

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Housing is widely acknowledged as a human right. At the same time, it is a major driving force of the economy and often an individual's biggest asset. The situation within the housing sector is of high significance for a society's social and economic development and there is a need to openly recognize problems within the sector in order to develop and implement feasible policy options.

The importance of addressing problems within the housing sector for the future development of the country has become increasingly recognized by policy makers within the Russian Federation. The President of the Russian Federation, during a speech to the State Duma in December 2003, stressed the importance of tackling the challenges within the housing sector as part of the Government's overall strategy for economic and social development.

The Russian Federation's request to UNECE to have a country profile carried out on its housing sector illustrates the preparedness of the Government to discuss, in depth, the current problems within its housing sector and options for improvement.

This section summarizes the main conclusions and recommendations which result from the country profile. They are presented in more detail in the respective chapters. The conclusions and recommendations aim at uniting the various aspects of a specific issue, combining its institutional, legal and financial aspects, for instance. They therefore do not necessarily follow the structure of the overall outline of the profile. It should be noted in particular that the recommendations on the legal framework have been included in the different subject areas, e.g. housing finance, existing stock. The structure of the conclusions and recommendations is as follows:

- (a) Housing reform;
- (b) Institutional framework;
- (c) The existing housing stock: operation, maintenance and utilities;
- (d) Social housing;
- (e) Housing finance;
- (f) Future housing needs: urban planning and new construction;
- (g) Land and real estate markets.

The conclusions and recommendations take a long-term perspective of the Russian Federation's housing sector. They reflect the aim of the study to present an encompassing view of the housing situation and to assist the Government to formulate policies. They should be implemented step by step, prioritizing those issues which need immediate action to tackle the country's housing problems.

A. Housing reform

The structure of the Russian housing sector has undergone major changes during the past decade. Probably the most significant development was the privatization policy, which led to a change in ownership structure by allowing individual tenants to claim ownership over their housing units and by transferring the State housing stock, including the housing stock of former State enterprises, to municipalities. Today private housing comprises nearly 70% of the total housing stock compared to 33% in 1990.

Privatization became the Government's key instrument in establishing market relations throughout the sector. All households, including those living in publicly owned multi-apartment blocks, were affected by this policy, as they were granted the right to privatize the flat that they were occupying free of charge. Crucially, it was assumed that together with this transfer of ownership title, the new owners would take over the management and maintenance of the housing stock.

Privatization has been accompanied by a number of reforms to regulate the new situation in the housing sector. The passage of the Law on the Fundamentals of Federal Housing Policy in December 1992 was the first important step in this context, for the owner-occupied as well as the rental sector. It introduced the possibility of establishing homeowners' associations, clarified property rights, strengthened the possibilities for mortgage lending, introduced housing allowances, established the foundations for a programme to increase rents, provided for improved maintenance of State housing by introducing competitive procurement procedures and reduced tenant rights by permitting eviction from municipal flats for the non-payment of rent.

This basic legislation was supplemented in the following years by a number of legislative acts and reforms, which served to strengthen and redefine some of the principles laid down in the Law on the Fundamentals of Federal Housing Policy. In particular, they aimed at further advancing the privatization of the remaining public housing stock, refining the legal basis for the establishment of homeowners' associations, boosting the housing market, reforming the housing and municipal services sector and initiating reforms in the social allowance system.

This legislative activity demonstrates that, throughout the transition, the Government became increasingly aware that the mere establishment of market relations was not sufficient to address the problems within the housing sector and that legislation was needed to address all issues connected with the privatization policy, including the concerns of socially weak households, in particular poor owners, as well as the division of responsibilities between public and private sector entities and the different public sector institutions. Furthermore, the Government recognized that there was a need for an encompassing framework, which would integrate the different legal acts and clarify their interrelations.

The establishment of the federal targeted programme "Dwelling for 2002-2010", including its two subprogrammes on reforming and upgrading housing and utilities and on relocating residents from slums and derelict dwellings, was an important development in this regard, as it constituted an attempt to provide an overall policy framework which went beyond the establishment of single legal acts on specific issues.

The current preparations for the establishment of a new housing code are a further step towards solving the housing problems in an integrated way. The new housing code will aim at systemizing the norms which govern the relationships in the housing sphere, in accordance with the Constitution, the Civil Code and other federal laws. This includes the delimitation of housing responsibilities between the Federation, the "subject of the Federation" and local governments, and the establishment of how housing legislation and other legal acts relate to one another in practice. It is also expected that the housing code will also address unresolved issues regarding the future of free privatization of housing, the targeting of social welfare payments covering housing and utility charges, the termination of owner's rights under specific circumstances (e.g. non-repayment of a mortgage) and the legal protection of tenants, including family members.

Recommendations – HOUSING REFORM

1. Housing needs to be a political priority due to the scale of the present problems and the social and economic significance of the housing sector. Problems within the sector therefore need to be addressed in an integrated and all-encompassing way, by taking into account socio-economic considerations as well as legal, institutional and financial framework conditions.
2. A solid legal basis is an essential part of such an approach and a precondition for addressing the current problems in the housing sector. The current legal framework suffers, in particular, from incompatibilities between individual pieces of legislation. The development of the new housing code constitutes a unique opportunity for resolving these conflicts between laws and to provide a solid and comprehensive legal basis, by:
 - (a) Establishing the legal framework for all housing policies and programmes. This includes the federal programme for 2002-2010 and its subprogrammes;
 - (b) Abolishing any contradictions between legal acts, in particular the Constitution and the Housing

Code and specialized legislation;

(c) Addressing current weaknesses in the legal system as spelled out in chapter V.

3. Housing policies cannot, however, stop with the development of the legal framework but have to be effectively and efficiently implemented. To this end, a functioning institutional framework needs to be in place to resolve the current divisions and uncertainties regarding institutional responsibilities (see sect. B).

4. In the implementation of policies and programmes priority should be given to:

(a) Clarifying the effective ownership of the housing stock;

(b) Facilitating the establishment of functioning management and maintenance systems for the housing stock, in particular the multi-unit buildings (see sect. C below);

(c) Developing a system of housing support for socially weak households (see sect. D);

(d) Creating a framework for a functioning housing market (see sects. E, G);

(e) Raising the necessary public financing (see sect. E).

5. Implementation of the long-term housing programmes, such as the federal programme for 2002-2010 and its subprogrammes, should be strengthened. Attention should in particular be paid to meeting the deadlines.

6. Beyond the housing sector itself, housing policies should be integrated into the overall development plan of the Russian Federation, taking in particular into account policies on social affairs, on migration and on the integration of disadvantaged population groups.

B. Institutional framework

A functioning institutional framework is a prerequisite for the effective development and implementation of housing policies. The institutional framework of Russia's housing sector needs to be further developed in order to effectively address the country's housing challenges. To achieve this, the roles, responsibilities and relationships of the different actors involved in the housing sector need to be clearly defined.

Today there is no single housing ministry or parliamentary committee at federal level. Yet, clear and transparent sectoral administration within and between all levels of government is necessary. Clarity in roles and responsibilities is vital for the implementation of any housing reform.

Housing policies cannot be implemented merely at the federal level. Most policy implementation will in fact take place at the local level. Decentralization of powers to the level of the "subjects of the Federation"¹ and the local level is therefore necessary. Today, there is a gap between policy-making at the federal level and its implementation at the local level, which is demonstrated by the mismatch between the responsibilities assigned to the local level and the local financial and human resource capacities.

Gosstroy has little practical opportunity for advising the "subjects of the Federation" and local authorities on the implementation of federal policy or to monitor results. The existing system of State Housing Inspection, with housing inspectorates monitoring the quality of housing construction and municipal services in 82 "subjects of the Federation", and the establishment in 2001, at the initiative of Gosstroy, of the Central Coordinating Council of State Housing Inspections, is a step in the right direction. However, the inspectorates have a purely monitoring function, no advisory role. In addition, only about half of them are administratively truly independent units, while the remaining are still part of the local housing management structures.

¹ The "Subjects of the Federation" include 49 oblasts, 21 republics, 10 autonomous okrugs, 6 krais, 2 federal cities (Moscow and St Petersburg) and 1 autonomous oblast.

Increased coordination between the different levels of government is important to ensure the implementation of federal housing policies across the country and to provide the federal Government with information on and feedback from the local level. Similarly, regular input from all other stakeholders within the housing sector, such as housing associations or private banks, in the Government's housing policies and programmes is crucial for ensuring a well-informed and balanced approach to the country's housing problems. The Governmental Commission on Housing Policy, established in January 2001, with government representatives from all levels, non-governmental organizations, academics and representatives of the private sector, could develop into an important tool for the establishment of broad and effective cooperation (see recommendations).

Recommendations – INSTITUTIONAL FRAMEWORK

Federal level

1. The roles and responsibilities within the housing sector at the federal level, both in relationship to the parliamentary committees as well as the institutions of the federal Government, need to be clearly defined. This would involve:

- (a) Assigning responsibilities related to housing policy clearly to one parliamentary committee;
- (b) Consolidating responsibilities for housing policy at the federal Government level. All responsibilities for housing policies should be concentrated within one government institution.

2. Roles and responsibilities at each level of government should be clarified. The main responsibilities at the Federal Government level should entail:

- (a) Developing a comprehensive federal housing policy framework;
- (b) Establishing the necessary legal and financial framework conditions for the federal housing policy;
- (c) Defining the roles of all major stakeholders in the implementation of the housing policy;
- (d) Developing a social support system and ensuring its funding. This includes ensuring that municipalities have sufficient sources of revenue to fulfil the social obligations assigned to them;
- (e) Monitoring and analysing the implementation of the federal policy.

3. Communication and coordination between the federal level, the “subjects of the Federation” and municipalities need to be improved. The Governmental Commission on Housing Policy could have an important role here in assisting the federal Government in receiving information and feedback from the housing authorities at the different levels of government as well as other stakeholders within the housing sector (see paras. 10 to 13). Additionally, the system of the housing inspectorates should be strengthened to increase the federal Government's monitoring capacity.

Level of the “subjects of the Federation” (regional level)

4. The main responsibilities at the level of the “subjects of the Federation” should include:

- (a) Developing regional housing programmes within the framework of national policy;
- (b) Monitoring the implementation of housing policy at the municipal level;
- (c) Developing regional policy tools, in particular funding mechanisms (see sect. E);
- (d) Reporting to the federal level on regional housing policies and their implementation.

5. Within the regional administration efficient cooperation between the different departments/ committees/ ministries in charge of housing should be established.

Municipal level

6. Municipalities are the principal responsible bodies for implementing housing policy. Their main responsibilities should include:

- (a) Developing municipal housing programmes in accordance with federal and regional policies and guidelines;

- (b) Implementing programmes for social housing support using federal, regional and local funds (see sect. D);
- (c) Land-use and urban development planning (see sect. G);
- (d) Developing action plans for upgrading and regenerating the local housing stock (see sect. C);
- (e) Ensuring the efficient management, operation, repair and renovation of the municipally owned housing stock in cooperation with the private sector (see sect. C).

7. For the municipalities to execute their tasks effectively, their resource base would need to be strengthened. It is therefore recommended that the Government should:

- (a) Extend proper federal funding for municipalities and regulate its disbursement to clearly identified federal targets (e.g. certain social housing benefits);
- (b) Provide municipalities with sources of budgetary funding, most importantly the real property tax;
- (c) Encourage municipalities to generate additional funds locally.

8. To enable municipalities to carry out their tasks more efficiently, the following is recommended:

- (a) Halt the arbitrary and implicit subsidization of municipal authorities and municipal enterprises. Subsidies should be redirected on the basis of social need and the system of subsidization made both explicit and accountable (see sect. D);
- (b) Encourage the establishment of contractual bases for the work of municipal housing enterprises. Contractual relationships need to be established between the municipal authorities, the suppliers of housing and utilities, and the consumers;
- (c) Encourage municipalities in establishing a transparent procedure of regulation in order to promote a competitive market for services (see sect. C);
- (d) Introduce a system of financial auditing in municipal organizations.

9. Implementation of housing sector reforms will require extensive capacity-building at all levels of government, in particular the municipal level:

- (a) Municipalities should be trained in strategic planning, project management, participatory approaches, fund-raising and budgeting as well as the contracting-out of public services, including tendering, quality and price evaluation, etc.;
- (b) Training should be made available to municipal housing managers so that they are better able to deal with the new situation in the housing stock, where a large part of the stock is privatized. In particular they need to become familiar with the procedures of establishing and running homeowners' associations in order for them to be able to render the necessary support as stipulated by legislation (see sect. C);
- (c) These measures should, where possible, be taken in close cooperation with community-based organizations.

Governmental Commission on Housing Policy

10. To increase communication and coordination between the different levels of government as well as with private, international and non-governmental organizations, it is recommended to strengthen and adapt the role of the Governmental Commission on Housing Policy.

11. The Commission, comprised of policy makers from all levels of government as well as all other major housing stakeholders, such as housing associations or banks, should clearly serve the federal housing policy. It should have focal points within each "subject of the Federation" to facilitate the flow of information between the different government levels. It does not need to be a formal body; however, it should meet in regularly and be supported by a small, administrative unit.

12. The main aim of the Commission should be to strengthen the federal Government's implementing power by providing it with:

- (a) Upward feedback from the "subjects of the Federation" and municipalities on problems and concerns with housing policy implementation;
- (b) Feedback from all other relevant stakeholders in the housing sector;
- (c) A network for advising the "subjects of the Federation" and municipalities on housing policy

implementation.

13. Along these lines, the main tasks of the Commission would be to:

- (a) Establish a dialogue on housing issues among all major stakeholders in the housing sector;
- (b) Assist the Government in conducting data collection, analyses and research into the housing conditions throughout the country;
- (c) Make findings on housing conditions widely available;
- (d) Assist the “subjects of the Federation” in developing their housing programmes within the federal housing policy framework through the dissemination of good practice advice to the “subjects of the Federation” and municipalities;
- (e) Provide feedback to federal policy makers on the feasibility of implementing national housing policy on the local level.

C. The existing housing stock: operation, maintenance and utilities

Ownership, management and maintenance

Tackling the problems within the existing stock is the most obvious and most pressing challenge, as its condition is worsening daily due to the near absence of maintenance, renovation and reconstruction. Given the age structure of the housing stock, it is expected that within the coming 10-15 years the need for repair and reconstruction will reach an alarming level.

Even if it is possible in a reasonably short time to bring the rate of new construction of housing to its 1990 level, this would still only mean a 2% increase in the housing per year. The existing housing stock will therefore constitute the bulk of Russian housing for many years to come and it will be vital to future housing standards and to the quality of life of the Russian people how the maintenance, repair, renovation and upgrading needs of the existing housing stock are dealt with.

At the heart of the problem of the continuous decay of the stock are the current uncertainties with regard to its ownership and the lack of functioning management and maintenance systems. The management and maintenance of the multi-unit stock – the publicly owned as well as the privatized and partly privatized buildings - are still carried out largely by the municipally owned management and maintenance companies (*zheks*), but without adequate funding. The *zheks* operate in a largely monopolistic environment, where fees and services provision do not correspond to the actual needs. With State subsidies slashed, current fees levied from the inhabitants for municipal maintenance services are too low to cover even day-to-day maintenance. The quality of services suffers and this makes the residents even less willing to pay the bills.

The rapid, free-of-charge privatization of apartments in many ways lies at the heart of the fundamental problems and challenge in the Russian Federation’s housing sector, as privatization was not accompanied by the creation of adequate framework conditions for the new situation, nor by a systematic analysis of the variety of organizational forms for the management and maintenance of the housing stock.

Such organizational forms may include:

1. Owner-occupied housing including indirect ownership:
 - Housing cooperatives;
 - Owner-occupied flats in multi-unit buildings (condominiums) organized as homeowners’ associations;
 - Owner-occupied flats in multi-unit buildings organized as joint-stock companies;
 - Owner-occupied, single-family houses.
2. Housing for rent:
 - Municipally owned rental housing for social purposes;

- Housing Cooperatives for rent;
- Not-for-profit housing associations operating rental, often low-cost housing;
- Privately owned multi-flat buildings operated as rental housing at market rents.

The legal framework for these different organizational structures is largely absent. During the privatization process little or no attention was paid to how the new private owners would manage and maintain their property. The underlying assumption was that they would be willing and able to take on the full organizational, economic and financial responsibilities without any external assistance.

It is now increasingly recognized that this is not realistic. Households that privatized their apartments were often not even aware of the rights and obligations involved. Their choices were usually not made on the basis of comprehensive information on the financial implications of ownership and on their ability to meet these without unacceptable personal hardship. As a result, many households in the privatized multi-apartment buildings are today not in a position to cover even recurrent management and maintenance costs, let alone investments in repair. This applies in particular to the large number of low-income households – often referred to as “poor owners”. Additionally, even today there is a lack of knowledge and understanding of the rights and responsibilities that private ownership in multi-apartment housing entails.

The problem is compounded by the fact that the ownership structure of the privatized or partly privatized multi-unit buildings is far from clear. Effective privatization has been completed only as far as the individual flats are concerned. However, no clear responsibilities have been assigned for the common parts of the building, which, consequently are “ownerless”. This impedes effective management and maintenance of the multi-unit housing stock. No effective management structures have been set up for the bulk of the newly privatized stock.

There have in recent years been attempts to establish homeowners’ associations as a means to address the management problems in the multi-unit housing stock. Their formation is not very widespread - only about 1% of the multi-unit stock is formally registered under homeowners’ associations. There is a lack of assistance in their formation from the local authorities. Where they are formed, they often cover a number of apartment buildings containing many housing units, which makes them difficult to manage.

The organization of maintenance and management of the multi-unit stock through homeowners’ associations suffers from: (i) the enormous backlog in major repairs; (ii) the occupants’ lack of money to overcome it; (iii) the absence of a system to collect and save money for future repairs as well as the lack of workable legal structures to take out loans for such purposes; (iv) the absence of a system to force reluctant members of the condominium to join in the sharing of costs or to leave the housing entity. The need to have signatures from all occupants can stop all repair efforts.

The system of homeowners’ associations therefore needs a number of adjustments. All legal, regulatory and bureaucratic bottlenecks with regard to their effective establishment and operation need to be removed (see recommendations). At the same time it needs to be kept in mind that homeowners’ associations are not the only possible management form for the multi-unit stock, and legal and administrative provisions for a variety of tenure forms should be put in place.

Removing the current administrative and legal bottlenecks can go a long way in addressing the problems in the management of the existing stock, however, it would be unrealistic to assume that the new homeowners can solve all problems on their own.

There is a need for targeted funds to save valuable parts of the housing stock (see sect. E); the forms and modalities have to be defined as soon as possible. Considering the rapid deterioration of the stock, investments in maintenance and renovation will not only be necessary but also efficient, since otherwise the stock is likely to decay beyond repair, which would require enormous new capital investments and be far more expensive than addressing today’s maintenance and repair needs.

New homeowners also need strong guidance with regard to their rights and responsibilities towards their individual, but also commonly held, property. The government, in cooperation with other actors in the housing sector, in particular the non-governmental organizations, has a strong role to play here. Municipalities, with federal and regional assistance, need to be charged with a greater responsibility for the commonly owned parts of buildings where, for social reasons, it is clear that owners are not able to carry the financial burden of effective management. This, however, needs to be done in the framework of a transparent social support system and in an efficient and competitive environment, not in one where service provision is dominated by municipally owned enterprises that have little incentive to improve their efficiency.

Recommendations – EXISTING HOUSING STOCK

Ownership, management and maintenance

1. The worsening condition of the housing stock, in particular the huge maintenance and repair backlog, is one of the most, if not the most, pressing issue in the Russian housing sector and needs to be addressed urgently. In this context it is recommended that:

(a) The Government should develop a concise programme addressing the maintenance and repair needs of the stock, regardless of tenure form. This should particularly entail legislation and regulations to make sure that the common structures and spaces of multi-apartment buildings are adequately taken care of;

(b) The municipalities should be provided with clear responsibilities for assessing the repair and renovation needs of the local housing stock and for preparing local programmes with clear priorities for addressing these needs. These programmes should take into account the possibilities for mobilizing resources from the public as well as the private sector, including from homeowners;

(c) To this end, a system of regular compilation of housing statistics, including quantity and quality indicators, should be created in the municipalities. These could be used to compile regional and federal information. The information should be made available to all policy makers within the sector regularly.

2. To manage and maintain the existing stock effectively, current insecurities concerning ownership and responsibilities need to be addressed. Clarifying the situation within the housing sector in general, and the multi-apartment buildings in particular, will entail:

(a) Imposing a moratorium on the free-of-charge privatization of housing;

(b) Completing the transfer of ownership of public housing to the local level;

(c) Clearly defining, in multi-unit apartment blocks, the ownership and responsibilities for the building as a whole, the individual flats and the common spaces;

(d) Implementing the provisions of the Land Code that land under multi-unit apartment blocks may be owned by flat owners;

(e) Clearly laying down the legal obligations which are attached to individual and collectively held property.

Full use should be made of international experience of major privatization processes, such as that carried out in the United Kingdom, in particular with regard to the public information about owners' and tenants' rights.

3. It needs to be recognized that there is a variety of forms for housing occupation and functioning legal and management frameworks need to be established for all of them.

4. The current management vacuum with regard to multi-unit buildings needs to be addressed.

5. For the multi-unit buildings where most flats are publicly owned, municipalities should:

(a) Assume effective management responsibility for this stock;

(b) Concentrate on this management responsibility and contract out all operational tasks through public tendering on the basis of clearly defined quality criteria;

(c) Be encouraged to make use of their right to revise rental charges (nayem) for publicly owned

buildings. Rents should be put at realistic levels to cover the cost of maintenance and recurrent repairs. At the same time they need to be complemented with a housing assistance system to help those households who would otherwise not be able to pay these rents.

6. For the multi-unit stock where all or most flats are privatized, effective management systems need to be developed and promoted. Whatever the legal structure ultimately decided upon for an individual building (be it a condominium managed through a homeowners' association or a cooperative), it is essential that for each building an organizational entity is responsible for the entire building, including its common parts.

7. Homeowners' associations are one possible form of organization of the privatized or partly privatized multi-unit stock. The current administrative and legal bottlenecks with regard to these associations need to be addressed:

(a) To this end, homeowners' associations, as a rule, should be formed for one building only. The number of flats within one association should remain manageable;

(b) Where homeowners' associations are established in buildings held in both public and private hands, municipalities should assume the role and responsibilities of owner for the public apartments;

(c) Mechanisms need to be implemented to ensure that homeowners' associations can effectively use the land under the condominiums. This involves:

(i) Resolving the current problems with the registration of condominiums as a form of collective ownership. The implementation of the right to register condominiums, which exists in federal legislation, needs to be strengthened. Registration should not be at the discretion of local registering bodies;

(ii) This requires a reliable cadastre system (see sect. G);

(iii) Homeowners' associations should be entitled and able to use the land owned by them as collateral for loans, which could be used for repairs.

(d) To encourage condominium associations to carry out long-term repairs, the principle of matched funding could be applied, with the local authority providing public funding on condition that a reasonable amount would also be made available by the condominium owners;

(e) To ensure the effective functioning of homeowners' associations, which includes the active participation in meetings and the payment of fees for maintenance and management, the following is recommended:

(i) Majority decisions taken by the association should be binding on its members. All members should have the possibility to vote. However, deliberate absence from meetings or failure to sign by proxy on a particular issue should not stop majority decisions;

(ii) For an effective day-to-day functioning, there should be an elected body, e.g. a management board, responsible to the general assembly of homeowners, but holding sufficient decision-making powers in between the assembly meetings. There could be a limit to its rights to decide on, for example, the use of funds;

(iii) Legal provisions should be established to take action against those who fail to pay their membership fees;

(iv) A system of targeted social security payments should support those members of condominiums who otherwise would be unable to meet their obligations. This system should be strictly means-tested (see sect. D);

(v) A functioning system of building insurance should be established;

(vi) The tax exemptions for the non-profit activities of homeowners' associations, which are provided for in federal legislation should be applied;

(f) In developing policies on homeowners' associations, full use should be made of the Guidelines on Condominium Ownership of Housing for Countries in Transition (ECE/HBP/123) prepared by the UNECE Committee on Human Settlements.

8. Local governments need to be encouraged to train their staff in the rules and regulations as well as the functioning of the different management systems for the multi-unit stock.

9. Equally, homeowners, in particular in the multi-unit stock, need to be made aware of their rights and responsibilities. Apartment owners will need practical guidance on all operations in relation to the management system chosen for their building.

10. The creation of private housing maintenance companies needs to be encouraged to stimulate competition with the public maintenance entities. Pilot projects should be started to move towards a situation of free competition between public and private maintenance companies. A number of districts in Moscow have run such pilot schemes and they could serve as an example (for more information, please refer to the report of the UNECE workshop on management of the housing stock, Moscow, November 2003, HBP/2004/4).

Utilities

The problems within the utility sector are very similar and related to the problems in housing management and maintenance described above. In fact, one of the main features of the Russian Federation's housing sector management is that the housing sector and the utility sector are closely intertwined. Charges for rent, maintenance and public utilities are usually combined in one bill and the household's understanding of pure rent is generally weak. In fact, utility charges are routinely confused with rents and housing maintenance charges.

This confusion also stems from the fact that the problems within the utility sector have overshadowed the Russian Federation's housing sector in recent years. The public utilities suffer from a poor quality of service and a constant decay of the technical infrastructure. The services are usually provided by municipally owned companies at tariffs below cost-recovery levels. Neglect in maintenance of the infrastructure and regular breakdowns and accidents have been the consequence. This has brought the utilities to the forefront of public awareness and political attention. The situation is now being described as disastrous.

As a response to the worsening situation, the Government has initiated a subprogramme for 2002-2010 to reform and upgrade the housing and utilities sector. It contains a detailed action plan calling, for instance, for fully cost-recovery tariffs, for reforming and privatizing utility companies and for introducing a system of support to the socially disadvantaged to enable them to meet their utility bills. The steps proposed in the subprogramme form an acceptable basis for reform. However, the greatest challenge lies in its implementation. The proposed timeframe has so far not been met and it is unlikely that it can be adhered to in the future, owing to the low financial and human resource capacities within the municipalities, which are meant to play the leading role in this reform. Other shortcomings are the lack of public information and awareness raising.

The quantity and quality of the services are not monitored. Although legislation often refers to standards to be followed, in fact there are no objective standards and not all the municipalities are aware of the necessity to develop adequate standards for the services. Another problem is the extremely fragmented process of setting tariffs, which is divided between all levels of government. The authorities that set tariffs often review only the circumstances of the tariff in question without taking into account the overall situation in the housing and utility sector.

Recommendations – Utilities

1. The Government needs to urgently address the pressing heavy repairs of the deteriorating utility infrastructure. In doing so it should:
 - (a) Generate funds, from all possible sources, for repair and reconstruction;
 - (b) Further pursue the principle of cost-recovery user fees, which would take into account the long-term maintenance requirements of the utility infrastructure.
2. The quality of the services needs to be improved:

- (a) The Federation should draw up general definitions and major quality criteria for the services;
 - (b) Municipal entities should have the obligation to tailor these criteria to local circumstances under the supervision of the local housing inspectorates (see sect. B);
 - (c) Reasonable and reliable methods for metering should become obligatory to enable an assessment of the efficiency of services;
 - (d) Production losses incurred in the current provision of services need to be the responsibility of the respective utility provider;
 - (e) The housing inspectorates have to become the major institutional instrument for representing the public interest when controlling the adequacy of services.
3. The tariff-setting procedures need to be improved and streamlined:
- (a) Institutional responsibilities for tariff-setting policies need to be clarified;
 - (b) Policies aiming at full cost recovery need to be accompanied by corresponding quality and quantity control mechanisms (see above);
 - (c) Policies need to be complemented by a system of social security assistance to those households that are not able to pay tariffs at cost-recovery levels.
4. There needs to be increased transparency in the link between the services provided and the fees paid by households. The households should be clearly informed about the tariff structure as well as quality criteria for each utility. The contractual relations between the utility providers and the management companies and between the management companies and the households should be transparent.
5. To increase the effectiveness of service provision, a number of conditions should be fulfilled:
- (a) Service providers need to operate on the basis of market-oriented principles, independent of the nature of their ownership (public or private);
 - (b) The establishment of private service providers, in addition to the municipal provider, should be encouraged to promote competition;
 - (c) Service providers are to be released fully from any obligation to provide social and charity benefits to their customers. Their responsibility should be solely to provide services according to established qualitative norms;
 - (d) However, a social security system needs to be established (see para. 3).

D. Social housing

The preceding analysis has shown that effective reforms within the housing sector cannot be implemented without addressing those population groups that are not able to meet their basic housing needs unaided. In every society there is a need for housing assistance. There are and always will be vulnerable groups of people who need public assistance to solve their housing problems. The dissolution of traditional support systems in the Russian Federation has resulted in a considerable number of households that are not able to meet their housing needs in the new situation. The privatization policies have given rise to the widespread phenomenon of “poor owners”, i.e. owners whose income is too low to allow them to invest sufficiently in the maintenance of their housing units or even to pay utility bills. The consequence is the widespread and rapid decay of the housing stock (see sect. C).

There is no explicit policy in place in the Russian Federation to address the housing needs of the socially disadvantaged. There is a system of “privileges and mandates,” but it is rarely directed towards the most needy. Few municipalities today are able to address the housing needs of the needy, either in financial terms or in terms of human resource capacity. If they are to fulfil their responsibilities effectively in the future, increased federal assistance will be necessary. In addition, municipalities will need to review their organizational structures and skills base to meet this significant and socially critical challenge.

The significance of social housing policy goes beyond the mere provision of housing. Social housing policies have to be seen as the crossing point of various economic, social and urban development policies and they

are an important instrument for facilitating social inclusion and promoting economic development. They should therefore become a key element in the Government's housing policies.

Recommendations – SOCIAL HOUSING

1. The Russian Federation needs to develop a long-term and consistent vision for social housing.
2. In this context, responsibilities for housing assistance within the government structure need to be clarified:
 - (a) Given its importance for society as a whole, the overall responsibility for setting the framework for policies and financing of the evolving social security system should be federal;
 - (b) The main implementing responsibility should be municipal. The federal Government needs to help the municipalities carry out their tasks. In particular the Federation needs to make sure that social responsibilities delegated to municipalities are matched by adequate funding, either through the generation of local funds or through budget transfers or, preferably, both.
3. The Government needs to specify which social groups have priority for social housing assistance in order to address them directly. To achieve this the following is recommended:
 - (a) The Government should adopt as a guiding principle the policy of ending implicit housing subsidies and replacing these with means-tested social security payments;
 - (b) The principle of means-testing should be adopted as the key allocation criterion for general-needs social housing;
 - (c) The present system of federal mandates should be integrated with the waiting list priorities of the municipalities according to the principle of means-testing.
4. Similarly, the Government needs to make clear what forms of housing are most appropriate for social housing:
 - (a) The Government should encourage municipalities to obtain a clear overview of the long-term functionality of the existing public housing, recognizing in particular that for the elderly or people with special needs current building designs are unlikely to be appropriate over time;
 - (b) Based on this information, the Government should encourage municipalities to create a social housing stock.
5. To build up a social rental housing stock, use should first be made of the existing publicly owned housing stock by:
 - (a) Encouraging municipalities to stop subsidizing (through low rents and utility fees) all households living in the municipal housing stock regardless of their income. Subsidies should be exclusively and explicitly targeted towards the needy (see sect. C);
 - (b) Local governments should give future subsidies according to the principle of means testing (see above). Subsidies should be reduced as incomes rise;
 - (c) Tenants in the municipal housing stock who can afford to pay cost-recovery rents should be expected to do so without any subsidy. This will increase municipal revenues, which could be invested in maintenance and new social housing.
6. Local governments should be encouraged to invest in new social housing through pilot projects targeted to special population groups such as young families, single parents and the elderly. For pilot projects the financial resource requirements are limited and, if successful, those projects might be copied by other local governments. In implementing pilot projects the following should be taken into account:
 - (a) The buildings should be designed in such a way that they are adequate and affordable for the targeted population groups;
 - (b) If the targeted groups are, for example, the elderly or families with young children, the appropriate provisions, such as lifts, which are easy to access, should be made available;
 - (c) The social housing stock should not be geographically concentrated in order to avoid socially segregated areas.

7. In the development of policies to assist the socially weak in accessing housing, the Government should make full use of the work carried out by the UNECE Committee on Human Settlements in the framework of its social housing project.

E. Housing finance

Public financing for housing has decreased dramatically and is currently clearly insufficient. The total amount spent on capital investment and maintenance and repair in the housing sector during the past decade has been far too low to prevent the housing stock from decaying. Although the provision of housing finance by individuals has risen in recent years, it is not yet high enough to compensate for the sharp decline in public spending.

The Government needs to actively seek out funding options to prevent the stock from decaying further. Potential sources of public funding are, for instance, the current system of tariffs and subsidies. Restructuring these systems by introducing cost-recovery tariffs and an effective and explicit social security system, strictly based on social need, is likely to free up public funds (see sect. D). Rents from the public rental stock should also contribute to public funds. They should be realistic and, ideally, cover the cost of housing management, routine repairs and maintenance, as well as include a contribution to a sinking fund that can be built up over the years to finance major capital repairs. Further funding options are the property tax (see sect. B) and housing development funds (see below).

Parallel to generating public funds, the Government needs to create enabling conditions to help the development of private sources for housing finance. Today, private investment in housing is severely hampered by the lack of access to adequate funding. Financing from the official banking system is hard to obtain and normally requires personal connections. A functioning property finance system is a precondition for private investment in housing and housing infrastructure. The Government will need to remove the barriers to the development of a property finance system if it wishes to enable its citizens to improve their housing situation. This includes the promotion of a reliable cadastral and registration system, as a precondition for secure property rights.

Recommendations – HOUSING FINANCE

1. The public sector (federal, regional and municipal) needs to generate funds for its housing policy. The following steps should be considered:
 - (a) At all three levels of government, resources generated by the selling or leasing of real estate rights and by the property tax should be put in special funds for housing support (“housing development funds”);
 - (b) On the federal level, additional resources should be made available;
 - (c) These funds should be used for financing the implementation of the housing policy. As a rule, they should not, however, influence market competition.

2. A clear structure for the institutions involved in housing/ real estate financing has to be developed. The following actions should be taken:
 - (a) Introducing laws regulating the activities of specialized housing finance institutions, such as savings banks or mortgage banks, and financing through mortgage-backed securities;
 - (b) The existing regional agencies may be transformed into mortgage or saving banks with the help of the housing development funds and in cooperation with commercial banks. In the long run they should be privatized.

3. To stimulate lending in the housing market, a housing subsidy policy with clear tasks for all levels of government should be developed. This involves:
 - (a) Housing subsidies targeted towards relevant groups (e.g. young families, middle-class households with a stable income but no possibilities for taking out loans on the open market);

(b) Direct subsidies (for example, credit guarantees for lenders) and indirect subsidies (e.g. interest subsidies for mortgage bonds). Through indirect subsidies two goals may be achieved: mortgage loans will be cheaper for borrowers and a secure capital market instrument (covered bond) will be developed;

(c) Subsidies that bring about cooperation between universal and specialized banks. If mortgage lending remains exclusively with the universal bank, funded through deposits, the advantages of a real estate finance system with different institutions cannot be achieved. The development in other countries in transition shows that the State has to give incentives to initiate this kind of cooperation;

(d) Government subsidies that do not influence market competition;

(e) Subsidies that aim at stimulating lending activities. They might therefore not always be targeted towards the most needy. A separate social security system needs to be in place to ensure that the housing needs of vulnerable households are met (see sect. D).

4. Mortgage lending needs to be promoted. To achieve this, the current risks stemming from the uncertain economic development and the incomplete legal environment need to be removed. This would entail:

(a) Promoting mortgages as a form of credit security;

(b) Making foreclosure procedures less time-consuming;

(c) Improving the procedures for implementing the new Law on Bankruptcy, which gives priority to creditors secured by a mortgage;

(d) Revising current legislation on evictions. Eviction on the basis of non-payment of a mortgage, also in the cases where family rights are registered on the property, needs to be possible. However, any legal regulation on eviction along these lines needs to be supplemented by provision for social assistance;

(e) Procedures regarding the land and real property register (uniform state register) need to be improved. Registrations will need to be accelerated and the register (through a State guarantee) has to be held liable for incorrect registration in order to increase public trust in it. A functioning mortgaging system requires the reliable registration of title;

(f) The current administrative procedures for registering a mortgage transaction need to be improved, with regard to both the considerable notary fee (1.5% of the value of the transaction) and the time for issuing title certification by the Land Registry.

F. Future housing needs: urban planning and new construction

Given the state of the stock, new construction will become increasingly important to replace the obsolete housing stock and to raise its general standard. Yet, policies for new construction must be linked to overall strategies for renovating and replacing the existing stock.

New housing construction has decreased significantly; in 2001 it was only about 40% of the volume of 1990. New building is concentrated in big metropolises and mainly serves the needs of the wealthy. There is therefore a risk of polarization of the housing market. It is important to draw more attention to the new housing for the growing middle classes, which will increasingly be able to finance their own housing investments.

The economic and social sustainability of the building stock largely depends on its building and design quality. There is a clear need for better quality and further diversification of architectural plans to satisfy the needs of a diversifying clientele in the different regions of the Federation. The Russian construction industry is still dominated by the construction of multi-storey blocks of flats built from brick or concrete. The development of compact built-up areas with low-rise buildings takes place only on a very small scale. There is an acute shortage of small or medium-sized companies capable of carrying-out small-scale construction work within the existing built-up areas. The lack of secure financing systems as well as the complicated and time-consuming procedures for getting building permits prevent new companies from entering the construction market. Large construction companies, which prefer to take up large-scale housing projects rather than small-scale developments, therefore still dominate the Russian construction market. An additional characteristic of recent housing construction is the high-rise residential building, sometimes of more than 40 stories. This kind of construction is most often executed without the necessary experience in

design and construction technology and without adequate building regulations or satisfactory procedures for project documentation. It also disregards safety requirements.

For new construction to grow in a sustainable but controlled manner, building activities need to become an integral part of urban development plans. The Russian Federation's urban planning system will, however, still have to undergo a number of changes to make it an effective tool for urban development, in response to the needs of its inhabitants. Although the planning process is developing towards a more participatory approach, where apart from professional planners many other actors influence the contents of the plan, their role in the planning procedure is still not clearly defined. Moreover, there are several different planning documents which provide a legal basis for location decisions, but they overlap and their contents and relationships are not clearly defined.

The environmental impact and energy efficiency of new construction are a major concern for the future. Due to its significant environmental impact, the construction sector is now increasingly quoted as the "40% industry"; 40% of all energy and material resources are used to build and operate buildings, 40% of carbon dioxide releases come from building construction and operation, and 40% of all waste results from building and demolition activities (UNEP, 2003). It is therefore important for the Russian Federation to address these issues.

Recommendations – URBAN PLANNING AND NEW CONSTRUCTION

1. Urban planning should be streamlined and the roles of the different planning documents in the planning system clarified. Three types of documents should be distinguished as clearly as possible:
 - (a) Planning policy documents prepared and approved by local governments. These documents serve the coordination of spatial development in the whole municipality and should constitute a binding framework for further, more detailed plans;
 - (b) Urban development plans that constitute the legal basis for issuing planning permissions and building permits;
 - (c) Project documentation prepared and delivered by the developer.
2. The significance and efficiency of urban development plans should be increased by:
 - (a) Seeking input from all institutions involved in approving building permits already in the development of the urban plan. By incorporating their concerns in the urban development plans, the subsequent process of granting individual building permits will be streamlined;
 - (b) Better coordinating procedures for the development of urban plans with the procedures for environmental impact assessment (EIA). Where possible, environmental impact assessments should be made for an entire urban plan obviating the need for separate EIA procedures for every individual building;
 - (c) Integrating transport planning in urban plans by paying particular attention to improving public transport.
3. New construction should be firmly integrated in the urban plans. Urban plans should allow for and encourage new construction to become increasingly diversified in order to respond to the changing demand structure, social needs and natural conditions. This may be achieved by:
 - (a) Promoting the development of technical and organizational skills in those areas where such skills are lacking, in particular in renovation, repairs, interior work, reconstruction and extension of existing buildings;
 - (b) Encouraging the development of differentiated building technologies orientated towards the use of local materials and better oriented toward the climate and regional cultural heritage;
 - (c) Providing training and advice in the application of such technologies.
4. The development of small and medium-sized companies to meet the demand for small-scale construction should be encouraged by:
 - (a) Stimulating fair competition within all branches of the construction industry;
 - (b) Facilitating access to training and advice for newly established companies;
 - (c) Providing training to municipal staff who need new organizational skills to deal with numerous

private contractors, in particular during the tendering process (see sect. B).

5. The following measures should be taken to improve the quality of building and housing design:
 - (a) Encouraging, in line with urban plans, the development of low-rise, high-density housing construction in order to prevent urban sprawl. The advantages of this type of construction should be publicized through, for example, demonstration projects;
 - (b) Through their urban plans municipalities should encourage developers to pay more attention within housing estates to the access to green areas and services;
 - (c) Assistance on design and construction standards should be provided for “self-help” housing construction.

6. Urban plans in particular need to address the problems associated with high-rise residential projects:
 - (a) In general, such projects should be the exception rather than the rule due to the safety and social problems associated with them;
 - (b) Where such high-rise projects are or have already been implemented, municipalities need to have more responsibility for controlling engineering design and construction and for maintaining such buildings;
 - (c) The establishment of a regular system of maintenance and safety controls needs to be made mandatory for such buildings.

7. The following steps should be taken to simplify the procedure for obtaining building permits:
 - (a) Within the municipality there should be one principal authority responsible for granting permits. The builder should be in contact only with that authority and the authority should obtain the necessary approvals from all other relevant institutions;
 - (b) For minor construction work, the building permit procedure needs to be simplified. A simple notification by the builder to the municipal office, accompanied by a plan describing the work, should be sufficient. The municipality should have a veto within a certain, specified period;
 - (c) The range of construction work which can be executed without building permit should be extended;
 - (d) The current system of double licensing, where both professionals and companies need to have a licence, should be abolished in favour of a system of single licensing based on the individual licences of professionals.

G. Land and real estate markets

Policies directed at the housing sector cannot be seen independently from institutional and legal developments within the land and real estate market.

Considerable steps have already been taken to establish a viable framework for the operation of real estate and land market through the recent adoption of laws and regulations. However, the institutional structure of State land management in the Russian Federation remains characterized by ambiguous departmental responsibilities, conflicts of interest among various agencies and a wide distribution of decision-making authority. As a result, decision-making processes require numerous inter-agency consultations. This delays decisions on major economic issues, and creates confusion among public authorities, the private sector and citizens.

The ongoing discussion on how to establish a viable real estate sector in the Russian Federation is focusing on the issue of centralization versus decentralization. Clarification of the actual ownership rights to land on the three levels of administration is urgent. The present situation certainly requires a strong and coordinated federal presence within the sector. At the same time, the major practical actions which directly affect the real estate and housing market are taken at the local level. There is, therefore, a need to streamline the transfer of urban land to municipalities, where land would help ensure effective urban development based on social

needs. Ownership of land is imperative for them to implement economic and development policies for which they are responsible within their jurisdictions.

The disposal of urban land for development and privatization in municipalities is not a competitive, open and transparent process, despite government regulations which lay the framework for competitive land sales. Only by introducing transparent procedures will it be possible to enforce real property rules and to obtain clear documentation on the real value of urban real estate.

In Moscow, St Petersburg and other cities, the most popular form of buying a new dwelling is through shared participation (*dolevoe uchastie*), when a dwelling is acquired at the stage of construction. This type of housing finance is not specified in the Civil Code and the buyer is not protected against the risk of bankruptcy of the main investor or of fraud. This situation destabilizes the housing market and diminishes the level of property right protection of the population. It is, therefore, necessary to establish urgently a legal framework and a system of safeguards against investment risks for participants in shared investment agreements.

Recommendations – LAND AND REAL ESTATE MARKET

1. Improvements in land and real estate markets should continue with a focus on improving existing laws and regulations, instead of creating numerous new laws. Attention should be given to streamlining institutional responsibilities. This entails, in particular, concentrating responsibilities for land and real estate policies at the Government level within one single agency.
2. Federal responsibilities should focus on:
 - (a) Creating satisfactory federal framework conditions for the development of land and real estate markets;
 - (b) Providing overall checks and controls on the implementation of these framework conditions;
 - (c) Functioning as an appeals institution for local decisions;
 - (d) Providing general information and guidelines on institutional structures, procedures and best practices at the local level.
3. The main responsibilities for land policies should lie with the municipalities. In this context, the transfer of ownership of urban land to the regions and municipalities should be streamlined. Municipalities need to develop a comprehensive land policy in support of housing and real estate development. The land policy should include provisions regarding which areas to develop residentially or commercially, which to exclude from privatization and which to use for urban public transport.
4. It should become obligatory by law for urban municipalities to dispose of or privatize real property through open tenders, regardless of whether it is being sold, leased or rented; a possible procedure for such open tenders could be:
 - (a) Urban municipalities report all real property for sale, lease or rent to the regional authority;
 - (b) The regional authority publishes quarterly lists of real properties up for tender in each urban municipality. The lists should very briefly describe each property, the form and conditions of the transaction;
 - (c) The municipality collects, processes and decides on the submitted tenders; the final decision should be taken by a political committee in an open meeting;
 - (d) The municipality publishes each quarter its formal decisions on the tendering process for each object.
5. As a matter of urgency a special law on shared investments in housing construction needs to be developed. It should define the status of the individual investor (physical or legal person).

Uncertainties about the ownership of real estate property should be removed. This implies, in particular, that disputes between federal, regional and municipal governments over ownership of real estate property need to be settled.

