activity will be in the oblast's principal city but other cities will be involved as well.

One major direction of activity is to develop long-term sources of finance—bank loans or oblast-issued bonds—for the financing of residential infrastructure to replace the current system of on-budget financing. With municipal budgets strained to even meet operating expenses, infrastructure investment is being generally neglected. This work will include assistance to developers and municipalities to form "public-private partnerships" for infrastructure development.

Another major activity is work with municipalities to efficiently deal with the large volume of housing being divested to them from privatized enterprises. HSRP II intends to develop a program to work on a large scale in promoting unit privatization and creation of condominiums in buildings in good condition. Lower quality buildings, where privatization is less attractive and formation of condominiums in the near term unlikely, will be channeled into a program under which maintenance is provided by firms selected through open competitions. Part of this activity is in direct support of the World Bank's loan for enterprise housing divestiture.

The third principal activity is in housing finance—continued development of long-term mortgage finance, a much increased level of activity in promotion of bank lending for construction period finance, and the introduction of home improvement loans, bridge financing, and rehabilitation loans for condominium associations. The construction finance activity includes work with developers in preparing loan proposals acceptable to commercial banks. Some of the construction finance work will support the World Bank's housing sector loan.

Finally, the project will continue its work on the development of national housing policy and will expand its work on land legislation at the national level.

Institutionalization is an important element in all parts of the project. One vehicle in this area is partnering during the life of the project with existing institutions to offer training courses on a profitable, fee basis. Another vehicle is the development of indigenous advisory and teaching capability. Prominent here is the creation of the non-profit Institute for Urban Economics, formed out of the Russian team working for the past three years with the Urban Institute, which intends to specialize in the topics described above among others.

RUSSIA
HOUSING SECTOR REFORM PROJECT II

WORKPLAN
OCTOBER 1995-SEPTEMBER 1996

I. INTRODUCTION

The Housing Sector Reform Program II continues the work begun successfully under its predecessor—HSRP I. Important for this workplan, HSRP I will continue to operate during the first year of the HSRP II contract. This overlap entails both a challenge in terms of coordinating the work of the two projects and an opportunity to provide HSRP II valuable products and contacts in connection with HSRP I activities. For example, some of the numerous banks with which Urban Institute staff work under HSRP I are prime candidates to participate in the infrastructure and construction period finance elements of HSRP II.

Table 1 summarizes the activities to be carried out under the project. This table organizes the work by the client—local or oblast administrations, banks, and developers and contractors. The objective of the project in the Base Year covered by this workplan is to provide a comprehensive, coordinated set of housing sector reform activities in four locations: the municipalities of Moscow and Ryazan, and the Oblasts of Vladimir and Nizhni Novgorod.¹

The package of activities being undertaken in HSRP II differs significantly from those in the original project. Highlights of the new project include the initiation of work with local governments on the long-term financing of residential infrastructure and direct work with developers to prepare proposals for construction period finance that should meet bank underwriting criteria. The project also expands work with banks on construction period, mortgage, and home improvement lending and expands and creates a more focussed approach to working with cities, enterprises, and condominium associations to make the transition for housing formerly owned by enterprises to private ownership under management control of its residents.

The comprehensive approach is a key objective. However, the project recognizes that not all activities may be embraced in every city or oblast. Should some activity turn out not to be pursued energetically by a city or oblast, the project may reprogram these resources to another location. To date, with the single exception of housing finance in Vladimir, all locations have expressed interest in each activity.

This workplan covers the Base Year of the contract: October 1995 through September 1996. The plan is based on the Statement of Work in the contract, the Urban Institute's (UI) proposal for the project, and field visits to each of the municipalities and Nizhni Novgorod oblast. Our objective is to describe the current situation for each activity in the country generally and in the project's four municipalities/oblast (locations) in particular, and to provide a concrete plan of action for each activity. Important topics under each activity include training and institutionalization components and plans for deploying staff resources.

¹ The reasons for the choice of these locations are described in the Urban Institute's proposal for undertaking this work.

Table 1
Summary of Activities in HSRP II

1. Work with Oblasts and Local Administrations

(a) Infrastructure finance

■ **Rationalization of fees (tariffs) for communal services.** Traditionally low rates ensure wasteful usage, inadequate service levels, and continued reliance upon subsidies. The project team will work with local officials to stimulate progress toward full cost recovery, in part through more comprehensive cost accounting to determine rates. The goal is to demonstrate the viability of rate increases, if rates are linked to a higher quality or quantity of services.

■ **Mechanisms for long-term financing of infrastructure investment.** The State can no longer satisfy large unmet needs for improvement of urban capital infrastructure. The goal is to implement new long-term capital financing mechanisms through various arrangement with lenders, housing developers, communal service organizations, municipalities, and other private and public parties.

(b) Transfer of housing from enterprises to local administrations

■ **Promotion of unit privatization in former enterprise housing.** Generally tenants in enterprise housing have been more reluctant to privatize their units than those in municipal housing. Privatization is the critical first step in getting tenants to be more responsible for their buildings. Therefore, the project team will work with the local administration on an information campaign to promote privatization.

■ **Formation of condominium associations.** The project team will work with the local administration and tenant groups to form associations and to help the associations with their initial operations, including selection of maintenance companies. The goal is to form the maximum number of successful associations.

■ **Introducing competitive maintenance to these buildings.** The record of maintenance of departmental housing is very uneven, ranging from high quality at relative low cost to poor quality but expensive maintenance. The goal is to work with the city to place the maximum volume of the former enterprise housing stock under contracts won through competitions, building on the city's experience with its municipal housing.

2. Work with Local Banks

The objective is to work with two or three local banks to help them become efficient in the following types of lending operations:

■ **Mortgage finance.** Banks will make long-term (5 to 10 year) loans for dwelling purchase at market interest rates, under acceptable credit and interest rate risk.

■ **Home improvement loans.** Banks will extends 2-3 year loans for improving a single family home, dacha or apartment. Again, the loans should be profitable for the lender and safe for the borrowers.

■ **Construction period finance.** Banks will lend 1-2 year loans to developers or construction companies to finance the construction of residential developments. Key elements are assistance to banks in underwriting these loans and controlling disbursements. Work with the administration on making the land under development acceptable loan collateral may be necessary.



Table 1
Summary of HSRP II Activities (continued)

3. Work with Developers and Construction Firms

- **Construction finance.** The goal is to work with developers and construction firms to develop bankable projects and to place the maximum number of construction loans at cooperating banks in order to develop a workable construction finance model that can be replicated.

 - **Infrastructure finance.** The project will work with local developers and construction firms to develop proposals for joint financing of selected infrastructure investments with local utility companies or the local government. Possible arrangements include public-private partnerships. Where feasible, long-term financing options will be used.
-

The workplan proposes some significant changes from the contract based on developments in Russia and at USAID since the original statement of work in the RFP was prepared. The principal developments in Russia have been the rapid rate at which enterprises have voluntarily divested their housing to municipalities during 1995 and the banking crisis of August 1995 which has had profound effects on the financial health of many small regional banks and in turn their willingness to engage in innovative lending, such as residential mortgage and construction period finance. These changes have direct impact on the work proposed. The development at USAID of consequence for the project was the reduction in resources available for the Russia program in general and a 40 percent reduction in the resources for HSRP II. The impacts of the latter are explored in the balance of this section.

A. Reduction and Proposed Reallocation of LOE

It is important to place the level of activity in the Base Year of the HSRP II in the broader context of the overall level of effort (LOE) in both HSRP I and II for the same period and of the LOE in the option years of HSRP II. Table 2 on the next page shows the LOE for HSRP I and II for the three year period 1995/1996-1997/1998. The LOE for HSRP II is indicated in the Urban Institute's Best and Final Offer (BAFO). These levels reflect the overall 40 percent reduction in LOE in the HSRP II which was announced by USAID at the time of contract negotiations. The striking pattern in the table is that between the first and second years of HSRP the LOE for U.S. staff declines from 187 to 21 person- months—a reduction of 89 percent.

The Urban Institute believes that the U.S. LOE remaining for the options years is insufficient to meet the objectives of the program in terms of aggressively spreading the innovations developed in the Base Year and continuing comprehensive work on sector legal reform and policy development. Therefore, a reallocation of U.S. LOE in favor of the option years is proposed, as indicated in Table 3 following. This table presents figures on total LOE by year (final row) and the allocation among activities by year. Each cell in the table has two figures: the upper figure is the number of person-months indicated in the Urban Institute's Best and Final Offer (BAFO) and the lower figure is the LOE we now propose.

Table 2
LOE in HSRP I and II (1995-1998)
(person-months)

Staff Type/Contract	1995-1996	1996-1997	1997-1998
<i>Russian Professional Staff</i>			
HSRP I	264	—	—
HSRP II	142	219	199
Total	406	219	199
<i>U.S. Professional Staff</i>			
HSRP I	89	—	—
HSRP II	98	21	21
Total	187	21	21

We propose to reallocate 27 person-months of the available U.S. LOE from the Base Year to the option years to permit stronger performance in the later years and to take full advantage of the resources in HSRP I during the Base Year. The principal change in the allocation among activities is to devote greater effort to infrastructure finance, for which there is a great interest in assistance among the administrations of Russian cities, at the expense of construction finance and urban land policy. The reduction for construction finance reflects our views about the ability to effectively absorb more LOE than we propose. The situation for land policy is different. The contract calls for work on both policy and land demonstrations. We propose to retain the work on policy but to drop the land demonstrations. The latter proposal is driven by two factors. First, of the 14 man months allocated to land work in the BAFO—nine of these were for demonstrations. After discussions with USAID and contractors currently working on land demonstration projects, we do not believe a credible program can be mounted with this LOE. Second, USAID has several large land demonstration projects underway which cover the main possibilities for constructive work at this time. In summary, the LOE now shown for land policy is for land policy work primarily at the national level.

The plan of work formulated in this document is based on the proposed, revised allocation of U.S. LOE. The allocation of Russian professional LOE is not changed from that shown in the BAFO.

Table 3
Proposed Reallocation of U.S. LOE in HSRP II
(person-months)

Activity		Total	Base Year	Option 1	Option 2
<i>Finance</i>					
Housing/mortgage	Original	14	10	1	3
	Reallocated	17	10	4	3
Construction	Original	26	22	3	3
	Reallocated	18	10	5	3
Infrastructure	Original	37	25	11	1
	Reallocated	51	24	18	8
<i>Enterprise divestiture</i>					
Privatization	Original	7	4	1	2
	Reallocated	7	4	1	2
Maintenance	Original	14	10	1	3
	Reallocated	13	6	4	3
Condominiums	Original	14	10	2	2
	Reallocated	14	6	4	4
<i>Housing policy</i>	Original	14	8	2	4
	Reallocated	14	8	2	4
<i>Urban land policy</i>	Original	14	9	2	2
	Reallocated	6	2	2	2
<i>Total</i>	Original	140	98	21	21
	Reallocated	140	70	40	30

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B. Allocation of Responsibility Among Firms

The Urban Institute led a sizeable consortium in bidding on the HSRP II contract. The proposal described the distribution of responsibility. That allocation is confirmed in this workplan. In particular, the lead firms for various areas are as follows:

- Mortgage/housing finance Urban Institute
- Construction finance
 - Work with banks Urban Institute
 - Work with developers PADCO
- Infrastructure finance
 - Work with municipalities Research Triangle Institute
 - Work with developers PADCO
- Enterprise housing divestiture Urban Institute
- Housing and land policy Urban Institute

Other U.S. member firms of the consortium are Fannie Mae, Abt Associates, Quadel Consulting, and Mendez England & Associates. They will be asked to recruit and manage short-term consultants as needed, as will PADCO where appropriate.

Four Russian firms were included in the proposal: Institute for Urban Economics (IUE), Polis-3, the Leontief Center, and AUREC. Among these firms, the greatest responsibility is assigned to IUE. The planned roles of Polis-3 and AUREC were sharply diminished by the reduction in the scope of the land demonstrations. Similarly, the roles of the Leontief Center and AUREC were reduced by the elimination of St. Petersburg as one of the target cities. Final allocation plans for work among the Russian firms will be made after approval of the workplan by USAID.

C. Organization of the Presentation

The main part of the workplan provides an activity-by-activity description of the planned work. Following this, we present several summaries to facilitate review and discussion: an overview of institutionalization plans, anticipated project milestones, the planned schedule for the use of short-term assistance and a staffing summary by task.



II. PLANS FOR PROGRAM COMPONENTS

A. *Housing/Mortgage and Construction Period Finance*

HSRP II embodies a comprehensive approach to housing finance, providing technical assistance to both the suppliers of credit (banks) and to a key demander of credit, i.e., developers of residential properties for construction period finance. The first part of this section describes the workplan with banks and the second part with developers.

A.1 *Housing/Mortgage and Construction Period Finance—Working with Banks*

Current Status

High inflation and interest rates and an uncertain legal environment continue to be deterrents to more active long-term mortgage lending operations in the Russian Federation. Commercial banks, however, have, with help from HSRP I, found ways of coping with these problems to initiate lending operations. Interest rate risk is controlled by use of the dual rate mortgage (DAIR) and the dollar denominated mortgage. Credit risk is managed by a combination of strict loan underwriting and primary use of lease-purchase agreements, which keeps foreclosure out of the courts. Staff training is available through the courses offered by the team at the IUE and associated institutions, including the Association of Mortgage Banks (AMB).

Other types of housing lending are in their infancy. Banks are ready to make improvement loans if they have some guidance on doing so. The pilot offering of such loans by the East Siberian Commercial Bank, with help from HSRP I, shows that they can be originated and serviced easily. Banks have made few bridge loans to date, but we believe this will prove highly popular.

Construction finance plays a crucial role in supporting the development of a housing private market. Currently, housing construction, whether by individuals or developers and contractors, is financed by buyer's downpayments and installment equity contributions ("share participation"). This often leads to longer construction periods, a proliferation of unfinished buildings and production of housing for only those with cash to pay for it. There are serious difficulties for banks associated with construction period finance—particularly their current inability to underwrite these loans thoroughly and control loan disbursements and problems of the reliability of the projects as collateral because of often uncertain land rights. UI began work in the summer of 1995 with several banks in these areas, but to date banks have not moved energetically.

Recent events, especially the banking crisis of 1995, have had both a positive and negative effect on mortgage lending. On the positive side, banks now recognize the need to turn their attention to stable investments (although with less inflated profits). Mortgage and other housing lending can provide banks with a steady cash flow and reasonable profits when properly indexed against inflation. Risks are low compared with several other kinds of lending. On the negative side, the banking crisis has severely limited the availability of monetary resources for all lending, and long-term lending especially. As a result, banks that made plans to begin making mortgage loans have delayed implementation of their programs until their financial situation stabilizes. In the meantime,

their primary assets are State securities, in order to avoid the large losses associated with any bad loan. More than 150 banks have been closed in 1995 by the Central Bank, reflecting the fragility of much of the banking system. Nevertheless, we continue to be optimistic about the long range benefits of housing lending.

The current state of lending in Russia poses several potential problems for HSRP launching work with new banks. First, strong and stable banks must be identified that are capable of carrying responsibility for originating the different types of loans and of holding the mortgage loans in their portfolios for an extended period. Second, it is desirable (but not essential) that the geographic area of mortgage lending operations include at least one large, healthy enterprise which can provide potential clients with stable incomes and possible enterprise guarantees to the bank for loans to its employees. The situation is strengthened if the area has an emerging community of self-employed entrepreneurs who have the resources for the downpayment and monthly payments. Third, the area should have a supportive local administration which may provide further incentives in the way of: (a) subsidies for downpayment assistance and a local judiciary which will support the bank's right to foreclosure; and (b) strengthening the quality of land rights possessed by developers during construction which would lower the risk of construction period lending.

Our analysis of the cities of Moscow and Ryazan and the Nizhni Novgorod Oblast shows a favorable climate to support housing lending activity and we have identified and contacted at least two banks in each city about providing technical assistance. However, we found that the current economic and banking environment in the City of Vladimir is not now conducive for a viable housing lending program. Bankers and local officials in Vladimir stated that while they were interested in mortgage and other housing lending, the economic and market conditions were not yet ready to support the program. The local affiliates of Inkombank and MOST Bank were somewhat more positive, but the directors of the credit department at these banks failed to secure permission from their Moscow headquarters to initiate such lending. Therefore, we will monitor the situation and reenter the market if conditions change. In the meantime, the project will attempt to work with one or two banks in Ekaterinburg.²

Activities During the Workplan Period

HSRP II will encourage Russian banks in our target cities to make the required preparations now to initiate housing lending operations. When both economic and legal conditions improve to the point of profitable lending, these banks will be in a strategic position to facilitate full-scale operations. In the meantime, the required training and technical support is being offered for limited lending activity whereby institutions can carry between several percent of their assets in mortgage loans and possibly more in other types of housing loans.

² This change was agreed upon by USAID during the review meeting on the workplan, December 11, 1995.



The work plan for housing finance during this period includes intensive work with banks in the cities of Ryazan, Nizhni Novgorod, Ekaterinburg, and Moscow, with possible future cooperation in Vladimir. In particular, we have identified and held positive discussions with the following banks:³

Table 4
Status of Work Relations with Commercial Banks in HSRP I and II

Location	Bank	Currently Working under HSRP I	Joined Program under HSRP II	Possible Future Cooperation*
Ryazan	Priovneshtorgbank		■	
	Municipal Commercial Bank		■	
Nizhni Novgorod	Inkombank		■	
	Nizhni Novgorod Land Bank	■		
	Nizhnegorodsky Kredit Bank	■		
Vladimir	Menatep Bank			■
	MOST Bank			■
	Inkombank			■
Moscow	Mosbusinessbank [†]	■		
	Joint Stock Mortgage Bank	■		
	Creditprombank	■		
	Baltchug Bank [‡]	■		
	Krasnye Vorota	■		
	Stolichny Bank [†]	■		
	Tver Universal Bank	■		
	Inkombank	■		
Nefthanoi Bank	■			

Notes

- * Possible future cooperation as market conditions improve
- [†] Initial work on construction period finance begun
- [‡] Alpha Bank has recently purchased the mortgage lending operation from Baltchug Bank

HSRP is already working with nine banks in Moscow on mortgage lending and two (Mosbusinessbank and Stolichni Bank⁴) on construction period finance, although the latter is not moving very quickly. Our plan is not to aggressively add banks in Moscow, although we remain open

³ In addition, we have identified, but not yet contacted, Promstroi Bank in Ekaterinburg, one of the banks which is on the list of partially approved banks for the construction finance component of the World Bank Housing Sector Loan.

⁴ Until October we had also been working with Menatep on both mortgage lending and construction period finance. The person in charge of this lending left the bank in October and took several people in the department with him. He has decided at least temporarily to defer restarting their lending in this area.

to real opportunities of working with major banks that are patently interested in these kinds of lending. Rather we will concentrate on introducing new products to those banks with which we are already working, i.e., construction period finance, home improvement loans, and bridge finance. These banks are listed in the table.

The general plan to is build on the successful procedures developed in HSRP I for working with banks. Technical assistance will be provided for the following loan products:

- long-term mortgage loans;
- residential construction period finance;
- home improvement loans; and
- bridge loans.

A condominium home improvement and rehabilitation loan product will also be under development.

We will emphasize mortgage lending and construction period finance initially, in part because of our greater experience with these loans. The introduction of home improvement lending is quite straightforward and the manual on how to do this is now being published. Production of this manual coupled with the experience of the pilot program at the East Siberian Commercial Bank makes us confident that this product is easily absorbed by the banks. Hence, the project banks can pick up this line of lending when they wish with modest help from our team.

With respect to the bridge loan, this product is still under development. The manual will be finished this year and we will pilot these loans with one or two banks early in 1996. By late spring it should be available to the banks in the target cities.

During this period the team will also conclude development of guidelines for home improvement and rehabilitation loans for condominiums. When this is completed, it will be offered to the banks in the target cities. We anticipate the offer being extended in the summer of 1996 when more condominiums have been formed in these cities and banks have experience with home improvement and construction lending.

Most of the technical assistance to the banks will be delivered by staff from IUE. There are two areas in which outside help is necessary. Proper underwriting of construction period loans is totally new in Russia. A U.S. consultant will train IUE staff in how to do this while preparing the supporting manual and other documentation. A second U.S. consultant will work with the IUE team to develop more sophisticated techniques for the more advanced banks to use in pricing and controlling risks and in preparing business plans. Again, the U.S. consultant will take the lead in developing the supporting documents.

Training

The market for the specialized training for housing lending is limited and therefore we will continue to work with institutions to provide training programs at the national level, although some courses will be presented outside of Moscow. The key actor in offering the courses will generally be the Institute for Urban Economics which will offer the courses jointly with other institutions, with IUE providing the trainers. Staff from the target banks in HSRP II will be strongly encouraged to



participate in the relevant courses. If necessary, HSRP II may provide tuition scholarships for staff from priority banks that are showing genuine progress.

During the fall of 1995, both the AMB and the Association of Commercial Banks-Russia did not deliver on commitments to hold specific courses in conjunction with the Urban Institute, in part because demand was down due to the banking crisis. Generally, they cite a lack of market, but we also believe that they do not have a strong level of commitment to offering these courses. On the other hand, the International Academy of Entrepreneurship has been aggressive in marketing a loan servicing course.

IUE will work with all three entities to arrange courses for the spring semester. The courses to be offered include: underwriting construction period finance; risk management and loan pricing for mortgage lending; and basics of home improvement and bridge loans.

HSRP I is organizing two U.S.-based training events and we plan to include bank staff from the "new banks" where these banks are demonstrating significant interest and progress in their respective lending operations. One is a study tour scheduled for April to observe practical aspects of construction period loan origination and management. The visit will be organized around loans made by one or two cooperating banks. The loan application, underwriting, and negotiations-and-adjustments will be studied for real loans. Some of the loans studied will be for projects under construction and the Russian bankers will observe how bank staff monitors construction progress as a basis for loan disbursement. About twelve Russian bankers will participate.

The other event is a three-week course on advanced topics in mortgage lending scheduled to begin in early May. This is similar to the four-week course to which two groups of Russian bankers were sent in 1994. The course is being revised somewhat in response to the comments from the 1994 participants to deal with more advanced topics in greater depth. The cost of these courses will be divided between HSRP I and II.

Institutionalization

Further training of the housing finance team at IUE will be the primary vehicle for institutionalization. In the future the team will be available on a fee basis to provide consulting services to interested banks and will continue to serve as a teaching resource for housing finance courses that they or others organize and market. Secondary institutionalization through training activities will be with the three institutions with whom IUE is cooperating in offering courses. As the market for such services increases, they will have further incentive to offer courses.

Products

The following products are anticipated from this work:

- A manual on construction period finance, emphasizing loan underwriting and disbursement control during construction;
- A manual on bridge loan financing;

- A manual on home improvement and rehabilitation loans for condominium associations; and
- Offering of courses to bank staff on aspects of mortgage lending, construction period finance and home improvement loans.

Performance Indicators

The performance indicators set forth in the contract for HSRP II, with which we agree, are as follows:

- (1) A standardized set of documents for construction lending procedures and appropriate construction lending instruments should be available for dissemination;
- (2) Procedures are in place and staff trained at 5 banks to initiate construction loans and at ten banks to initiate mortgage loans; and
- (3) At least one institution offering a course for construction lending.

Summary of Staff Resources

The following resources are expected to be needed during the period, beyond those of the core staff:

<i>U.S. professional staff</i>	
Team Leader (resident)	4 person-months
Short-term specialists	11 person-months
<i>Russian professional staff</i>	
City Coordinators	2 person-months
Moscow-based specialists	18 person-months

The following commitments have been made to date for U.S. short term consultants to assist with this work:

- *Raymond Miller*, a highly experienced housing finance expert, will arrive in mid-January for an assignment of up to six months. He will work with banks in the target cities, primarily in a staff training mode. He will also work with more mature banks in Moscow and elsewhere to introduce more sophisticated procedures for risk control and pricing and preparation of business plans. He will participate in the development and teaching of new sections of selected housing finance courses as well.
- *Donald McCarthy*, who has been working on construction period finance with banks under HSRP I since May 1995, will continue this work under the new project for up to 4.5 months of effort. McCarthy's responsibilities include preparation of the construction finance lending manual.



- *Olga Kaganova* is preparing a section of the construction finance lending manual on ways to assess the marketability of completed units in a project proposed for bank financing. The commitment is for two weeks of her time. The product is to be delivered in mid-December.

Related Activity

With respect to construction period finance, two activities are notable. First, as part of the USAID-provided assistance for the World Bank housing sector loan, PADCO conducted training workshops in construction finance for bankers, developers and local officials. This experience is being incorporated into the project. Second, the general contractor for the World Bank housing sector loan will provide technical assistance to a group of International Standard Banks who will make construction period loans to be refinanced with World Bank loan funds. Struyk and McCarthy are in close contact with Andy Nelson of the general contractor team.

To our knowledge there is only modest other donor-supported activity in the area of mortgage lending. The British Know-How Fund is supporting a consultant who is working on a part-time basis in Nizhni Novgorod. USAID is supporting the development of rehabilitation loan package for condominium associations in Tver by the Cooperative Housing Foundation (CHF). Our team is in close contact with the consultant.

One other less directly related projects is also potentially relevant—the USAID supported project to introduce mortgages of commercial assets. The Urban Institute team has met twice with the team from the Barents Group and expects to remain in steady contact with them.

A.2 Construction Finance—Assistance to Developers

Current Status

Developers in Russia's medium and large cities range from large industrial enterprises that are actively engaged in constructing housing mainly for their employees to construction companies that have branched out into speculative development of housing. GAZ, the plant in Nizhni Novgorod City that manufactures the Volga car, is an example of the former; it maintains its own construction department and prefabricated concrete production plant on the scale of a DSK (integrated construction *kombinat*). Nonindustrial enterprise developers range from construction companies that have branched into residential development to create markets for their construction products to new, generally smaller companies created to develop housing. In most cities, the biggest developers are the municipally owned Capital Construction Companies or UKS. These continue to use municipal and private funding sources to construct housing projects.

Typically, developers prefinance up to 90 percent of their projects through advance sales to enterprises or individual buyers. If prices increase, the investors must either increase their contributions or sell out to other investors. Obviously this process potentially results in confused ownership rights and often delays completion of buildings. Enterprise developers normally initiate construction themselves or through municipal or private developers. In either case, they must prefinance the construction themselves or find other investors. Very little bank finance is available.

Further, due to very high interest rates, debt financing is only used to complete a project and used to finance the remaining 20-30 percent of project costs. Banks also participate directly in project financing through investing in a share of the flats in a building. Once the structure is complete, the banks will either sell the units for profit or use them for their staff.

Given the lack of interest by banks in Vladimir in construction period finance, we plan to substitute Ekaterinburg for Vladimir for this part of the work as well as for construction period finance.

The situation varies considerably in the four target locations. In Ryazan there are 125 private developers operating both in Ryazan city and oblast. Most are very small and are fairly weak. Eight of the companies were identified by the construction department of the city as particularly strong and active in the sector constructing mainly cottage projects.

In Nizhni Novgorod Oblast there are around 600 construction companies many of which act as developers. Like the other locations the sector is characterized by three types of developers: municipally owned companies, industrial enterprises engaged in construction, and construction companies that are also developers.

Since 1991 a large number of developers has emerged in Ekaterinburg. These range from the developer who successfully won the pilot project aimed at selling land rights to private developers, to a large number of developers engaged in cottage development. There are also a small number of developers engaged in renovating historic wooden houses in the center of the city. Finally, a series of developer/builders have emerged. The latter group consists of two main groups: administration sponsored developers who work in close collaboration with the capital construction department and truly private developer/builders engaged in private construction. Some of the private firms were formed from the breakup of the old kombinants. Others emerged as new private developers.

Moscow, including Moscow oblast, has the most sophisticated developer activity. In the Moscow region, developer sponsored projects include individual single family dwellings, cottage projects, and mixed development. In Moscow oblast, particularly, there are a range of projects under development including the development and sale of individual plots of land to the speculative development of large housing estates. Based on surveys conducted in 1993, about 60 percent of the units in developer projects are residential apartments in multifamily structures and the balance in single-family developments. Much of this activity occurs on the 44,000 hectares of land located in the oblast allocated to the City by a Presidential Decree for expansion of Moscow City housing.

Given uncertain financing, a typical project requires 2.5 years from the start of construction work to sale. As is true in other locations, most projects are financed through pre-sale arrangements usually requiring advance payments of 50 percent or more of the projected developments costs.

Given the higher incomes and greater variation in the housing market in the Moscow region, six different have emerged, according to Vysokovsky's study of developers in the Moscow region undertaken as background work for the World Bank loan:



- Firms engaged in construction of multifamily housing:
 - Firms doing prestige construction;
 - Firms engaged in completion of unfinished buildings;
 - Firms constructing new conventional multifamily housing;

- Firms constructing single family housing and selling land plots:
 - Firms targeting upper income groups and selling land plots;
 - Firms constructing ordinary single-family housing;
 - Firms selling land plots, either developed or undeveloped, for the non elite market.

Activities During the Workplan Period

Assistance to developers on construction finance will commence in January 1996 following the identification of interested banks and beginning with the initial workshops describing the roles of banks and developers in the process. A second series of workshops is planned to use a case study format for training interested developers in each city. Depending on the response to the first set of workshops, the second series may take the form of intensive technical assistance to selected developers who express interest. The objective will be to assist those developers in each city that express a need for assistance in the project preparation, financial analysis and loan application process. Only those developers with projects that have a full set of approvals and can demonstrate financial feasibility will be considered for intensive assistance. PADCO has developed a detailed project financial analysis model for projects utilizing construction loans in transitional economies with high inflation.

Since the developer finance and developer infrastructure finance activities (Section B.2) are likely to involve the same set of government officials and developers in at least the smaller cities, we propose to link the two activities. One U.S. advisor plus Russian professionals would work in two locations providing in depth assistance in both developer activities, while the other advisor would provide similar assistance in the other two locations.

We propose approaching the Guild of Realtors or other national institute based in Moscow to serve as base for the team's activities. Thus one advisory team would serve Moscow and Ekaterinburg and would work closely with the Guild and the other would work with Ryazan and Nizhni Novgorod. Later, if the banking situation in Vladimir improves, assistance may be provided there as well.

The following types of assistance would be provided to developers to assist them to qualify for period construction financing:

- Assistance in preparing project feasibility analysis including assessment of market demand, use of computer spreadsheet models to test differing financial assumptions and inflationary conditions;

- Assistance in preparing loan applications including demonstrating credit worthiness, preparing and presenting market assessments, matching project costs to demand characteristics, cashflow analysis, site documentation including approvals, and packaging loan application documentation;

- Project risk analysis including determining the risks to the developer if the project fails, liabilities of the developer in event of failure, and strategies for minimizing project risks; and
- Guidance in preparation of design/build proposals that match project costs with market demand if these are required to support loan applications.

Training

Training will be focused on the local level with the training of developers, bankers and possibly city officials. Training of developers will be provided by one-on-one technical assistance following the two sets of seminars in the four cities. Materials developed by the UI team will be provided to individual developers during the workshops and the technical assistance period. The developers will master the materials through the repeated interaction, the technical assistance, and the actual preparation of projects and loan applications followed by project implementation. City officials will also be invited to participate in the seminars and be trained on the materials and the development process. The seminars will be conducted initially by a combination of U.S. experts and Russian staff with the objective of a transition to conducting seminars with Russian staff, local institutes or professional associations later in the project.

Although local institute capacity will be evaluated, the markets for developer training courses may be too small to be attractive to institutes in smaller cities. Therefore national institutes, such as the Guild of Realtors may be more appropriate since they could attract a nationwide audience of developers. Early in the technical assistance, the team will approach the Guild and determine their interest in participating in the project.

Capacity building through the Russian project staff will be provided by the U.S. experts through a mentoring role and day-to-day training and work assignments. Russian staff will become thoroughly familiar with all of the materials and be trained on the process of implementing the projects. Russian staff will play an increased role leading technical assistance and conducting training seminars over the next year. The objective will be for the Russian staff to be fully capable of carrying on these projects without the assistance of U.S. experts.

In summary, Russian professional staff, developers, city officials, and selected staff from institutes will be trained in construction finance. Materials will be developed for case studies to be included with the training materials in a "how to" manual and these will be left with the developers, city officials, and institutes or professional associations as a resource for further work and training courses that may be offered.

Institutionalization

The construction finance project will be institutionalized through the following mechanisms:

- A "how-to" manual;
- A cadre of trained Russian professional staff;
- Trained developers, contractors, and city officials; and



- Selected professional associations or institutes provided with course materials for regular courses on construction finance.

The Russian professional staff will have received the day-to-day training and all of the materials and they can continue their work through real estate consulting companies, developers or professional associations over time. The developers and cities will have received the training and several selected developers will continue to implement specific projects with approved construction loans. This project experience will be institutionalized in the target cities.

Products

The key accomplishments and products for this area are listed below:

- Training materials developed for construction finance courses and delivered in four cities by U.S. and Russian staff;
- Construction finance "how to" manual developed for developers and cities; and,
- Project feasibility studies and loan applications prepared in each of the cities.

Performance Indicators

For the base period, the project team has defined the following targets:

- (1) One institution or professional association offering a course on construction finance lending;
- (2) A "how-to" manual for construction finance developed for use by developers and city officials; and
- (3) Four projects prepared and loan applications submitted to interested banks.

Summary of Staff Resources

The assistance to developers on construction finance will utilize 5 person-months of U.S. short-term assistance and 7 person-months of Russian professionals excluding the city coordinators.

Agreement has been reached with the Cooperative Housing Foundation (CHF) and USAID that CHF's David Dunbar, already resident in Tver, will work nearly full-time on this task during February-July 1996.⁵ Given Mr. Dunbar's location in Tver, it is likely he will be responsible for work in Ryazan and and Nizhni Novgorod for both construction and infrastructure finance work with developers (see B.2 below) in these locations. The other consultant, to be named, will be responsible for similar work in Moscow and Ekaterinburg. After a full assessment of both

⁵ Dunbar is to spend one-half day a week overseeing the continuation of work on condominium formation in Tver.

consultants' experience and capabilities, it may be determined that two or three additional months of supplementary assistance with developer participation in public-private partnerships is necessary.

Related Activity

PADCO is conducting an enterprise land sales program and a land use regulatory reform program in several cities and will have significant information on land and real estate markets that will be of relevance to this project. The General Consultant for the World Bank financed Russia Housing Project will be implementing the construction finance line of credit in the five cities with a demonstration project in Moscow.

B. Infrastructure Finance

The work program for residential infrastructure finance involves work with two classes of clients for investment in new facilities or the upgrading of existing systems: municipalities and their providers of communal services and developers who require extensions of infrastructure networks to make many projects feasible. The first part of this section presents the work program with municipalities and the municipal firms providing utility services. The second discusses the plans for working with developers and cities in developing "public-private partnerships" for such investments.

B.1 Infrastructure Finance—Work with Municipalities

As a major new activity, the infrastructure finance program has already started to build on UI's accomplishments and local knowledge in Russia in housing sector reform and the Research Triangle Institute's (RTI) in municipal finance and management. Working through the established contacts of each of these institutes, the infrastructure finance team has explained its approach (as outlined below) to relevant officials from each of the four target municipalities—Moscow, Ryazan, Vladimir, and Nizhni Novgorod—and has received strong indications of interest from each municipality. The team has also solicited and received suggestions from two of these cities for possible demonstration projects, and more detailed discussions are planned.

The first year of the infrastructure finance program will design and implement infrastructure pilot projects on long-term financing and tariff reform in each of the four target municipalities. In each target municipality, these pilot projects will be supported by parallel efforts of: (a) research on the municipalities' infrastructure needs and finance; (b) technical assistance on infrastructure finance; and (c) informal seminars on infrastructure finance and tariff reform. The first years' success of these pilot projects will lead, beginning in the second year, to: (a) extension of these financing-and-tariff innovations to additional municipalities; (b) implementation of Russia-specific training activities in municipal infrastructure finance; and (c) institutionalization of a Russian capability to support such activities on a continuing basis in the future.

Technical assistance in municipal infrastructure finance will focus on long-term financing and related tariff reform. Long-term financing will provide money for the timely completion of an



infrastructure project, and tariff reform will generate increased revenue that will constitute both the collateral needed to attract long-term financing and the basis for its repayment.

Current Status

During the transition to a more market-based economy, the traditional funding sources for housing-related infrastructure in Russia are no longer able to meet the growing needs for expanded and upgraded capital plant and improved maintenance. Central government funds for local-level infrastructure capital development have virtually disappeared, and local government budgets are incapable of providing for the increased maintenance that is required after years of inadequate operational spending. For example, Nizhni Novgorod budgeted the expenditure of only 8 million rubles for residential infrastructure in 1995. Municipal public service enterprises must therefore look to new sources of funding for long-term capital development as well as for more immediate operational expenditure needs.

Municipalities, for their part, have turned to increased development exactions as a source of funds. Under the Soviet system, exactions in the form of a percentage of finished units were received by the construction firm and in certain cases other agencies as a partial payment for services. Municipalities have seized this precedent and now often charge heavy fees, either as a percentage of project cost or as percentage of completed units. It is unclear whether there is any relationship between the size of the exactions and the municipality's contribution to the project in terms of land and infrastructure or whether the utility providers receive a share of these funds.

■ **Long-term financing.** Long-term financing of urban infrastructure is a key element in moving municipalities from subsidy dependence to financial independence in infrastructure capital development. That is, long-term financing can quickly raise the funds to carry out a capital development project, by-passing the need for initial subsidy capital from the state. Since these funds must be repaid on time over many years, the tariff structure should generate sufficient revenue to meet both principal and interest payments of any long-term loan or bond issue. In that process, long-term financing will also improve the fairness of new project financing, since future (as well as present) users will help pay for the project benefits that they receive.

With the disappearance of the state-source capital financing and the emergence of market-based municipal lending, municipalities are eager to explore the possibilities of long-term financing of housing-related infrastructure. Officials in the target municipalities have indicated great interest in participating in pilot activities to generate long-term financing for housing-related public service infrastructure—particularly for water, sewer, and heating services. They have also indicated high enthusiasm for technical assistance that would help them to prepare proper analytic documentation of long-term financing proposals.

Revenue bonds appear to be the best source of long-term financing for housing-related infrastructure in Russian municipalities. Although municipal bonds presently account for only three percent of Russia's capital market, knowledgeable observers of the Russian banking sector believe there to be both: (a) substantial need for long-term infrastructure financing; and (b) sufficient demand for such municipal revenue bonds on the part of individuals, domestic banks, and other financial institutions.

The most likely vehicle for such revenue bonds would be oblast-issued bonds, with the proceeds being on-lent to municipal communal service enterprises under a carefully specified contract. The income from such oblast-issued bonds would also be exempt from federal taxes, since oblasts (and republics) hold state status, while municipalities do not. Thus, income from bonds issued only by municipalities would not be exempt from federal taxation. Moreover, the market potential for oblast-issued bonds would be much greater than for municipally-issued bonds. Since oblasts are Subjects of the Federation, their bonds can be purchased by state "foundations" (extrabudgetary funds), such as the Pension Foundation, the Road Foundation, the Employment Foundation, which cannot purchase municipally-issued bonds. Finally, interest payments on oblast-issued bonds—income from which would be exempt from federal taxes—could also be included in the cost basis of tariff calculations.

Bank loans could also provide funds for capital construction of municipal infrastructure, although domestic bank lending to Russian municipalities has been largely for short-term budgetary support. Moreover, domestic banking is in turmoil, and profits have fallen, since 1995's summer banking crisis amidst establishment of the ruble corridor and the simultaneous shrinkage of interbank lending. The level of bank lending is now very low, as is likely bank interest in any long-term lending. Failures of the more marginal banks are anticipated in a shake-out toward a more efficient domestic banking sector.

■ **Tariff reform.** Tariff reform can significantly improve cost recovery, discourage wasteful consumption, and thus lead to the more economically efficient use of resources in the provision of public services. If the price of water and sewer services, for example, is increased to cover the full actual cost of providing those services, then consumers will reduce wasteful consumption of water. This reduced demand for water will decrease the long-term demand for additional treatment capacity, thereby reducing the amount of long-term financing needed for that purpose. Thus, both the required costs and the necessary financing of future infrastructure development could be substantially reduced. Moreover, the enhanced revenue streams generated by improved cost recovery and more rational rate structures will constitute both the collateral to attract long-term financing and the basis for its repayment.

The tariff reform component of the proposed pilot projects will analyze the feasibility of marginal cost pricing of the infrastructure-based services for which long-term financing is also sought. In marginal cost pricing, each consuming unit in a new development, for example, would be charged its share of all costs of extending the water and sewer line to the site and completing the connection to the individual unit—including all interest and amortization costs as they are paid out over the period of any long-term financing. Thus, each customer alone would pay the full cost of the benefits that he or she consumes, with no subsidy from either other customers or budgetary sources. In Russian cities such pricing must be carefully considered in light of possible development exactions and the general policy of equal rates per unit of service charged to all residential customers. It may be that charging the standard rate for actual consumption will be the outcome.

Tariff reform will promote improved cost recovery by seeking progress toward full-cost pricing of housing-related infrastructure services. With some communal services now operating at roughly only 20 percent cost recovery, the objective of truly full cost recovery must remain a long-term goal.



In the proposed pilot projects, tariff reform will demonstrate that, in exchange for improved service, consumers will pay high enough utility rates to improve cost recovery while meeting the regular interest and amortization costs of all long-term financing. A simple example of such a pilot project might be a new, moderate-sized residential development (say, 400 residential units). The desired success of the revenue bond financing would be encouraged by the relatively modest size of the project (and of its attendant financing requirement). Marginal pricing would be introduced through individual metering of water consumption at each unit, with an outside-access meter to be installed in each unit at time of construction. Cost recovery would be improved through a water-and-sewer rate based on volume of actual usage and featuring a separate surcharge to cover interest and amortization on the infrastructure borrowing (including that for purchase and installation of the water meters).

The most easily implemented pilot projects would probably occur in small, new developments whose residents who could afford to pay higher utility rates as a condition of completing the development. Once these tariff and financing concepts have been shown to be viable, later pilot projects could focus on larger, more diverse geographic areas where time, financing, and the benefits to be generated are commensurately greater.

Marginal-cost pricing is the key to tariff reform, and marginal-cost pricing depends upon demand management through metering of individual unit consumption. Cost recovery via higher rates on unmetered consumption (the current tariff scheme) would probably only exacerbate the non-payment of utility bills, to the detriment of cost recovery.

Activities During the Workplan Period

The first year's work in infrastructure finance will specify, design, and implement pilot activities in long-term financing and tariff reform in each of the four target municipalities. Thereafter, the more promising innovations will be introduced in additional municipalities, expanding each application and modifying it in keeping with accumulating knowledge and local circumstances.

Vladimir will be the first site for program development. The pattern of preliminary research and examinations of pilot projects will be established first in Vladimir, where the substantial experience of UI and RTI has already afforded the program an excellent beginning. The municipality has indicated strong interest in the infrastructure finance program and, as noted above, has suggested two specific pilot projects and several other concerns that could benefit from long-term financing and tariff reform. As program activities are refined in Vladimir, they will be extended—with substantial involvement of HSRP Russian staff—to Nizhni Novgorod and Ryazan. Finally, the relative complexity of Moscow's municipal governance will probably make that city the last of the four municipalities to fully participate in the infrastructure finance program. The baseline assessment of the infrastructure finance situation in each of the target municipalities will afford a good opportunity to refine this approach as the work proceeds from one municipality to the next.

The following activities are proposed during the Base Year and following period:

- *Baseline assessment of local infrastructure finance* (November 1995-January 1996). At the outset, a baseline assessment of the local infrastructure finance should be done on the legal and particularly the institutional and financial situations affecting the delivery of

relevant infrastructure services in each target municipality. Such inquiry will provide an essential understanding of the operational realities facing infrastructure finance in each municipality. Although this assessment of the local finances will take into account relevant research in the field, it will rely primarily on interviews with local officials and quantitative public finance data from recent years' municipal and communal services operation in each of the target municipalities.

- *Specification and analysis of suggested pilot projects* (December 1995-April 1996). Each target municipality will suggest one or more pilot projects for long-term financing to be sought in conjunction with tariff reform. The suggested pilot projects will be reviewed for general financial and economic feasibility, with particular emphasis on the issue of pricing and tariff reform. (U.S. short-term technical assistance will contribute significantly to this activity.) Thus far, preliminary discussions of pilot projects have focused mostly on upgrading of water supply, heating, and sewerage networks. In Vladimir, as well, pilot possibilities have also been offered for the extension of water, sewer, and gas lines to each of two micro-raion residential developments.
- *Discussions on municipal finance with the domestic financial community* (December 1995-March 1996). The initial work with the domestic financial community will seek to learn about the present situation regarding the prospective market for municipal revenue bonds and bank lending. During such discussions, attempts will be made: (a) to advance the understanding of the domestic financial community regarding needs and opportunities in long-term capital financing of municipal infrastructure; and (b) to determine the interest and capacities of the domestic financial community to undertake long-term financing of municipal infrastructure.
- *Municipal commitment to proceed with the long-term financing mechanisms and tariff reform packages that have been developed for each of the proposed pilot projects* (March-June 1996). This is the principal commitment by each municipality to proceed with the long-term financing mechanisms and tariff reform packages that have been developed for each of the proposed pilot projects. In essence, each municipality hereby accepts these specifications of each pilot project and agrees to pursue their implementation in that form with all parties concerned.⁶
- *Creation of one or more analytic units to strengthen capacities of financial institutions and municipalities to assess proposals for infrastructure financing* (September 1996-September 1997). Technical assistance to financial institutions and municipalities could establish a joint analytic unit to support municipal lending. A small entity of this nature

⁶ This does not imply that, at this point, the municipality shall have made formal financing arrangements regarding long-term financing or tariff reform for the pilot project. It does mean, rather, that the municipality shall have committed itself to the well-intentioned pursuit of such long-term financing mechanisms and tariff reform packages, as have been developed in the course of this technical assistance effort. It is understood that the actual negotiations and establishment of such formal arrangements will proceed apace in light of this commitment to do so.



could assess the viability of financing proposals by either preparing appropriate technical, financial, and economic analyses or by reviewing such analyses that had been conducted by others. Such an analytic unit should be seen as serving solely the analytic needs of lenders and borrowers alike and should not be treated as a venue for advocacy by any interested parties. It could be funded, initially even on a part-time basis, by a consortium of financial institutions, perhaps to include some form of municipal representation on its board of directors. In this or another form, it might also could be constituted as a part of the Institute for Urban Economics.

Training

Seminars and training in infrastructure finance are intended primarily for municipal officials, officials and technical staff of municipal enterprises providing communal and related services, and other officials and staff of relevant agencies and organizations. Offerings during the first year are the following:

- *Financing municipal infrastructure* (May or June 1996). Economic pricing of communal and related services; economic aspects of consumption-based user charges; rationale and methods of long-term financing of municipal infrastructure projects; financial and economic feasibility of municipal capital projects; and procedures for municipal borrowing in capital markets. (This training is designed for senior officials and technical personnel.)
- *U.S. study tour: Infrastructure planning and finance in American municipalities* (September 1996). A few appropriate officials from each of the four municipalities will study infrastructure finance in the United States during an approximately 10-day visit to America. The group will meet with local, state, and perhaps federal officials and other experts and will visit appropriate infrastructure sites. (This tour will be aimed at senior officials and technical personnel.)

The following courses would be offered during the first option year:

- *Technical, financial, and economic feasibility studies of capital infrastructure projects*: Use of feasibility studies to evaluate the viability of proposed municipal capital development projects. (This course is primarily for technical personnel.)
- *Techniques of economic cost estimation and rate setting for communal and related services*. Explanation and applications of best practice approaches to public utility cost estimation and rate setting. (This course is primarily for technical personnel.)

Staff from IUE, working on this part of the project, will attend and participate in all of these courses. It is expected that IUE, cooperating with other appropriate associations or institutes, will begin offering the basic "Financing Municipal Infrastructure Seminar" in the second year of the project.

Institutionalization

By the end of the second year of the contract, the infrastructure finance program seeks to institutionalize the capacity to conduct several analytic and educational activities on a continuing, permanent basis following completion of the contract.

The institution most likely to receive and continue dissemination of this knowledge is IUE. Other potential loci of institutionalization include the above-mentioned analytic unit (perhaps to take shape within IUE), individual departments and enterprises of each of the participating municipalities, and perhaps one or more groups such as the Union of Russian Cities, an association of municipal officials, or an association of communal services organizations. Finally, it is expected that some of the techniques implemented by the program will remain available through the widespread dissemination of relevant training materials to be prepared during the course of this work.

The following activity would result from an institutionalization effort:

- *Creation of one or more analytic units to assess municipal infrastructure finance proposals* (beginning in September 1996). It is hoped to create or expand an institutional capability to conduct competent, unbiased feasibility studies of the financial and economic viability of municipal infrastructure proposals that may be submitted for long-term financing. As discussed above, this analytic unit could strengthen the capacities of financial institutions and municipalities alike to assess the financial and economic viability of proposed projects.
- *Creation of teaching capacity in the Institute for Urban Economics* to permit continuous offering of courses in the area. As in other areas, IUE will co-sponsor courses with other germane organizations, such as the Union of Cities or the Committee on Local Self Governments.

Products

- Baseline assessment of local infrastructure finance in the four target municipalities.
- Design, city commitment to, and progress toward implementation of pilot projects in long-term financing of infrastructure in each of the four target municipalities.
- Training course on Financing Municipal Infrastructure developed and given for the first time and a U.S. study tour for key participants.
- Guidelines prepared for use by municipalities, banks and utilities on long-term infrastructure finance in Russia.

Performance Indicators

The contract specifies the following base period performance indicators:



- (1) Alternative local finance and revenue generation mechanisms developed and available to the project cities;
- (2) Costing methodologies and infrastructure financing mechanisms developed and funding sources identified;
- (3) Project cities have developed strategies for financing infrastructure development; and
- (4) Promotional materials are available for dissemination.

It is proposed to replace the first three of the above performance indicators by the following, which are more consistent with the activities that are outlined in this workplan. The revised set of indicators is:

- (1) Pilot projects regarding local activities to be subject to long-term financing and tariff reform specified and analyzed for each of the four target municipalities;
- (2) Long-term financing mechanisms for pilot projects identified and agreed to by each of the four target municipalities;
- (3) Tariff reform packages designed and agreed to by at least two target municipalities;
- (4) Promotional materials are available for dissemination.

Summary of Staff Resources

The following resources are proposed for this activity:

<i>U.S. professional staff</i>	
Team Leader (resident)	11 person-months
Short-term specialists	8 person-months
<i>Russian professional staff</i>	
Moscow-based specialists	22 person-months

The utilization of the eight person-months of U.S. short-term technical assistance are proposed as follows:

- Financial and economic evaluations of pilot projects
2.0 person-months (February-March 1996)
- Engineering reviews of proposed pilot projects
1.0 person-month (March-April 1996)
- Legal reviews of pilot projects
0.75 person-month (April 1996)

- Contributions to course on Financing Municipal Infrastructure
2.0 person-months (April-June 1996)
- Financial sector technical assistance relating to municipalities' acceptance of long-term financing mechanisms and tariff reform packages
1.25 person-months (March-June 1996)
- Assistance with U.S. study tour (in U.S.)
1.0 person-month (September 1996)

Related Activity

USAID-funded bank training is being provided by the Financial Services Volunteer Corps (Elizabeth Sullivan), the Fund for Democracy and Development (Cynthia Stone), and KPMG Barents (Michael Higgins). Firestine has talked with both Sullivan and Stone, and he plans to talk with Higgins soon. Other related activities to be contacted include the World Bank water-sewer project, the PADCO tariff study in Orenburg, and the British Know-How Fund's city bond project in St. Petersburg.

B.2 Infrastructure Finance—Assistance to Developers

Current Status

As noted earlier, the lack of infrastructure financing and the limited capital improvement budgets severely limit municipalities' abilities to upgrade existing infrastructure and provide new infrastructure services to new housing areas. Russian cities currently look to private developers to finance infrastructure improvements beyond the boundaries of their specific sites, most often in the form of up-front fees of 20 percent to as much as 85 percent in St. Petersburg. This up-front cost consumes the developers working capital and must be passed on to the end-buyers, increasing the cost of housing dramatically. In the medium term, while capital markets are developing and until a municipal bond market becomes active, methods must be found to effectively "finance" infrastructure through the participation of the private sector.

The project team will need to evaluate the incentives for the private sector in investing in housing and related infrastructure development as well as in larger scale infrastructure replacement and development. The legal relationships between the cities and the *vodakanals* (utilities for cold water and sewage) and other utility providers will have to be clarified before the financing schemes can be implemented. The city may not have full control over the utility providers which will complicate the development of public-private partnership programs and private sector participation in longer-term infrastructure financing schemes.

This work will be informed by earlier USAID-supported activity. In particular, PADCO has had considerable experience with the issues of local infrastructure financing through the Russian Officer Housing Pilot Project in which infrastructure financing was an important contribution made by oblast governments.



In Nizhni Novgorod residential infrastructure is financed through a combination of contributions of up to 30 percent of project construction costs to local administrations and direct budget contributions. There is also a significant amount of infrastructure financed by enterprises as a part of their own land development activities. When the enterprise is large such as the GAZ plant in Nizhni Novgorod, entire infrastructure networks have been constructed including heating plants, supply lines and local distribution points.

In Ryazan, there are no fixed contributions for residential infrastructure. Rather each developer negotiates with each utility to receive "conditions of connection" or technical conditions stating the amount of infrastructure to be financed as part of the project. The Department of Infrastructure Development is actively decentralizing infrastructure provision through encouraging development of local water treatment or waste water treatment plants. Unlike other cities, the City of Ryazan does not own the heat distribution network. Heating is provided by the Novorizanskaja TATz, the heat-electric plant.

Payments for infrastructure in the Moscow region are more complex than in other cities. Developers report paying for land plots in addition to "infrastructure fees." As with other locations, the payments appear to have no relation to the value of the plot in terms of either location or market potential. In some cases the combination of plot payments and infrastructure fees can equal 85 percent of construction costs.⁷ The situation in the oblast is more complicated due to the number of jurisdictions involved.

Given the complexity of operating in the Moscow regions, care will be taken to select developer projects involving only one jurisdiction. If a project is selected within the Moscow oblast, it should be located within the municipal boundaries of one of the municipalities within the oblast to avoid work with multiple administrations.

Activities During the Workplan Period

The infrastructure finance project component will start a little later than some of the other activities such as enterprise divestiture and can not be defined in the same level of detail at this time because we have not discussed these projects in detail with the cities. While we made brief field trips to determine the current situation, we did not undertake a detailed assessment of the cities so as to avoid creating unrealistic expectations.

Following discussions with each of the HSRP II cities regarding their interest in exploring options for private sector participation in infrastructure finance, it is proposed to commence work by conducting a workshop for each of the cities on "financing infrastructure: the options for private sector participation." These workshops will be closely coordinated with the other infrastructure financing work described above. City officials and representatives from the real estate development community will be invited and a range of options illustrated by case study examples will be presented, discussed and evaluated as to their relevance and applicability. PADCO can draw on

⁷ Olga Kaganova, "Development of the Market for New Housing in Seven Cities of the Russian Federation." Washington, DC: The Urban Institute, 1995, pp. 22-23.

its extensive experience in Albania and Bulgaria as well as with the Land Development Component of the World Bank Project.

These initial workshops would be followed by the identification of potential demonstration projects in each city. Given the long time it takes to bring a project to completion in Russia, project selection will be based on only those projects that have a complete set of approvals and demonstrate clear financial capability to receive bank financing.

Depending on the participation in the first round, a second series of workshops would be conducted on the detailed implementation process for the selected approach if a large number of developers express interest. If only a few express interest, as may be the case in Ryazan, the focus will be on providing individual consultation to interested firms as part of the demonstration process. Finally, while the UI team assists the public sector, PADCO will assist the private sector in preparing and implementing the demonstration projects. Given the 2 to 2.5 years that it takes to implement projects in Russia, it is unlikely that the demonstration projects will be fully completed by the end of the base year. However, appropriate detailed feasibility studies would have been completed showing how implementation could proceed. Provision of further assistance in the option years may be considered.

Given the condition of the banks in Vladimir noted in Section A.1, we propose shifting the public-private partnership activity to Ekaterinburg along with the developer assistance mentioned in Section A.2. The team city responsibility is described in Section A.2.

The teams would assist local governments and developers structure public-private partnerships through using techniques that have proven successful in Eastern Europe and the U.S. A key element in the process is that both parties must have a financial stake in the partnership and both must realize tangible revenue streams. The following describes the process:

- *Establish objectives and contributions of the parties.* An essential first step in establishing partnerships is to identify the contributions made by the local administration and developers. Local administration contributions might include: streamlined approvals, changes in uses to permit more intensive development, specified utility charges and connections, access to prime land for development and a specific set of incentives aimed at attracting developers. Developer contributions can include: investment for infrastructure, units designated for low income households, design/build proposals, and the purchase price for development rights that ultimately would be converted to either leasehold or ownership rights.

During pilot projects, the team would work with both local administrations and developers to determine procedures for estimating reasonable levels of charges to developers reflecting the actual costs of providing infrastructure and reflect the development potential of the project. This may involve developing a set of incentives that make projects attractive to developers while still generating revenues for the local administration.

- *Preparation of bidding documents.* The next stage of the process is to work with local administrations to prepare documentation for competitive bidding negotiations for



development rights. The technical assistance would include: identify suitable sites, investigate market feasibility, and provide guidance in development of a development and disposition document. This document is a comprehensive legal document that specified performance requirements and auditing procedures for a particular project. It explains: site preparation and uses, status of approvals, infrastructure provisions, rights that will be granted to the developer, financing and phasing.

These documents form the basis for launching competitive bids or concrete negotiations for development of pilot projects.

- *Preparation of developer responses to the RFP.* Next the focus shifts to working with developers to assist them in preparing responses to the RFP's, assuming a competition. Through workshops and one-on-one assistance to developers, as is appropriate, the team would assist developers to:
 - Review the RFP to ensure that the terms and conditions of the partnership are clear and to identify issues that are subject to further negotiation;
 - Conduct market research as a means of further refining the project concepts;
 - Prepare preliminary design concepts that reflect market demands and meet requirements of the RFP;
 - Prepare feasibility studies that ascertain what range of bid prices (for development rights) would ensure a reasonable rate of return and still be competitive; and
 - Assemble and submit proposals that conform to the submission requirements.

Training

Training will be focused on the local level with the training of developers, Russian staff, institute staff, and possibly city officials in the selected approaches. Training of developers will be provided through the workshops and by one-on-one technical assistance in the participant cities. Materials developed by UI will be provided to individual developers during the workshops. The developers will master the materials through the repeated interaction, the technical assistance, and the actual preparation and implementation of the demonstration projects. City officials will also participate in the seminars and be trained in parallel on the materials and the implementation process. The seminars will be conducted initially by a combination of U.S. experts and Russian staff with the objective of a transition to conducting seminars with Russian staff and local institutes later in the project. A seminar will be given initially in each city to launch the project. Depending on participation, a follow-up seminar possibly conducted in concert with the workshops noted in Section A.3 would be conducted at the end of the program to share the results among the HSRP II cities and perhaps a larger audience. If appropriate, the final seminar might be conducted in collaboration with the Union of Cities or other national group to gain greater coverage.

A seminar will be given initially in each city to launch the project. Depending on participation a follow-up seminar possibly conducted in concert with the other part of the infrastructure finance

project would be conducted at the end of the program to share the results among the HSRP II cities and perhaps a larger audience. If appropriate, the final seminar might be conducted in collaboration with the Union of Russian Cities or the Committee of Local Self-Governments.

Capacity building with the Russian staff will be provided by the U.S. experts through a mentoring role and day-to-day training and work assignments. Russian staff will become thoroughly familiar with all of the materials and be trained on the process of implementing the selected programs and the demonstration projects. Russian staff will play an increased role leading technical assistance and conducting training seminars over the next year. The objective will be for the Russian staff to be fully capable of carrying on these programs without the assistance of U.S. experts.

The team will also seek to identify local institutes in the three cities outside of Moscow, and to include selected staff of the institutes in the workshop sessions. In Moscow, it is proposed to train IUE staff. These institutes can provide training at the city and regional level in infrastructure financing. They could use the course materials developed by the team, including case studies and the actual case histories of the demonstration projects, and offer courses on a regional basis if there is sufficient demand and the institute can make a profit. Trainers at the institutes can be their own staff, the Russian professionals trained during the project, or IUE staff.

As was true with developer finance, it may be necessary to identify an institute or association that is nationwide in scope to provide ongoing training. The Guild of Realtors and other national associations will be considered as potential training providers.

In summary, Russian professional staff, developers, city officials, and selected staff from institutes will be trained on various approaches to private sector participation in infrastructure finance. Materials will be developed for the demonstration projects including training materials and a "how to" manual (similar to the one developed in Bulgaria by UI/ICMA/PADCO) and these will be left with the developers, city officials, and institutes as a resource for further work and training courses that may be offered by the institutes to other cities.

Institutionalization

The infrastructure finance demonstration projects will be institutionalized through the following mechanisms:

- A "how-to" manual;
- A cadre of trained Russian professional staff;
- Trained developers and city officials; and
- Several trained institutes with course materials for regular courses on infrastructure finance.

The Russian professional staff will have received the day-to-day training and all of the materials and they can continue their work through IUE or other institutes over time. The developers and cities will have received the training and selected developers will be working on demonstration projects with the cities to implement the chosen approaches. This project experience will be



institutionalized in the target cities. If the demonstration projects appear to be successful, a national or regional conference could be sponsored by USAID and the HSRP II participating cities.

Products

The key accomplishments and products are listed below:

- Training materials developed for infrastructure finance courses and delivered in four cities by U.S. and Russian staff;
- Infrastructure finance "how-to" manual developed for developers and cities; and,
- Demonstration projects selected and the implementation process commenced in the four cities.

Performance Indicators

In the base period the targets, as defined by the project team, are:

- (1) One institution offering a course on alternative approaches to private sector participation in infrastructure finance;
- (2) Promotional materials and a "how-to" manual for infrastructure finance developed; and
- (3) Four demonstration projects based on a public/private partnership approach or similar program identified.

Summary of Staff Resources

The infrastructure finance program will utilize 5 to 8 person-months of U.S. short-term assistance and 7 person-months of Russian professionals excluding the city coordinators. For a further discussion of staffing see Section A.2.

Related Activity

PADCO is currently conducting a communal services pricing project in Orenburg under HSRP I and the methodologies and materials developed in this project will be useful in the work conducted by RTI and PADCO under HSRP II. PADCO is also currently completing its USAID financed assistance to the World Bank Russian Housing Project's Land Development component by organizing the land auction process in the five cities following the UI and PADCO development of the documents and the procedures.

The World Bank is beginning water feasibility studies of water and waste water systems in 10 cities. These feasibility studies are a precursor to a World Bank loan. The World Bank is also sponsoring an infrastructure upgrading project in St. Petersburg.

C. Enterprise Housing Divestiture

Current Status

Under the Soviet system, depending on the degree of industrialization, enterprises provided 30 to 80 percent of a city's housing stock. To date, privatization of enterprise housing has lagged behind municipal housing stock. Sometimes, enterprises actively discouraged the privatization of their stock. In other cases, privatization was slow because it was unclear who would take over communal services and maintenance once enterprise stock was privatized. Since the mass enterprise privatization program of 1992-1994, enterprise housing stock was supposed to be transferred to municipalities as the enterprises were privatized.⁸ This process is supposed to be completed by 1998. However the actual rate of transfer was much slower as municipalities lacked the capacity to take over new stock. Thus many enterprises were left with the responsibility for financing and managing their former housing stock pending divestiture to local authorities. In addition many enterprises are reluctant to transfer their stock fearing high transfer costs, poorer quality maintenance after the transfer, and a diminution of enterprise standing in the community.

Divestiture can be a complicated process, particularly when it involves large enterprises covering large territories. For these, transfer of housing potentially involves transfer of infrastructure works and other social assets along with housing. Based on work under HSRP I, the process of transfer can be quite lengthy and involve protracted negotiations between the enterprise and city regarding payments to be made for future maintenance, the amount of assets that are to be transferred and the fate of enterprise maintenance departments.

Since early 1994 a large volume of enterprise housing has been transferred to municipalities as cash-short enterprises see divestiture as a way of saving money and remaining in business. Nationally, the pace is slowing as municipalities have severe financial difficulties in maintaining the units received. Many cities are devoting 30 to 40 percent of their total budgets to subsidies for housing maintenance, despite increased revenues from higher rent payments and the new turnover tax to support maintenance of social assets. Promised federal subsidies (for the housing of former federal enterprises) is delayed and generally only a fraction of the funds requested ever arrives.

In this situation it is clear that municipalities need assistance to cope with their new responsibilities. It is quite possible that unless they can work more efficiently with this housing stock, they will refuse to accept additional enterprise housing for some years. This portion of HSRP II is designed to work with the municipalities to move some of the former enterprise housing off of their "balances" by the formation of condominium associations and to encourage more efficient maintenance of the housing remaining on their balance through changing to a system of competitively awarded contracts for building maintenance.

⁸ Presidential Decree No. 8, January 10, 1993, "On Use of Socio-Cultural and Communal-and-Everyday Service Facilities of Privatized Enterprises," clarified that enterprise housing can included in property privatized through enterprise privatization. Article 9 of the Law on Fundamentals of Housing Policy of the Russian Federation also governs transfer of enterprise housing.



HSRP I has developed many of the necessary tools for helping the four target locations in the current project: procedures for conducting competitions to select housing maintenance firms and to form condominium associations. However, as described below, some additional developmental work is necessary in the area of unit privatization and in preparation of promotional materials and seminars to be offered at the local level.

■ **Nizhni Novgorod Oblast** (Nizhni Novgorod City, population: 1.6 million; Bor, population: 100,000). The oblast administration has proposed the cities of Nizhni Novgorod and Bor as the sites for the activities of the HSRP. Both cities have procedures in place and experience with the condominium registration process. Nizhni Novgorod currently has thirteen registered condominiums while Bor has three registered condominiums.

The oblast administration's recommendation is important because the oblast has been providing assistance through maintenance subsidies to local governments that have accepted enterprise housing onto their balance. Indeed, the availability of oblast subsidies now appears to be setting the overall pace of divestiture. The oblast has had well-defined priorities for the use of its subsidies, with defense enterprises, universities and institutes, and bankrupt enterprises being at the top.

Maintenance subsidies to condominium associations in each city differ dramatically. In Nizhni Novgorod, subsidy for trash removal, elevator service and heating are provided to condominiums at the same level as for municipal housing. Other kinds of communal services have no budget subsidy. Maintenance subsidies are provided at only 70 percent of the level provided for municipal housing. In Bor, however, all subsidies are provided to condominium associations at the same proportion as for municipal housing. In addition, the local budget in Bor sets aside funds to pay a stipend to presidents of condominium associations.

In the last three years, 30 percent of enterprise housing was divested to the City of Nizhni Novgorod's balance. However, last year only 5 percent was divested. Moreover, next year's budget has been reduced for the enterprise divestiture program and the city cannot state at this time: when, the number or percentage, or type of enterprise housing that will be divested. They have promised to have a more concrete plan by December. The city's goal is to complete the divestiture of all enterprise housing stock within four to five years.

In the City of Bor, 80 percent of enterprise housing has been divested to the municipal balance. By the end of June, 1996 (after the heating season) the city plans to complete the divestiture process with the remaining 80 buildings that now belong to a local glass factory. The buildings are typically 5-6 storeys. The City of Bor has set up a sophisticated customer service operation and plans to organize competitions for privatized maintenance services for all buildings at one time in June, 1996, at the time that the divestiture begins.

The following were identified as issues that could, if not addressed, affect the success of the enterprise divestiture program:

- The unit privatization process has slowed in the last year throughout the Oblast. This is particularly true with enterprise housing stock. At this time, 27-29 percent of all housing is privatized. Of this percentage, only 5-7 percent is former enterprise stock. The reason

for such a slowdown is typically attributed to fears of increased taxes and the poor housing conditions.

- There is a need to reorganize the customer service department in the City of Nizhni Novgorod. There is no true separation of functions between the customer service and maintenance contractor. The primary areas of need are assistance on: what structure to recommend for the customer service; what relation the customer service should have with the city administration; monitoring contractor work performance; how to properly allocate and pay expenses; and proper procedures to organize maintenance competitions.
- The City of Nizhni Novgorod must agree to allocate maintenance subsidies to condominiums at the same level as for municipal housing.

If the municipality of Nizhni Novgorod does not agree to make the necessary changes quickly, the HSRP team will discuss alternative sites with the oblast administration.

■ **Ryazan** (Population: 560,000). Fifty percent of enterprise housing has divested to the municipal housing balance. The lack of adequate budget funds for maintenance and heating of newly divested housing has resulted in a drastic slowdown in the divestiture process in the City of Ryazan. While in 1994 approximately 25,000 units of enterprise housing were transferred to the municipal balance, less than 7,500 units have been transferred thus far in 1995. Today, the city takes onto its balance only that enterprise housing that is practically not maintained at all. We have been unable to obtain the cities divestiture plans for 1996 because of delays in finalizing the budget. They hope to have a firm decision within the next month.

In municipal housing, 40 percent of the units are privatized while enterprise housing is privatized at only half this rate (20 percent). The differences are attributed to two main issues: (1) organizational problems within the city resulted in inadequate information to enterprise housing residents about the processes of privatization and the benefits of such; and (2) the enterprise housing stock is of poorer quality making privatization a less desirable option.

The city addressed the first issue when it established a separate Department of Privatization of Housing Stock for all housing in the municipality. The second issue continues to be a major deterrent to privatization and is directly connected to the lack of adequate investment into the rehabilitation or capital needs of the housing stock.

The overall rate of privatization has also slowed recently. Since the beginning of 1995, fewer than 3,000 units have been privatized (less than 2 percent of the total number of housing units in the city). The reasons for this slower privatization rate are attributed to three factors:

- Little or no privatization marketing has been initiated by the city in the last year and a half;
- Except for the elderly (who privatize in order to ensure that their families have somewhere to live after their death), residents see there is no real motivation to privatize units; and



- Tenants are concerned about having to pay increased taxes on private property.

Ryazan had 28 condominium associations registered as of October 1995. Each condominium receives a subsidy from the city budget for maintenance and heating services on the same basis as the municipal housing stock. The difficulty in making on-time payment of maintenance subsidies to condominium associations is a serious and ongoing problem for the city. The city is aware that condominium associations have limited financial resources at their disposal and have difficulty funding operations. However, it also knows that the more condominiums that are registered from new buildings, cooperatives, or housing still on an enterprise's balance, the larger its financial burden. Therefore, the registration process is closely controlled and monitored by the city administration.

Most of the condominium associations in Ryazan were formed on the basis of either new construction or cooperative buildings. Four were formed on the basis of former enterprise housing, so there is some experience that could be utilized to demonstrate the benefits of forming associations from enterprise housing.

In Ryazan, a unified customer service has been formed. The first bidding of maintenance services was organized earlier this year and three private companies, along with municipal companies were selected. Results from the first six months of contracted maintenance services have been mixed. Customer service is considering cancelling the contract with one private firm due to contract violations. The city has plans to competitively bid maintenance services for all divested enterprise housing stock and the next competition is planned for November 1995.

■ **Vladimir Oblast** (Vladimir City, population: 380,000). In the city of Vladimir, 52 percent of the enterprise housing stock has been divested to the municipal balance. The municipality's goals are to divest 60 percent by the end of 1995, 80 percent by the end of 1996, and 100 percent by 1997. As with most cities in Russia, there are budget constraints that may delay reaching these goals. The majority of the already divested housing stock was in poor condition and the remainder to be divested is of better quality and is likely to accept the privatization campaign more easily.

The city's enterprise divestiture program focused: first, on small private company enterprise housing of from 7 to 20 buildings with a total of less than 500 units; second, on larger joint-stock company (i.e., privatized firms) owned housing; and last, on state owned enterprise housing. At this time, all of the small private company enterprise housing has been divested to the municipality. The next effort is on the 8 large joint-stock companies whose total housing is about 15,000 units. By the end of the year, the city plans to divest another 2,500 units. Each building averages 5-6 storeys high and typically contains between 80-150 units.

As for the rate of privatization, since January 1995 an additional 2,669 units have been privatized, bringing the total to 33,145 units. The privatization rate is 42 percent for municipal housing and 36 percent for enterprise housing. The similar percentages reflect the improved quality of enterprise housing stock in Vladimir. However, as with other cities, some residents prefer not to privatize their units due to fears of higher taxes. The Agency of Apartment Privatization is responsible for unit privatization in Vladimir. The staff acknowledges a need to institute a marketing campaign within the city to promote privatization of units. The staff believes that the overall rate of privatization is also slowed due to the fact that, except for the elderly (who privatize in order to

ensure the transfer of the asset to their family when they die), residents perceive no real motive for privatizing their units.

There are two registered condominiums in Vladimir and both were formed from newly constructed buildings. Condominiums receive maintenance subsidies from the city budget at the same level as the municipal housing stock. Condominium owners also pay for heating at the same level as municipal renters and owners. The Housing Department has responsibility for condominium registrations in Vladimir. Staff of the department acknowledge the number of registrations would likely improve with an aggressive marketing campaign.

In early December 1995 the City of Vladimir completed the organization of a new customer service as a municipal enterprise to manage the enterprise housing transferred to the city's balance. All enterprise housing divested will be competitively bid by the customer service. A first competition was held this past summer by the then-unique customer service organization on four housing packages (one municipal and three former enterprise). All four packages were won by private firms. However, only one contract has been signed to date as a result of delays in completing the organization of the new customer service.

■ **Moscow** (Population: 9.2 million). The City of Moscow has been among the national leaders in unit privatization. By the end of 1993, 40 percent of the municipal stock and 25 percent of departmental stock had been privatized. The City began the transition with 70 percent of its housing in the municipal inventory and 20 percent in the departmental stock. Importantly, in Moscow a much larger share of the departmental housing belonged to governmental organizations rather than enterprises. We have not been able to determine the privatization rate in the separate groups.

The City has had an "on again-off again" experience with acceptance of departmental housing. While it accepted such housing in 1992 without restriction, it stopped acceptance for a time in 1993. Then at the beginning of the current year, the City again stopped, saying it would begin accepting units again only when the Federal government provided the promised subsidy payments for maintenance and communal services. Even with the halts, however, the Department of Engineering and Communal Services estimates that half of all departmental housing has been transferred to the city—about 310,000 units.

The City does have information about the units transferred to its balance. By examining the basic transfer agreements, which are on file at the Department of Engineering and Communal Services, enterprise housing can easily be identified from all the units transferred. Additionally, we are informed that the data base at the Department of Municipal Housing is capable of giving the privatization rates on a building-by-building basis. The team has begun assembling this information.

It is worth noting that in general the departmental buildings transferred to the municipal balance are in significantly worse repair than the municipal buildings. In recognition of this fact, the Department of Engineering and Communal Services has set a higher maintenance payment "normative" for these buildings than for the municipal buildings. This fact suggests that in these buildings privatization rates may be low and the possibilities for forming condominium associations correspondingly limited.



Activities During the Workplan Period

The HSRP workplan gives priority to enterprise housing that is about to be transferred to the municipality (i.e. before the buildings get absorbed into the municipal maintenance system) because we believe that this will minimize resistance from the maintenance and housing departments in the local administration. Depending on the pace of divestiture we will work more or less extensively with buildings already transferred. In Moscow the emphasis will, at least initially, be exclusively on already-transferred buildings.

The unit privatization and condominium registration marketing and training campaign is targeted to buildings with a reasonable privatization rate or likelihood of increased privatization, in advance of the transfer. Buildings in former enterprise housing with a high rate of privatization will receive priority consideration for the condominium marketing program. For this approach to work requires an on-site review of each building to determine the likelihood that condominium formation is feasible. Those buildings considered less desirable candidates for privatization and condominium formation will be channeled into the a maintenance competition portion of the program.

Organizationally, UI has appointed an overall coordinator for each location: Sergei Sivaev for Vladimir, Ryazan, and Nizhni Novgorod, and Marina Shapiro for Moscow. In addition,

- A local program coordinator will be hired and located in an office on-site at each of the four demonstration sites. These individuals will be trained and knowledgeable in all areas of enterprise divestiture and will take assignments from and report to the Team Leader.
- Each site has appointed a local administration official as the primary coordinator of the program with the UI. These individuals are:

— Nizhni Novgorod Oblast	Olga Goltseva, Deputy Head of the Subdivision of Housing Reforms, Oblast Administration
— Ryazan	Boris Havronian, Head of the Condominium Department
— Vladimir Oblast	Vetcheslav Nichaev, Chief of the Subdivision of Housing Services, City Administration
— Moscow	Nikolai V. Maslov, Deputy Chairman, Department of Municipal Housing ⁹

The step-by-step approach to be taken in each location will be similar:

- Evaluation forms will be completed by the UI local coordinator or city staff for both recently divested and divesting enterprise stock in order to identify buildings that appear

⁹ While Mr. Maslov will remain the coordinator for project, he has delegated the day-to-day responsibility to his deputy, Mrs. Yelena A. Kuzovchikova.

likely to successfully complete the condominium registration process. Those determined to have little possibility for privatization and condominium formation at this time will be identified and, if not already completed, the administration will proceed with preparation of a bid package for privatization of municipal maintenance.

- At the initiation of the full work program in January 1996, the city administration will issue a press release announcing the start of the program and privatization campaign and access to local air time, using live interviews and videos, will be sought aggressively.
- Key buildings with potential for condominium formation will be targeted in waves for the privatization campaign. A new wave will be initiated every four to eight weeks. Individual residents and privatized owners in these buildings will be contacted by flyer and invited to attend one of the biweekly privatization or monthly condominium seminars. These seminars are to be jointly administered by the city administration and UI staff.
- The city administration will stand ready to work with tenants to privatize their units and groups of owners to form condominium associations.
- A monthly progress report will provide both UI and the municipality with a measurement of the status of achieving the goals of the enterprise divestiture program. In addition, the progress report will identify any problems or issues that need resolution and recommend specific actions needed to ensure successful completion of the program.

■ **Marketing the privatization process.** The lack of any financial resources to address capital repair needs is a major issue for residents of enterprise housing stock. Many residents refuse to privatize because of serious physical or structural problems that must be addressed. Another concern, noted above, are possible increases in property taxes. It is easy to overstate the problems, however. Survey data suggests that many tenants in enterprise housing were discouraged from privatizing their units in 1992 and 1993; their interest could be reawakened. More generally, the advantages of privatization—capital gains and the ability to use the equity to trade up to a better unit and control over maintenance and management in the building through creation of a condominium association—will have to be highlighted in the promotional campaign.

Implementation of the marketing campaign will begin with a UI on-site visit and completion of a building-by-building evaluation form to identify several key factors that help determine the overall viability of a privatization campaign: building age and condition; identification of any evidence of a resident spirit of cooperation or informal management structure that could be used to an advantage in the campaign; and, if there is commercial space, it may be considered a plus for forming a condominium association. From city data we hope to obtain information on privatization rates at the building level.

The approach to marketing the privatization of housing units and formation of condominium associations will be from two sides, the media and direct contact. A short-term U.S. consultant will design flyers, brochures, a poster or two, and two or three public service announcements (PSAs), and a couple of stories to be run in local newspapers. Meetings with residents will also be a focus of the campaign. Implementation will involve targeting the distribution of the flyers and brochures and, organizing the actual distribution.



Buildings identified through the on-site review to have potential for a successful privatization and condominium marketing campaign will be posted with marketing materials (brochures and posters) and individual residents notified by mail. The administration will assist in identifying privatized owners who will receive specific information about condominium formation. In addition to explaining the benefits of privatization or condominium registration, the marketing materials will specify the location and time(s) when an individual may receive more specific information either at the administration offices or through one of the specialized seminars at the local training center.

■ **Competitive maintenance for divested enterprise housing.** The program will encourage the sites to separate clearly municipal management (customer service) and maintenance functions and support efforts to implement a competitive process for selection of housing maintenance providers. The creation of both customer service and separate municipal housing maintenance competitions have resulted in lower management and maintenance costs and improved housing for residents. Each of the target sites has created customer service and have held separate maintenance competitions. As noted above, each site plans to conduct maintenance competitions for all enterprise housing that is divested. However, the cities have also identified problems and have asked for assistance from UI to improve the process. For example:

- There is a need to reorganize the unified customer service in the City of Nizhni Novgorod. There is no true separation of functions between the customer service and maintenance contractor. Credibility with private contractors is low.
- In Ryazan, a unified customer service has been formed. The first bidding of maintenance services was organized earlier this year and three private companies, along with municipal companies were selected. However, results from the first six months of contracted maintenance services have been mixed and customer service is now considering having to cancel the contract with one private firm due to contract violations.

The program team is providing assistance to all four sites to recommend improvements to customer service and to strengthen the maintenance competition process, in particular, as it relates to enterprise housing stock. The UI team will evaluate the current management and maintenance structure in each site and offer suggestions on areas, such as: monitoring contractor work performance, properly allocating expenses between the office of customer service and the contractor, expanding outreach for qualified contractors, and developing proper procedures to organize and manage maintenance competitions.

■ **Phasing.** From the foregoing it is clear that the work on enterprise housing divestiture is divided into two broad phases: an organizational phase and the full implementation phase. During the first phase, we will train the newly recruited project staff, work with local administrations to classify buildings as to whether they should be targeted for condominium formation, develop the privatization promotion campaign, and develop the new seminars for tenants interested in privatizing their unit and groups of unit owners interested in forming condominium associations. During this period, the team will continue to work with the cities on conducting maintenance competitions, and resolving their problems in this sphere, and in condominium formation. The second phase, full implementation, will begin in late January or early February. In this phase the promotion campaign will be applied to the targeted buildings. As noted, each four to eight weeks a new cycle of activity will begin with a new group of buildings.

Training

A local training center in each site will provide facilities for presentation of seminars by staff of both UI and the local administration. The training center would also be used as a local resource center for dissemination of materials on covered topics.

The project plans to coordinate with the following local training centers for seminar presentations:

— Moscow	International Academy of Entrepreneurship
— Nizhni Novgorod Oblast	Study Center "Infracom"
— Ryazan	Radio Technical University
— Vladimir	Regional Training Center for Housing and Communal Service Employees

The Urban Institute has had highly satisfactory experience in the past with the International Academy of Entrepreneurship. Vladimir's Regional Training Center specializes in the particular areas in which instruction is needed and it is personally known well by Sergei Sivaev. The Ryazan university was recommended by Deputy Mayor Ampilogov as the institution engaged in "adult education" in the city and offers courses in communal economy. The Study Center "Infracom" also specializes in training of communal service workers. Early contacts with all these institutions have been positive.

The following courses will be taught initially at each location:

- *Unit Privatization* (Frequency: approximately every two weeks). A 90-120 minute mini-seminar designed exclusively for residents of divesting and divested enterprise housing and jointly presented by UI and the local administration to cover topics such as: understanding privatization and its benefits; step-by-step procedures to privatization; tax considerations for private owners; and, an introduction to the condominium concept. Participants will also receive materials on all topics covered.
- *Forming a Condominium Association* (Frequency: once per month). A one-day (Saturday or Sunday) seminar designed exclusively for residents of divesting and divested enterprise housing and jointly presented by UI and the local administration covering the topics of: the benefits of forming an association; what to include in an association charter; step-by-step procedures on how to register a condominium association; and, how to get started with condominium operations. Videos and overheads will be used and participants will also receive materials on all topics covered.
- *Condominium Property Management* (Frequency: quarterly or more frequently depending on demand). A four-evening (2.5 hours per night) seminar for property managers initially presented by UI staff. Topics will include: elements of professional



property management and the unique characteristics of condominium management; the condominium defined; and, the property manager's role in a service-oriented industry.

Condominium Board of Directors Training (Frequency: every 2 months). A four-five evening (2.5 hours per night) seminar for members of condominium Boards of Directors initially presented by UI staff and the topics will include: roles and responsibilities of board members; the management plan; running effective meetings; association budgets and finance; rules development and enforcement; property maintenance; personnel management; and communications.

Teachers guides for the last two courses are being completed and will be ready in Russian by the beginning of February. The first two courses will only require presentation notes. We plan to draw on the "condominium concept" course developed by PADCO-Ekaterinburg for the condominium formation course. The plan is for local administrators to make a fairly informal presentation on privatization and then spend most of the time answering questions.

■ **PVO/NGO training grant program.** The contract includes the possibility for holding competitions among Russian and/or U.S. PVOs and NGOs to award small grants "for the purpose of obtaining equipment and materials related to the initiation or institutionalization of training activities under HSRP." Training for enterprise divestiture in the areas indicated above is the strongest candidate for possible use of the grants program, although institutions teaching other areas might be identified. If a number of NGOs in the four locations are identified as currently conducting or preparing to conduct training in areas falling under HSRP, then we will prepare a competition among them for the equipment grants. We have tentatively scheduled the announcement of the competition for early April 1996 with applications due at the end of the month.

If only a few NGOs are identified, the competition will not be held. Rather, USAID may direct the project to provide equipment to strong NGOs working specifically in areas critical to the project. USAID may also direct the project to provide equipment to select NGOs in Ekaterinburg and Novosibirsk who have emerged with assistance from HSRP I.

Institutionalization

The lessons learned through the thoughtful implementation of this demonstration program in these large, medium and small cities will be helpful for replication in additional cities in subsequent years. Throughout the process, Russian staff (both primarily IUE staff based in Moscow and staff selected at each location) will learn the keys to successful outreach and marketing techniques as well as broaden their knowledge and understanding of these housing reforms in order to continue the policies as the reform process evolves.

The training courses designed and administered at the local training centers will be based on materials developed by the U.S. experts and may initially be taught in some cases by joint Russian-U.S. teams from the project staff, local administration and instructors from the "host" training institute. Later, the courses should be taken over by the "host" institute, which can decide whether to develop its own faculty or to recruit teachers from IUE, local officials or others trained through HSRP II. The motivation for the training institutes to continue the training sessions during and after project will be determined on a "demand driven" basis. At least during the early phase of HSRP II, the seminars on unit privatization and the basics of condominium formation will be offered without

charge. Fees will be charged from the start for the condominium board training and management courses.

In addition, in May-June the project will produce a "guidelines" publication aimed at local administrations which explains how to mount a program similar to that in the four HSRP locations to cope effectively with the enterprise housing they have received. The document will be based on the specific experience in the four locations and the parallel work ongoing in three other cities participating in the World Bank housing divestiture loan (Petrozavorsk, Volhov, and Novochoerkassk). This will outline the program on a step-by-step basis and include examples of the various promotional materials used and reference the key training packages which will be available from the project.

Products

- Development of training seminars on the benefits of unit privatization, common ownership and condominium management.
- Materials and videos for use in a marketing campaign to encourage unit privatization and condominium association formation.
- Manual and materials to be used by local administrations in the process of privatizing municipal maintenance services through competitions.
- Articles and graphic art in publications within each of the four target sites to promote the enterprise divestiture program.
- Development of a "guidelines brochure" on the full program for use by other cities.

These materials will be distributed to other cities with whom UI is working on enterprise housing divestiture and, more generally, on condominium formation and the introduction of housing maintenance on a competitive basis. Additionally, the team will continue to participate in national conferences and make the documents available through such organizations as the Russian Union of Cities.

Performance Indicators

The following indicators are proposed. Because the problem in promoting enterprise divestiture has shifted in the past year from one of inducing enterprises to "let go" to one of working with municipalities to make it possible to accept more of the stock now being offered by enterprises, the first two indicators listed in the contract are eliminated and replaced with those listed below.

- (1) Promotional materials for unit privatization in former enterprise housing will have been developed and implemented.
- (2) Establish a minimum of five condominium associations in former enterprise housing in each target city.



- (3) Competitively let contracts will have been issued for maintenance and management services;
- (4) Training and support to private maintenance and management firms and condominium associations as stimulated by the divested housing units is being provided by qualified local institutions.

Summary of Staff Resources

The following resources are expected to be needed during the period, beyond those of the core staff:

U.S. professional staff

Team Leader (resident)	4 person-months
Short-term specialists	12 person-months

Russian professional staff

City Coordinators	16 person-months
Moscow- and Vladimir-based specialists	40 person-months

The following commitments have been made to date for U.S. short term consultants to assist with this work:

- *Edwin Bishop* arrived in mid-November for up to six months, with a one month break over the holidays. The purpose of his work is to work with local officials on the design and implementation of competitive maintenance competitions, including improved procedures for monitoring contractor performance and introduction of dispute resolution processes, and training of Russian staff. As time permits, he will also assist in the preparation of training manuals and explanatory documents on the competitive maintenance process. He will also work with Shapiro on the Moscow management pilot project.
- *Mary Albon* arrived in late November for up to 2 months to design and begin implementation of the "privatization campaign" for enterprise housing. Again, her work period will be broken for a month for the Christmas holidays.

Related Activity

Beyond the similar work ongoing under HSRP I, there are three closely related donor-supported activity. One is the World Bank Enterprise Housing Divestiture Loan Program. USAID has strongly supported the development of this loan package for over a year and UI has worked closely with the World Bank team throughout. It is envisioned that UI and IUE will provide augmented technical assistance to three of project cities not covered under HSRP II.

The second project is a background study on enterprise privatization being conducted by UI under USAID funding. The results of this data collection and field work, completed in late November, will inform the work and tactics of the HSRP II in dealing with this issue.

The final relevant activity is a contract now under competition. It is funded by the European Bank for Reconstruction and Development (EBRD) and RPC is the executing agency. The RFP calls for an intensive restructuring of a large enterprise in a small to medium-sized city. Divestiture by the enterprise of social assets is a key part of the program. Struyk has been in contact with several of the consortia bidding on the contract. The competition closed on November 30, 1995.

D. Housing and Land Policy

Introduction

This is a crucial time in the development of significant pieces of national legislation—including the mortgage and condominium laws and the housing code—on which the HSRP I project has been working since its inception. The emphasis of national policy work therefore will be on seeing that major legislation and any necessary implementing regulations through to a successful conclusion. Much of the policy work will be a continuation of the program begun under HSRP I, and will be funded from the HSRP I budget through the autumn of 1996.

While it today appears that much of the policy work of the past several years is about to bear fruit, there may be significant unforeseen demands made on the project in this area of work. Moreover, it is extremely difficult to predict the outcome of work that depends on such a highly volatile political and legislative process. Accordingly, the proposed plans for both housing and land policy work for the work period have been presented in terms of the core work which will be undertaken, and contingent work that may be undertaken as time allows in the base year or perhaps in option years of the project.

After the major national laws now in process are enacted, policy work in land and housing will consist of refining the basic laws through occasional amendments and development of regulations. It is also anticipated that there will be significant effort devoted to production and modification of regulations to support the new laws. Moreover, there are still areas in which research, publication and dissemination of policy papers would be useful, though many of these areas would not result in federal legislation at all, but rather in local initiatives or in setting the agenda for the next round of legislative work, which could be several years away after the current agenda of national laws are enacted.

As noted in Section I, in this work plan the local demonstration programs on land issues which were described in the proposal have been deleted due to lack of sufficient resources to make such programs worthwhile. Instead, the level of effort allocated for those demonstrations, which amount to approximately 9 weeks per city or a total of five person-months, has been reallocated between housing and land policy work at the Federation level (2 person-months) and other activities.

Current Status: Housing Policy

■ **Housing Code.** The new housing code is under development. The present housing code of the Federation has little, if any, relationship to the realities of the modern housing sector. In addition, the rapid growth of other, forward looking housing legislation has raised many questions about the fundamental purposes of a housing code. Production of a new housing code has long



been an objective of Government policy which has been delayed by intense political conflict. HSRP I began its involvement with the housing code when it produced its own outline of a revised housing code in mid-1993. In the most recent work period HSRP I has:

- Provided commentary on the housing provisions of Part I of the Civil Code;
- Actively participated in a Government legislative working group to produce a new housing code;
- Produced extensive commentary on Government drafts of the housing code;
- Prepared a second draft of the housing code on its own initiative;
- Begun its participation as an active member of a drafting group organized in mid-1995 under the direction of the Legal Office of the President; and
- In November 1995 submitted to the drafting group a revised housing codex.

The content and the timing of the housing code are still uncertain, but if enacted in 1995 or 1996 it is likely that significant additional work will be necessary to refine and implement the law. The code is a broad statement of principles that will require new regulations or substantial amendment of existing regulations. How these regulations are developed can either enhance or detract from whatever policy objectives are achieved in the law itself.

A second piece of national legislation of considerable significance for the housing sector is Part II of the Civil Code. Part II of the Civil Code, also in development now, is significant because it deals with issues of residential leasing. Like Part I of the Civil Code, once Part II is enacted the system will need some experience with implementation and some authoritative interpretation before changes would be considered. Even if enacted in its present form, however, it would provide significantly more guidance on issues of landlord/tenant rights than under present law. At the invitation of the USAID/IRIS project HSRP I legal advisor met with the drafting group for a day to discuss written comments prepared on the leasing provisions.

In 1995 HSRP I also provided significant advice and assistance to the World Bank project on enterprise housing divestiture, and, at the request of USAID, recently began a comprehensive study of enterprise housing divestiture, including the legal regulatory and policy framework as well as the actual experience in the field.

■ **Housing finance.** The mortgage law had a first reading in the Duma in July, 1995 and seems on its way to enactment. Since early 1993 HSRP I has taken a leading role in development of mortgage and housing finance legislation, producing influential drafts of a mortgage law. Highlights of the activities under HSRP I in the previous work period include:

- Work with various government agencies, institutes and the State Duma in the process of reconciling policy differences in mortgage legislation;
- Preparation of an influential comparative analysis of competing mortgage law drafts;

- Implementation of an ongoing program in developing legal documents for mortgage lending, which continues today with the construction loan and home improvement loan programs, as well as recent exploration of the issues of lending to condominium associations;
- Draft of a Presidential Decree issued in December 1993 which introduced downpayment subsidies as a substitute for supply-side subsidies to support new construction;
- Production of a highly regarded policy paper as well as various versions of suggested legislation regarding the proposed Russian Federation Agency for Mortgage Lending; and
- Assistance to the State Duma to organize and conduct highly successful hearings on mortgage lending issues.

While it is not yet certain, it seems that some strides may be made in the mortgage law on the concept of foreclosure. If the Duma accepts the present draft, which must still be considered an open question, it now appears that foreclosure will be a relatively efficient process for purchase money loans. However, the situation with respect to refinanced or existing properties remains unclear. Moreover, the issue of minor children, coming into being before or after the loan is made, is still an open question of considerable significance for all types of loans, even purchase money loans. This is the so-called problem of "family rights" which arises in connection with the Civil Code (Article 292), the housing code and the mortgage law.

A significant highlight of the recent work period is the Agency for Mortgage Lending. In addition to the initial policy paper produced at the request of the Ministry of Finance, HSRP I has produced three separate pieces of legislation—an amendment to the pending mortgage law, a Presidential Decree, and a fully developed Mortgage Agency law—which have been placed into the appropriate hands. There is considerable sentiment in favor of the Agency at all levels of the Russian Government and a high expectation that some action will be taken in late 1995 or early 1996.

■ **Condominiums.** The condominium law which HSRP I assisted in preparing received a first reading in the State Duma in July 1995 and is awaiting further action. HSRP I first produced a condominium law for the City of Moscow in 1992, and later assisted with preparation of the Provisional Regulation On Condominiums, a Government Decree which presently governs this area of law. Highlights of the most recent work period include:

- Preparation of a model sales and offering documents for existing buildings and new construction, and implemented a far reaching training program on condominium issues;
- Assistance with the many drafts of the Law on Condominium/Housing Associations which received a first reading in the Duma in July, 1995;
- Promotion the principle of common land ownership for multifamily buildings, most recently in the project legal advisor's article in the Moscow edition of Economics and Life;



- Provision of advice and assistance to the World Bank project on enterprise housing divestiture, which will likely have a significant impact on condominium issues; and
- Creation of a draft, at the request of Minstroi, of a Presidential Decree to address key issues of condominium law, including land rights.

Current Status: Land Policy

■ **Land rights.** The Constitution and Part I of the Civil Code were major steps forward marred only by the suspension of the real estate rights section of the Civil Code pending enactment of the land code. The missing piece of the property rights puzzle is the land code, which is underway.

HSRP I was active in preparation of the real estate sections of Part I of the Civil Code and provided advice directly to the drafting group at the request of the USAID/IRIS project. Part I of the Civil Code defines basic rights to land and other real estate in a comprehensive way. The Civil Code still raises many issues, but nevertheless is a significant step toward defining real estate rights once the issues of land are resolved. The Code will need amendment over time, but this is unlikely to be done soon through a concerted effort or single piece of legislation. While in the future there may be an omnibus correction, now the Civil Code is now in the hands of Russian courts and lawyers.

The land code is not yet enacted, but received a first reading in the Duma in July 1995. The code presently under consideration is a retrogressive document that would nullify many of the principles of Part I of the Civil Code as well as other advances in land rights that have been made under various Presidential decrees. Several groups are working on alternatives to the land code, and there is some doubt that the pending document will be enacted in its present form this year.

The recent activities of HSRP I in land policy at the national level have included:

- Review, analysis and publication of policy recommendations concerning present land policies;
- Review and commentary on various drafts of the land code;
- Coordination with the World Bank and other USAID contractors on land issues;
- Consultation with members of the State Duma on various land issues; and
- On-going consultation with the Legal Office of the President on preparation of land legislation.

■ **Land use and development controls.** An important step in the process of urban land reform will be to revise the system of land use and development controls as it exists in Russia today. There is some enthusiasm for this undertaking at all levels of government and most certainly in the private sector, and several draft laws have been prepared, but as yet there are no laws which have received official Government sponsorship or have been introduced in the State Duma. From the start, HSRP I has promoted the concept of alternative land use regimes and has provided a great

deal of advice to the Russian Government on land use issues. The earliest paper on urban land use issues produced by the project and delivered to Minstroi, comments on the proposed Law On Principles of Urban Development, was dated August 22, 1992.

Since 1992 HSRP has reviewed and provided significant commentary on various proposed laws of urban planning produced by Minstroi, produced a draft law of zoning which has served as the basis for alternative laws produced by various stakeholders, and conducted major seminars on land use policy. Recent highlights of the HSRP I work program include:

- Review of Minstroi's draft of a zoning law and meetings with the drafting group to suggest revisions;
- On-going work with Minstroi and various other federal agencies and Institutes to develop a consensus law or urban development that would encompass planning and zoning legislation; and
- Assignment of an advisor to St. Petersburg to work with the Fund for Development of the St. Petersburg Real Estate Market, an important non-governmental organization, on development of various land use laws and regulations.

There remains a considerable amount of work to be done on these issues. The concept itself is not yet fully defined. In the first instance, it is by no means clear that an American style zoning system will translate easily to Russia. Perhaps more important, the Russians themselves look more to Scandinavia and some other western European countries on land use issues. The project takes the view that any system which does not take the interests of all current stakeholders into account is almost bound to fail.

■ **Forms of land tenure.** It seems clear now that there will be a substantial leasehold land economy in Russia for many years to come. The pending version of the land code still prohibits ownership of urban commercial land. Even if this provision of the code is changed, it is likely that the law will simply allow land to be sold, but not require that municipalities sell it. Uncertainty about the leasehold form of tenure remains, some of which may be cleared up by enactment of Part II of the Civil Code. However, what is required at a minimum by law and what is actually required to create a thriving market are not necessarily the same.

Under HSRP I a significant amount of work was done on leasing issues, including review and analysis of current municipal leasing practices and documentation and seminars on land leasing. Highlights of the most recent work period of HSRP I include:

- Development of lease forms in connection with the land auction technical assistance in Tver and Nizhny Novgorod, involving extensive discussions with city officials;
- Review and commentary on Moscow's program for revising its approach to leasing; and
- On-going consultation with the Legal Office of the President on leasing aspects of land legislation.



The land auction demonstration programs in Tver and Nizhny were in large part extended seminars on leasing for a corps of local officials. The objectives of the lease documents included limitations on rent increases; limitations on city interference in design and construction; rights to mortgage and foreclosure rights of mortgagees; sublet and transfer of lease rights (though only after the project is completed). A significant advance in each city was simply to convince the city to move to a long term lease during the construction period rather than the vague "right of development" used throughout much of Russia.

Activities During the Workplan Period: Housing Policy

- **Core activities.** The following activities will continue under HSRP II:
 - *Housing code and regulations.* The project will continue to work with the sponsors of the housing code, in particular through the working group convened under the direction of the Legal Office of the President. It is likely that upon enactment of the law there will be a significant amount of work involving preparation and modification of regulations.
 - *Mortgage law and regulations.* The project will continue to work with the sponsors of the mortgage law, in particular through the working group convened under the direction of the relevant State Duma Committee. In addition, the project will analyze the flaws of the new law once enacted and begin to set the agenda for the second generation of policy issues in mortgage lending.
 - *Agency for Mortgage Lending.* The project will continue to provide whatever assistance is needed until enactment of the law and creation of the Agency for Mortgage Lending. Upon creation of the Agency for Mortgage Lending, the project will provide whatever advice and consultation is necessary to assist in the formulation and selection of policy choices.
 - *Condominium law and regulations.* Upon enactment of the pending law, it is possible that regulations may have to be developed at the national level, but whether such will be necessary or what they might consist of is not clear at this time. Moreover, the project has recommended that the government should publish only suggested documentation, not documentation that has the force of law, and to produce such documentation would assist in the organization of a working group that includes private banks, lawyers and representatives of private owners.
 - *Enterprise housing divestiture.* Enterprise housing divestiture is largely a question of what happens after the housing is divested. HSRP I has provided policy advice and assistance to the World Bank's divestiture project in the areas of, for example, housing law; condominium law; tax law; and the law of public utility rate regulation. The project is presently engaged in a larger study of enterprise housing divestiture which will be completed by December, 1995, at which time it may become clear whether any additional policy work or legislation may be necessary at the national level.
 - *Housing tribunals and eviction.* Recent work of HSRP I has included investigation of the creation of housing courts, which are a standard feature of many judicial systems, as well

as administrative tribunal for resolution of building code problems. In addition, the project began work on creating standards and procedures of eviction and other rent collection techniques from social housing. These initiatives will be continued.

■ **Contingent activities.** Part II of the Civil Code, in development now, is significant because it deals with issues of residential leasing. It is possible that advice may be sought from time to time on a new draft of Part II and on housing issues arising under the Civil Code. It is also becoming clear that there may be certain areas of interface between the present proposals of Part II of the Civil Code and the housing code which will require coordination. The project will continue to provide advice and consultation on the Civil Code upon request.

Activities During the Workplan Period: Land Policy

- **Core activities.** The following activities will continue under HSRP II:
- *Land legislation.* Under HSRP II the project will continue to review the general land legislation and provide advice and consultation to the Government, State Duma and various non-governmental entities.
 - *Land use and development controls.* The project is presently working with Minstroi on the most recent version of the Urban Development Codex, is involved in ongoing consultation with the Institute of Law Based Economy, GKI, and Minstroi in trying to reconcile the approaches of the various land use proposals to arrive at a consensus document, and has placed a resident advisor in St. Petersburg to work there on issues of land use controls. This work will continue and through it project will seek to formulate some of the issues surrounding change and adaptation of the Russian land use system and provide a model that draws upon the best to be offered by other countries, without representing an unacceptably dramatic break with past practice.
 - *Land allocation.* GKI has expressed interest in national legislation along the same lines and prepared a draft based on the draft produced under HSRP I. Comments were given on the GKI draft. The project will continue to aid this effort if assistance is requested.
- **Contingent activities.** Additional activities which may be undertaken as time allows during the base year or in option years of the project include:
- *Law of public easements.* A frequently heard objection to urban land privatization is that the cities may someday have to buy back at market prices what they are today giving away virtually for free. The primary concern is that the city will continue to need rights over land to provide infrastructure and other public goods. Apparently this issue is being faced in the enterprise land divestiture program sponsored by USAID, where some planning departments have complained about being saddled with the responsibility to see that the land which is privatized is subjected to necessary restrictions to protect the rights of others and the future development needs of the city. This is almost an impossible task to do well given the present stage of Russian planning.



In a recent article in the Russian periodical *Economics and Life* the legal advisor of HSRP I suggested a national law which would provide a framework for granting and defining utility easements for infrastructure already in place, and for defining future rights of way for utility companies. Such rights are basic elements of municipal law everywhere, and if they were better defined it might lessen one segment of the opposition to privatization of urban land.

- *Development exactions.* The issue of municipal development exactions is a significant local issue which has not yet been addressed on a systematic basis. To a large extent development exactions are now a reaction to the lack of financing for basic municipal needs.

The World Bank housing loan program and the work under HSRP I in the Nizhny Novgorod and Tver land auction programs attempted to deal with development exactions by expressing them in cash values, folding them into land prices and limiting the ability of players like municipal utilities to exact economic rents. The municipal finance component of HSRP II will necessarily relate to this issue insofar as it deals with the infrastructure finance issues which underlay so much of the development taxation that is happening. However, the municipal finance project may not deal with all of the issues of development exactions. For example, it will not likely ask the question what are the true marginal costs to a city of new development, and what methods of recouping those costs will have the most positive effect on development incentives.

If time allows, the project will investigate general models of development exactions. The analytical work will be designed to provide maximum interface with the project's related field work dealing with training of private developers and municipalities.

- *Laws of historic preservation.* An issue related to the core land policy is historical preservation. Except in St. Petersburg, it is not clear how preservation standards and procedures will affect the housing market; in St. Petersburg they will have a dramatic effect. Nevertheless, preservation issues have the attention of decision makers and the public. Bringing some light to bear on the issues of urban preservation may be useful. If time allows, issues that may be investigated include:
 - What is a historic structure? Is the present definition of historic significance too broad and ill defined to be practically relevant to the task of rehabilitation?
 - What is the process of identifying and listing an historic structure?
 - What are the standards of preservation? Are the construction costs implied by the standards affordable?
 - What standards are to be applied to non-historic structures, either new or rehabilitated, in historic districts?

Training

No formal training is anticipated in housing and land policy. In the course of developing policy and legislative proposals a great deal of informal training is generally provided to the Russian staff of the project, Russian consultants and various local and federal officials.

Institutionalization

The policy work contributes to the strengthening of the Russian staff and institutions associated with the project, particularly the Institute for Urban Economics.

Products

■ **Core activities.** Products that will result from the core work will include:

● *Housing law*

- Production of a revised draft of the housing code.
- If the law is enacted, commencement of preparation of necessary regulations

● *Housing finance*

- Production of proposed amendments to the mortgage law.
- Articles and papers in influential Russian publications dealing with the long term issues raised by the law that is enacted, in particular the issues of "right to housing" and "family rights."
- Produce final legislation on the Agency for Mortgage Lending.

● *Condominium law*

- If the law is enacted, commencement of preparation of any necessary regulations on condominium.
- Organization of a working group of bankers, lawyers, government officials and homeowners to prepare national model documents which comply with requirements of the new law; preparation of draft model documents.

● *Enterprise housing divestiture*

- Production of a study and recommendations on the policy environment of enterprise housing issues.
- Depending upon the outcome of the study, commence development of laws and regulations to facilitate the privatization process.



- *Land use and development controls*
 - Production of an analysis and recommendations on alternative land use and development controls.
 - Production of a model law of urban land use and development controls.
- **Contingent activities.** Contingent products which may be produced if time allows include:
 - *Leasehold land economy*
 - Produce and promote a comprehensive policy statement on what is required to create an efficient market in leasehold rights, with reference to the leasing experience of the rest of world.
 - *Utility servitudes*
 - Produce a model law of public easements.
 - *Development exactions*
 - Produce and disseminate a comprehensive review of the legal issues, current uses, comparative international norms and economics of development exactions.
 - *Historical preservation*
 - Production of analysis and recommendations on laws of historical preservation relating to residential rehabilitation.

Performance Indicators

The contract performance targets for the base year work program are modified in this work program. In particular:

- The target of "*specific legal and regulatory documents in support of market-oriented privatization of the shelter development process (land transfer and building permits), and land tenure have been adopted by the local authorities at present locations*" is deleted because of the deletion of land demonstration projects from the work plan.
- The target of "*specific legislation and regulations conducive to public/private partnerships for infrastructure development has been drafted*" has been moved to the infrastructure finance portion of the program.

The redefined performance indicators are:

- (1) Development of specific legal and regulatory documents in support of market-oriented privatization of the shelter development process.
- (2) Creation and dissemination of model documents for the regulations adopted to other local authorities throughout Russia.

Summary of Staff Resources

A significant portion of continuing housing and land policy work will be funded from the budget of HSRP I through Fall of 1996. HSRP II contains an additional 10 man-months of U.S. advisor time for housing and land policy broken down as follows:

<i>U.S. professional staff</i>		
Long-term Resident Advisor—housing policy		6 person-months
Short-term advisor—housing policy		2 person-months
—land policy		2 person-months
<i>Russian professional staff</i>		
Moscow-based specialists—housing policy		16 person-months
—land policy		8 person-months

Related Activity

HSRP I has had fruitful cooperative relationships in policy development with many other projects active in Russia, a practice that will be continued by HSRP II. It is anticipated that HSRP II will cooperate with the following ongoing projects in various ways as shown in the chart below:

Sponsor	Project	Area of Cooperation
USAID	Zoning Project	Land use and development control
	Rural Development Institute	Land policy; title registration; land use and development control
World Bank	Housing Construction Project	Housing policy; land allocation policy
	Enterprise Housing Divestiture	Housing policy
	St. Petersburg Rehabilitation	Infrastructure and municipal finance; land use; condominiums
	LARIS	Land use and development control
Institute for Law-Based Economy	Various USAID projects	Land use and development control; real estate legislation



III. INSTITUTIONALIZATION SUMMARY

Creating permanent, systemic change has been a priority throughout the life of the Housing Sector Reform Program. This emphasis is sustained in HSRP II. As indicated in the detailed descriptions, the project's plans are to achieve institutionalization at two levels: the local level in the cities in which project activity is concentrated and at the national level. While creation of sustainable training programs is included at both levels, the formation of a permanent institution to work with cities and banks on housing reforms is focussed at the national level. The following summarizes the relevant activities in the program at both levels.

Local-Level Institutionalization

- *Enterprise divestiture*
 - Training programs established to work with condominium associations on a permanent basis
 - Local governments knowledgeable about the procedures for "mass creation" of unit owners through privatization and condominium associations and able to continue this process
- *Infrastructure finance*
 - Local and oblast governments fully knowledgeable about the structuring of long-term infrastructure finance through bond or bank finance and able to replicate such deals

National-Level Institutionalization

- *Enterprise divestiture*
 - Training courses offered at the national level of self-sustaining basis for condominium formation and initiation of competitive maintenance
 - Preparation and distribution of guidelines on organizing a high-volume program for absorbing former enterprise housing based on the experience in HSRP II
 - Distribution of package of "promotional materials" developed by the project to other cities included in HSRP I and other interested cities.
 - Creation of a core team of Moscow-based experts capable of working with municipalities on a commercial basis
- *Housing and construction finance*
 - Further development of materials for mortgage, home improvement and construction finance courses, and a permanent capability to offer them through IUE

- Preparation of practical manuals for banks on home improvement, bridge loan, and construction finance lending to facilitate entry of more banks into the business
- Development of "how to" guides for developers to prepare loan applications for construction period finance
- *Infrastructure finance*
 - Development and distribution of guidelines for structuring long-term bank or bond finance for infrastructure, based on project experience
 - Initiation of development of a "resource center" to provide consulting services to interested cities at the conclusion of the project

The centerpiece of institutionalization is the development of the Institute for Urban Economics (IUE). This non-profit research and consulting firm, created by the Urban Institute's Russian professional staff, was registered in November 1995 and will become fully operational in January 1996. IUE staff will continue to serve as instructors in courses on housing finance, housing reform, condominium creation, competitive maintenance and for new courses on infrastructure finance—courses that are offered in cooperation with different specialty institutions, such as the Association of Mortgage Banks, the Association of Construction Banks-Russia, the International Academy of Entrepreneurship and others. Beyond this, IUE staff will have a prominent role in the delivery of technical assistance to cities under HSRP II, thereby positioning it to continue providing such services after the contract is concluded.

The project will notify USAID should there be any material change in the training plans—both substance and who delivers the courses—from that described immediately above and in Section II.

Performance Indicators

Of the three targets specified in the contract (page 19), two focus on the assessment of the training needs of local government officials in departments involved in the project and the development of corresponding training courses. The approach recommended in this workplan is different. The courses to be developed have a more general purpose, i.e., to provide essential knowledge to actors in the private sector and well as those in the public sector—tenants privatizing their units, owners wanting to create a condominium association, condominium associations seeking the take over management of their building, bankers wanting to engage in housing sector lending. Local government officials engaged in these activities will be invited (and sponsored if necessary) to attend these courses. They will also achieve significant skill enhancement through working directly with the outside experts in achieving the concrete goals of the program. This learning-by-doing approach is generally more effective than general skill enhancement training.



Therefore, we propose deleting the first two indicators¹⁰ and retaining the third:

(3) Training courses related to activities at the initial project sites are available.

¹⁰ These indicators are:

- (1) Assessment of needs of government departments and training institutions completed;
- (2) Preparation of a comprehensive plan to strengthen selected local government departments and institutions related to the activities of this contract completed.

IV. MILESTONES

1995

November National dissemination of the Home Improvement Loan Program to Russian banks. Publication of Volume 9 of the Mortgage Manual Series for Home Improvement Loans

Construction Finance Training offered through the Association of Commercial Banks-Russia

December Seminars on privatization and condominium introduction completed

Initiation of technical assistance to at least two additional banks in the targeted cities

Advanced Underwriting and Servicing Course offered through the International Academy of Entrepreneurship

1996

January Launching of the pilot Bridge Loan Program by a Moscow-based bank

○ Completion of report on baseline assessment of local infrastructure finance

February Enterprise divestiture in full implementation phase in all four sites

Work with developers on construction period finance: workshop materials prepared; workshops given in two cities; pilot project identified in these cities

Risk Management Course offered by IUE and the International Academy

March Initiation of mortgage lending by four new banks

Completion of manual on bridge loans and initiation of pilot lending program

Work with developers on construction period finance: workshop given in final two cities; pilot project identified in these cities

Home Improvement and Bridge Loan Course offered by the IUE and the International Academy

Work with developers on construction period finance: assistance in preparing loan applications; applications submitted for two projects

Work with developers on infrastructure finance: hold initial workshops in two cities; potential pilot projects identified.



1996

April

Initiation of construction period loans by three new banks

Construction Lending Course offered by the AMB with IUE

Competition among NGOs and PVOs for equipment grants to support training activities relevant to HSRP

Work with developers on construction period finance: applications submitted for projects in the other two cities; "how-to" manual for construction finance completed

Work with developers on infrastructure finance: hold initial workshops in second two cities; potential pilot projects identified.

○ Commitment of two cities to pilot infrastructure project with long-term financing and tariff reform package

May

At least 10 condominium associations registered from former enterprise housing

Work with developers on construction period finance: institute staff trained in use of manual; final workshop

Course/seminar on financing of municipal infrastructure

June

Initiation of a pilot program to offer condominium rehabilitation loans

Completion of the "program guidelines" for the enterprise housing divestiture program

Work with developers on infrastructure finance: training materials and "how-to" manual prepared

Commitment of second two cities to pilot infrastructure project with long-term financing and tariff reform package

Completion of manual for banks on construction period lending for residential projects.

July

Initiation of mortgage and construction period lending by banks in all target cities

August

Completion of guidelines for municipalities, banks, and utilities on long-term infrastructure finance

1996

September At least 10 condominium associations registered from former enterprise housing.

Infrastructure finance: training institutes offer first courses on public-private partnerships; and possible regional or national conference on financing infrastructure development through private sector participation and public initiatives

U.S. study tour on infrastructure finance



V. SUMMARY OF SCHEDULE FOR SHORT-TERM ASSISTANCE¹¹

A. *Housing/Mortgage Finance* (LOE: 6 person-months)

- *Raymond Miller*, consultant to UI, will arrive in mid-January for a six month assignment to direct the work with new banks in the target cities, help in the preparation and delivery of sections of a risk management and mortgage pricing course, and work with more mature banks to refine their business plans and pricing of mortgages.

B. *Construction Finance* (LOE: 10 person-months)

- *Donald McCarthy*, consultant to UI, will fulfill this task for work with banks (4.5 person-months). He has been working and will continue to work on the same topic under HSRP I. He will develop a full "construction period finance manual" as part of his task. Note that we estimate that by the end of September 1996, there will be one person-month unexpended of the time allocated to construction finance under HSRP I.
- *Olga Kaganova*, UI staff, for two weeks to prepare parts of construction finance lending manual.
- *David Dunbar*, consultant to CHF and an experienced developer now resident in Russia, will work for five months under CHF-project sponsorship in Ryazan and Nizhni Novgorod with developers on obtaining construction period finance and structuring public-private partnerships for residential infrastructure. Mr. Dunbar will work under the supervision of PADCO team leader Ernie Slingsby and with the other consultant working in the other two cities on the same topics.

C. *Infrastructure Finance* (LOE: 13 person-months)

- *TBN (RTI)*, eight months for work with municipalities; various tasks described in Section II.B.2.
- *TBN (PADCO)*, five to eight months for one (at least five months) or two consultants to work with developers in Moscow and Ekaterinburg.

D. *Enterprise Divestiture* (LOE: 12 person-months)

- *Mary Albon*, consultant to Abt Associates, arrived in late November 1995 to work on a two month assignment for the development and initial implementation of a unit privatization campaign. Assignment will be complete in mid-February 1996.

¹¹ See Section VI for full staffing summary.

- *Edwin Bishop*, consultant to PADCO, arrived in mid-November 1995 to work for up to six months on expanding competitive housing maintenance. Tasks include training additional Russian staff in the area, introducing improved methods of monitoring contracts and contract dispute resolution; he will also assist with the Moscow management demonstration as needed.
- TBN, one to four person-months. Possibly for additional training course preparation.

E. *Housing and Land Policy* (LOE: 4 person-months)

This time is allocated to UI consultant *Steve Butler*.



VI. STAFFING SUMMARY

Table 5 lists the planned allocation of U.S. and Russian staff to well-defined tasks during the base year of the contract. It merely summarizes the information presented on a topic-by-topic basis in Section II. The figures are consistent with the control totals shown in Table 3.

Table 5
Target Base Year LOE in HSRP II
(person-months)

Activity	U.S. Total	U.S. LTA ^f	U.S. Short-term	Russian Total	City Coordinators ^e	Net Russian
<i>Mortgage finance</i>	10	4 ^a	6	12	—	12
<i>Construction finance</i>						
With banks	5	—	5	8	1	7
With developers	5	—	5	8	1	7
<i>Infrastructure finance</i>						
With municipalities	19	11 ^b	8	26	4	22
With developers	5	—	5-8	8	—	8
<i>Enterprise divestiture</i>						
Privatization	4	—	4	6	2	4
Maintenance	6	2 ^c	2-4	23	8	15
Condominiums	6	2	2-4	27	8	19
<i>Housing policy</i>	8	6 ^d	2	16	—	16
<i>Land policy</i>	2	—	2	8	—	8
Total	70	25	45	142	24	118

Notes

- a James Cook
- b Robert Firestine
- c Paul Collins (replacing William Riley)
- d Raymond Struyk
- e Coordinators for Ryazan and Nizhni Novgorod
- f The balance of the time of all LTAs is assigned to HSRP I.

VII. SUMMARY OF CHANGES POSSIBLY REQUIRING AMENDMENTS TO THE CONTRACT

A. *LOE Levels*

- (1) The total LOE for U.S. staff for the base and option years should be changed to be consistent with those shown in Table 3 (lower entries in each cell). The distribution among tasks should also be modified to align with this table.
- (2) Clarification is needed with regard to shifting resources from U.S. to Russian staff/consultants. Such a change can result in a higher total level of LOE (i.e., each U.S. person-month can translate into multiple Russian person-months without increasing the total cost of the contract).

B. *Land Demonstrations*

- (1) Indicate that land demonstrations have been dropped as a base year activity.

C. *Performance Indicators*

- (1) Numerous changes in Performance Indicators have been made from those indicated in the contract. A side-by-side comparison of the original and revised indicators is presented in Table 6 on the following page.

Table 6
Changes in Base Year Performance Indicators*

As Stated in Contract	As Stated in Workplan
<i>Institutionalization</i>	
(1) Assessment of needs of government departments and training institutions completed	(1) Training courses related to activities at the initial project sites are available
(2) Preparation of a comprehensive plan to strengthen selected local government departments and institutions related to the activities of the contract completed	
(3) Training courses related to activities at the initial project sites are available	

* This listing excludes six indicators under the heading "General Information," to which no changes have been proposed.



Table 6
Changes in Base Year Performance Indicators (continued)

As Stated in Contract	As Stated in Workplan
<i>Mortgage and Construction Finance</i>	
(1) A standardized set of documents for construction lending procedures and appropriate construction lending instruments should be available for dissemination	● Assistance to banks: (1) A standardized set of documents for construction lending procedures and appropriate construction lending instruments should be available for dissemination
(2) Procedures are in place and staff trained at five banks to initiated construction loans and at ten banks to initiate mortgage loans	(2) Procedures are in place and staff trained at five banks to initiated construction loans and at ten banks to initiate mortgage loans
(3) At least one institution offering a course in construction lending training	(3) At least one institution offering a course in construction lending training
	● Assistance to developers:
	(4) One institution or professional association offering a course on construction finance lending
	(5) A "how-to manual" for construction finance developed for use by developers and city officials
	(6) Four projects prepared and loan applications submitted to interested banks

Table 6
Changes in Base Year Performance Indicators (continued)

As Stated in Contract	As Stated in Workplan
<i>Infrastructure Finance</i>	
(1) Alternative local finance and revenue generation mechanisms developed and available to the project cities	<ul style="list-style-type: none"> ● Assistance to municipalities: <ol style="list-style-type: none"> (1) Pilot projects regarding local activities to be subject to long-term financing and tariff reform specified and analyzed for each of the four target municipalities (2) Long-term financing mechanisms for pilot projects identified and agreed to by each of the four target municipalities (3) Tariff reform packages designed and agreed to by at least two target municipalities
(2) Costing methodologies and infrastructure financing mechanisms developed and funding sources identified	
(3) Project cities have development strategies for financing infrastructure development	
(4) Promotional materials are available for dissemination	<ul style="list-style-type: none"> ● Assistance to developers: <ol style="list-style-type: none"> (4) One institution offering a course on alternative approaches to private sector participation in infrastructure finance (5) Promotional materials and a "how-to" manual for infrastructure finance developed (6) Four demonstration projects based on a public/private partnership approach or similar program identified



Table 6
Changes in Base Year Performance Indicators (continued)

As Stated in Contract	As Stated in Workplan
<i>Enterprise Divestiture</i>	
(1) Real estate privatization strategies for at least four selected enterprises being implemented	(1) Promotional materials for unit privatization in former enterprise housing will have been developed and implemented
(2) Dissemination of materials documenting the privatization procedures underway	(2) Establish a minimum of five condominium associations in former enterprise housing in each target location
(3) Competitively let contracts will have been issued to provide privatized maintenance and management services	(3) Competitively let contracts will have been issued for maintenance and management services
(4) Training and support to private maintenance and management firms and condominium associations as stimulated by the divested housing units is being provided by qualified local institutions	(4) Training and support to private maintenance and management firms and condominium associations as stimulated by the divested housing units is being provided by qualified local institutions
<hr/>	
<i>Housing and Urban Land Policy</i>	
(1) Specific legal and regulatory documents in support of market-oriented privatization of the shelter development process (land transfer and building permits), and land tenure have been adopted by local authorities at project locations	(1) Development of specific legal and regulatory documents in support of market-oriented privatization of shelter development process
(2) Specific legislation and regulations conducive to public/private partnerships for infrastructure development has been drafted	(2) Creation and dissemination of model documents for the regulations adopted to other local authorities throughout Russia
(3) Model documents for the regulations adopted are disseminated to other local authorities throughout Russia.	

VIII. PROCUREMENT PLAN

The contract requires that the Urban Institute set forth a plan for the equipment purchases to be made under the contract. Because this contract represents a very substantial expansion in the staff for HSRP and the overall operations, we anticipate equipment purchases as shown below in Table 7 will be required.

In addition to these items, it is possible that USAID will direct the Urban Institute to purchase equipment for use by cooperating municipal governments, trade associations, or other entities. Such purchases are not expected to exceed \$15,000.

Table 7
Equipment Procurement Anticipated in the Base Year

Type of Equipment	Number	Estimated Cost
Computers for new staff @ \$1,500	15	\$22,500
High capacity laser printers @ \$2,000	3	6,000
TV and VCR for training purposes	1	1,000
Highly portable overhead projector	1	500
Plain paper fax machine	1	600
High volume photocopier (Xerox 5382 or similar)	1	20,000

IX. BUDGET SUMMARY

Table 8
1995-1996 HSRP II Workplan Budget

Expense Code	Budget Category	LOE (p-m)	Full Cost*
100	<i>Long-Term Advisors (U.S.)</i>		
101	Housing Finance (Cook)	4.0	\$109,441
102	Construction Finance	0.0	0
103	Infrastructure Finance (Firestine)	11.0	449,091
104	Divestiture (Riley)	4.0	142,784
105	Policy Refrom (Struyk)	6.0	361,276
106	Land Reform	0.0	0
190	Field Office ODCs [†]		
TOTAL		25.0	1,062,592
200	<i>Short-Term Advisors (U.S.)</i>		
201	Housing Finance	6.0	136,072
202	Construction Finance	10.0	266,039
203	Infrastructure Finance	13.0	367,995
204	Divestiture	12.0	318,338
205	Policy Reform	2.0	77,241
206	Land Reform	2.0	56,370
290	Short-Term Housing [†]		
TOTAL		45.0	1,062,592
300	<i>U.S. Home Office</i>		
301	UI Home Office	3.0	240,794
310	Subcontractor Home Office	4.0	121,449
TOTAL		7.0	362,243
400	<i>Participant Training</i>		
401	U.S. Training (Study Tours)		56,000
410	In-Country and Third-Country Training		149,508
TOTAL			205,508
500	<i>Grants Program</i>		
501	Grants Program		22,175
TOTAL			22,175
600	<i>Russian Technical Advisors (CCN)</i>		
601	Housing Finance	12.0	146,669
602	Construction Finance	14.0	51,370
603	Infrastructure Finance	30.0	167,558
604	Divestiture	38.0	246,716
605	Policy Reform	16.0	153,275
606	Land Reform	8.0	35,730
607	City Coordinators	24.0	103,588
690	Russian Subcontractor ODCs [†]		
TOTAL		142.0	904,906
TOTAL		219.0	\$3,779,480

Notes

* Full cost with fee

† Expenses for these items are included in the budget line items above, but will be reported separately



The Office of Housing and Urban Programs of the Agency for International Development (USAID) addresses the shelter and urbanization needs of developing and formerly planned economies. In addition to administering the USAID Housing Guaranty Program, the Office supports a broad spectrum of urban activities in program planning, management and capital investment to benefit low-income urban families.

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