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MEMORANDUM OF RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

IN AN AMOUNT EQUIVALENT TO US\$400 MILLION

TO THE

RUSSIAN FEDERATION

FOR A

HOUSING PROJECT

JANUARY 30, 1995

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RUSSIAN FEDERATION - FISCAL YEAR

January 1 - December 31

WEIGHTS AND MEASURES

Metric System

CURRENCY EQUIVALENTS

**Unit of Currency = Ruble (RB)
Rubles per US Dollar**

Moscow Inter-Bank Foreign Currency Exchange/Foreign Exchange Auction Market (VEB) Rates

Period	Period Average	End of Period
1989	9	9
1990	19	23
1991	62	169
1992	228	415
1993		
I Quarter	580	684
II Quarter	968	1,060
III Quarter	1,028	1,169
IV Quarter	1,206	1,247
1994		
I Quarter	1,591	1,753
II Quarter	1,877	1,989
III Quarter	2,166	2,633
IV Quarter	3,191	3,550
1995		
I Quarter ¹	3,676	3,757

^{1/} As of January 12, 1995.

ACRONYMS, ABBREVIATIONS, AND GLOSSARY

CAS	Country Assistance Strategy
CM	Council of Ministers
CPIU	Central Project Implementation Unit
FIDP	Financial Institutions Development Project
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
IG	Interministerial Coordinating Group
LCB	Local Competitive Bidding
LCC	Local Coordinating Committee
LPIU	Local Project Implementation Unit
MOE	Ministry of Economy
MOF	Ministry of Finance
Oblast	Administrative Subdivision of a Republic, Province
OED	Operations Evaluation Department
PRU	Project Review Unit
RAP	Regulatory Action Plan
TA	Technical Assistance
TC	Technical Cooperation
USAID	United States Agency for International Development

*RUSSIAN FEDERATION
HOUSING PROJECT*

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Map IBRD No. 25911

**RUSSIAN FEDERATION
HOUSING PROJECT**

LOAN AND PROJECT SUMMARY

Borrower Russian Federation

Implementing Agencies Interministerial Coordinating Group, Chaired by the Ministry of Architecture and Construction (Minstroj); Participating Cities: St. Petersburg, Tver, Novgorod, Nizhny Novgorod, Barnaul, and Moscow (for demonstrations); Participating Commercial Banks.

Beneficiaries Participating Cities: St. Petersburg, Tver, Novgorod, Nizhny Novgorod, Barnaul, and Moscow (for demonstrations); Participating Commercial Banks; Private Real Estate Developers, and Building Materials Enterprises.

Amount US\$400 million equivalent.

Terms: 17 years, including five years grace, at the Bank's standard variable interest rate

On-Lending: The Government would on-lend the Bank loan in US \$ to Local Governments and Participating Banks. Sub-loans would be made at an interest rate reflecting the cost to the Government plus a spread of up to 2.5% with varying maturities and grace periods.

Financing Plan:

Source	Local	Foreign	Total	% of Total
IBRD	154.2	246.0	400.0	53%
Government of Russia			0.0	0%
Participating Local Governments	153.4	49.8	203.2	27%
Private Investors	59.2	88.1	147.3	19%
USAID and Other Donors	2.0	6.0	8.0	1%
TOTAL	368.8	389.9	758.7	100%

Economic Rate of Return: Not Applicable

Poverty Category: Not Applicable

Staff Appraisal Report: 13022-IU

Map: 25911

**MEMORANDUM AND RECOMMENDATION OF THE PRESIDENT
OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
TO THE EXECUTIVE DIRECTORS ON A
PROPOSED LOAN
TO THE RUSSIAN FEDERATION
FOR A HOUSING PROJECT**

1. I submit for your approval the following report and recommendation on a proposed Housing Loan to the Russian Federation in the amount of US\$400 million equivalent to support the development of private housing markets. The loan would be at the Bank's standard variable rate with a maturity of 17 years, including 5 years of grace.
2. A Country Economic Memorandum for Russia was published in September, 1992. The Country Assistance Strategy (CAS) was discussed by Executive Directors on May 19, 1994. The proposed project fits well within the CAS (para 6-8).

A. SECTORAL CONTEXT

3. **BACKGROUND.** Housing reforms began early in the transition and are a centerpiece of the Government's political and economic program. For example, the housing privatization program privatized about 25% of the national housing stock in 1992 and 1993. This transfer of assets sparked a secondary market of housing transactions. Housing is now among the first sectors to stabilize in the Russian economy: production increased slightly in 1993 after several years of sharp contraction. Moreover, the recovery is being led by small-scale private enterprise and household production, rather than by revival of old-style government subsidies. Residential construction could help lead Russia out of recession because inputs are simple, small firms can participate without much capital and labor is available. Evidence suggests pent-up demand for housing: it can sell for two to four times its production cost and twenty times average annual household incomes -- extreme figures of shortage by world standards.
4. Several issues still constrain deepening of private housing markets, despite strong demand, private initiative, and federal enabling reforms. Private developers cannot get access to urban land as the majority of land is still under government ownership, and there are no appropriate local procedures for land privatization, urban planning, and property registration. Nor are there mechanisms to finance servicing of raw land. Moreover, when developers can get serviced land, they build for a narrow base of wealthy households or enterprises which pay cash for construction in advance. Developers do not build for middle-income households -- who have their wealth locked up in recently-privatized financing units -- as there is no bridge finance available for the construction period. Finally, because of building materials industry monopolies, the Government faces strong pressure to direct unsustainable subsidies to the sector while developers face shortages of energy-efficient, affordable building materials for new types of housing.
5. **GOVERNMENT STRATEGY.** The Government detailed its reform strategy in its State Targeted Program "Housing." This Program parallels the Bank's policy framework in *Housing Reform and Privatization: Strategy and Transition Issues* (Green Cover, Feb. 1994). It addresses supply, demand, and institutional issues and points out that housing is a macro-economic priority affecting labor mobility, employment generation, capital formation, and financial and fiscal stability.

While the Government has introduced fundamental federal reforms, it recognizes that implementation is mostly a local responsibility. Implementation has been uneven so far, as local officials try to understand how housing markets work. Government strategy now places high priority on demonstrating practical ways that private markets can produce housing. The Government has asked that the first Housing Project support this strategy by financing investments that (a) break up public land monopolies to increase land supply and reduce the cost of housing, (b) introduce banking mechanisms for housing construction so developers can expand into markets below the highest income class, and, its top priority, (c) transform the building materials industry to generate employment, strengthen management and introduce new types of materials. The Government has requested that subsequent housing sector projects might address enterprise housing divestiture, general primary infrastructure, center-city rehabilitation, and housing finance.

B. RATIONALE FOR BANK FINANCING

6. The most recent discussion of the CAS for Russia was held in May 19, 1994, in the context of a Financial Institutions Development Project. At that time, the Bank recommended an Intermediate Case lending program, in the order of US\$1-1.5 billion annually, not including adjustment lending. The program will be composed of a core of straightforward projects, largely in infrastructure including Housing, and the social sectors, and an additional set of projects that would only go forward when the Government has satisfied key conditions for sectoral reforms. The project is included in the core set of projects under the program, and is intended to advance the Bank's continuing policy dialogue in the housing sector. As indicated in the CAS, infrastructure, including the housing sector, is expected to be an important focus for Bank lending over the next several years, accounting for roughly 23 percent of new commitments during FY93-97 period. The proposed Project is fully consistent with the Bank's CAS and the Bank's Accelerated Program requested by the Government in CM Resolution 603 and agreed at the April 1993 G-7 meeting.

7. The priority objectives of the CAS are to (a) support the development of a *market oriented economy* based on private sector initiatives; (b) encourage *redirection of public sector involvement in the economy* toward the establishment of open and competitive markets and the provision of physical, social, legal, and institutional infrastructure not normally provided through the private sector; (c) establish *the Bank as a trusted and reliable development partner* through financing of high priority public sector investments and policy advice on key economic and sectoral issues. The CAS for Russia recognizes the need to provide assistance to certain key sectors such as infrastructure, housing, and energy, which will have a direct and fundamental impact on the success of macroeconomic reform.

8. The Government's housing sector reform has been a major success over the last three years and should be sustained and deepened by assisting its practical implementation at the local level through demonstration projects. The proposed Housing Project directly supports the CAS goals by: (a) financing an investment project in an area where reforms have been rapidly achieved; (b) supporting Government initiatives to re-conceptualize housing as a key economic sector, realign the sector along market lines, and to rationalize and reduce subsidies to the sector; (c) implementing federal housing reforms at local levels; (d) demonstrating practical ways of having markets produce

housing; (e) mobilizing foreign direct investment; (f) improving environmental and energy approaches in the sector; and (f) institutionalizing new regulatory and administrative procedures in participating cities.

C. PROJECT OBJECTIVES AND DESCRIPTION

9. **OBJECTIVES.** The main goal of the Project is to support the Government's efforts to develop housing markets with choice for consumers and competition among private suppliers. The Project will implement national policies in receptive cities, demonstrate practical ways that markets can produce housing and generate employment, and institutionalize new principles and practices. The principal Project Objectives are (a) to break up the present Government monopoly on supply of land by assisting selected municipal governments in auctioning and developing infrastructure on sites suitable for residential development; (b) to demonstrate that the private sector can produce housing that is more efficient and appealing than that provided by the "Kombinats;" (c) to encourage the banking community to increase the volume of medium-term lending for private sector housing construction; and (d) to encourage the establishment of industries to produce modern and more efficient building materials through the Equity Matching Line of Credit. The Technical Cooperation Component will create the enabling regulatory and technical framework at the local level for Project Implementation.

10. **LINK TO POLICY DIALOGUE.** The Project would not include national policy conditionality because adequate legislative support can be found for all of the components of the Project. Instead, the Project is designed to implement reforms at the local level that the national Government has already established as its policy. Each local government has developed individual Regulatory Action Plans (RAP's) that emphasize (a) *property rights development* -- including land and property title registration; (b) *urban regulatory reforms* -- such as land privatization; land allocation through competitive procedures; and urban planning, building, environmental, and permitting procedures; and (c) *pro-competition policies for the building industry* -- including public procurement rules and construction management.

11. **COMPONENTS.** The proposed Project will include three components: (a) Housing Market Development, with land development and construction finance sub-components in the Participating Cities of Barnaul, Moscow (for demonstrations), Novgorod, Nizhny Novgorod, St. Petersburg, and Tver; (b) Transformation of the Building Materials Industry, with an equity matching sub-component; and (c) Technical Cooperation and Project Management. The Government would hold annual project reviews in order to reprogram investments, technical cooperation and reforms among sub-project types and cities.

12. The Land Development Sub-component will assist local governments in auctioning serviced and unserviced housing sites to private developers. Sub-loans to local governments would help finance public provision of off-site infrastructure that is needed to provide site services as well as connecting infrastructure between parcels. Local governments would take the credit risk associated with the loan and will recover the costs through the sale of the land. Land disposal procedures have been designed to maximize the local government's return and minimize the risk of non-recovery by: (a) holding auctions before awarding infrastructure contracts; and (b) allowing private developers to propose construction of connecting infrastructure through their own means. Site development will

follow Town Planning Orders that specify land use and densities but allow flexibility so that developers may build according to their perceptions of the marketplace.

13. The Construction Finance Sub-component would encourage the banking community to enlarge the volume of medium-term lending for private sector housing construction. Sub-loans would be used to construct housing that is modest in size and energy efficient and to complete unfinished apartment buildings. Housing sub-projects situated on the sites developed under the Land Development Sub-component would qualify, as well as those within 15 km. of participating cities' boundaries. In order to qualify, commercial banks also must participate in the Bank-financed Financial Institutions Development Project (FIDP - Loan # 3734-RU) designed to strengthen the institutional capacity of specific commercial banks.

14. The Equity Matching Sub-component would extend sub-loans to new Russian building materials ventures that attract substantial new equity from qualified investors. The Government would on-lend the Bank loan through participating commercial banks which would assume the credit risk. Sub-loan amounts would be up to double the amount of new cash equity contributed by qualifying investors. Conservative guidelines have been established to delimit qualifying investors (i.e. venture capital funds and private companies with experience in producing or distributing modern building materials), equity, and products in order ensure that this experimental component is financially prudent and will help to restructure the industry.

15. The Technical Cooperation Component will support policy reforms, finance project units, and prepare future projects. The component would be partially financed by the loan (up to \$23 million) and partially financed by bilateral donors including USAID. Technical cooperation includes: (a) implementation assistance and programming for future projects (e.g., design and engineering; staff, consultants and equipment for the Project Implementation Units; and support for implementing Regulatory Action Plans; (b) housing and construction finance (e.g., training to commercial banks in coordination with the FIDP; a Housing Finance Study; and training for designers, developers and local governments on construction technologies, standards, and construction management; (c) land registration for pilot real estate registration systems; and (d) support for establishing new types of building materials (e.g. standards and codes; building materials information systems).

D. PROJECT FINANCING

16. The total estimated cost of the Project is US\$758 million, of which the Bank would finance US\$400 million. Foreign exchange costs are difficult to estimate, but may be 50% of the total, in part because of the interest expressed by foreign contractors in bidding on civil works contracts. USAID and other bilateral donors have so far committed \$8 million towards the Technical Cooperation Program. Remaining financing would be provided by private investors and local governments.

E. PROJECT IMPLEMENTATION

17. Because of the Bank's experience in Russian projects, early attention has been given to creating strong implementation capacity. The Project requires a Central Project Implementation Unit (CPIU) for successful administration of sub-projects involving federal and local agencies, banks, and

private enterprises. The CPIU will engage a General Consultant to handle most of the technical work, including procurement advice, inspection and certification of works and promotion of lines of credit. The CPIU -- with a Project Manager and a small staff -- will report to the Chairman of the Interministerial Group (IG). The IG will provide policy guidance, particularly on issues for interministerial intervention. The IG is headed by the Minister of Construction and includes representatives of the Ministry of Finance (MOF), Ministry of Economy (MOE), and the Department responsible for coordination with the Bank. Local Coordinating Committees (LCC), with designated local coordinators, have been established within local governments. LCC's will supervise Local Project Implementation Units (LPIUs), which, in turn will implement the Land Development Sub-projects. The cost of the General Consultant and equipment and consultants for the CPIU and LPIU's will be covered under the loan.

18. USAID's Training and Technical Cooperation Program provided US\$3.5 million of grant assistance, including a \$2 million trust fund administered by the Bank. Part of this assistance supported the initiation of a Project Review Unit (PRU) in Moscow to help build the implementation capacity of the federal authorities, the cities, as well as the Unit itself. LCCs have been established in each city. The PRU is currently in the process of transition to a Central Project Implementation Unit. The condition of effectiveness will only formalize this transformation.

F. PROJECT SUSTAINABILITY

19. The Project would develop sustainable institutions through an extensive capacity-building TA program, and through careful project design. USAID has committed \$6.5 million for strengthening sector institutions and for human resource development, at the local and national levels. Cities were selected mainly on the basis of their willingness to implement local Regulatory Action Plans. They would recover costs by selling rights to serviced land. Developers would repay construction loans by selling units. Commercial banks would bear the risk for their construction loans. Building materials investors would place equity at risk.

G. PROGRAM OBJECTIVE CATEGORIES

20. The proposed project is designed to support the Bank's program objective of private sector development by financing private investment, ownership, and requiring private real estate development, housing construction, and building materials industries. The project would provide technical assistance and training to commercial banks, private developers, and private building materials enterprises in order to promote good commercial practices in the sector. The Project would provide assistance to the participating cities to develop the policy, legal, and institutional framework for an efficient real estate market. In addition, the project is consistent with the program objective of environmentally sustainable development by ensuring that environmental assessments are carried out for proposed sites, and by introducing energy efficiency guidelines for construction finance.

H. POVERTY CATEGORY/SOCIAL PARTICIPATION

21. The Project is designed to promote creation of housing markets and does not have a specific poverty or social participation focus. In transition to markets, the first priority is not to build new low-income housing, but to allow people to begin moving, thereby freeing up existing units for others. The Government notes that there is an excess of social housing, and a shortage for those who can afford to exit from the social stock. As currently designed, the Project would target families below the highest income levels by using urban planning guidelines, infrastructure standards, and loan and unit size caps. Most people are expected to obtain the funds they need to purchase units by selling their newly privatized apartments. Surveys carried out during preparation suggest that a substantial percentage of families -- in some cities more than 50% of households -- could afford a small apartment costing US\$20,000 by using a combination of savings and money from sale of their present unit.

I. LESSONS FROM PAST BANK PROJECTS

22. The lessons learned from other loans to Russia include: (a) the challenge of identifying and coordinating counterparts; (b) the importance of early attention to implementation and procurement issues; and (c) the need to include local consultants and institutes in project work. The Project team has addressed these concerns by working through a formal Interministerial Coordinating Group, establishing the PRU with foreign and local consultants, and engaging local institutes in all project preparation activities.

23. Recent Bank housing loans in reforming socialist countries suggest a range of lessons, including a tendency toward overly optimistic project implementation schedules. The Poland Housing Project (Loan No. 3499), which became effective on May 6, 1993, focused on long term housing finance -- which is premature in Russia. This Project has shown that: (a) establishing apex or banking mechanisms is difficult in an unstable macro-economic climate; (b) local Project Units can be helpful in introducing new lending mechanisms and in mobilizing new reform constituencies; and (c) it is critical to have a strong counterpart to speak for the Project in executive and legislative debates. The Armenia Earthquake Reconstruction Project (IDA Credit No. 2562-AM), signed on February 18, 1994, shows the importance of having the Bank take an activist role in project preparation in countries that are unused to market mechanisms and Bank procedures. As a group, these projects show the importance of broadening the counterpart beyond Ministries of Construction to include MOF, MOE and other reform constituencies. Finally, the Bank has carried out extensive policy and evaluation work in the sector. In particular, the recent Russia Housing Sector Report provides a framework for the sectoral dialogue in Russia. OED evaluation work on the urban and water sectors stresses that cost recovery is important but unlikely to be achieved unless careful attention is given to the sustainability of key sectoral institutions. It also points out that city-wide regulatory reforms are crucial so that land development projects do not become isolated enclaves.

J. ISSUES AND ACTIONS

24. During negotiations, agreement was reached with the central Government, and with Participating Cities and Oblasts on all terms and conditions. Proposed conditions of effectiveness for the Loan are: (i) CPIU established, director appointed, and key consultants hired for project

management; (ii) Sub-loan agreements signed with at least 3 local governments. Conditions for participating city loan effectiveness are: (i) Establishment of LPIU's; (ii) Funding of project accounts; (iii) Adoption of local regulations for title registration and land auctions (for both construction Finance and Land Development Sub-components). Special conditions are also proposed for disbursement of specific components in the cities. For Land Development and Construction Finance Sub-components: (i) the Participating City Loan Agreement should be effective between the city and the Government; for Construction Finance and Equity Matching Lines of Credit: (ii) FIDP loan should be effective, and at least two banks should be accredited under the FIDP; and (iii) the Borrower should have signed Subsidiary Loan Agreements with at least two Banks under the respective lines of credit.

K. ENVIRONMENTAL ASPECTS

25. The Project is rated in Category B. Environmental reviews have been completed on the initial land development sites. Environmental guidelines for the construction finance and building materials components are consistent with the Enterprise Support Project, and would, in addition, give priority to environmentally-friendly new building technologies. The main environmental concerns relate to lack of adequate sewerage infrastructure in St. Petersburg. A mitigation plan financed by the Project would provide for strategic small investments in the water and sewer system to balance the system and strengthen the Northern region of St. Petersburg. This would provide for project sites and start to address sewage deficits.

L. BENEFITS AND RISKS

26. **BENEFITS.** The principal benefits would be to reinforce the sector policy reform by: (a) providing tangible evidence to Russians about the value of Government's policy to move towards competitive housing markets; and (b) demonstrating the range of financing, regulatory, and institutional tools used to develop real estate in market systems. Specific components would also: (c) break the Government land monopoly; (d) create a transitional mechanism that will catalyze foreign direct investment, technology, and management to increase the availability of building materials for self-help and small scale construction; and (e) develop financial sector capacity in real estate. Finally, the Project will: (f) increase employment in private construction and building materials enterprises, (g) increase labor mobility and opportunities for military resettlement and (h) help relieve pressures on the Government to direct unaffordable subsidies to the construction sector. Quantifiable benefits are large compared to project investments. The land development sub-component alone is expected to stimulate construction of over 22,000 apartments, 8,200 town houses, and 1,000 individual houses; and generate more than 100,000 person years of short term employment.

27. **RISKS.** The Project contains a number of risks. The Bank's lack of experience implementing projects in Russia should be offset by careful sub-project preparation, emphasis on procurement, and extensive capacity-building TC. In addition, larger than usual physical contingencies would partially offset the difficulty of assessing costs in Russia's rapidly changing macro-economic environment. While the political risk that reforms will falter is endemic, the Government has shown sustained commitment thus far, and housing reform is endorsed by the population. More specifically, on *land development*, the principal risk involves the availability and

timing of local counterpart funding, given the unsettled state of local budgets and intergovernmental fiscal relations. This risk would be offset by advance funding of project accounts and by reprogramming investments on a yearly basis. A second risk is that sites will not be marketable at prices sufficient to recover costs. The Project is countering this risk by consulting early with private developers, eliminating all but the strongest sites based on the sub-project appraisals, holding auctions before awarding infrastructure awards, and phasing construction. The third risk is that local Governments will not follow through on selling land and development rights. The Project is responding to this risk by focusing on land disposition policies as a prerequisite for financing and by incorporating specific legal covenants in the implementation agreements to be entered into by the Participating Cities, addressing the issue of subsequent disposition of parcels to the private sector. On *construction finance*, the credit risk of lending foreign currency for domestic production is mitigated in real estate, where values track hard currency. Sound underwriting practices will reduce this risk to manageable proportions. The second risk is the lack of well capitalized domestic developers. Banks indicate that there is substantial demand by private developers for gap financing; and a pipeline has been developed far in excess of available funds. Conservative loan-to-value ratios for both construction finance and land development mitigate some of the risk of sharp relative price changes. On *equity matching*, one risk is that reform will wither and the component will not disburse. Another risk is that the proceeds of the loan will flow to non-viable or unscrupulous enterprises, resulting in misdirection of the funds. This risk is mitigated by the "due diligence" loan processing requirements for eligible investors and by having the commercial Banks take the credit risk. A third risk is that commercial banks would be unwilling to undertake term lending. This could slow disbursements or cause funds to be transferred to other components.

M. RECOMMENDATION

28. I am satisfied that the proposed Loan would comply with the Articles of Agreement of the Bank and I recommend that the Executive Directors approve the proposed Loan.

Lewis T. Preston
President

Attachments
Washington, D.C.

**RUSSIAN FEDERATION
HOUSING PROJECT**

*Summary of Project Cost Estimates
(US\$ million equivalent)*

Sub-component	Local	Foreign	Total	Foreign as % of Total
Land Development				
Civil Works	84.2	84.3	168.5	50%
Land Donated by Cities	89.4	0.0	89.4	
Acquisition Expenses	6.6	0.0	6.6	
Taxes on Civil Works	38.7	0.0	38.7	
Interest During Construction	0.0	36.4	36.4	100%
Total Land Development	218.9	120.7	339.6	36%
Construction Finance	106.7	71.1	177.8	40%
Equity Matching	0.0	143.3	143.3	100%
Technical Cooperation	8.3	24.8	33.1	75%
Base Cost	333.9	359.9	693.8	52%
Physical Contingencies	18.4	18.1	36.5	50%
Price Contingencies	16.5	11.9	28.4	41%
TOTAL	368.8	389.9	758.7	51%

Financing Plan by Institutions
(US\$ million equivalent)

Source	Local	Foreign	Total	% of Total
IBRD	154.2	246.0	400.0	53%
Government of Russia			0.0	0%
Participating Local Governments	153.4	49.8	203.2	27%
Private Investors	59.2	88.1	147.3	19%
USAID and Other Donors	2.0	6.0	8.0	1%
TOTAL	368.8	389.9	758.7	100%

Financing Plan by Institutions, by Project Components
(US\$ million equivalent including Contingencies)

Financing Plan by Financiers (US\$ Million)							
	Aid and Donors	Local Gov't.	Private	IBRD	Total	Foreign Exchange	Local
<i>Land & Housing Market Development Component</i>							
Civil Works		12.0		201.0	213.0	101.0	112.0
Land Donated by Cities		93.1			93.1		93.1
Acquisition Expenses		7.1			7.1		7.1
Taxes on Civil Works		46.0			46.0		46.0
Interest During Construction		45.1			45.1	45.1	
Total Land Development Sub-component Total	0	203.3		201.0	404.3		
Construction Finance Sub-component Total	0		98.5	80.0	178.5	71.4	107.1
<i>Transformation of Building Materials Industry Component</i>							
Equity Matching Sub-component Total	0		44.7	96.0	140.7	140.7	
Technical Cooperation & Project Management Component Total	8	2.0		23.0	33.0	27.6	5.4
Total	8.0	205.3	143.2	400.0	758.7	389.9	370.7

**RUSSIAN FEDERATION
HOUSING PROJECT**
Summary of Procurement Arrangements
(US\$ million equivalent)

PROJECT ELEMENT	PROCUREMENT METHOD				TOTAL COST
	ICB	LCB	OTHER	N.B.F.	
1. <u>Civil Works</u>					
a. Housing Infrastructure	114.1 (114.1)	3.1 (3.1)	--	26.7 --	143.9 (117.2)
b. Utility Improvements	75.2 (75.2)	3.5 (3.5)	--	30.3 --	109.0 (78.7)
c. Land, Acquisition, Interest Costs	--	--	--	145.3	145.3
2. <u>Goods</u>					
a. Utility Systems Equipment	2.6 (2.6)	1.1 (1.1)	1.4 (1.4) ^{a/}	0.9 --	6.0 (5.1)
b. Office Equipment, Vehicles & Spares	0.8 (0.8)	-- --	0.4 ^{b/} (0.4)	0.1 --	1.3 (1.2)
3. <u>Lines of Credit</u>					
a. Construction Finance	--	--	80.0 (80.0)	97.8 --	177.8 (80.0)
b. Building Materials Industry	--	--	96.0 (96.0)	47.3 --	143.3 (96.0)
4. <u>Technical Assistance</u>					
a. CPIU/LPIU and General Consulting Services	--	--	13.5 (13.5)	2.5 --	16.0 (13.5)
b. Design and Engineering Services	--	--	6.0 (6.0)	1.0 --	7.0 (6.0)
c. Technical Studies, Training, Fellowships and Evaluation	--	--	2.3 (2.3) ^{c/}	6.5 --	8.8 (2.3)
TOTALS	192.7 (192.7)	7.7 (7.7)	199.6 (199.6)	358.4 --	758.4 (400.0)

NOTE: Amounts are rounded. Figures in parentheses are the respective amounts financed by the Bank loan.

NBF: Non-Bank Financed, includes counterpart funding for land/acquisition, local taxes, private contributions, and U.S. government grant financing of technical cooperation, staff training and evaluation.

a/ Direct Contracting upgrades of proprietary dewatering centrifuges (US\$.9 million) and International Shopping for off-the-shelf instrumentation components (US\$.5 million) for water treatment.

b/ Local Shopping (LS) for office furniture, equipment and supplies (US\$.4 million).

c/ Includes procurement of small value training services by individuals and fellowships(\$.7 million) which will be procured in accordance with the Bank's Guidelines for the Use of Consultants.

Estimated Disbursement of IBRD Loan
(US\$ million equivalent)

Category	Amount of Loan Allocated	Percent of Expenditures to be Finance
1. Civil Works	150	80% of expenditures for land development (net of taxes)
2. Equipment and Machinery	15	100% of foreign and 80% of Local expenditures
3. Lines of Credit		
a. Equity Matching	95	100% of Sub-loans
b. Construction Finance		
(1) for Construction on Land Development Sites	40	100% of Sub-loans
(2) for Construction on land development or Other Sites	40	100% of Sub-loans
3. Technical Cooperation, Studies and Training	20	100%
4. Unallocated	40.00	
Total	400.0	

Estimated IBRD Disbursement Schedule

IBRD FY	FY95	FY96	FY97	FY98	FY99	FY00
	(US\$ Million Equivalent)					
Annual	19.3	88.0	103.2	92.4	67.8	29.3
Cumulative	19.3	107.3	210.5	302.9	370.7	400.0

**RUSSIAN FEDERATION
HOUSING PROJECT**

Timetable of Key Processing Events

a.	Time Taken to prepare:	14 months
b.	Project Prepared by:	Government with IBRD and USAID assistance ¹
c.	First IBRD mission	May 1993
d.	Departure of Appraisal Mission:	July 94
e.	Negotiations:	December 1994
f.	Planned Date of Effectiveness:	June 1995
g.	List of Relevant PCRs and PPARs:	None

1/ This report is based on the findings of an appraisal mission (July, 1994) led by Adrienne Nassau (Task Manager). The report was prepared by Adrienne Nassau, and Nilanjana Sarkar and Michael Heller, Deputy Task Managers, with contributions from Alain Bertaud, Robert Buckley, and Lawrence Hannah (TWURD); Elizabeth Durst, Jeff Procak, (EC3IV); Jonathan Pavluk (LEGEC); and Ephim Shluger (EDI) and the following consultants: Pentti Aro, Stephen Butler, Joe Eckert, Eugene Gurenko, Andrei Iatsenia, Sergei Istomin, Howard Jones, Rauno Ali-Kovero, Jos Louwe, Frank Kenefick, Duanne Kissick, John Saccheri, Tarik Pekin, Ray Struyk, David Sullivan, Kevin Villani, Peter Ware, and Joel Zingesser. The Project Review Unit in Moscow includes Alain Davet, Natasha Kalinina, William Krause, John Lyons, John Pickard, Piet Nankman, and Boris Smirnov. Richard Podolske assisted from the Bank's Resident Mission in Moscow. The Project benefitted from advice by Marc Blanc (EC3DR); Claude Blanchi, Marcelo Selowsky (ECAVP); Charles Blitzer (EC3MO), Costas Michalopoulos (EC3), and Bertrand Renaud (FSD). A Steering Committee of Jonathan Brown (EC3IV), Anthony Pellegrini (EMTIN), and Michael Cohen (TWURD) for the Bank and Peter Kimm for USAID supervised the USAID trust fund for project preparation. David Leibson was the liaison with USAID. The Governments of Canada, Finland, France, and the Netherlands provided support for project preparation and pilot projects. Margret Thalwitz (EC2IN), Jacques Toureille (EC3AI), and Thomas Zearley (LA2IE) were the Peer Reviewers. Jonathan C. Brown and Yukon Huang are the managing Division Chief and Department Director, respectively, for this operation.

*Status of Bank Group Operations in the Russian Federation
(as of January 10, 1995)*

Country: Russian Federation			Amounts in US\$ million (less cancellation)			
Loan or Credit No.	Fiscal Year	Purpose	Bank	IDA	Undisbursed	Closing Date
1 Loan closed			600.00			
L35320-RU	1993	Employment Serv. & Soc. Protection	70.0		68.58	04/30/96
L35460-RU	1993	Privatization	90.0		88.39	06/30/96
L36230-RU	1993	Oil Rehabilitation	272.0		263.84	12/31/95
L36231-RU	1993	Oil Rehabilitation	158.0		146.99	12/31/95
L36232-RU	1993	Oil Rehabilitation	170.0		136.48	12/31/95
L36233-RU	1993	Oil Rehabilitation	10.0		9.99	12/31/95
L37060-RU	1994	Highway Rehab. & Maintenance	300.0		296.42	06/30/98
L37340-RU*	1994	Financial Institutions Dev.	200.0		200.0	12/31/98
L37560-RU*	1994	Land Reform Implementation	80.0		80.0	06/30/00
L37570-RU	1994	Agric. Reform Implementation	240.0		240.0	06/30/00
L37630-RU*	1994	Enterprise Restructuring	200.0		200.00	06/30/00
L37680-RUS*	1994	Oil Rehabilitation II	500.0		500.00	06/30/97
L38060-RUS*	1995	Environmental Management	110.0		110.00	06/30/01
L38240-RUS*	1995	Mngmt and Finan. Training	50.0		50.00	12/31/98
		Total No. of Loans = 14	2450.0		2390.69	
		Total**	3050.0			
		of which repaid	0.0			
		Total held by Bank & IDA	3050.0			
		Amount sold	0.0			
		of which repaid	0.0			

* Not yet effective.

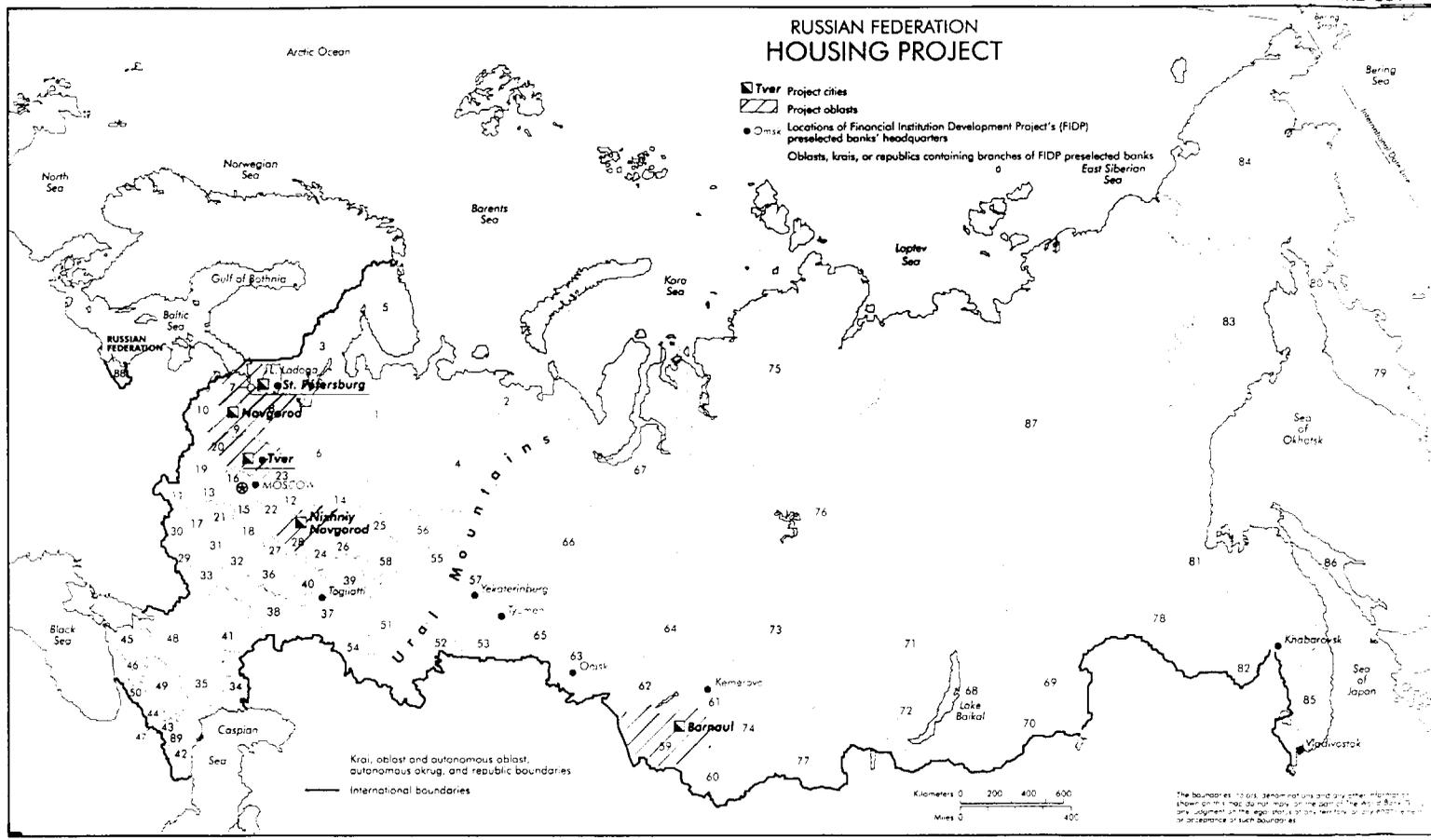
** Total Approved, Repayments, and Outstanding balance represent both active and inactive Loans and Credits.

*Status of IFC Investments
As of November 30, 1994*

Loan No.	Fiscal Year	Obligator	Orig. Commitm.	IFC Held Loans	Equity	Total	Undisbursed
3621-RUS	06/30/93	International Moscow Bank	15.0	15.0	0.0	15.0	15.0
4061-RUS	12/09/93	Framlington Fund	8.0	0.0	8.0	8.0	4.0
4040-RUS	06/10/93	Polar Lights	60.0	60.0	0.0	60.0	0.0
3532-RUS	06/10/93	Vasyugan Services	11.5	10.0	1.5	11.5	11.5
4099-RUS	06/03/94	Tokobank#	5.0	5.0	0.0	5.0	0
4191-RUS	06/03/94	Sawinskaya	7.7	5.6	2.1	7.7	7.7
3941-RU	FY95	First NIS Regional Fund	15.0	0	15.0	15.0	9.0
4731-RUS		Russian Trade En'ment*	10.0	10.0	0	10.0	10.0
4740-RUS		Volga Fund	0	0	20.0	20.0	20.0
4333-RUS	06/03/94	Russian Telecom*	7.5	0.0	7.5	7.5	7.5
Total			114.0	95.6	19.1	114.0	50.7

Swap Facility
* Guaranty Facility

MAP SECTION



1. This map reflects the location of FIDP preselected banks and their branches in fall 1993.
 2. In the list below, krais, oblasts, okrugs, republics containing bank branches, followed by the number of branches, are shown in green.

- | | | | | | |
|-------------------------------|--------------------------------|-------------------------------|--|--|---|
| 1. Arkhangelskaia oblast | 17. Orlovskaja oblast (1) | 33. Voronezhskaja oblast | 49. Stavropol'skii kraj (4) | 64. Tambovskaja oblast (3) | 75. Taimyrskii (Dolgano-Nenetskii) autonomous okrug |
| 2. Nenetskii autonomous okrug | 18. Riazanskaja oblast | 34. Astrakhanskaja oblast (1) | 50. Karachai-Cherkess Republic (1) | 65. Tyumenskaja oblast (23) | 76. Evenkiskii autonomous okrug |
| 3. Republic of Karelia | 19. Smolenskaja oblast | 35. Republic of Kalmykia | 51. Republic of Bashkortostan | 66. Khanty-Mansiiskii autonomous okrug (1) | 77. Republic of Tuva |
| 4. Republic of Komi (1) | 20. Tverskaja oblast (1) | 36. Penzenskaja oblast | 52. Cheljabinskaja oblast (10) | 67. Yamalo-Nenets' autonomous okrug (1) | 78. Amurskaja oblast |
| 5. Murmanskaja oblast (1) | 21. Tul'skaja oblast (1) | 37. Samarskaja oblast (10) | 53. Kurganskaja oblast | 68. Republic of Buryatia (1) | 79. Kamchatskaja oblast |
| 6. Vologodskaja oblast | 22. Vladimirskaia oblast (2) | 38. Saratovskaja oblast (1) | 54. Orenburgskaja oblast (2) | 69. Chitinskaja oblast | 80. Koriakii autonomous okrug |
| 7. St. Petersburg (47) | 23. Iaroslavskaia oblast (1) | 39. Republic of Tatarstan (1) | 55. Perm'skaja oblast (5) | 70. Aginskii Buryatskii autonomous okrug | 81. Khabarovskii kraj (6) |
| 8. Leningradskaja oblast (18) | 24. Republic of Chuvash | 40. Ulianovskaja oblast (5) | 56. Komi-Permyatskaja autonomous okrug | 71. Irkutskaja oblast (2) | 82. Jewish autonomous oblast |
| 9. Novgorodskaja oblast | 25. Kirzovskaja oblast (2) | 41. Volgogradskaja oblast (3) | 57. Sverdlovskaja oblast (55) | 72. Ust'-Ordynskii Buryatskii autonomous okrug | 83. Magadanskaja oblast (2) |
| 10. Pskovskaja oblast | 26. Republic of Mari-El | 42. Republic of Dagestan (1) | 58. Udmurt Republic (1) | 73. Irkutskaja oblast (2) | 84. Chukotskii autonomous okrug |
| 11. Bryanskaja oblast | 27. Moravian Republic (1) | 43. Chechen Republic | 59. Altaiiskii kraj | 74. Republic of Khakassia | 85. Primorskii kraj (1) |
| 12. Ivanovskaja oblast | 28. Nizhny Novgorod oblast (3) | 44. Kabardino-Balkar Republic | 60. Republic of Altai | 86. Sakhalinskaja oblast (3) | 87. Republic of Sakha (Yakutia) (2) |
| 13. Kaluzhskaja oblast | 29. Belgorodskaja oblast | 45. Krashnodarskii kraj (5) | 61. Kemarovskaja oblast (34) | 88. Kaliningradskaja oblast (1) | 89. Ingush Republic (1) |
| 14. Kostromskaja oblast | 30. Kurskaja oblast | 46. Republic of Adygeya | 62. Novosibirskaja oblast (6) | | |
| 15. Moskovskaja oblast (3) | 31. Lipetskaja oblast | 47. North Ossetian Republic | 63. Omskaja oblast (15) | | |
| 16. Moscow City (30) | 32. Tambovskaja oblast | 48. Rostovskaja oblast (4) | | | |