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PROJECT PERFORMANCE ASSESSMENT REPORT

RUSSIAN FEDERATION

HOUSING PROJECT
(LOAN 3850-RU)

ENTERPRISE HOUSING DIVESTITURE PROJECT
(LOAN 4012-RU)

June 24, 2005

Sector, Thematic, and Global Evaluation Group
Operations Evaluation Department

Currency Equivalents (annual averages)

Currency Unit = Ruble (Rb)

1993	US$1.00	Rb 12.47
1994	US$1.00	Rb 22.04
1995	US$1.00	Rb 6.90
1996	US$1.00	Rb 7.99
1997	US$1.00	Rb 8.04
1998	US$1.00	Rb 29.08

1999	US$1.00	Rb 37.06
2000	US$1.00	Rb 36.69
2001	US$1.00	Rb 37.88
2002	US$1.00	Rb 40.41
2003	US$1.00	Rb 32.50
2004	US$1.00	Rb 28.51

Abbreviations and Acronyms

BTIC	Building Technology Information Center of Russia
CAE	(OED) Country Assistance Evaluation
CAS	Country Assistance Strategy
EBRD	European Bank for Reconstruction and Development
EC	European Community
ED	Executive Director (of the World Bank Board of Directors)
ERR	Economic rate of return
ESW	Economic and Sector Work
EU	European Union
FER	Foundation for Enterprise Restructuring
GDP	Gross domestic product
GOR	Government of Russia
GOSSTROI	Russian Federation State Construction Committee
HLMA	Housing Mortgage Lending Agency
ICR	Implementation Completion Report
IDA	International Development Association
IMF	International Monetary Fund
IUE	Institute of Urban Economics
MINSTROI	Russian Federation Ministry of Construction
MOP	Memorandum of the President
NFHR	National Foundation for Housing Reform
OECD	Organization for Economic Cooperation and Development
OED	Operations Evaluation Department
OP	(Bank) Operational Policy
PCD	Project Concept Document
PIU	Project Implementation Unit
PPAR	Project Performance Assessment Report
SAR	Staff Appraisal Report
SIC/L	Standard Investment Credit/Loan
USAID	United States Agency for International Development
USSR	Union of Soviet Socialist Republics

Fiscal Year

Government: January 1 – December 31

Acting Director-General, Operations Evaluation	:	Mr. Ajay Chhibber
Acting Director, Operations Evaluation Department	:	Mr. R. Kyle Peters
Manager, Sector and Thematic Evaluation	:	Mr. Alain Barbu
Task Manager	:	Mr. Roy Gilbert

OED Mission: Enhancing development effectiveness through excellence and independence in evaluation.

About this Report

The Operations Evaluation Department assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, OED annually assesses about 25 percent of the Bank's lending operations. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons. The projects, topics, and analytical approaches selected for assessment support larger evaluation studies.

A Project Performance Assessment Report (PPAR) is based on a review of the Implementation Completion Report (a self-evaluation by the responsible Bank department) and fieldwork conducted by OED. To prepare PPARs, OED staff examine project files and other documents, interview operational staff, and in most cases visit the borrowing country for onsite discussions with project staff and beneficiaries. The PPAR thereby seeks to validate and augment the information provided in the ICR, as well as examine issues of special interest to broader OED studies.

Each PPAR is subject to a peer review process and OED management approval. Once cleared internally, the PPAR is reviewed by the responsible Bank department and amended as necessary. The completed PPAR is then sent to the borrower for review; the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the OED Rating System

The time-tested evaluation methods used by OED are suited to the broad range of the World Bank's work. The methods offer both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. OED evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (more information is available on the OED website: http://worldbank.org/oed/eta-mainpage.html).

Relevance of Objectives: The extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). *Possible ratings:* High, Substantial, Modest, Negligible.

Efficacy: The extent to which the project's objectives were achieved, or expected to be achieved, taking into account their relative importance. *Possible ratings:* High, Substantial, Modest, Negligible.

Efficiency: The extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. *Possible ratings:* High, Substantial, Modest, Negligible. This rating is not generally applied to adjustment operations.

Sustainability: The resilience to risk of net benefits flows over time. *Possible ratings:* Highly Likely, Likely, Unlikely, Highly Unlikely, Not Evaluable.

Institutional Development Impact: The extent to which a project improves the ability of a country or region to make more efficient, equitable and sustainable use of its human, financial, and natural resources through: (a) better definition, stability, transparency, enforceability, and predictability of institutional arrangements and/or (b) better alignment of the mission and capacity of an organization with its mandate, which derives from these institutional arrangements. Institutional Development Impact includes both intended and unintended effects of a project. *Possible ratings:* High, Substantial, Modest, Negligible.

Outcome: The extent to which the project's major relevant objectives were achieved, or are expected to be achieved, efficiently. *Possible ratings:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry and supported implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of the project). *Possible ratings:* Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower assumed ownership and responsibility to ensure quality of preparation and implementation, and complied with covenants and agreements, towards the achievement of development objectives and sustainability. Possible ratings: Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

Contents

This report was prepared by Roy Gilbert, who assessed the project during an OED mission to the Russian Federation in October 2004. Jay-Hyung Kim also participated in the mission. Olga Antimonova assisted with the collection of housing data in Russia for the evaluation. The report was edited by William B. Hurlbut, and Romayne Pereira provided administrative support.

Boxes

Tables

Map **IBRD 34012**

Principal Ratings

Russia: Housing Project (Loan 3850-RU)

	ICR	*ICR Review**	*PPAR*
Outcome	Unsatisfactory	Moderately Unsatisfactory	Moderately Unsatisfactory
Sustainability	Unlikely	Unlikely	Unlikely
Institutional Development Impact	Modest	Modest	Modest
Bank Performance	Unsatisfactory	Unsatisfactory	Unsatisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible operational division of the Bank. The ICR Review is an intermediate Operations Evaluation Department (OED) product that seeks to independently verify the findings of the ICR.

Key Staff Responsible

Project	*Task Manager/Leader*	*Division Chief/ Sector Director*	*Country Director*
Appraisal	Adrienne Nassau	Jonathan Brown	Yukon Huang
Completion	Jan Brzeski	Hossein Razavi	Julian Schweitzer

Principal Ratings

Russia: Enterprise Housing Divestiture Project (Loan 4012-RU)

	ICR	*ICR Review**	*PPAR*
Outcome	Unsatisfactory	Highly Unsatisfactory	Unsatisfactory
Sustainability	Unlikely	Highly Unlikely	Highly Unlikely
Institutional Development Impact	Modest	Negligible	Negligible
Bank Performance	Unsatisfactory	Highly Unsatisfactory	Highly Unsatisfactory
Borrower Performance	Unsatisfactory	Highly Unsatisfactory	Highly Unsatisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible operational division of the Bank. The ICR Review is an intermediate Operations Evaluation Department (OED) product that seeks to independently verify the findings of the ICR.

Key Staff Responsible

Project	*Task Manager/Leader*	*Division Chief/ Sector Director*	*Country Director*
Appraisal	Dennis Whittle	Pradeep Mitra	Yukon Huang
Completion	Victor Loksha	Peter Thomson	Kristalina Georgieva

Preface

This Project Performance Assessment Report (PPAR) covers two projects in the Russian Federation. The Housing Project was approved on March 7, 1995, for a loan of US$400 million equivalent. By the closing date of June 30, 2003, US$210 million of the loan had been disbursed; US$190 million had been cancelled. The Enterprise Housing Divestiture Project was approved on May 7, 1995, for a loan of US$300 million equivalent. By the closing date of December 31, 2003, US$105 million of the loan had been disbursed and US$195 million had been cancelled.

This report is based on the Implementation Completion Reports for the projects, legal documents and project files, and discussions with Bank staff involved in the projects. OED fielded a mission to the Russian Federation in October 2004 to review project results. The mission met with Federation, Oblast, and Municipal officials of government departments and agencies responsible for the projects, visited project sites in Barnaul, Moscow, Novgorod, St. Petersburg, Tver, Vladimir, and Volkhov, and met with beneficiaries of the projects in those cities. The mission appreciates the courtesies and attention given by these interlocutors and the support provided by the Bank's country office in Moscow.

Following standard OED procedures, copies of the PPAR were sent to relevant government officials and agencies for their review and comments. No comments were received.

Summary

In 1991, after the dissolution of the USSR, Russia inherited the world's largest urban system and housing stock formed outside the parameters and framework of a market economy. This meant, from a market point of view, housing that was often poorly located, with unsure tenure and unsustainably low rents. While reformers were active in Russia's macro-economy, the housing sector was not part of the "big bang" price liberalization designed to kick-start its own markets.

Of other housing reform issues on the agenda, the Bank focused primarily upon transforming the supply side of Russia's housing markets. In this context, the ***Housing Project's*** main objective of facilitating the development of Russia's housing market was and remains substantially relevant. To support this aim, the ***Housing Project*** was a large package of house building investments through construction finance, urban land development and technical assistance in six cities selected for their commitment to reform. It was under the control of GOR departments responsible for construction and housing. By contrast, the ***Enterprise Housing Divestiture Project's (EHDP)*** objective of accelerating the sustainable divestiture of enterprise housing was most untimely: it aimed for a result already achieved before the project itself had begun. Most of the investment of the ***EHDP*** was for municipalities in six cities—different from the ***Housing Project's*** and chosen for their commitment to enterprise housing divestiture—to retrofit former enterprise apartment buildings with improved heating systems. The ***EHDP*** also provided technical assistance and housing allowances to the cities, ostensibly to further local housing reform. ***EHDP*** was under the control of the inter-ministerial Foundation of Enterprise Restructuring (FER), to whom the Ministry of Economy had delegated responsible for project implementation.

The ***Housing Project*** had mixed results. It partially achieved some objectives by helping Russia take modest steps toward transforming and developing housing markets, although less efficiently and on a smaller scale than intended. Through commercial banks, it financed 3,232 new dwelling units by private developers that sold for US$200 million. Beneficiaries were mostly high income. In addition, private developers acquired municipal land through public auctions sponsored by the project and developed private housing on the lots purchased, but on a much smaller scale than planned. Project housing delivered through the private sector in this way was attractive insofar as it was mostly fully occupied but it was more costly and less efficient than expected. There were also some positive results in stimulating regulatory reforms, especially regarding property title registration. On the negative side, the project did not succeed in breaking up the government monopoly on the supply of urban land, as had been intended. The project also failed to help establish a modern building materials industry, partly because it overlooked the role that imports of such materials would play.

The ***EHDP's*** results were altogether poor and only very little was achieved. Most divestiture of enterprise housing occurred (throughout the Russian Federation) before the project, to which it owed nothing. In any case, the project design provided no instruments to assist divestiture. In fact, the rhythm of divestiture in the six participating cities was slower during project implementation than it had been before. Another important failure was the inability to contain the expansion of public housing, as intended, since the project did not follow through with privatization. Privatization was a key aim and essential design element of the project that was not supported by the executing agency, FER. Also, far from making divestiture affordable to municipalities, the project imposed heavy financial burdens upon

participating cities both by increasing their debt—with a high-risk foreign exchange element—and the extra costs of maintaining a larger housing stock. Another shortcoming was that energy efficiency gains through heating improvements were not on the scale expected, and did not yield significant benefits to the municipalities. There were some minor development benefits of the project, however, through broadening private sector coverage of housing maintenance in the project cities, albeit with little competition among providers.

OED rates the ***overall outcome*** of the ***Housing Project*** as **moderately unsatisfactory**, for only partially achieving its objectives, with major shortcomings. ***Sustainability*** is rated **unlikely** on balance, although the resilience across different benefit streams varies considerably. ***Institutional development impact,*** on a far smaller scale than hoped, is rated as **modest**. ***Bank performance*** is rated **unsatisfactory** given the conflict over project design, mixed signals to the borrower, and the very costly preparation effort. ***Borrower performance*** is rated **satisfactory**, but only marginally so, given its costliness and inadequate attention to the accountability of project funds.

The ***overall outcome*** of the ***Enterprise Housing Divestiture Project,*** for its pursuit of an untimely objective that had already been achieved is rated by OED as **unsatisfactory**, although the PPAR mission found some minor development benefits in the form of private sector provision of housing maintenance services. ***Sustainability*** is rated **highly unlikely**, as the project generated no resilient benefit streams of any significance. ***Institutional development impact*** is rated as **negligible** since the project led to no significant changes to the way housing sector business was done in Russia that could help sector resources to be used more efficiently. ***Bank performance*** is rated as **highly unsatisfactory** primarily because of the flawed project design, while ***Borrower performance*** is also rated **highly unsatisfactory**, principally for the failure to pursue the key privatization dimension of the project's objective.

Experience with these projects highlights the following OED lessons:

- Having demonstrated that housing markets can work in Russia, reformers need to move on quickly to find sustainable solutions for the poor, who have drawn no benefit from project results thus far.
- For more public land to become available for private urban development in Russia's cities, the concerns of municipalities (reluctant to part with their source of power and influence) and private developers (unsure of their security of tenure and that infrastructure will be provided) need to be addressed.
- To help improve city level performance (of any kind), project design should incorporate performance-related criteria to determine the allocation of resources across cities.
- When Borrowers find themselves in disagreement with project objectives, the Bank should help them recognize the need to formally restructure or cancel an operation.

Ajay Chhibber
Acting Director-General
Operations Evaluation

1. Housing Reform Needed on an Unprecedented Scale

RUSSIA'S LARGE AND IMPORTANT HOUSING SECTOR

1.1 At the time of the USSR's dissolution in 1991, 73 percent of Russia's population was urban. With 109 million people living in cities at that time, Russia had the fifth largest urban population in the world in 1991 after China (324 million); India (223 million); United States (190 million); and Brazil (111 million). Mass housing construction programs during 1956-1970 of large-scale industrialized panel apartment buildings on the peripheries of big cities helped bequeath to Russia the largest housing stock in the world developed entirely outside a market economy. These conditions posed unprecedented challenges for housing reform: poor and distant locations; constraints upon urban land ownership; continuing state responsibility for multi-family buildings; and unreformed rents. All this is in cities whose spatial structures invert the typical density curves of market-driven cities that have high-value high-density cores surrounded by lower-value lower-density peripheries (Bertaud 1995).

1.2 Housing was not included in the "big bang" price liberalization that kick-started Russia's market economy in 1992, under reforming Prime Minister Gaidar. Housing rents, for instance, remained fixed at their 1928 levels with little cost recovery through them (Lodahl 2001 p.197). Households typically paid only 3.1 percent of their income on housing and utilities in 1990—rising to 7 percent by 2000, but still well below the 20-25 percent norm of western market economies (ibid.). Still, 1992 provided an opportunity for reformers and others to develop and exploit a market system for housing. But it was an opportunity tempered by extraordinary macro-economic and political stress, in particular declining incomes, rising unemployment and hyperinflation (Table 1.1).

Table 1.1. Russian Federation: Housing and Macro Indicators

	USSR (1990)	Before projects (1995)	After projects (2002)
Total housing stock (millions of m2)	2,425	2,645	2,853
- of which, private (millions of m2)	640	1,398	1,993
Total housing stock (millions of units)	48.5	55.5	57.5
- of which, private (millions of units)	12.8	29.3	40.2
Average size of dwelling units—existing stock (m2)	50.0	47.7	49.6
Deficient housing (percent of total stock)	na	1.4%	3.1%
GDP per capita (1995 US dollars)	4,294	2,670	3,257
GDP growth (percent per annum)	-3.0%	-4.1%	4.3%
Unemployment (percent of total labor force)	0.1%*	9.5%	8.9%**
Inflation (consumer price index percent per annum)	0.1%	197.5%	15.8%

Sources: 1990 data – (World Bank 1995); 1995 and 2002 - World Development Indicators and Russia Federal Service of State Statistics (Rosstat) – Housing and Communal Services for the Population of Russia Yearbook 2004
*Notes: na = data not available; * 1991 data;** 2001 data.*

2. Reform and the Relevance of Bank Assistance

KEY ISSUES OF RUSSIA'S HOUSING SECTOR REFORM

Box 2.1. Russian Federation – Housing Sector Reform Issues of the Early 1990s

Privatization	**Individual dwelling units:** Addressed on a large scale principally through donating state-owned apartments to their sitting tenants. **Multi-family buildings:** little progress; municipalities retained responsibility even if individual apartments are privatized. **Urban land:** little progress; private "ownership" rights very limited.
Social housing	**Housing for the poor** was not considered a priority as most Russians had shelter of some kind. Reformers considered most USSR housing programs to have helped solve the problem of social housing.
Legal framework	**Housing market regulation** did not exist because no market existed, so a whole range of legislation and regulation was needed.
Maintenance of existing housing stock	**Lack of maintenance** was already a problem in Soviet times, but it was not felt to be urgent, since the existing stock could get by for some years yet. As GOR interest resumed, USAID was considered the main interlocutor on this.
Housing Finance	**Unstable monetary environment and hyperinflation** made housing finance premature. The State Duma (parliament) rejected a mortgage law in 1995. Even so, Bank began to develop a large housing finance project that had to be shelved following the 1998 crisis.
Housing construction	**Output plummeted** and ways had to be found to restore it. This was considered urgent.
Price liberalization	**Cost recovery was non-existent** on many fronts, especially rents and user charges for utility services (e.g., water, sanitation, heating).
Special housing programs	**Special GOR voucher programs existed** for military, those relocated from the far north, victims of natural and man-made disasters. USAID strongly supported military re-housing.
Enterprise housing	**Undermined enterprise efficiency,** making them less attractive for privatization.
Decentralization to local government	**After the centralization of the USSR** oblasts and municipalities became very important in receiving decentralized responsibilities, especially for divested housing and provision of utility services such as water and heating.

2.1 From this broad menu, the Bank and the new Government of the Russian Federation (GOR) decided that Bank assistance would focus upon the supply of new housing. Restarting house building was naturally welcomed by the Bank's chief interlocutor, the Ministry of Construction (Minstroi, later Gosstroi) host to key sector reformers. Bank economic and sector work (ESW) on housing—conducted in Russia during 1991-92, but only disseminated three years later—also encouraged support for new construction, among many other things (World Bank 1995).[1]

1. The work of more than 45 housing experts over a four-year period led to a 187-page report recommending 123 short and medium-term actions in 10 areas: (i) institutional reform; (ii) property rights/legal reform; (iii) privatization of public housing; (iv) rent reform; (v) maintenance and management

2.2 For reforming the maintenance and operation of Russia's existing 55 million dwellings, GOR sought assistance mostly from USAID's large ongoing program. The Bank's own interest in existing housing came modestly and indirectly through its support for the divestiture (i.e., transfer) of enterprise housing to municipalities. Enterprise housing for workers, typical of most Soviet firms, was reckoned to undermine their production efficiency (Commander et al. 1996; Struyk 1997 p. 95). Other housing issues, such as privatization of urban land, multi-family buildings, utility services and developing the legal framework, featured in the projects reviewed here. Housing finance, on the other hand, was felt to be premature in Russia's unstable monetary environment. Special GOR housing programs and decentralization also did not attract Bank interest.

2.3 A key housing reform issue not addressed was social housing for low income and poor families. Neither GOR nor the Bank considered it a priority at the time. At the Board presentation of the Housing Project, for instance, Bank staff announced that: "There is an abundance of social housing in Russia, and a shortage of slightly better housing that would provide exit opportunities for inhabitants of the existing housing stock."

BANK RESPONSE THROUGH THE TWO HOUSING PROJECTS

2.4 ***Housing Project (Ln3850):*** With very large financing needs in mid-1992, GOR, through Minstroi, requested a Bank loan of US$600-800 million for a housing construction project. The Bank's country department, focused on structural adjustment, did not share the operating division's keenness for such a large investment project. Disputes initially over project design between individual staff of the Bank's operations and policy departments disrupted project preparation (as well as related ESW work) and led to mixed signals from the Bank to the Borrower about the Bank's commitment to this as a priority project. Such lack of team work undermined the quality of Bank service to the Borrower—through the lack of synergy between ESW and project work, for instance—and prevented Bank sector knowledge being fully and effectively brought to bear upon the project. Most Bank staff interviewed by OED confirmed that project preparation had been contentious and that project ideas were extremely volatile until settling upon the finally approved package, namely housing construction investments and technical assistance in six cities to be financed by a Bank loan of US$400 million. For that package, USAID offered grant money of US$10 million to assist project preparation.

2.5 ***Enterprise Housing Divestiture Project - EHDP (Ln4012):*** A different ministry, GOR's Ministry of Economy, wanted more Bank assistance with enterprise restructuring. The Bank introduced housing policy and district heating to this dialogue. To an already eclectic design mix, elements of municipal development were added, since cities were to execute the project locally. Far from blending smoothly, all these disparate elements left the project without a purpose and direction necessary to build support and consensus.

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of public housing; (vi) financial policy; (vii) fiscal policy; (viii) privatization of the construction industry; (ix) reform of land use and urban regulation; (x) municipal finance and residential infrastructure. Its lack of focus may help explain the only passing reference to the ESW by the Housing Project and none at all by the EHDP.

2.6 There was little Bank coordination across the two projects in their preparation. The later EHDP project documentation makes no reference to the Housing Project. The earlier project simply mentioned the EHDP coming on line. With Minstroi (later Gosstroi of the Ministry of Industry) in charge of the Housing Project, and the Ministry of Economy responsible for EHDP (with implementation delegated to an inter-ministerial Foundation for Enterprise Restructuring (FER)) little coordination came from GOR either.[2]

2.7 Although both projects were part of the G7 industrial countries' framework for accelerated assistance to Russia, preparation was not unduly hasty: 16 months for the Housing Project and 20 months for EHDP. Both had plenty of resources for preparation, especially the Housing Project which mobilized 99 staff/consultant visits to Russia, thanks to USAID funding. EHDP sent 29. GOR spoke to OED of the logistical problems receiving Bank missions of 25 or more people in and around Moscow and GOR bewilderment over whom to make contact with among the many mission members.

RELEVANCE OF PROJECT AIMS

2.8 ***Housing Project (Ln3850):*** The primary objective of developing Russia's housing market (Box 2.2) was substantially relevant to GOR's priorities and Bank strategy at the time of project preparation and remains so today. Most secondary objectives of the project also were substantially relevant, except one aiming to break up GOR's "monopoly in the supply of urban land". This was a strange aim in a place that had no functioning land markets. By choice and design, the project was most relevant to the reform issues on the supply side of the housing market, especially new housing construction. Any one operation would be able, of course, to focus only upon a few themes of Russia's very broad housing reform (Box 1). Even so, some GOR officials told OED that they felt the Housing Project had too many objectives.

2.9 ***Enterprise Housing Divestiture Project - EHDP (Ln4012):*** The primary objective of accelerating the sustainable divestiture of enterprise housing (Box 2.2) was only a caricature of what a project objective should be. It was aiming for what had already been achieved *before* the project had even started. By then most enterprise housing in Russia had already been divested.[3] Thus, it was no longer relevant to Russia's ongoing housing reform. Some secondary objectives—notably containing the size of the municipal housing stock and increasing energy efficiency—were perhaps more relevant to housing reform insofar as they looked away from enterprise housing divestiture itself.

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2. FER's governing committee had representatives of: (i) National Foundation for Housing Reform; (ii) Leontiev International Center of Socio-Economic Reforms; (iii) the Sberbank (state savings bank); (iv) Ministry of Finance; (v) Ministry of Economics; (vi) Central Bank of Russia; (vii) Ministry of Construction. It's work was governed by an agency contract with the Ministries of Finance and Economics to allow FER manage the project funds behalf of these ministries.

3. The EHDP project SAR, for instance, stated that 90 percent of enterprise housing in the city of Cherepovets had already been transferred to the municipality.

Box 2.2. Summary of Project Objectives and Components

RUSSIAN FEDERATION: HOUSING PROJECT (LN 3850-RU)

Objectives

Primary objective

1. To develop Russia's housing markets by assisting their transition towards a market-based housing construction and housing finance system with a choice for consumers and competition among private suppliers. ***Partially achieved (on a very small scale).***

Secondary objectives

2. To stimulate the carrying out of such municipal land developments. commercially-financed private housing developments, materials industry investments in the territory of the borrower, as are likely to demonstrate the utility of such systematic transformation. ***Partially achieved.***

3. To break up the present Government monopoly on the supply of land by assisting selected municipal governments in auctioning sites suitable for residential development. ***Not achieved.***

4. To demonstrate that the private sector can produce housing that is more efficient and appealing than that provided by the "Kombinats" (Soviet industrial complexes).***Partially achieved.***

5. To encourage the establishment of industries to produce modern and more efficient building materials. ***Not achieved.***

6. To implement national regulatory reforms at the local level. ***Partially achieved.***

Components (with costs in US$ millions)

Part A. Housing Market Development (appraisal US$517.4m.//final US$293.7m.)

A.1 Municipal Land Development Program (appraisal cost US$339.6 million; actual cost US$87.3 million) – finance and TA for contributing to the amount and quality of improved land for the construction of housing in participating cities.

A.2 Private Housing Development Program (appraisal cost US$177.8 million; actual cost US$206.4 million) – establishing and operating a targeted credit facility for private developers to carry out eligible private sector developments.

Part B. Building Materials Industrial Development Program (appraisal US$143.3//final US$39.0m.)

Establishing and operating a targeted credit facility to enable selected enterprises carry out building materials industry investments.

Part C. Institutional and Policy Development (appraisal US$33.1m.//final US$78.8m.)

Strengthening the institutional capacity of participating cities, participating banks, and private developers to operate successfully within a market-based housing construction and housing finance system.

Participating cities: Barnaul, Nizhny Novgorod, Novgorod, St. Petersburg, Tver, Moscow. (Kazan and Krasnoyarsk added later).

RUSSIAN FEDERATION: ENTERPRISE HOUSING DIVESTITURE PROJECT – EHDP (LN 4012-RU)

Objectives

Primary objective

1. To accelerate the sustainable divestiture of enterprise housing throughout Russia by demonstrating within the Participating Cities a combination of housing reforms and investments designed to transfer housing to the private sector and lower its operating cost. ***Not achieved.***

Secondary objectives

2. To ensure that housing divestiture does not lead to massive increases in the volume of public housing, through housing privatization, including condominium creation. ***Not achieved.***

3. To make the process of divestiture more affordable for cities and rationalize the flow of funds in the housing sector by cost recovery of housing maintenance and utility fees from tenants. ***Not achieved.***

4. To protect vulnerable groups in the context of increased cost recovery through targeted housing allowances. ***Partially achieved.***

5. To rationalize and increase private sector participation in the provision of services in the housing sector through competitive bidding maintenance of housing. ***Partially achieved.***

6. To reduce the costs of maintaining housing and make the divestiture process affordable for both cities and households through improved energy efficiency in divested housing. ***Not achieved.***

Components (with costs in US$ millions)

Part A. Housing Divestiture and Associated Reforms (appraisal US$85.0m.//final US$30.4m.)

A.1 Technical assistance to strengthen capacity to implement the project.

A.2 Technical assistance in: (i) cost recovery for housing maintenance and utility services; (ii) establishment and implementation of a system housing allowances to protect vulnerable households; (iii) formation of condominium associations; (iv) competitive bidding for housing maintenance.

A.3 Dissemination of experience emanating from the project reforms and investments, both among participating cities and throughout Russia.

A.4 Housing allowances to protect vulnerable households.

Part B. Energy Efficient Investments in Housing Facilities (appraisal US$383.0m.//final US$113.3m.)

B.1 Acquisition and installation of metering equipment.

B.2 Investments for the retrofitting of housing facilities to reduce energy consumption and lower operating costs.

B.3 Capital repairs of roofs, doors, walls and windows.

Part C. Upstream Retrofits (appraisal US$43.0m.//final US$15.0m.)

C.1/2 Repair and retrofitting of existing utility networks outside of the building boundaries to permit these networks to function as designed and improve their efficiency.

Part D. Project Management (appraisal US$17.0m.//final US$9.2m.)

Participating cities Ryazan, Vladimir, Petrozavodsk, Volkhov, Cherepovets, Orenburg. (Izhevsk, and Saratov added later).

Sources: Project legal and technical documentation (LAs, SARs and ICRs)

FOCUS OF THE PROJECT DESIGNS

Housing Project (Ln3850): Project components (Box 2.2) were consistent with the main objective, especially its supply side. GOR chose six participating cities for their commitment to the project's reform agenda. In principle, Moscow's role was to be limited to hosting just small-scale demonstration investments, since the city was already a magnet for donors and for foreign investment too. The largest component planned (but only one quarter implemented) was the auction of municipal land and its development for housing by private developers. The project's support to building materials industries seemed a logical step to help ensure that builders would have the modern materials that they needed, but imports were not considered by the project designers as an alternative source. Finally among the components, technical assistance (TA) for institutional and policy development, appropriately addressed as a priority property title registration—needed to legitimize sellers and buyers in the market.

2.10 Consistent with the project objectives, but criticized by Bank staff for it during preparation, the project design included no components to deliver benefits to the poor.

2.11 The design conceived of top-down management, even though many project results depended upon the effective participation of local government at both the oblast (regional, provincial or district) and municipal (city) levels. The central GOR had not been keen on lending to sub-national authorities at all, but had deferred to the preference of the Bank's urban development department for greater decentralization. Municipalities themselves were not too enthusiastic either, especially given the foreign exchange risk of project sub-loans.

2.12 This project management model was complex, costly, and volatile. It needed fourteen subsidiary loan and participation agreements with cities and commercial banks. As well as a project implementation unit (PIU) in GOR, a consortium of international advisors, "the general consultant" was to oversee project implementation. This arrangement led to excessive costs and wasteful duplication repeatedly questioned by project financial audits.

2.13 Doubts about correctness of the supply side focus of the project design continued within the Bank. Through its 1998 Russia housing ESW update, the Bank saw reassigning (misallocated) existing housing units through market transactions as an alternative to new supply in meeting demand (World Bank 1998. p. v). But this new insight did not lead to a re-design of the Housing Project itself.

2.14 ***EHDP (Loan 4012):*** Project components had little to do with the main, albeit irrelevant, objective of this operation, nor could they. The largest of these, the installation of modern heat exchange equipment and improving insulation to improve energy efficiency accounting for 65-75 percent of total project costs, was not even aimed exclusively at former enterprise housing. With little project guidance on selecting buildings for retrofits, any municipal housing was eligible. In the context of Russia's sector reforms, one might have expected project guidance on the selection of marketable units—the better located, condition and age, for instance—as priority for such investments. Instead, the project simply recommended giving first attention to larger buildings that might yield economies of scale of the works. But, for cost recovery reasons, the project design also gave a preference to buildings with active condominium associations. Project components to upgrade central boilers and main heating infrastructure under streets were even more disconnected from enterprise housing. TA too, being mostly directed at city administrations, had more to do with municipal development than enterprise housing divestiture.

2.15 Yet the project documentation mentioned enterprises as being the main beneficiaries. But they do not feature as much in the project design as the project title would lead one to expect. Enterprises are conspicuous by their absence from the project stakeholder analysis, for instance. Their only project role is to off-load their unwanted housing and vanish from project sight. A more consistent design would have at least included an assessment of the impact—using the baseline surveys of 24 enterprise conducted during preparation—of housing divestiture upon enterprise efficiency, whose improvement was given as the raison d'être of the project. With such an assessment, we might at least have learned if the enterprises became more productive after divesting their housing, as hoped.

2.16 Instead, the design gave more attention to the selection of beneficiary cities. A short list of 13 and then 6 finalists (Box 2.2) were chosen by GOR and the Bank as being cities that had progressed furthest in divestiture agreements with enterprises, municipal cost recovery, establishing condominium associations, and enabling a competitive market for maintenance. In other words, it chose the best performing cities. Project start-up was planned, nevertheless, with demonstration investments in the city of Ryazan, 150 kilometers southwest of Moscow.

2.17 Even with today's hindsight, it is not easy to characterize what this project really was and to understand its intended role in Russia's development. Was it a housing reform, district heating, municipal development, or enterprise restructuring operation, or all or none of these? This ambiguity was both the result and the cause of inadequate specialist inputs, especially by the Bank, at key moments of project preparation and implementation. In short, it was the result of poor Bank performance both at the design stage and during implementation.

3. Results of Housing Project (Ln. 3850)

IMPLEMENTATION ISSUES

3.1 Like other projects in the Bank's Russia portfolio at the time, disbursements were initially slow. Since private sector demand for municipal land development was weaker than expected, efforts were made to disseminate the project and its reform agenda, including skilful use of the popular "teleutro" show on public television. Russia's financial crisis in 1998 nevertheless disrupted such efforts. It led to even slower disbursements, and to a political shakeup of a GOR project team. GOR was no longer keen to establish a new all-powerful Minzemstroi (Ministry of Land Policy, Construction and Municipal Economy) recommended by the project team. President Putin showed great interest in housing shortly after he took office in 2001, but too late for a project near to closing. Already by 1998, GOR officials felt that the Bank had become excessively concerned with minutiae of project administration. This perceived shift came shortly after the assignment of the Bank's country director to the field in Moscow. It also coincided with concerns over project accounts expressed by project financial audits.

3.2 The project financial audit of FY1998, in particular, highlighted the costly—US$3.5 million per annum—duplication of project management conducted by GOR's PIU on the one hand and the General Consultant (a consortium of international advisors) on the other. As well as incomplete financial reporting, this audit also found US$479,500 of project funds spent upon one foreign consultant over a three-year period without evidence of any work performed. Another individual, who had worked as a Bank consultant, shortly thereafter worked for the project itself (on GOR's side) in contravention of Bank hiring practices. Obviously, Bank supervision effort had to give more attention to day-to-day due diligence within the project.

3.3 Despite slow disbursements, GOR was reluctant to cancel unused loan amounts, even as the Bank urged it to after 1998. Instead, GOR proposed restructuring the project to finance certificates for the purchase of subsidized housing, but the Bank did not agree to a change so far removed from the original objective of developing housing markets. The Bank nevertheless reluctantly agreed to Gosstroi's request to extend the closing date by 18 months until December 2003, by which time US$195 million of the loan had been cancelled.

FACILITATING HOUSING MARKET DEVELOPMENT IN RUSSIA (PRIMARY OBJECTIVE)

3.4 ***Partially achieved:*** In financing private developer housing projects in participating cities through commercial banks, the project helped provide 3,232 new dwelling units, thereby generating approximately US$200 million in new sales. One downside is that the largest city share of project lending for construction finance—totaling US$36.0 million—went to Moscow, with its already dynamic urban economy and lively housing market least dependent upon foreign assistance among Russia's cities. [4] Higher-income families benefited most in Moscow, as elsewhere. The most costly scheme financed by the project was the Novogorsk settlement in Moscow. It consisted of 120 single-family houses each with 164 square meters of living space costing US$221,916 per unit to build and probably selling at twice that value. Visiting several other housing schemes in other cities the OED mission could confirm that most were fully occupied and finished to a good standard. In St. Petersburg, they ranged from the luxury closed condominium of Krestovsky Ostrov (86 apartments; 120 square meters; US$166,395 cost each) to large 10-12 floor panel-built apartment buildings (337 apartments; 61 square meters; US$26,617 cost each). Ironically , the more affordable units were decried by westerners for their unattractive Soviet style.

4. During 1995-2002 the housing stock in Moscow (city plus oblast) grew by 16.7 percent, more than twice Russia's 8.1 percent over the same period, and now accounts for 12 percent of the country's (Rosstat 2004).

3.5 The project also increased housing-related finance by private commercial banks that made construction loans to developers. In visiting one such bank in St. Petersburg, the OED mission learned that its housing-related clients had above-average creditworthiness, and that the bank would like to see this business expand. Important constraints remain, however, such as banks' unwillingness, in general, to do business in cities outside their home base, and the continued strong presence of state-owned banks, such as Sberbank in this market.

3.6 At the level of the Russian Federation, housing construction output has still not recovered to pre-project levels, but the private construction share within it has increased (Table 3.1). Waiting lists for state rental housing are reported to be 40 percent lower in 2000 than in 1990, but corrupt practices in allocating housing to them continue (Lodahl 2001 p. 195). But with Russians still spending only 6-9 percent of their (low) incomes on housing (versus 15-25 percent in western market economies) a buoyant market economy for housing is still some way off. Effective demand is still very weak (Lodahl 2001).

Table 3.1. Russian Federation: Indicators of Housing Construction

	USSR (1990)	*Project start-up (1995)*	*After project (2002)*
Total housing construction (millions of m2)	61.7	41.0	33.8
Private housing construction (millions of m2)	6.0	14.8	23.2
Total housing construction (thousands of units)	1,043	870	717
Private housing construction (thousands of units)	102	314	472
Avg size of dwelling units—new construction (m2)	59.1	58.5	69.0

Sources: 1990 data – (world Bank 1995); 1995 and 2002 data - Russia Federal Service of State Statistics – Construction in Russia Yearbook 2004.

STIMULATING MUNICIPAL LAND AND PRIVATE HOUSING DEVELOPMENTS

3.7 ***Partially achieved:*** Against the planned 16 sub-projects covering 575 hectares, the project financed 12 sub-projects covering only 110 hectares. Demand was much weaker than expected. The first project attempt to auction land (in Novgorod in late 1995) attracted only one bidder and had to be suspended. City authorities there told OED that project TA helped them prepare press announcements for a re-run auction that eventually attracted bidders from Germany, UK, France, and Scandinavia, as well as other parts of Russia. Held in March 1996, the bid price exceeded the reserve by 35 percent. OED mission discussions with local officials in various cities confirmed that there had been little dissemination to them of the Novgorod experience. St. Petersburg's larger land auctions followed shortly thereafter, but they also attracted fewer bids than expected, as did Tver's. Auctions in Nizhny Novgorod and Barnaul were more successful. In both cases, auctions were widely advertised in Moscow itself. In few of these cases, however, did city revenues from the auctions' land sales fully cover municipalities' infrastructure costs in servicing the plots sold.

3.8 Three reasons were commonly given by municipalities and developers for these under-achievements. They may be worth bearing in mind when conducting such operations in the future. First, municipalities were reluctant to part with land, a source of their power and influence. Second, private developers feared that city authorities might decide against the timely provision of infrastructure to a site, a decision over which they, as private developers, had no control. Third, some developers did not feel security of their own tenure over urban land "sold" to them in this way, particularly when it could only be "re-sold" back to the local authority, and not to third parties, as it would in an open land market. Hindsight thus shows that the Bank staff assurance at Board presentation that the project provided for full land ownership to the final beneficiaries was exaggerated. For all these shortcomings—especially in scale—the project did legitimize, for the first time, the process of land auctions in Russia.

3.9 Local authorities in Novgorod and St. Petersburg informed OED that additional land auctions (beyond the project) were underway at the time of the OED mission. More than 100 lots were auctioned in St. Petersburg (and the surrounding oblast) in the third quarter of 2004 alone, for instance. Novgorod—again as pioneer—has recently made its land auction procedures more transparent by holding public hearings before the actual auction itself goes ahead.

BREAKING UP THE GOVERNMENT MONOPOLY OF URBAN LAND SUPPLY

3.10 ***Not achieved:*** This was because there was a failure of design that incorrectly assumed that an urban land market existed in the Russian Federation in which the government was a monopoly supplier. Such a market did not exist at the time of project preparation, nor does it still. Housing experts agree that land markets are an area where housing sector reform has progressed least (Struyk 2000). With 95 percent of urban land still reckoned to be in the hands of the public sector, there is enormous scope for its divestiture.

DEMONSTRATING PRIVATE HOUSING'S GREATER EFFICIENCY AND ATTRACTIVENESS

3.11 ***Partially achieved:*** Given the higher actual average unit costs of housing (US$63,469) versus that estimated (US$55,562), project housing investment was less efficient than intended. But treating demand as an indicator of the "attractiveness" of project housing (rather than some aesthetic attribute), it was attractive for being fully occupied for the most part. The OED mission was able to confirm this during site visits in Novgorod, St. Petersburg, and Barnaul. The project built a wide range of housing types. These included detached single-family units, five-floor walk-up apartment buildings, and large-scale 25 floor blocks (in St. Petersburg) reminiscent of earlier Soviet structures—at least visually.

HELP ESTABLISH MODERN BUILDING MATERIALS INDUSTRIES

3.12 ***Not achieved:*** There is little evidence that the project succeeded in encouraging the establishment of modern building materials industries. The project did provide—but at only 27 percent of the level expected—equity participation in six enterprises in St. Petersburg to produce water pipes and windows. While the 20 beneficiary plants did increase production, macro data for Russia show a declining output trend. Except for bathroom furniture, the production of most building materials fell significantly during project implementation, even while there was a small increase in the number of firms (Table 3.2). What the project design failed to contemplate, were large scale imports of high-quality materials that are now commonplace in Russia.

Table 3.2. Russian Federation: Manufacture of Selected Building Materials

	USSR (1990)	*Project start-up (1995)*	*After project (2002)*
Pre-fabricated industrial panels (millions of m2)	na	10.2	6.7
Water pipes (kms)	5,902	2,545	616*
Traditional doors and windows (millions of m2)	na	14.7	7.8
Bathroom utensils (million items)	na	0.6	0.8
Building material manufacturers (number)	na	7,925	8,259

*Source: Russia Federal Service of State Statistics – Construction in Russia Yearbook 2004 (data on water pipes from Lodahl 2004) Note: * 2001 data*

IMPLEMENTING REGULATORY REFORMS FOR HOUSING AT LOCAL LEVEL

3.13 ***Partially achieved:*** Within the large TA effort fielded by the project, the greatest impact locally was felt through property title registration. Project TA helped cities conduct aerial surveys, set up central title registries (cadastres), carry out property surveys, and establish procedures for helping the public to register titles. The project helped consolidate Novgorod's own "single window" system—now in operation for 10 years—that allows citizens to resolve all their property titling and taxation issues in one easily accessible place. During OED's visit to it, the single window was staffed by 13, who, among other jobs, deal with 50 inquiries from the public per nine hour day. Barnaul in Siberia reported getting less attention from project TA, but was still able to register the titles of 60 percent of properties in the city. Later, project assistance helped provide state-of-the-art software and hardware support for titling to more than 33 cities across the Russian Federation, dispelling concerns that only a handful of Russian cities may be reform-minded. An even broader impact was through encouraging laws instrumental to reform. Some 27 pieces of national legislation related to housing were prepared and approved during project implementation (Box 3 lists laws most closely associated with the project). While the USAID-funded Institute of Urban Economics (IUE) of Moscow—with a staff of 65 today—helped draft most of them, their

Box 3.1. Russian Federation Housing Reform – Selected Laws

May 24, 1996	Federal Law No. 72 FZ "On Homeowners Partnerships"
July 21, 1996	Federal Law No. 122-FZ "On state registration of real estate titles and transactions" [based upon the "single-window" experience of Novgorod]
July 20, 1997	Federal Law 110-FZ "On experiment on taxation of real estate in cities of Novgorod and Tver"
November 26, 1997	Presidential Decree 1263 "On sale to citizens and legal entities of land plots located on the territories of cities and rural settlements for development, or the rights to lease thereof" [based upon the project land auction experience]
January 5, 1998	Federal Government Resolution No. 2 "On approval of bidding procedures (auctions, competitions) to sell to citizens and legal entities land plots located on territories of cities and rural settlements, or the rights to lease thereof"
June 16, 1998	Federal Law No. 102-FZ "On Mortgage (pledge of real estate)"
May 1998	Federal Law No. FZ "On Urban Planning Code"

technical aspects were discussed with members of the Bank team prior to their submission to the State Duma (parliament).

4. Results of Enterprise Housing Divestiture Project (Ln. 4012)

IMPLEMENTATION ISSUES

4.1 Disbursements were slow for this project too. Reluctant at first to lend anything at all to local government, GOR wanted to tightly control project municipal credit and to levy even higher interest on cities than the Bank itself proposed. Another problem was that city responsibilities under the project—and those of FER too—were not always clear. In one case, this led to legal suit by a service provider against both parties—city and FER—for the alleged non-payment of a particular contract.

4.2 On the Bank side, a succession of six task managers over a seven-year period frustrated the Borrower and appeared to have left GOR and FER with the impression that Bank rules, standards, and processes were similarly volatile. Unsigned supervision aide memoires were an indicator of a difficult Bank-FER dialogue. For its part, EHDP had to compete for FER's attention with five other projects that FER was responsible for overseeing.

4.3 As happened with the Housing Project, FER noted that Bank attention to, and interest in broader sectoral issues in EHDP began to be displaced by a greater concern with day-to-day oversight of project administration. The FY1998 project accounts found, for instance, evidence of misappropriation of significant project funding for activities unrelated to the project, such as the transfer of enterprises' social assets to municipalities. FER's assessment of the project at closing, nevertheless, highlights that the Bank had not once declared mis-procurement during project implementation.

ACCELERATING RHYTHM OF DIVESTITURE

4.4 ***Not achieved:*** Contrary to the acceleration intended, divestiture *decelerated* during project implementation (and thereafter). The enterprise housing stock of the six EHDP cities (Box 2.2) fell at an accelerated rate—averaging a 17.8 percent drop per annum during 1992-95. In other words, fastest divestiture took place prior to project appraisal in August 1995. While the project was being implemented during 1996-2003, the annual decline of the enterprise housing stock slowed to just 6.5 percent of the total outstanding in the EHDP cities—a rate that was even slower than the 8.1 percent observed for the Russian Federation as a whole over the same period.[5] Experts on Russia's housing agree that the divestiture had a nationwide dynamic prior to and was well beyond the scope of a single operation such the EHDP (O'Leary et al. 1996). As

5. Estimates derived from the following figures. Number of buildings in EHDP cities' enterprise housing stock: 1992 – 9,011; 1995 – 3,287; 2003 – 1,139. Total area of enterprise housing in Russia: 1995 - 192 million m2, or 4.0 million dwelling units; 2003 - 26 million m2 or 0.5 million dwelling units (Rosstat)

already mentioned, the divestiture was made intrinsically sustainable not by the project, but by a legal and political framework that ensured that it was irreversible.

4.5 OED could find no link at the city level between the rhythm of divestiture and the level of EHDP project interventions. Although the project SAR announced that the amount of project funding would be awarded in each city according to the pace of its divestiture, there is no evidence that this happened. There was no correlation at the city level between the pace of divestiture—measured by the relative decline of the enterprise housing stock—and the share of EHDP project funding through sub-loans to the municipality (Table 4.1). Petrozavodsk, first place in terms of pace of divestiture during implementation, by reducing its enterprise housing by 95 percent during 1995-2003, was only in fifth place in the share of project disbursements it received, having slipped from fourth place in the ranking of commitments.

Table 4.1. EHDP Cities: Rhythm of Divestiture and Share of Project Sub-loans

City (with population in thousands)	Total number of enterprise owned buildings (1995)	Decline of enterprise housing stock 1995-2003	City share of total EHDP project commitment	City share of total EHDP project disbursement
Petrozavodsk (278.8)	673	**-94.8%**	14.2%	**8.3%**
Orenburg (576.9)	756	**-72.3%**	24.1%	**16.4%**
Ryazan (536.6)	864	**-57.1%**	24.1%	**9.8%**
Vladimir (357.7)	856	**-47.9%**	22.1%	**11.1%**
Cherepovets (318.4)	109	**-45.9%**	11.1%	**30.2%**
Volkhov (47.8)	29	**-34.5%**	4.4%	**4.6%**
Izhevsk (na)	Na	**Na**	0.0%	**18.3%**
Saratov (na)	Na	**Na**	0.0%	**1.2%**

Source: Borrower and Bank ICRs

First place in the share of project disbursements (up from third place in the ranking of commitments) went to Cherepovets, a city that was only in fifth place in reducing its enterprise housing—by only 46 percent during 1995-2003, having done more prior to the project. Except for the smaller company town of Volkhov, neither the absolute level of city population nor the size of the enterprise housing stock seem to have been factors in determining the level of project support. From this evidence, OED concludes that divestiture performance criteria did not determine project funding decisions.

CONTAINING MASSIVE INCREASES OF PUBLIC HOUSING (THROUGH PRIVATIZATION)

4.6 ***Not achieved:*** Since privatization did not occur on a significant scale while enterprise housing was transferred to cities, EHDP municipal housing stocks continued to grow, contrary to the project's intent. The municipal housing stock of EDHP cities at project's end in 2003 consisted of 16,062 buildings, nearly double the 8,313 buildings prior to EHDP in 1992. Without privatization, the transfer of housing from enterprises to municipalities remains a zero-sum game from this perspective, as the decline in the enterprise housing stock is mirrored in the rise of the municipal stock.

4.7 Containing the municipal part of the public housing stock appears to have worked better at the level of the Russian Federation as a whole than in the EHDP cities in particular, however. Russia's municipal stock actually fell from 783 million square meters (16.4 million dwelling units) in 1995 to 626 million square meters (12.6 million dwelling units) in 2003 (Rosstat). Moscow and St. Petersburg alone account for most of the fall, while smaller cities showed small gains over this period. One result is that in 2003 the EHDP city of Ryazan (population: 0.5 million) had a larger municipal housing stock than Moscow (population: 8.2 million), whereas Moscow's stock had been fourteen times larger than Ryazan's in 1995.

4.8 Privatization to contain the growth of the municipal stock was not actively pursued by EHDP. This was a key flaw of project implementation. FER informed OED that it considered the project's privatization aim to have lapsed after the Bank sent a letter in June 2001 stating that it would not regard lack of progress in privatization as a reason for premature termination of the project. This did not amount to the Bank's abandoning the project's privatization objective, of course. That would have required a formal amendment to the loan agreement, something not pursued either by the Bank or Borrower. That Bank policy and procedures in this regard were not fully understood supports an earlier and more general finding of OED's CAE for Russia, that only a small number of government officials and advisors had a good grasp of the Bank's views on reform (Zannini 2002. p.11).

4.9 Had more project attention at the design stage been given to privatization, marketability might have been among the criteria for choosing priority housing for heating retrofits. Thus, better located buildings in good condition with clear tenure status might have had a higher priority. Poorly located and dilapidated buildings might not, in a market sense, be worth improving. They might even be slated for demolition. Ignoring market factors such as these, the EHDP SAR simply recommended investing in large buildings to achieve economies of scale in the works, whatever the worth of the housing itself. Without applying any market-inspired criteria, the EDHP tried to improve all kinds of buildings—large/small, old/new, central/peripheral. At the city level, selection criteria were opaque.

MAKING DIVESTITURE AFFORDABLE FOR MUNICIPALITIES

4.10 ***Not achieved:*** Far from being affordable, divestiture imposed heavy financial burdens on municipalities through increased debt exposure (with foreign exchange risk) and additional costs of operating and maintaining an enlarged housing stock. These problems were highlighted in FY 1998 financial audits. Cities informed OED that they had little choice about whether to accept enterprise housing or not. The transfer was nevertheless a major program of the Russian Federation, in which municipalities felt they should carry their weight and moreover fulfill their political and social responsibilities to the affected citizens.

4.11 EHDP offered the idea of establishing condominium associations in multi-family buildings as a way of easing the financial burden of maintenance costs on municipalities by sharing them with residents. Altogether 510 such associations covering 2,543 buildings were established in the EHDP project cities, but the maintenance of the majority of privatized housing remains a municipal responsibility. Specific data was not available from the EHDP cities, but for the Russian Federation as a whole, less than 10 percent of housing is covered by condominium associations. EHDP city officials informed the OED mission that they did not have current plans to create more, and that they expected to continue most maintenance. Officials in Barnaul, a non EHDP city, told OED that they had 200 condominium associations in operation in the city. The Bank itself seemed unsure how to support this after an earlier proposal of a large-scale stand-alone adjustment program for this was turned down by Bank management.

PROTECTING VULNERABLE GROUPS THROUGH TARGETED HOUSING ALLOWANCES

4.12 ***Partially achieved:*** The project spent US$30.4 million (against US$84.4 million planned) on allowances to help poorer families unable to afford the higher payments for maintenance that greater cost recovery inevitably incurred. FER reported that the criteria to select eligible families were more rigorously and transparently applied in project cities than in Russia as a whole, which were considered to be well targeted by housing experts (Struyk 2000). EHDP cities passed local ordinances detailing the criteria for selecting beneficiaries and for determining amounts to be awarded. Over the 1996-2003 period, EHDP allowances paid to beneficiary families steadily increased, exceeding the averages for Russia, but still accounting for no more than 1.8 percent of municipal budget expenses. This reflects a national trend, whereby 2.7 million families in Russia receiving US$42 million in subsidies rose to 7.1 million families receiving US$944 million in 2003.

INCREASING PRIVATE SECTOR PARTICIPATION IN HOUSING MAINTENANCE

4.13 ***Partially achieved:*** In most EHDP cities the share of all maintenance services through competitively contracted private providers increased significantly during the implementation of the project (Table 4.2). More than 40 tenders were launched for this purpose. Volkhov leads, now providing all maintenance through the private sector, but through a single provider closely linked to the city administration, and effectively operating as a monopoly. In all cases, including Volkhov's, the private company is only responsible for the current costs of service provision. Municipalities continue to cover capital investment costs.

Table 4.2. EHDP Cities: Share of Housing Stock Maintained by Competitively Contracted Private Providers

	1996	2003
Volkhov	14%	100%
Petrozavodsk	16%	57%
Ryazan	11%	42%
Orenburg	12%*	27%
Cherepovets	8%*	14%
Vladimir	10%	1%

*Source: ICR Note: * 1997 data*

REDUCING HOUSING COSTS THROUGH ENERGY EFFICIENCY COST SAVINGS

4.14 ***Not achieved:*** EHDP did make significant investments, albeit on a smaller scale than intended, to help municipalities save heating costs. The results were considerably less than expected, however, leading municipalities to save only of 6.1 percent their expenditures on heating against an appraisal target of 34 percent.

4.15 Most project investment was in new heat exchange equipment and better insulation in 1,192 buildings with 124,155 apartments. OED inspected project provided equipment in some 25 such buildings in the cities of Volkhov and Vladimir and found all of it to be operational. While no resident interviewed by the OED mission complained about insufficient heating, a few said that excessive heating still required them to open windows on cold winter days. Energy efficiency was undermined by operators (and their equipment) not knowing indoor temperatures within apartments, where no thermostatic control was installed, even though it had been planned by the projects. Without thermostats even in a sample of a few apartments, information about comfort levels of final beneficiaries was not available to set the correct intensity of operation of each building's central equipment. Instead the level of heat transfer equipment operation was determined by Soviet-era formulae that considered the outside temperature and that of the water arriving from the district heating plant. This technical result was not consistent with a project design that made much of the need for temperature control at points of final use. The high costs of these project investments would lead one to expect that such a feature would have been included with the equipment.

4.16 The project would have had a greater impact upon energy efficiency if it had addressed the district heating system as a whole, investing in repairs and upgrades of boilers, and insulated pipes of the street-side infrastructure, instead of the buildings alone. While some EHDP investments were made in central boilers in the city of Cherepovets, and in pre-insulated service pipes in the cities of Vladimir and Orenburg, these were not the result of system-wide appraisal. Moreover, they certainly had nothing to do with enterprise housing divestiture.

5. Conclusions and Lessons

OVERALL RESULTS

5.1 ***Housing Project:*** The project did help GOR take modest steps to develop and transform Russia's housing markets. Data for the Russian Federation (Table 1.1) show some positive trends—a growing housing stock, greater private share and larger average dwelling unit size—but with an increasing share of deficient housing. The project helped the private sector demonstrate that it could supply housing types hitherto not available. The project also encouraged the introduction of several new laws and regulations needed for housing reform. Significant shortcomings included higher unit costs than planned, smaller scale land development than hoped for. A shortcoming of the design was the little benefit the project brought to the poor.

5.2 ***Enterprise Housing Divestiture Project - EHDP:*** The project did not accelerate the sustained divestiture of enterprise housing, most of which had been transferred to municipalities before the project started. Enterprise housing divestiture had been a Russia-wide program, as OED saw in visits to other cities. It was not limited just to the six EHDP cities. During project implementation in those EHDP cities, divestiture actually *decelerated.* Four out of the project's six objectives, including the primary objective, were not achieved. There were, however, some minor developmental benefits through increasing private sector participation in housing maintenance.

RATINGS

5.3 ***Housing Project:*** Most project objectives were **substantially** relevant to GOR and Bank priorities for Russia's housing reform geared toward the development and transformation of housing markets. Project ***efficiency*** is judged to be **modest** in view of rising costs, both of investment and project management. Project ***efficacy*** too is **modest** since objectives were either not fully achieved or achieved on a smaller scale than intended. Uneven achievements of these objectives with major shortcomings, leads to an ***overall outcome*** rating of **moderately unsatisfactory**.[6] ***Sustainability*** is rated as **unlikely**: those aspects considered likely—facilitating housing market development and attractiveness of private housing—are outweighed by others considered unlikely—municipal land development and breaking up urban land monopoly. ***Institutional development impact*** is rated as **modest**: while the project introduced many new "rules of the game" of housing supply to Russia, their adoption fell short of expectations. ***Bank performance*** is rated un**satisfactory** through disputes among staff over project design that undermined the quality of Bank service to the Borrower and through the very costly and inefficient preparation effort. ***Borrower performance*** is rated **satisfactory** throughout project preparation and implementation, but only marginally so: borrower management was very costly and ineffective in containing rising investment costs.

5.4 ***Enterprise Housing Divestiture Project - EHDP:*** For trying to attain something that had already been achieved earlier, project objectives were ***negligibly relevant*** to the housing sector priorities of GOR and the Bank. Project ***efficacy*** and ***efficiency*** were **negligible** too, since the objective was not—and could not be—achieved a second time. For not having achieved its objectives, but leaving a few minor development benefits, OED rates the overall ***outcome*** as **unsatisfactory**.[7] ***Sustainability*** is rated as **highly unlikely**, since the project did not generate any resilient benefit stream related to enterprise housing divestiture. ***Institutional development impact*** is rated as **negligible**, since the project did not make the use of resources in the sector more efficient in Russia. ***Bank performance*** is rated as **highly unsatisfactory,** principally through a flawed

6. OED's outcome rating is based upon a review of the project's explicit objectives only and does not consider, therefore, the Region's downgrade based upon the project's failure to disburse on a scale and at a speed to help GOR's balance of payments needs, since the latter was not a declared aim of this operation.

7. As the OED mission was able to identify the minor development benefits of increasing private sector participation in housing maintenance, OED is able to upgrade the ICR Review rating of **highly unsatisfactory**, that applies when project objectives are not achieved without any ancillary development benefits at all.

project design. ***Borrower performance*** is rated as **highly unsatisfactory** too, particularly for FER's not pursuing the project's privatization purpose and disregarding city divestiture performance when allocating project funding to them.

LESSONS

5.5 The project experiences highlight the following OED lessons:

- Having demonstrated that housing markets can work in Russia, reformers need to move on quickly to find sustainable solutions for the poor, who have drawn no benefit from project results thus far.

- For more public land to become available for private urban development in Russia's cities, the concerns of municipalities (reluctant to part with their source of power and influence) and private developers (unsure of security of tenure and that infrastructure will be provided) need to be addressed.

- To help improve city level performance (of any kind), project design should incorporate performance-related criteria to determine the allocation of resources across cities.

- When Borrowers find themselves in disagreement with project objectives, the Bank should help them recognize the need to formally restructure or cancel an operation.

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Annex A. Basic Data Sheets

RUSSIAN FEDERATION: HOUSING PROJECT (LOAN 3850-RU)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*
Total project costs	758.7	411.5
Loan amount	400.0	214.0
Date physical components completed	12/31/2001	06/30/2003

Project Dates

	Original	*Actual*
Identification	11/29/93	11/29/93
Appraisal Mission	06/20/94	06/20/94
Board approval	03/07/95	03/07/95
Effectiveness	07/27/95	07/27/95
Closing date	12/31/01	06/30/03

Staff Inputs (staff weeks)

	Actual/Latest Estimate	
	N° Staff weeks	*US$(000)*
Identification/Preparation	N/A	N/A
Appraisal/Negotiation	N/A	878.7
Supervision	N/A	1,040.0
Total	N/A	1,918.7

Mission Data

	Date (month/year)	***No. of persons***	****Specializations represented***	***Performance rating Implementation Progress***	***Development Objective***
Identification/ Preparation	09/92	5	1 PHS		
			1 SOO		
			1 HS		
			2 C		
	05/93	14	1 SOO		
			2 PE		
			1 HS		
			1 RA		
			16 C		
	07/93	23	1 SOO		
			2 PE		
			1 HS		
			4 RA		
			15 C		
	11/93	24	1 SOO		
			2 PE		
			2 PUP		
			1 HS		
			4 RA		
			17 C		
	02/94	26	1 SOO		
			1 PE		
			1 PFA		
			1 PUP		
			1 HS		
			4 RA		
			17 C		
Appraisal/Negotiation					
	07/94	17	1 SOO		
			1 L		
			1 E		
			1 RA		
			13 C		
	11/94	3	1 SOO		
			1 US		
			1 L		
	12/94		NT		
Supervision					
	03/31/1995	5	1 SOO	S	S
			1 US		
			1 E		
			2 C		
	10/07/1995	3	1SOO	S	S
			1 SUS		
			1 US		
	02/1996	1	1 US	S	S
	05/1996	3	1 SOO	S	S
			1 SUS		

	Date (month/year)	No. of persons	*Specializations represented	Performance rating Implementation Progress	Development Objective
			1 C		
	07/01/1996	2	1 SOO	S	S
			1 US		
	02/1997	2	1 SOO	S	S
			1 US		
	06/1997	1	1 SOO	S	S
	09/1997	3	1 SOO	S	S
			1 SUS		
			1 C		
	04/1998	4	1 SOO	S	S
			1 US		
			1 PE		
			1 ES		
	10/1998	6	2 PUP	U	S
			1 LMS		
			1 FA		
			2 OO		
	02/1999	3	1PP	U	S
			2 US		
	02/11/2000	5	1 PUP	U	S
			3 US		
			1 C		
	06/28/2000	3	1 PUP	U	S
			2 US		
	10/2000	3	1 PUP	U	S
			1E		
			1 US		
	06/2001	1	1 US	S	S
	10/2001	1	1US	S	S
	04/2002	1	1 US	S	S
	11/2002	1	1 US	S	S
	04/2003	1	1 US	S	S
ICR					
	06/2003	2	2 US		

*****PHS=Pr.Housing Specialist
C=Consultant
RA=Research Assistant
PFA= Pr. Financial Analyst
US=Urban Specialist
LMS=Land Management Specialist

SOO=Sr. Operations Officer
PE=Pr. Economists
RA=Research Analysts
L=Lawyer
NT=Negotiations Team
OO=Operations Officer

HS=Housing Specialist
HS=Housing Specialist
PUP=Pr. Urban Planner
E=Engineer
ES=Evaluation Specialist
PP=Pr. Planner

**S=Satisfactory, U=Unsatisfactory

RUSSIA FEDERATION: ENTERPRISE HOUSE DIVESTITURE PROJECT (LOAN 4012-RU)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*
Total project costs	551.0	167.7
Loan amount	300.0	104.7
Date physical components completed	12/31/2002	12/31/2003

Project Dates

	Original	*Actual*
Identification	09/07/94	09/07/94
Appraisal Mission	08/14/95	08/14/95
Board approval	05/07/96	05/07/96
Effectiveness	11/18/96	11/18/96
Closing date	12/31/02	12/31/03

Staff Inputs (staff weeks)

	Actual/Latest Estimate	
	N^o Staff weeks	*US$(000)*
Identification/Preparation	N/A	N/A
Appraisal/Negotiation	N/A	699,846.02
Supervision	N/A	806,289.25
Total	N/A	1,506,135.27

Mission Data

	Date (month/year)	No. of persons	*Specializations represented	Performance rating Implementation Progress	Development Objective
Identification/Preparation					
	06/1994	2	SE (TN) (1), HS (1)		
	09/1994	5	SE (TM) (1) HS(2), RA (1), E(1)		
	12/1994	4	SE TM) (1), OA (1), RA (1) E(1)		
	2/1995	10	SE (TM) (1), OA (1), Co-F&FA (1), Co-F & FA (1), E (1), Consultant to the project preparation, RA (1), C, SPM (1), C, LR(1), C, LE (1), C, expert on energy efficiency issues (1)		
	06/1995	8	SE (TM) (1), OA (1), E(2), C, SS (1), E (1) RA (1), A		
Appraisal/Negotiation					
	08/1995	6	SE (TM) (1), OA (1), E, FA (1), E (1), C, ES(2)		
	2/1996 (negotiations at the Bank's office in Moscow)	6	Director WB, Moscow Office (1), Head of the EGDP, TTL(1), Deputy Head of the EHDP (1), E(1), E(1), C, Engineering (1)		
Supervision					
	06-07/1996	7	SE (TM) (1), OA (2), PS (1), PA (1), C, ES (2)	S	S
	10/1996	5	SE (TM) (1), OA (2), PS (1), PA (1)	S	S
	06/1997	3	C, H&E (2), ES (1)	S	S
	12/1997	3	OA (TTL) (1), C, H&E (1), OO (1)	S	S
	1/1998	3	C, H&E (2), ES (1)		
	6/1998	4	OA (TTL) (1), PS (1), C, H&E(1), ES (1)	S	S
	11/1998	4	OA (TTL) (1), OO (1) C, H&E(1), ES (1)	U	S
	6/1999		OA (1) MTR, Aide Memoire missing	S	S
	11/1999	2	SEE (PTL) (1), OO (1)	S	S
	11/2000	3	SEE (PTL) (1), PS (1), C, H&E	S	S
	12/2001	4	SEE (PTL) (1), FMO (1), PS (1), C, H&E(1)	S	S
	6-7/2002	4	SEE (PTL) (1), PS (1), TE (1), C, H&E (1), SEE (1), SPS (1), FMS (1), C, H& E(1)	S	S
	2/2003	4	LEE(PTL) (1), SPS (1), Energy Specialist/Institutional	U	S

	Date (month/year)	No. of persons	*Specializations represented	Performance rating Implementation Progress	Development Objective
			issues (1), C, H&E (1)		
	6-7/2003	4	LEE (PTL) (1), SPS (1), FMS (1), C, H&E (1)	U	S
	10-11/2003	4	LEE (PTL) (1), SPS (1), FMS (1), C, H& E(1)	U	U
ICR					
	1-2/2004	6	LEE (PTL) (1), EE (1), SPS (1), PS (1), FMS (1), C, H&E(1)	U	U

SE=Senior Economist
E=Economist
Co-F&FA= Co-financing & Financial Advisor
CSPM=Consultant, Senior Program Manager
CLE=Consultant, Lead Engineer
EFA=Economist, Financial Issues
CE=Consultant, Engineering
PS=Procurement Specialist
CH&E=Consultant, Heating & Engineering
FMO=Financial Management Officer
SPS=Senior Procurement Specialist
HS=Housing Specialist
OA=Operations Analyst
RA=Research Assistant
CLR=Consultant, Lead Researcher
CSS=Consultant, Social Special
CES=Consultant, Energy Specialist
SE=Senior Economist
CES=Consultant, Environmental Specialist
SEE=Senior Energy Economist
TE=Technical Expert
LEE=Lead Energy Economist