



<b>1. Project Data:</b>		<b>Date Posted :</b> 04/02/2004	
<b>PROJ ID:</b> P008827		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Housing	<b>Project Costs (US\$M)</b>	758.7	411.5
<b>Country:</b> Russian Federation	<b>Loan/Credit (US\$M)</b>	400.0	214.0
<b>Sector(s):</b> Board: UD - Housing finance and real estate markets (44%), General energy sector (17%), General water sanitation and flood protection sec (17%), Roads and highways (17%), General public administration sector (5%)	<b>Cofinancing (US\$M)</b>		201.1
<b>L/C Number:</b> L3850			
	<b>Board Approval (FY)</b>		95
<b>Partners involved :</b>	<b>Closing Date</b>	12/31/2001	06/30/2003
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
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**2. Project Objectives and Components**

**a. Objectives**

Objectives of the project were:

- (a) to facilitate the further transformation of the Borrower's municipal housing markets by assisting their transition towards a market-based housing construction and housing finance system;
  - (b) to stimulate the carrying out of such municipal land developments, commercially -financed private housing developments and building materials industry investments in the territory of the Borrower;
  - (c) to break up the present Government monopoly on supply of land by assisting selected municipal governments in auctioning sites suitable for residential development, and to demonstrate that the private sector can produce housing that is more efficient and appealing than that provided by the "Kombinats";
  - (d) to encourage the establishment of industries to produce modern and more efficient building materials; and
  - (e) to strengthen the institutional capacity of participating cities, participating Banks, and private developers to operate successfully within a market-based housing construction and housing finance system .
- Objectives (a) and (b) are reported in the Loan Agreement (LA) and objectives (c)-(e) in the Staff Appraisal Report (SAR). OED's assessment is based upon a review of the achievement of all reported objectives above .

**b. Components**

- (i) Housing Market Development, consisting of two sub -components of Land Development (actual cost of US\$87.30 million), and Construction Finance Line of Credit - CFLOC (actual cost US\$206.40 million): Land Development was to finance the construction by participating cities of off - and on-site infrastructure for vacant land parcels zoned for residential development, and to finance the rehabilitation of water supply and sewerage infrastructure . It was designed to de-monopolize and increase the supply of land for the construction of new housing in the participating cities. The purpose of CFLOC was to provide through the intermediary banks financial resources to private developers who planned to build housing .
- (ii) Building Material Industry Equity Matching Line of Credit - EMLOC (actual cost of US\$39.0 million): The purpose of EMLOC was to promote the introduction of new building materials into the Russian market, and to allow commercial banks to lend interested Russian enterprises the equity funding .
- (iii) Technical Cooperation and Training (actual cost of US\$78.80): The component was to finance technical assistance and other institutional development support for implementation assistance, development of housing and construction finance, development of land registration, and assistance to GOSSTROI .

**c. Comments on Project Cost, Financing and Dates**

Total cost at appraisal was estimated at USD 758.7 million, but actual cost was US\$411.5 million. At closing, only US\$214.0 million were disbursed, while USD 186.0 million (or 46 percentage of the original loan amount) were

cancelled between November 1999 and November 2002. The original closing date of December 31, 2001 was extended twice and the loan was closed on June 30, 2003. At the request of the Government, the loan was changed in March 1997 from a currency pool loan to single currency US\$ loan. A review of the audit results in 2002 revealed that three out of seven cities had refused to give the auditor's access to data and accounting documents, and another three had used funds inappropriately.

### 3. Achievement of Relevant Objectives:

(a) very partially achieved. The impact of the project on the institutional development of the housing sector in Russia has been marginal. At loan closing, ten years after the historical 1993 G-7 meeting, barely about half of the loan had been disbursed.

(b) not achieved. Attempts to develop local land and housing markets had fallen short of expectations. CFLOC resources were fully committed, but only after the Bank had agreed to relax on project eligibility restrictions by lifting the ceilings on dwelling sizes and prizes and opening the credit line to the top end of the market.

(c) not achieved. The State monopoly is still powerful and private sector production achieved under the project was only a fraction of that envisioned.

(d) not achieved. After the first efforts to loosen some of the restrictions attached to EMLOC failed to yield expected results, the Bank agreed to transform the equity-matching mechanism into BLOC. Total disbursements reached USD 27.0 million or about 30% of the original allocation.

(e) partially achieved. The initial value of Technical Cooperation and Training was USD 7.5 million, but it reached USD 13.3 million. The Title Registration Program, originally targeted at about 12-15 cities, was able to support the development of title registration systems in 33 cities. The program also supported the preparation of key elements of housing legislation as well as a series of studies on the development of mortgage markets and reform of commercial services.

### 4. Significant Outcomes/Impacts:

- Five cities adopted local regulatory acts and implemented title registration systems meeting the international requirements. Implementation of CFLOC facilitated attraction of commercial banks to crediting the formal sector of the Russian economy.
- CFLOC provided financing for the construction of about 3,200 housing units in excess of the 3,100 units originally contemplated.
- The project was instrumental in helping GOSSTROI prepare various pieces of critically important land and housing legislation and disseminate title registration procedures on a broad scale.

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

- Only a fraction (19%) of the physical targets of housing development was achieved (110 ha against 575 ha. planned)
- Providing infrastructure to land prior to making it available to developers or individual owners on a competitive basis was and remains, for the time being, beyond the financial capacity of most local governments in Russia. Local governments still lack any fiscal incentive to sell land into private ownership. They prefer to keep to a regime of long-term lease, as this not only provides them higher and more stable revenues, but also gives them greater control over land use and zoning issues.
- Whether the project led to a de-monopolization of land supply is debatable, since there were in many cases only one or two bidders, and final auction prices were in almost all cases either equal to, or barely above, the cities' original asking prices.
- Provision of credit to developers through the intermediary of commercial banks was a one-time experiment and had no follow up.
- Although six building material enterprises were incorporated, the component had no discernible development impact on the building industry. Since over the period of project implementation the Russian market of building materials experienced a significant development, most foreign developers preferred green field operations over joint ventures in existing urbanized areas and had no incentive to turn to Russian banks for resources subjected to Government control and Bank restriction.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome:</b>	Unsatisfactory	Moderately Unsatisfactory	While the project was assessed unsatisfactory in terms of outcome, there were some achievements particularly in terms of output. The project was instrumental in helping GOSSTROI prepare various pieces of important land and housing legislation and disseminate title registration procedures on a broad scale.
<b>Institutional Dev .:</b>	Modest	Modest	

<b>Sustainability :</b>	Unlikely	Unlikely	
<b>Bank Performance :</b>	Unsatisfactory	Unsatisfactory	
<b>Borrower Perf .:</b>	Satisfactory	Satisfactory	
<b>Quality of ICR :</b>		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:**

- Regular investment projects are inappropriate instruments for achieving short-term macroeconomic objectives. Reducing the time needed for careful preparation and increasing the size of the loan for project -external political factors was a decision that put the project at risk from the outset and was to a large and critical extent responsible for the factors that prevented the operation from attaining its objectives in terms of both development outcome and project output.
- Setting ambitious outcome objectives in a rapidly evolving political and economic context, such as Russia's transition, carries a substantial risk of potential failure.
- Focusing exclusively on supply issues was an unrealistic approach to the development of a functioning housing market. Discounting the problems of demand, especially given the then existing social and economic context of Russia, was a serious oversight. A more balanced approach covering both supply and demand will have better prospects for a successful impact.

#### **8. Assessment Recommended?** Yes No

**Why?** For OED to conduct its first PPAR in the urban sector in Russia.

#### **9. Comments on Quality of ICR:**

The ICR is of satisfactory quality overall. It offered a candid account of the experience of preparing and implementing this project, supported with detailed evidence of what was done under the components in particular. There are some shortcomings in data reporting. The report lacks a project financing table. Since only Bank loan disbursement figures are provided in the text, the total spending on each component is unclear, as is the source of the total cost figures provided in the ICR Annex. Furthermore, it is not clear from Annex 4 what Bank staff inputs were and whether the costs were fully reported. In evaluating the project, the ICR's criticism that the project failed to provide short-term balance of payment support on the scale expected is not relevant to the project performance assessment. Such an aim was not an explicit objective of the project. Judging it to have failed, as the ICR does, unfairly impacts the overall outcome rating.