



1. Project Data:		Date Posted : 11/12/2004	
PROJ ID: P036973		Appraisal	Actual
Project Name: Enterprise Housing Divestiture Project	Project Costs (US\$M)	551.0	167.7
Country: Russian Federation	Loan/Credit (US\$M)	300.0	104.7
Sector(s): Board: FSP - District heating and energy efficiency services (100%)	Cofinancing (US\$M)	2.0	1.2
L/C Number: L4012			
	Board Approval (FY)		96
Partners involved : USAID	Closing Date	12/31/2002	12/31/2003

Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components

a. Objectives

- (i) To accelerate the sustainable divestiture of enterprise housing by demonstrating a combination of housing reforms and investments designed to transfer housing to the private sector and lower its operational cost (per Loan Agreement).
- (ii) To ensure that housing divestiture does not lead to massive increases in the volume of public housing through housing privatization, including condominium creation (per SAR).
- (iii) To make the process of divestiture more affordable to cities and rationalize the flow of funds in the housing sector by cost recovery of housing maintenance and utility fees from tenants (per SAR).
- (iv) To protect vulnerable groups in the context of increased cost recovery through targeted housing allowances (per SAR).
- (v) To rationalize and increase private sector participation in the provision of services in the housing sector through the competitive bidding of the maintenance of housing (per SAR).
- (vi) To reduce the costs of maintaining housing and make the divestiture process affordable for both cities and households through improved energy efficiency in divested housing (per SAR).

b. Components

A. Housing Divestiture and Associated Reforms (appraisal cost US\$ 85.0m./actual cost US\$ 30.4m.) - including: (a) TA to participating cities (Ryazan, Vladimir, Petrozavodsk, Volkhov, Cherepovets, Orenburg --Izhevsk, and Saratov added later). to implement the project; to introduce cost recovery; to provide housing allowances; to form condominium associations; (b) dissemination of project experience; (c) provision of housing allowances to vulnerable households.

B. Energy Efficient Investments in Housing Facilities (appraisal cost US\$ 383.0m./actual cost US\$ 113.3m.) - including: (a) acquisition and installation of metering equipment; (b) investments for the retrofitting of housing facilities to reduce energy consumption and lower operating costs; (c) capital repairs of housing facilities, including repairs of roofs, doors, walls and windows.

C. Upstream Retrofits (appraisal cost US\$ 43.0m./actual cost US\$ 15.0m.) - including: (a) repair of existing utility networks outside of the building boundaries to permit these networks to function as designed; (b) retrofitting of existing networks outside of the building boundaries with equipment or materials designed to improve the efficiency of these networks.

D. Project Management (appraisal cost US\$ 17.0m./actual cost US\$ 9.2m.)

c. Comments on Project Cost, Financing and Dates

Actual costs were only 30% of those expected at appraisal. Participating cities were reluctant to continue borrowing project funds after their exposure to the foreign exchange risks following the 1998 crisis. For the same reasons, only 35% of the Bank loan was actually disbursed. This meant that the Bank loan funded 63% of actual costs (somewhat higher than the 54% share anticipated at appraisal). Loan closing was extended by one year, even though only 22% of the loan had been disbursed by the original closing date. Without explaining the rationale for extending the closing date, the ICR reasonably posits that the loan should have been closed earlier rather than extended, given the poor disbursement performance observed. Ironically, it was only during the twelve month extension period that Bank

supervision missions reported implementation progress of the project to be consistently "unsatisfactory". We cannot know what, if anything, the June 1999 Mid-Term Review (MTR) proposed about curtailing this project, since the ICR reports the Aide Memoire of the MTR as "missing".

3. Achievement of Relevant Objectives:

(i) Not achieved. Most enterprise housing divestiture in participating cities was achieved prior to the project, as it had been in other cities throughout Russia . There is no evidence of a significant relationship between the level of project investment and the degree of enterprise housing divestiture at the city level . Furthermore, the project failed to demonstrate housing reforms and investments for transferring housing to the private sector and lowering its operational costs.

(ii) Not achieved. As enterprise housing was transferred to municipalities, the divestiture inevitably increased the municipal (i.e. public housing) stock. Privatization and condominium responsibility for communal housing matters remains insignificant in the participating cities .

(iii) Not achieved. Cost recovery from residents still remains below the standard for Russia as a whole .

(iv) Partially achieved. Housing allowances for the poor were introduced to a greater extent in participating cities than non-project cities, although criteria for targeting remain unclear .

(v) Not achieved. Although more private companies work in this domain, competitive bidding for maintenance services of housing has yet to become the norm .

(vi) Not achieved: Cost savings from greater energy efficiency through heating --the only ones reported by the ICR--were only one fifth of targets set at appraisal . Other costs of maintaining housing, through improved services such as more lighting of common areas and new entrance doors to buildings will have increased costs .

4. Significant Outcomes/Impacts:

None

5. Significant Shortcomings (including non-compliance with safeguard policies):

- Flawed design undermined the relevance of this project . Poor timing and misreading of local conditions led the project to belatedly pursue a redundant objective, one that had already been achieved, since accelerated divestiture was already well under way before the project was implemented . Furthermore, the project design did not recognize that divestiture was inevitably sustainable (divestiture to municipalities was a one-way street; housing could not be returned by cities to enterprises) .
- Rather than affecting enterprise housing divestiture, as the project title would lead one to expect, the project components might have implications/consequences for Russia's housing reform, municipal development, energy sector improvements and social safety nets . None of these were adequately addressed by a project that did indicate how reform in these areas might be achieved . Moreover, extensive Bank ESW on housing in Russia and the Russia Housing Project (Ln3850) itself were largely ignored by the SAR of this operation . In other words, the project missed a valuable and timely opportunity for the Bank to help Russia further market reforms and how they interacted with the housing, municipal, energy and social safety net sectors .
- Absence of systematic evidence that participating cities' performance with respect to enterprise housing divestiture was significantly different from many other cities in the Russian Federation that were similarly affected, but which received no assistance from the project .
- Poor relations and communications between project participants and stakeholders at the completion of this operation. These include: (i) difficulties between participating cities and the federal agency responsible for the project; (ii) legal action for non-payment of contracts taken against the project by project contractors /consultants; (iii) ineffective dialogue between the federal agency responsible for the project and successive Bank missions, especially over the preparation of the ICR .

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Unsatisfactory	Highly Unsatisfactory	Project failed to achieve its major objectives and furthermore had no worthwhile development impacts on the sectors--housing, municipal, social safety net--upon which its investments in Russia impinged. There is no evidence that it contributed anything to improved efficiency in the functioning of any of these sectors.
Institutional Dev .:	Modest	Negligible	The project had no impact on state enterprise, housing, municipal or social safety net institutions in Russia .
Sustainability :	Unlikely	Highly Unlikely	Since the transfer of housing from enterprises to municipalities is enshrined in law and is not reversible, its

			sustainability is assured <i>de jure</i> by the one-way-street legal process and <i>de facto</i> by municipal political obligations to provide and pay for infrastructure services to this housing.
Bank Performance :	Unsatisfactory	Highly Unsatisfactory	A very poor service to the borrower through a seriously flawed design resulting from Bank misunderstandings of the divestiture process itself and lack of awareness of the implications of the impact of the proposed investments upon other key sectors and their reform needs . Frequent turnover of task managers (one per year) prevented the momentum from being picked up later during implementation. Supervision missions reported satisfactory implementation progress on a project whose disbursements were, on average, only one fifth of those planned .
Borrower Perf .:	Unsatisfactory	Highly Unsatisfactory	Federal implementing agency's failure to support project implementation in pursuit of the project objectives, both in letter and spirit. Lack of support for the project at the highest levels of Government, especially after 1998.
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

- Bank preparation work needs to incorporate the inputs of staff and consultants with expertise on the process in hand (i.e. enterprise housing divestiture) and the sectors and sector reform likely to be affected by any of the project components (i.e. housing, municipal development, and social safety nets).
- There always needs to be consistency between project objectives and project components in project design, with components posited as instruments to achieve the objectives .
- During project preparation, the Bank should ensure that project objectives enunciated by the legal agreements are identical in content and form to those of the project documents, especially the SAR .
- Project preparation should always benefit from the inputs of relevant ESW and related projects, and Bank management should ensure that preparation work be closely coordinated with closely related projects (the Russia Housing Project Ln3850, in this case).
- If a project aims to improve the performance of target beneficiaries (participating cities, in this case), project design needs to make explicit the performance indicators that will demonstrate how the results will be monitored and verified. Typically, they will include data for identical indicators in project and non -project cities, whose different values will attest to impact of the project .
- Sustaining good relations and ensuring effective communications between diverse project stakeholders should always be an implicit aim of the project experience (beyond explicit development objectives) in order for all parties to make the most of the learning experience afforded by the value added that the international collaboration over a project of this kind can bring .

8. Assessment Recommended? Yes No

Why? As input to OED sector work on housing (PPAR mission had already been completed at time of this ICR Review)

9. Comments on Quality of ICR:

The ICR candidly and correctly reports how progress in enterprise housing divestiture owed nothing to the project, although the supporting evidence for this outcome becomes obscured by excessive detail (and length) of technical results of the heating investments in selected building . While satisfactory overall, the ICR misses the Borrower's (quite different) perspective by not including the Borrower's ICR, and also an opportunity to explain why Bank and Borrower conclusions were disparate . (In fact, the borrower's positive assessment derives from a partial view of the project objectives (restricted to the process of divestiture alone) and to a belief in the project's contribution through rewarding cities *ex post* for their past efforts at divestiture even though this review could find no evidence in support of such a contention.)

