RUSSIAN HOUSING: GOVERNMENT EFFORTS TO FULFILL THE
CONSTITUTIONAL RIGHT TO DECENT AND AFFORDABLE HOUSING

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By

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The Soviet Union ceased to exist in 1991, sending its constituent parts into a race to modernize and integrate themselves into the international scene. For Russia's governing officials, the primary areas of concern were economic and state structures. The Kremlin sought to privatize state businesses and enter Russia in the open global market, where there was money to be made that could allow for modernization and stabilization of the former empire's rump. Moscow set about exchanging its communist, nationalistic ideology for a more worldly, aspiring capitalism. Embarking on a plan to privatize, liberalize, and stabilize, Russian leadership of the early 1990s was focused on economic and governmental transition. Although such transition would be necessary to fund further internal developments, a decade later the areas of secondary concern—namely health, housing, and education-- have become critical.

This paper addresses the issue of housing, delving into the interplay between citizen and state, in order to illustrate the complexity of the path to securing a home in modern Russia. Aspiring homeowners and tenants in Russia have been, to a large degree, dependent on the government for providing living space. This has not changed
as drastically as one would assume, given the length of time that has elapsed since the end of communism. Nonetheless, the Kremlin's management of the burgeoning real estate market has been of the utmost importance in determining the process of acquiring a home. Through the Constitution, housing and land codes, and various economic policies, the Russian government has shaped distinctive real estate and mortgage sectors. Unfortunately, as this paper will demonstrate, federal initiatives have not always been effective, resulting in nothing short of a full-blown housing crisis. The cause of such governmental incompetence lies primarily in leadership's failure to abandon its outdated, Soviet-style quota-based strategies in favor of a results-based approach.

This study consists of four parts. The first section provides an introduction to the housing sector, beginning with the end of the Soviet era and the processes underway as Mikhail Gorbachev and Boris Yeltsin struggled to decentralize power and shift the national perspectives toward capitalism. The background is important because the reader must understand the inheritance that post-communist leadership needed to consider when developing new policies. Part II entails close scrutiny of state efforts to implement a mortgage system and establish a functional real estate market. Part III melds these together with current federal programs that have been designed to address the housing crisis and substandard living conditions of the Russian populace. After a thorough analysis of successes and failures, Part IV of the study culminates in a look at recent history of the mortgage and housing markets and final conclusions.
The housing issue is not simply about owning property and breaking with the communist past; it is a revelation of old practices, insufficient progress, and the disparity between Russian living standards and those of other developed nations. In any self-proclaimed democracy, the opportunity for equitable self-advancement must be available. For the average Russian, however, the process is not as clear as work hard, earn more, and attain what is desired. Housing is a basic human need, but adequate, quality living space in Russia is not frequently attainable.

To the outside world, Russia's economy has only been on the up-and-up. The financial crisis of 1998 has passed, replaced by a monumental boom in oil and gas industry. Today Russia has fifty-three billionaires, more than twice the number of Japan, with the fastest growing number of new individuals achieving the benchmark in the world each year.\(^1\) According to World Bank calculations, Russia's GDP expanded by approximately 57% between 1998 and 2006. The percentage of the population living below the poverty line decreased from an astronomical 25% to just above 12% within a five-year period.\(^2\) During this period personal income grew on average around 11%—a noteworthy yet disproportionate parallel to capital gains.\(^3\) These are all positive indicators of a developing economy, but economic growth is slowing and any significant increases in the average salary are unlikely to continue.

\(^3\) Ibid.
These statistics merely provide a starting point for determining the likelihood that a person can afford to rent or purchase a domicile. And in contrast to other countries, Russians have not enjoyed a long or markedly successful record of wielding credit and securing loans for purchasing a home. Financing is clearly one problem. The other limiting factor, one that is endemic to Russia, is the overarching bureaucracy. State and municipal laws that govern individual freedoms but occasionally are in conflict, extreme problems with housing availability, and off-the-books practices can greatly exacerbate the difficulty of attaining residential property. From the propiska to privatization, the housing market in Russia has not mirrored advances in other sectors. The question is then, what is the process like for an aspiring homebuyer? Without significantly improving procedures and quelling individual fears, living standards in Russia will continue to lag behind international standards—and to be a source of scrutiny.

**Part I: The Soviet Legacy of Residential Management**

In order to get a sense of the kinds of limitations residents of the former Soviet republic have experienced, one must consider the propiska. This was an official state tool for supporting law enforcement instituted in 1932. As part of the internal passport system, it provided a method for tracking resident movement and controlling population dispersion. While the booklet contained personal data and ethnicity, propiska itself was a stamp within the passport, identifying the bearer's legal place of residence. The document was essential for employment, education, and all varieties of
civic activity, including marriage. Traveling or acting without a *propiska*, one could be incarcerated, fined, or punished by other means, depending on the nature and severity of the offense.

Corresponding with the ending of the Soviet Union, however, was a somewhat-enlightened ruling that the *propiska* permit system violated personal freedoms. The movement restrictions were supposed to become invalid on New Year's Day, 1992. However, the metropolitan areas with constant migratory activity like Moscow and St. Petersburg implemented local legislation that allowed the system to operate. Residents continued having to pay registration fees to live in their apartments. Travelers were extorted during the mid-1990s as certain cities sought to regain funds in the absence of the compulsory residential permit. Despite a nominal decrease in state control, individuals could not simply relocate themselves where they desired. It was and remains exceedingly expensive to apply to move, and there is no guarantee the request will be approved.

The continuing movement restrictions have tended to apply most graphically to what Russian sources have described as "marginal" population groups. That is, the "undesirable" people who have been displaced by ethnic or racial conflicts within the former Soviet Union and are seeking refuge and work. For these people, movement

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5 Ibid, p. 2
7 Tova Höjdestrand, p. 2
restrictions are often enforced as they had been under the *propiska* system. Local officials and the police can invoke the laws arbitrarily to deter these minority groups from residing in certain districts. Interaction between law enforcement or government persons and blatant foreigners frequently benefits the former parties—nonresidents and sometimes even registered residents can often be pressured to bribe the local authorities in order to continue living or working in an area. Paying the bribe is considered a lesser evil than being incarcerated, or for legal residents, having their documents destroyed and thereby causing worlds of trouble in the future.

In the early 1990s as the residential permit system was morphing from one form to another, President Boris Yeltsin and his administration were drafting the new Russian constitution. Amid the dizzying processes of liberalization and privatization the state struggled to codify its own limits in relation to the citizenry. What a fascinating upheaval must have taken place within the Kremlin as decades of state practices were deemed foul or fair! Upon a reading of the Constitution adopted in December 1993, one may be quite surprised by the kinds of methods the state may no longer legally employ against its own citizens. Additionally, numerous individual freedoms and rights are outlined. Article 19.2 guarantees the equality of rights and freedoms of man and citizen "regardless of sex, race, nationality, language, origin, property and official status, place of residence, religion, convictions, membership of public associations, and also of other circumstances. All forms of limitations of human

8 Ibid.
rights on social, racial, national, linguistic or religious grounds [are also] banned.\textsuperscript{9} Such a provision would seem to outlaw discriminatory enforcement of residential laws. However, this is not the case. The lack of a strong, competent judicial system allows unconstitutional practices to continue.

Article 27 states that "every [person] who legally stays in the territory of the Russian Federation shall have the right to free travel, choice of place of stay or residence."\textsuperscript{10} By its very nature this article renders the propiska and similar systems unconstitutional. And Article 40 is, by far, the most definitive housing provision of the Russian Constitution. The first two paragraphs guarantee the right of every person to have a home that cannot be arbitrarily taken away, as well as the state's responsibility in creating conditions that support the right to a home.\textsuperscript{11} Article 40 will become of even greater significance later in this paper when housing shortages, Millenium Development Goals, and the National Projects are dissected. Suffice it to say that it is not a legislative shortfall in providing the opportunity for fair and decent housing, but rather in its enforcement. Officials have had no true incentive, apart perhaps from goodwill, in allowing persons voluntary movement without extorting them. On the contrary it is the lucrative nature of arbitrary or underhanded law enforcement that is self-promoting. Unfortunately for minorities or displaced citizens of the North Caucasus, these rights are egregiously impeded. The likelihood that an individual from

\textsuperscript{10} Ibid.
\textsuperscript{11} Ibid.
such categories would be able to register his residence in his place of choice remains extremely small.

Besides establishing a legal right to reside at a particular address, today's variant of the residential permit system also is the key to employment. Without proof of residence, there is no way to demonstrate one's right to work. Nor is there a way to receive non-emergency medical care for adults or children, or enroll students in state schools. Without it, one cannot vote, receive veteran or disability benefits, or even get married. For these reasons, compulsory residential registration is perhaps the most frustrating of limitations when one is seeking a new residence. Regardless of the newcomer's purpose to an area, he cannot freely exercise his constitutional rights until he has been officially approved. The local governments have, in effect, established a screening method for who is entitled to live in a given place. Even for those newcomers who are trying to act in accordance with the law, it is not guaranteed that the process will work as legislated. Moreover, the legal document itself is violable by the police, resulting in myriad problems when the resident attempts to seek work or health care, and so forth. This first step in properly relocating, (i.e. registering one's residence) can be extremely expensive because of bribes and application fees, as well as lengthy and without success.

Suppose for a moment that a legal, law-abiding resident is trying to register for a domicile. The average income varies from city to city and between urban and rural,

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as do registration costs. However, the majority of the populace makes between USD $180 and $365 per month\textsuperscript{13}. As of May 2006, a permit for St. Petersburg started at RRB 11,000, about $400 if the newcomer has not yet been approved. If he has prior approval from the local authorities, pricing begins at about $140.\textsuperscript{14} The price of "permission for residence status"\textsuperscript{15} in Moscow for recent years has been extremely hard to determine. Some estimates put it at $400, some up to $7000. A somewhat humorous anecdote about such price gouging occurred in 1997\textsuperscript{16} when Boris Nemtsov, the governor of Nizhni Novgorod, could not get a residential permit for Moscow even after having been appointed Deputy Prime Minister.\textsuperscript{17}

There is a saying in Russian "no propiska, no work—no work, no propiska." It accurately represents the Catch 22 inherent in the residential permit system. The revolving complexities of the system make it extremely difficult for a person to move outside their original place of residence. A newcomer's hands are tied. How can he afford to relocate himself physically, pay the appropriate fees and ensuing bribes, with no job to support his activities? The registration process is a veritable gauntlet but there are still many other obstacles to clear. Understanding that this system will

\textsuperscript{15} Tova Höjdestrand, p. 3
\textsuperscript{16} Despite the age of the story about Nizhni Novgorod's governor, the occurrence is relevant because it demonstrates the continued lunacy of the propiska, albeit under a new euphemism. For practices that had been outlawed not five years earlier and that were essentially unconstitutional were clearly still transpiring.
\textsuperscript{17} Tova Höjdestrand, p. 2.
continue to be a revolving door through which the individual will have to continually pass, the intrepid mover must next deal with securing an actual, inhabitable property. For reasons as simple as availability to as complicated as what kind of residence he chooses, finding an appropriate home is no simple feat.

**Privatization: Whose home is this?**

The first wave of privatization in the early 1990s was unquestionably corporate in nature. In an effort to shock the newly capitalist state into life much like Dr. Frankenstein's monster, the Kremlin determined that it would use a voucher system to denationalize businesses and industry. Each Russian was given a billet that entitled him or her to a holding in the company. This meant that a company could essentially remain owned by its employees, who would have a vested interest in its success. Workers would seek to increase quality and production in order to foster growth, raise profits, and ensure larger personal incomes. Unfortunately in many cases, employees were not aware of the potential value of these shares. Rather than keeping them and their stake in the business, many gave them away or sold them for virtually nothing. As a result, the people who paid so little to attain the billets quickly and cheaply acquired whole enterprises. Common workers were underwhelmingly acquainted with the process or the purpose of privatization. Gaps formed immediately between emerging classes and have only widened since.

Privatization of housing was significantly slower, though subject to similar inequalities. Determining the means by which municipal and departmental housing
would be transferred to the tenants had been a point of contention since the late 1980s. During the Soviet era, all land and the majority of buildings were state property; nearly all residential buildings in St. Petersburg and Moscow were owned by the government.\textsuperscript{18} By 1991, Russian leadership narrowed their focus on a few remaining options: directly transfer to the residents, allow them to buy out the property from the state, limit transfers to uphold social justice, or employ transferable vouchers.\textsuperscript{19} Ultimately the Russian Soviet Federation of Socialist Republics (RSFSR) elected to use a kind of hybrid direct transfer/voucher system.

\textit{Getting the Ball Rolling}

The task at hand was nothing short of a complete about-face in the housing sector. Under Soviet rule, its structure was totally an instrument of the state, "directed at maximum socialization of housing" that is, the development and continuation of one form of housing, and that was state-owned.\textsuperscript{20} The outgoing policy had established centralized planning for construction of all new residential buildings, including state control of necessary materials. It was efficient in some regards, such as promoting standardized multi-unit construction plans for use across the country.\textsuperscript{21} In addition, the state monopolized actual construction operations, funding them solely through the

\textsuperscript{20} Raymond Struyk et al, \textit{Implementing Housing Allowances in Russia; Housing Reform in Russia: Barriers and Opportunities} (The Urban Institute, Lanham MD, 2003), p. 13-14.
\textsuperscript{21} Ibid, p. 13
federal budget, which was experiencing its own shortages. The Russian housing budget was being stretched thin because of its failure to recoup operating costs through rent and service payments, while subsidizing construction and maintenance. Results of dwindling income were evident by 1991, when new housing construction decreased 33 percent from just four years earlier.\(^\text{22}\)

The first steps of Moscow to devolve responsibility for housing occurred in 1990 through the law "On Local Self-Administration in the RSFSR." An early demonstration of the Kremlin's intent to break with the communist past, the legislation promulgated the concept of property. Rather than federal oversight, administration of residential land fell to the municipalities and cities, although not yet to the individual resident. The municipalities were now responsible for adding to and maintaining local housing. However, the law was not to be implemented until a resolution was passed in 1992. Despite the initial lack of an approved federal process, the USSR had been allowing certain tenants to purchase their dwellings since 1988 mostly to shrug off the onerous responsibility for maintenance. The number of participants was extremely small and did not show any significant increases until the passage of additional legislation in 1992.\(^\text{23}\) Such delays in effective, timely legislation were well on their way to becoming the hallmark of Russian housing policy, which pervades the sector even today.

\(^{22}\) Ibid, p. 18
\(^{23}\) Ibid, p. 22
Originally ratified in June 1991, the *Law on Privatization of the RSFSR Housing Stock* governed the first significant wave of state and municipal rental units being transferred to residents. According to the law, only tenants officially residing at the address could purchase or request ownership of the unit.\(^{24}\) Although it often varied from district to district, vouchers could cover either the entire space of the unit and result in a completely free transfer, or deviation from an established minimum required a proportional payment to finalize the transaction. The purpose of the latter was to ensure an equitable disbursement of space. The tenant would receive a free voucher worth a predetermined area of living space, generally a minimum of 18 square meters of living space per person, plus nine for a family.\(^{25}\) In the event the current unit exceeded the entitlement, the resident had to pay the difference between it and the assessed value of the apartment. Unfortunately, those residing in a unit that was smaller than the voucher's value were not given supplementary compensation.\(^{26}\)

During the Soviet times, the "average urban Russian family either occupied a very small single apartment or shared an apartment with one or more other families… According to a 1980 Soviet estimate, 20 percent of urban families (and 53 percent in Leningrad) shared apartments."\(^{27}\) Young married couples almost without exception lived with a set of parents until they could secure their own apartment. However, given the shortage that already forced extended families to share small quarters, the


\(^{25}\) Raymond Struyk et al, *Implementing Housing Allowances in Russia*, p. 23

\(^{26}\) Kosareva and Struyk, *Housing Privatization in the Russian Federation*, p. 86.

\(^{27}\) Library of Congress, *Country Studies: Russia, Soviet Era*
process frequently took years. Waiting lists for an apartment sometimes "lasted more than ten years for ordinary Russians." Privatization itself was not going to be a simple task. Not enough units were available in the urban areas to fulfill tenant entitlements, and insufficient rent almost guaranteed that what was available was not ideal. In 1990, nearly one-quarter of Russian residential buildings had been built before 1917. Housing maintenance was financed by state budgets, with only 3 percent from rental payments. Moving to the countryside could have been an option for some citizens. There was more space available and private home ownership was an option, but existing structures rarely had basic amenities. As a result, Russian residents lived on an average of 16.4 square meters each—a mighty small parcel compared to Western averages of thirty to forty-five square meters per person.

While businesses were becoming private property on a daily basis, there was disorder in the housing sector. State legislators sought a mechanism that would limit the mayhem and provide some protection of property rights. In December 1992, the legislature passed the Law on the Fundamentals of Housing Policy, regulating both the rental and owner-occupied sectors. Among its provisions were regulations for increasing rents and permitting eviction from municipal apartments to low-quality housing for non-payment of rent. It also introduced housing allowances and competitive procurement procedures that helped maintain state housing, as well as approved condominiums. Of particular importance for a home-seeker were the

28 Ibid.
29 Ibid. Note: figures given are dated 1990 in Country Studies analysis of 1996.
portions of the legislation that elucidated property rights and opened avenues to securing mortgages and loans.30 The Law on the Fundamentals of Housing Policy further restricted the types of buildings that were not to be privatized, including: substandard or dangerous properties, apartments with common kitchen and restroom facilities, and those buildings of historical or cultural importance.31 The law indeed established necessary guidelines, but its implementation was extremely sluggish at the outset. According to Urban Studies research, privatization remained slow for a year until local governments determined which and how the properties would actually be transferred.32

As the United Nations Economic Commission for Europe (UNECE) has demonstrated, the Law on the Fundamentals of Housing Policy was a key starting point for restructuring the Russian Federation's housing sector. Before its implementation, only 33% of housing was private. By 2002 the figure had risen to 59%, and today it hovers around 70%.33 In this regard, privatization has exceeded some economists' expectations. In 1993, several experts in the field had only expected the successful transfer of 25-30 percent of housing stock.34 This law and subsequent related legislation guided further reforms, establishing a legal basis for homeowners'

31 Ibid.
32 Raymond Struyk et al, Monitoring Russia's Experience with Housing Allowances, p. 1790
34 Raymorg Struyk et al, Implementing Housing Allowances in Russia, p. 25
associations, modernizing the housing and utility sectors, encouraging activity within those markets, and implementing special need-based housing allowances.

One of the most critical burgeoning issues the law also addressed was the need to expeditiously increase rents toward the true market values.\(^3\)\(^5\) Conservatively speaking, rents in pre-privatized Russia were a mere fraction of what was required to maintain housing structures and construct new residential facilities.\(^3\)\(^6\) Rents had remained relatively unchanged from 1927 until 1992 at a startlingly low 0.132 rubles per square meter, which did not vary depending on location.\(^3\)\(^7\) Costs beyond the minimum were absorbed by the state, but as the housing budget shrank, the need for housing repairs and more units grew.

Given the economic turmoil of the 1990s, a large percentage of the population was struggling to ensure the most rudimentary necessities. Prices on everything from electricity to food were subject to extreme fluctuations because of inflation. In many cases Russians who made payments for services or utilities did not receive what they had paid for, victims of extortion, theft, and sheer economic distress. Increased rent, although beneficial for the private housing market, could not be a viable option without providing some kind of protection or assistance for the general populace. Renters in the transitioning market could not afford the ever-increasing payments suggested by the economists. Russia's policy-makers recognized the need for a specialized program that would subsidize rents for the poorer families. The Law on Fundamentals

\(^{35}\) Raymond Struyk et al, *Monitoring Russia's Experience with Housing Allowances*, p. 1791
\(^{36}\) Ibid, p. 1793
\(^{37}\) Library of Congress, *Country Studies: Russia*
legislatively established such a program for renters, while new homeowners would be able to secure loans and mortgages.\footnote{Raymond Struyk, Monitoring Russia's Experience with Housing Allowances, p. 1791}

Such reforms did effect a notable change in Russia's housing structure. As privatization occurred, this meant a general shift in responsibility for building maintenance from the state to the homeowner. In principle, the homeowner now had an incentive to invest in their property, which was a great asset. The state stood to benefit economically from the transition, boosting revenues through a sector that previously had not been much of a contributor. According to UNECE, the housing sector "typically accounts for 10-20\% of total economic activity and housing investment constitutes 2-8\% of GDP."\footnote{UNECE, Country Profiles, Chapter II: Housing Reform} Early optimism hinged on the possibility that the transfer of a substantial share (perhaps 25 percent or more) of units into private ownership [would] serve as a catalyst for the private housing market: Some of the new owners will sell their units, either to move to a more desirable existing dwelling or to build a new one. For example…in Sofia significant privatization from 1990-1991 was accompanied by a fivefold increase in private sales of real property… In any case, the volume of transactions will accelerate, thus opening up possibilities for persons to improve their housing circumstances.\footnote{Kosareva and Struyk, Housing Privatization in the Russian Federation, p. 82}
The plans having been drawn, the "period of implementation" began in late 1993-early 1994. While housing allowances would continue as needed, the law originally only afforded a five-year period to increase rent to cover 100 percent of basic operating costs. The Council of Ministers and Presidential decrees launched the law on a national basis. As with the adoption of residential registration procedures, phased rent increases and housing allowance programs proceeded at unequal rates as local authorities developed their own implementation plans. By July 1995, Russian government data determined the rent-allowance program had been extended to 95 percent of the population. World Bank reports, however, overshadowed the seemingly positive state data—the majority of households that did not receive subsidies in the prior year had indeed been eligible for assistance. This meant a noteworthy amount of people continued to struggle against rent increases while rising energy costs exacerbated their circumstances. The World Bank pointed out that the energy prices alone were estimated to double in a few years, and hardship and eligibility rates would parallel the spike. Why eligible residents would have chosen to forego supplementary housing allowances is a curious topic and will be discussed in a later chapter.

Reevaluating Russian Housing

For an average Russian citizen, the process of acquiring a home in the mid 1990s was much more complicated than in the previous decades. Whereas the state

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41 Raymond Struyk et al, Monitoring Russia’s Experience with Housing Reform, p.1792
42 Ibid, p. 1794
bureaucracy had determined where a person and their family would live, exacting only a nominal fee for rent or utilities, the transitional government was creating a new web of complications that both stifled and yet liberated the housing market. Old measures like the propiska were still in effect in a multitude of Russian cities and towns, allowed to operate as power was decentralized and local governments could exercise more independently. If a person had lived in a state-owned multi-unit residence, he received a voucher, becoming the owner of his immediate unit during privatization generally for free. Or if he had resided in a single-family house, the residents did not receive vouchers but the property still became private. A citizen was then able to sell it and move, in theory, to another property. He could then rent, receiving assistance if deemed eligible, or purchase a unit with the option of taking out a mortgage.

According to economists, a healthy private housing market is a boon to the nation's economy. As homeowners realize their assets and invest money in their upgrade, both the GDP and the individuals benefit. Renters should also reap benefits, particularly as revenues from rent are reinvested in building maintenance. As people see the improvements, their trust and expectations will grow, helping stop the cycles of non-payment and disrupted services. Economic growth will support increased revenues and individual wages, resulting in greater available funding. These funds could then allow for more extensive repairs, upgrades, and new building construction.
The end result, in principle, is a greater availability of acceptable housing, economic growth,\textsuperscript{43} and more of a personal role in determining Russia's standard of living.

\textit{The Realities}

Privatization, therefore, would seem to be an extremely beneficial symbiosis for state and citizen. However, as with any venture into an area of inexperience, the process itself has not been without numerous complications for both parties involved. One area of uncertainty that both resident and the authorities operated within was the radical change in ideology. The "notion of private ownership of land and housing was diametrically opposed to the concepts at the base of Soviet society, so the advantages of privatization were not immediately understood—especially as low-rent state housing continued to exist alongside expensive private property."\textsuperscript{44} Russia's transformation from communism to capitalism could only truly occur through changes in policies that were driven by a new perspective. Housing, among many other sectors of the economy and society, continues to be plagued by the past. Certain areas have been more radical in their approaches to modernization, such as natural resources, while others including housing, health, and education have been more significantly hindered by inconsistencies in implementing new policies and perhaps the specter of the Soviet experience.

\begin{footnotesize}
\textsuperscript{43} Kosareva and Struyk, \textit{Housing Privatization in the Russian Federation}, p.83
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Developments in legislation have been mixed across all sectors. In relation to housing, there have been numerous incidents of incompatibility between the Russian president and the Federal Assembly, or Duma. For instance, although the Law on the Fundamentals of Housing allowed for establishing condominiums back in 1992, the lack of an executive signature suspended implementing the final regulations well into 1997.\textsuperscript{45} At its outset, housing privatization lacked a comprehensive framework that would clarify and coordinate both public and private responsibilities. Moreover, the relationship between the two sectors bore contradictions between the Russian Constitution and Housing Code, in addition to more minor legislation.\textsuperscript{46} Gosstroy, the Soviet carry-over State Committee for Construction, had been the only real entity resembling a parliamentary body at the federal level. Gosstroy initiated the establishment of the Central Coordinating Council of State Housing Inspections in 2001, but its sole role is to monitor housing construction and city services.\textsuperscript{47}

While this may be helping ensure residents receive undisrupted services like electricity, water, and refuse removal, it does not coordinate implementation of state legislation or advise the Kremlin on current or future housing issues. The UNECE report noted "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

\textsuperscript{45} Raymond Struyk et al, \textit{Monitoring Russia's Experience with Housing Allowances} (1997), p. 1816
\textsuperscript{47} Ibid.
This gap prolonged the process of privatization, and has stultified efforts to disburse housing allowances since the mid-1990s. Residents, as a result, remain caught up in the unfriendly process of trying to secure a domicile and ensure proper payments for services and rent. Uncertainty continues regarding personal responsibility for, and authority over multi-unit apartment buildings. In effect,

The multi-unit housing stock…remains public housing from the perspective of repairs, maintenance, upgrading, and utilities, regardless of the percentage of apartments that are privatized. The municipality is still viewed as the owner…and [continues] to provide maintenance, repair and rehabilitation—generally at inadequate levels mostly due to the lack of funding.\footnote{UNECE, \textit{Country Profiles on the Housing Sector—Russia; Chapter II: Housing Reform}, p. 30}

Part of the problem with this perspective is that it undermines the potential for an individual to take a vested interest in his own property. With no real concept of personal property, it is unlikely residents in multi-unit buildings would band together and assume management of their common property. Suggestions that the existence of partly or fully-privatized multi-unit buildings would clarify owners' rights and improve general maintenance\footnote{Raymond Struyk, \textit{Implementing Housing Allowances in Russia}, p. 31} may have been rather optimistic. Clearly this concept has failed in many cases and noticeably affects many Russian residential buildings.

A colleague at a Washington, D.C. academic institution once expressed her fascination about such a visible failure in the Russian housing situation. After

\footnote{Ibid.}
discussing the nature of the country's predicament, for example acute shortages of residential space and buildings that have outlived their life expectancies, inevitably the state of disrepair arose in the conversation. She was seized with ardor, trying to account for the enormous disparity between common areas like stairwells, outer doors and walls, and the apartments themselves. For anyone who has visited a Russian person's home knows well the incongruity between public and private spaces. Inside, personal living areas are often little oases with plants, books, and tokens of pride. Outside, perhaps just beyond the triple-locked, double-doored entry, paint crumbles on walls, windows are smashed, light bulbs are missing, and good ventilation is sorely missed. As my colleague had asked, "What does it mean?"

**What does it mean?**

First and foremost, the disparity between public and private areas illustrates the lack of coordination and funding for building maintenance. Although accurate data reflecting the backlog of scheduled repairs and/or the shortage of funds was not available for this paper, the United Nations Economic Commission for Europe study of 2003 described the housing situation as "worsening daily due to the near absence of maintenance, renovation and reconstruction. Given the age 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." Optimistic suggestions that increased rents and private

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51 UNECE, *Country Profiles on the Housing Sector: Russia; Conclusions and Recommendations*, p. 6
ownership would rejuvenate the housing market have mellowed as it has become evident these methods alone are insufficient.

Local governments that took the reigns of responsibility for their residential development were overwhelmed by the rising costs to maintain and provide services. In several regions, new taxes were enacted to supplement market revenues. Rent payments were increasing, but not rapidly enough the meet the federal five-year plan of actual market value. In 1996, three years into the five-year plan, an amendment to the Law on Fundamentals extended the time frame to ten years—2003. This meant the transition period would encompass two federal programs, namely 'Dwelling' and, in theory, the UN Millennium Development Goals. Both were approved for implementation and had prominent housing objectives; both shared numerous setbacks.

As UNECE noted, the "rapid…privatization of apartments…lies at the heart of the fundamental problems and challenge in the…housing sector." Necessary, effective frameworks were not in place to coordinate the massive project, nor was there organized and accurate monitoring. One egregious shortcoming was and continues to be the uncertainty of how much it actually costs to maintain housing in the Russian Federation. Russians struggled with cramped, deplorable living conditions for decades with little promise of a quick fix. Waiting lists have all but gone away for Russian citizens awaiting new housing; twelve years ago the quantity was some 9

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52 Raymond Struyk et al, *Monitoring Russia's Experience with Housing Allowances*, p. 1794
53 UNECE, *Country Profiles on the Housing Sector—Russia: Summary of Conclusions and Recommendations*, p. 6
54 Raymond Struyk et al, *Monitoring Russia's Experience with Housing Allowances*, p. 1794
million citizens.\footnote{Library of Congress, \textit{Country Studies: Russia; Post Soviet Conditions}, p. 2} The population may be shrinking, but the shortage has continued for so long that it is doubtful there will ever be a surplus, given current conditions. The construction of new residential buildings has been in flux since its apex in 1987. In 2001, it was approximately only 40 percent of 1990's volume. Even if construction resumed at 1990's rate, today it would equate to just a 2 percent increase in housing each year.\footnote{Ibid.}

As noted earlier, the provision of utilities and other services also has been far from ideal. This sector was as inefficient and outdated as the residential buildings themselves and direly in need of upgrades. Both of these sectors suffer from under-funding and municipalities still bear the brunt of financial responsibilities. Funds have become increasingly available as the economy has grown on average 5 percent a year.\footnote{Philip Hanson, "The Russian Economic Recovery: Do Four Years of Growth Tell Us That the Fundamentals Have Changed?" \textit{Europe-Asia Studies}, Vol. 55, No. 3 (May 2003), 365-382, p. 366.} Russians themselves have been contributing more towards operating costs. However, as in any area that is desperate, work commonly gets accomplished one of two ways: a contractor who will tackle the problem for the least amount of money, or who is already ingratiated with those orchestrating the changes. In any event, Russia has the dubious history of operating \textit{quid pro quo}, a fraternity of business owners, foremen and government officials who may choose to settle things the old-fashioned way, much to their own benefit.\footnote{This is not to say that similar business exchanges in other countries are without favoritism or seamy agreements. Russia's history of \textit{blat}, bribes, and skimming off the top has made such practices} Such activities have stunted the growth of
competition in construction, maintenance, and utility services. Despite these setbacks, a "slow but steady increase in the number of private companies within the sector" has been occurring in recent years.\(^5\)

Tenants and homeowners have all been affected. Originally those residents who received units *gratis* had the greatest benefit. They immediately received a valuable asset while those renting apartments were subjected to ever-increasing rents. However, new homeowners were not always cognizant of their rights and responsibilities, including financial drains like maintenance and taxes. They were required to pay for utilities just as renters, frequently meaning paying bribes to keep or improve service. The Library of Congress country housing profile claims the pervasive distrust of housing and service authorities compelled many Russians to live in more cramped and worse housing than during the Soviet era.\(^6\)

Renters, although experiencing similar hardships during the years of the opening housing market, began to receive a respite via housing allowances. These government subsidies are based on personal income and do not detract from social benefits like pensions. Therefore the allowance is a direct supplement to the household income, though not taxable.\(^6\) The sole purpose of the allowance program was and is to bridge the gap between the cost of rent and household income.\(^6\) Its implementation, like many projects', had a bumpy beginning. Although initial eligibility was

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5. UNECE, *Country Profiles on the Housing Sector—Russia: Housing Reform*, p. 30
62. Library of Congress, *Country Profile—Russia; Post Soviet Housing Profile*
determined by the locality, enrollment in the housing allowance program remained the responsibility of the residents.

**Individual Actions**

The process of approval for housing allowances was originally quite unknown to Russian households. In order to receive the funding, the government had to determine the tenant was eligible. The individuals were not necessarily informed of their eligibility, sometimes even of the program itself. Once both of these things were confirmed, the household had to consider itself eligible to participate and file for enrolment. Those tenants who expected great benefits were obviously the most likely to enroll, despite the hassle of collecting the requisite documents and applying at the program office in person. Enrollment may have been limited by the household's perception of taking assistance from the government, although it is my belief that the ingrained expectation that the state would provide the essentials would have been more a boon to enrollment rates than a bane.

Nevertheless, the enrollment rates in 1994 fell short of estimates. In all likelihood the population's general lack of instruction, the government's failure to disseminate relevant information, and the newness of the process with all its bugs caused the low rates. Moreover, that same year federal subsidies benefited particular sets of people—those who had been victimized by the state, the Chernobyl catastrophe,

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63 Raymond Struyk et al, *Monitoring Russia's Experience with Housing Allowances*, p. 1797
64 Ibid, p. 1812
and military and internal affairs personnel. For these alone, 44,000 apartments totaling
2.7 million square meters were built, while construction for low-income families was
reduced.\textsuperscript{65} One year later, studies show improvement in numbers of enrollees and
monies distributed. Reallocation of the budget and familiarity with the process most
likely led to the change, although there were still numerous complaints about housing
office efficiency and the individual's requirements in the process.

\textit{Part II: Mortgages and Lending Come to Russia}

Although the Law on the Fundamentals of Housing of 1992 created the
opportunity for banks to begin making loans available to aspiring homeowners, the
process was unsurprisingly tardy in becoming effective. Just as privatization had
begun in fits and starts with nothing more than guiding concepts rather than hard
policies, the mortgage market in Russia was no more fortunate or organized. The very
concept of borrowing money from banks or the government was completely suspect to
the majority of average Russians, who preferred the rock-solid surety of cash. For this
reason, credit cards, mortgages, and other forms of fronted financial provisions were
slow to become accepted and trusted in the country. Given the profusion of financial
schemes and dubious business dealings, perhaps people were intelligent in remaining
distanced from growing opportunities for borrowing money.

\textsuperscript{65} Nadezhda Kosareva et al, "Russia: Fast Starter—Housing Sector Reform 1991-1995," in Economic
Restructuring of the Soviet Bloc: The Case of Housing; ed. Raymond Struyk (The Urban Institute Press,
Compounding the general populace's hesitance to take out mortgages was the lack of a widespread public information campaign. Once more the scenario recalls the shortcomings of the privatization movement. People were not made aware of the steps to securing a loan, what obligations belonged to the individual or the bank, and even how eligibility would be determined. At the outset of the mortgage market it is very likely that the public was not informed because the government and business leadership itself had not definitively set guidelines or established the necessary framework. The idea of mortgaging in the housing sector and its possible contributions to the economy remained simply that—ideas that existed on paper. Despite the passage of basic legislation, no explosion in the numbers of mortgage-seekers appeared for years.

Russian banks were unable to stand up the mortgage system on their own. It is not because they did not have the manpower. And, given the constant moderate to rapid growth in GDP, with the exception of the 1998 financial crash, it is not because the banks did not have sufficient revenues to start the ball rolling. Namely, it was the Russian banks' complete lack of experience in the area as well as the government's inability to provide any guarantees to the banks that they would not suffer severe losses should residents default on their loans.66 The Russian Constitution itself, in particular Article 40 and its three provisions, has been in conflict with the development of a free real estate market. The Article guarantees every citizen the right to a home, which

cannot be taken away except when approved by the government and includes adequate compensation. Part two stipulates that federal and municipal governments are obligated to encourage construction and develop conditions conducive to upholding one's right to a home. The final provision of Article 40 provides the grounds for social justice—that is, low-income and certain groups of citizens are to be provided housing free of charge or at a reduced rate from the state and/or municipal stock.67

In sum, numerous incongruities exist within various legislation; the Constitution curbs the country's real estate market's most basic operation. This, when coupled with the lack of a comprehensive, viable framework for standing up the mortgage and lending system, resulted in its implementation at a glacial pace. Three years after the Law on the Fundamentals of Housing was passed, direct international intervention was necessary to catalyze the floundering enterprise. In 1995, the United States Congress spearheaded an initiative to support further development of the Russian mortgage system via the U.S. Russia Investment Fund, or TUSRIF. The fund was originally set at a conservative USD $440 million, "to make equity capital, loans, and technical assistance available to private businesses operating in Russia."68

By 2000, $200 million had already been invested. The fund established Capital Management Incorporated in 1999 as a means of monitoring operations.69

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69 Ibid.
majority of TUSRIF's efforts were focused on jumpstarting lending activity in the Russian capital. The approach makes sense when one considers the necessity of indoctrinating leadership and the hub of the country's businessmen with an understanding of how a healthy mortgage system should work. Evidently Russia's officials were unfamiliar with the tenets of an open lending market in the real estate sector and struggled to disabuse themselves of prior, flawed guiding concepts. Only once the upper echelons of economic and governmental strata had grasped and implemented the new process could it be spread and accepted in the country's other regions. Without top-down implementation, change would certainly be implausible in more removed sections of the country; without meaningful change of Russia's business and banking practices—and their relationship with the state—nothing but superficial change could occur in any area.

In the beginning of Moscow's development of its real estate market in early 1998, Mayor Yuri Luzhkov directly sought U.S. assistance. Of particular concern was the unconstitutional nature of repossessing property in the event of a resident's failure to pay. Banks and developers alike had no guaranteed mechanism to protect against losses, as the constitution would not allow for forcible evictions and the reselling of property. Most residential building projects were funded out-of-pocket by the developer, and individuals interested in purchasing property had one option: lump sum cash payment. There was nowhere for a Russian with decent, steady wages to borrow
funds in a city where a one-room unit cost anywhere from $30,000 to $60,000.\textsuperscript{70} The sector was deadlocked by mutual fears of irretrievable loss.

As a result, the nascent mortgage system could only afford to offer loans at high interest rates and short terms. Interest rates for the average home loan ran between 20 and 23 percent, which was astronomically high. TUSRIF lent $30 million to the banking giant SBS-Agro in 1998 with the stipulation that the bank would offer lowered interest rates, allegedly no higher than 18 percent on a 10-year loan. Unfortunately for would-be homebuyers, the lower rates were only available upon request. The bank would not publicize the deal for fear that it would be swamped by a demand it could not satisfy. Moreover, bank representatives admitted that it would most likely extend these better mortgages to its own personnel, although it would occasionally ensure it wasn't entirely exclusive of other homeowners\textsuperscript{71}. Despite growing international investments in Russian banking and lending ventures, the average Russian had not yet begun to reap the benefits. In the event a resident was approved for a housing loan, the person was required to put down a deposit equivalent to 30 percent of the overall purchase price.\textsuperscript{72} In Moscow, this was equivalent to approximately $9,000 to $18,000. Given the financial crisis of the late 1990s, the likelihood that a low to middle-income household would be able to afford the down payment alone was extremely small. The Constitution and reality were at odds: the

\textsuperscript{70} Rao Sujata, "Moscow Seeks Western Help to Develop Mortgage System"
\textsuperscript{72} German Abayev, "U.S. Russia fund looks to spread mortgage plan"
first guaranteed citizens a means to have a decent residence, while the latter demonstrated the inability of the government to make good on its promises to the populace. The notion of a timetable in which the state would fulfill any portion of those promises was never popularized. As a result, to resolve housing problems people remained dependent on the government--however skeptical and distrustful--in the same way they had been under communism. For the state and its citizenry, little had changed.

Moscow received assistance to some degree by the Department of Municipal Housing and Housing Policy. Together these entities have injected the mortgage system with a new impetus to bring money to the masses. Although earlier experiments in the sector were "less than successful…because of the novelty and complexity of the idea [of mortgaging] in Russia," new partnerships revitalized hopes of improving availability to middle-class Russians. In late 1999 TUSRIF partnered with five of Moscow's real estate companies and one building company. Sava, Paritet, Laurel, Miel, and Best signed on to offer 10-year home loans of up to $150,000 at a 13 to 15 percent annual percent rate (APR). Within the first three quarters of 2000 the distributing arm of the partnership, DeltaCredit, approved approximately $13.5 million in mortgages. This acceptable level of success prompted the company to consider reducing the down payment from 30 to 20 percent.73

Despite this promising increase in the number of mortgages and the decreases in applicable fees, still only the middle and upper classes had the opportunity to borrow

73 Ibid.
funds. Firstly, mortgages still were mostly for those who were "in-the-know" or associated with the companies providing the services, reminiscent of the older system of blat that had prevailed during the Soviet era. Secondly, the disproportionately small middle class was the lowest level of society that had sufficient and steady wages worthy of being entrusted with a loan. People within this class may not have had the money to buy an apartment or house outright, but they could afford the down payment and predetermined, fixed installments. The upper class could secure loans, but by their very position in society, there was often no need of borrowed money. In the event that a member of high society applied for a mortgage, his eligibility was also based on his legal income. It is evident, therefore, that those individuals most in need of funds to buy a home would be those least likely to secure them. The government was not doing a satisfactory job of ensuring conditions conducive to homeownership for all citizens.

Between 1998 and 2001 the Moscow Mortgage Agency, the core of the capital's mortgage system, only awarded 1,265 apartment loans. The system was almost exclusively targeting the upper classes, which were able to pump existing funds immediately back into the market. The economic crisis at the end of the decade dramatically set back lending programs in the country at a time when the real estate market had been exhibiting signs of promise, albeit only in certain parts. Therefore the only individuals who became involved in lending were those who already had the means. By buying property outright or securing short-term loans, the middle and upper classes were robbing the market of long-term growth opportunities; paying ahead of schedule reduced bank profits from interest. In Moscow, the market floundered even
more extremely while strategists struggled to find a way to exploit private wealth to save the mortgage system. Among the proposed methods was that lenders should mandate 50 percent of the purchase price up front, mortgaging only the other half. The other half would be a 3-year term at 8% APR, significantly lower than the 20 or 30 percent option, and would inject revenues immediately. Russian banks simply could not afford to approve mortgages for individuals who posed any threat of defaulting. Therefore those most in need of improvement to their living conditions were effectively ruled out of the process. Clearly the end of the millennium was extremely hard on the lower classes and the real estate market.

The Agency for Mortgage and Housing Credits (MHCA) was established in 1997, only slightly ahead of the impending financial crisis. Its beginnings were unavoidably hindered by the radical downturn in the economy just as many new ventures had been. Having been modeled after the U.S. Fannie Mae and the Canadian Mortgage and Housing Corporation, Russia's Agency for Mortgage and Housing Credits was structured to secure revenues through banks rather than direct lending. Moreover, the MHCA was an attempt to integrate Western capitalist practices to supplant the backwards, 'quota-based' ones that continued in the sector. In the new model, revenues originated from those persons who invested in the banking sector, who would then receive securities and a good return. These kinds of private funds have been a critical component in financing mortgage brokers in both the American

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and Canadian markets, providing a long-term financing mechanism. In Russia's case, however, the limitation of private investment and the banks' reluctance to invest in construction projects was a major hurdle. Banks and investors simply had no guarantee that they would receive a decent return, or that contracts would be fulfilled, rather than suffer enormous losses from which they simply would not be able to recover.

In addition to financial complications, the Agency for Mortgage and Housing Credits suffered from insufficient legislation. For three years the organization had been operating with no "government pledge to guarantee mortgage-backed securities [",]" which the agency felt necessary to help stabilize the mortgage system. Andrei Uzhegov, the head of the organization, cited the inadequate funding and legislation as the two greatest setbacks. Like the Moscow Mortgage Agency, although its scope is limited to the Moscow region, the Agency for Mortgage and Housing Credits predominantly targeted the middle class. The ideal person had a legal, reputable employer that paid decent and regular wages. This, as Uzhegov noted, occurred most frequently with workers in the banking and energy sectors. Therefore, although the agency aspired to nationwide operations, it was necessary to take root in the business centers like Moscow and St. Petersburg before offering services in lesser-developed areas.

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76 Ibid.
Regardless of the mortgage lender, interest rates were expected not to drop off as earlier optimists had hoped, but rather to swell to 25 percent, a nasty side effect of growing inflation. The mortgage program was caught in a deadlock. It could not receive investments adequate enough to allow it invest in lending and receive satisfactory yields. It was barely self-perpetuating. Because of funding shortages, it could not afford to risk extending monies to those who demonstrated any possibility of defaulting. Inflation and housing shortages caused complete pandemonium in Moscow and other business centers, so that even the ideal "middle class" borrowers were hard-pressed to find housing they could afford. Only those fortunate individuals, who were paid in a stable currency such as the American dollar or Euro, had a good chance of receiving a mortgage. Unfortunately the terms still remained very short—perhaps only 10 years or less—while the rates remained high, about 15 percent at best. In comparison, the U.S. housing market at the time averaged 6.25 percent for a 15-year payback. Banks needed "a high rate to make offering mortgages worthwhile." Investing in Russia—either by foreigners or Russians themselves—was a very risky venture.

For the average resident who was paid in rubles, lived in outdated and under-maintained high rises, and could not afford to pay for a home in a lump sum of cash, it would be a long time before taking out a mortgage was an option. A moderate amount of residents may have had incomes that would satisfy lender requirements, but it

77 Ibid.
78 Ibid, p. 3
frequently happened that portions of the income were unreported, or "gray" incomes. These could be from genuine, legal enterprises or not, but in any case the amounts were not revealed because of the austere tax system. Before the flat income tax rate of 13 percent was introduced in 2001, the practice of nondisclosure was even more widespread. However, since the majority of mortgage lenders only approved loans based on "white" income, many qualified would-be buyers were disqualified.\textsuperscript{79} It was a double-edged sword: report one's true income and lose money to taxes, or not truthfully report it and lose the opportunity to secure a loan.

There were ways, however, to circumvent the income requirements. The most common method the banks employed was to offer funds at an extremely high interest rate—up to 80 percent on the contract, but perhaps 10 percent less in reality.\textsuperscript{80} The practice allowed both the bank and the individual to benefit, although to a lesser degree for the latter. It is understandable that the bank would need a mechanism to protect itself from losses. The astronomically high interest rates, unparalleled in the history of the United States' mortgage system, demonstrate the desperation of an individual to secure a home in Russia as well as the gravity of the banks' position. The ability only to risk funding short-term loans undermined the kind of self-perpetuating, long-term financing essential to the health of a mortgage system.\textsuperscript{81}

What has not been lacking in the mortgage market since the beginning of the

\textsuperscript{80} Ibid.
\textsuperscript{81} Robin Munro, "Faltering Mortgage Program Leans on State," p. 3
millennium is the appearance of hopeful borrowers. Although Moscow's and national attempts to construct a functioning system were markedly inconsistent and pervaded by tendencies to focus on output rather than results, as time passed gradually more of the population was becoming acquainted with the concept of homeownership and financing to make that dream a reality. In the early 1990s, little if any adequate legislation provided definite parameters for the newly permitted lending market. Relatively few individuals took advantage of the opportunity, as routes to borrowing were nearly impassable. Several years later, more avenues were opening but significant obstacles remained for anyone of a moderate income. A large quantity of Russians remained on waiting lists for housing throughout the decade, growing in number as the economy soured and investment in banking and residential development took a hit. For a brief period in late 1998 and early 1999, many pilot mortgage ventures were halted as the economic environment turned volatile. Nonetheless, there was hope that once the economy improved, the doors of opportunity that had merely been opened would be flooded with passers-through.

During the 1998 crisis, "rental prices on all but the most expensive apartments took a battering and continued to fall over the first half of 1999. As the year drew to a close they appeared to have leveled out. Downtown two-room apartments that once commanded monthly rental fees of $700 to $2,500 [were] now widely advertised for

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prices ranging from $250 to $1,000."83 Prices within the housing market fluctuated less, as The Moscow Times reported, because such property was already seen as having a veritable value regardless of wider economic developments. Nonetheless, the closing months of 1999 saw an increase in sales by approximately 20 percent, due to price decreases and the impending law that would require large purchases be reported to the tax authorities. The office and business property market also enjoyed increased activity, taking advantage of the price drops to improve their facilities.84 These moderate figures were testaments to a rebounding housing sector and improving economic conditions, however modest or topsy-turvy.

One contributing factor to the lending environment in early 2000 was the upcoming presidential election. According to many in the real estate sector, the political situation forced banking and lending institutions to take a wait-and-see position.85 Their fears were allayed and they became more optimistic after acting-President Vladimir Putin approved a state plan for a national mortgage system, clearly defining its main goals.86 The need for a larger, more developed mortgage system was dire—only one "full-fledged" private lending system existed in Russia through TUSRIF, and its operations remained restricted to the country's main business

84 Ibid, p. 2
85 Ibid, p. 3
centers. However, President Putin's action did not translate to an immediate, positive impact on the market. The Duma and state agencies, which had been working for several years to accomplish a similar task without marked success, would still have to develop the plan to implement the executive order.

*The Russian Mortgage System under President Putin*

With new vestiges of hope and the continued demand for housing, Russians were beginning to approach mortgages differently. Although residential prices were back on the upswing, TUSRIF and its local partner banks were dealing with a growing number of hopeful applicants. Banks were becoming increasingly inundated with requests so that the offices had considerable difficulty processing them. Protocol required a seemingly overzealous check into applicant histories, requiring everything from income and employment documentation, proof of residence (such as the *propiska* which remained critical in many locales), testaments of personal responsibility and lifestyles, and so forth. The complexities of applying for a mortgage were user-unfriendly and customer service was noticeably in short supply. The thoroughness was necessary for the lender in order to winnow the pool of applicants, leaving only the trustworthiest of them. As Gerald Gaige, Moscow's chief real estate consultant, remarked: "Mortgage policies are difficult to implement in Russia because the methods

88 *The Moscow Times*, "IN BRIEF: Mortgage Plan Signed"
89 Brian Humphreys, "Mortgages Unleash a Small Revolution"
for checking mortgage applicants' track records are not as reliable as in the West… and so, the more people drawn into the program, the higher the probability of failure.90

It remained a curious time in the market's development. The swell in numbers of aspiring homeowners is evidence of change within the sector, but simply receiving approval for a mortgage was not the end of the financial obstacle course. The high and exclusive interest rates and short terms of the loans made many buyers long for the ability to have paid the traditional way—in a lump sum of cash. Since many citizens were unable to produce such a large sum, a mortgage still made their personal goals possible. The population's residual distrust of banking schemes, however, often posed problems of its own, as many real estate agencies and sellers refused to accept payment through mortgaged funds. The fear was not completely ungrounded—cases of money transfers that were lost between banks had been reported.91 And, given the widespread incidence of fraud and con schemes, one had to be doubly careful conducting such a large transaction.

Vladimir Putin's entry into the presidency marked the beginning of a new age in the economy and, subsequently, the mortgage system. During his time as acting president,92 Putin oversaw the drafting of the order to establish a national mortgage system, as mentioned earlier in the chapter. Coming into the executive post, Putin inherited the debate about land and property rights in both the business and residential spheres, which had remained at an impasse since the first wave of privatization in the

90 Christopher Kenneth, "Mortgage Program Gets Market Makeover,"
91 Brian Humphreys, "Mortgages Unleash a Small Revolution"
92 Vladimir Putin was declared "Acting President" on New Year's Eve, 1999. He was sworn in after national elections on May 7, 2000.
early 1990s. Related to these outstanding property issues was the ineffectual property tax structure, still sorely in need of modification. The Kremlin under Putin's leadership set out to revise the outdated system that was suffering inconsistent enforcement, corruption, and an overly complicated framework. The Putin administration clearly had a multitude of long-standing issues to resolve. To the their credit, however, the president and his cadre oversaw the transition from an economy that had been overly concentrated on the defense industry, to one very powerful and lucrative market centered almost entirely on natural resources.

Within this transition, Putin established himself as the "can-do" man. Regardless of one's personal opinions about the nature of his authority or autocracy, it is incontrovertible that he has been a key figure in increasing the Russian GDP approximately 57.6 percent over an 8-year period, and real incomes of the population by 65 percent.\(^\text{93}\) Other exemplary indications of progress under the Putin government include a reduction in unemployment from 8.4 percent in 2003 to 7.7 percent by summer 2006; the percentage of citizens living below the poverty line reflected a decrease of about 10 percent within the last 5 years, currently hovering around 15.8 percent.\(^\text{94}\) New approaches, new profits and investments, and renewed goals have allowed various sectors of the Russian economy and individuals' lives to enjoy varying degrees of success.

Signs of a healthier real estate market began emerging in late 2001. With the


\(^{94}\) Ibid.
Putin administration's passing of new Land Code in October, non-Russian citizens were now eligible to own land within Russian borders, albeit with a few restrictions. The law "eliminated the most significant obstacle to foreign investment in the real estate market in Russia, thereby giving foreign investors an incentive both to buy real property and to finance acquisitions in of real estate in Russia." And, as mentioned earlier in the chapter, the government passed legislation guaranteeing mortgage-backed securities for lending agencies. This helped boost the market because it added a mechanism for ensuring returns or the ability to recoup losses for investors should a venture fail. New residential construction was of particular concern for investors and lenders because the lack of competition among contractors allowed disreputable companies to continue operating. It was not always certain that a project would be finished without being subjected to skimming off the top, theft, or simply being abandoned for lack of funds. Without policies to limit the risks, few banks and private investors were interested in developing new housing. The most activity taking place during this time was in the "secondary market," i.e., the buying and selling of privatized, rather than newly constructed residences. Although the majority of the transactions were in the metropolises, real estate agencies and lenders understood the market would continue to expand as the economy developed. Tighter enforcement of a 1998 law provided more regulation and clarification for lenders' and borrowers' rights.

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96 Michael Heath, "Russian mortgage market reports boost in business"
97 Robin Munro, "Faltering Mortgage Program Leans on State"
and obligations. The Constitution may still preclude evictions in certain cases, but the reinvigorated law now offered the lender the legal means to recoup losses previously considered unconstitutional. Popular views on mortgages began to improve; middle class and expatriates made good use of their increased incomes and purchased real estate. The concept of residential space as a good investment had greatly developed and the country was finally experiencing political and economic stability. Still better for consumers, the Russian government instituted tax incentives for those individuals who took out mortgages. The loan interest and certain related expenses became tax-deductible, effectively reducing interest rates almost by one-half. As a result the first real strides in the mortgage and lending sector were made. It appeared Kremlin officials were overcoming old tendencies and developing business smarts, and improving the country's living standards could now enter the realm of possibility.

**Early Personal Opinion Polls**

A noticeable absence of personal perceptions about the housing and mortgaging sector has existed in the media. It is a curious omission, as consumerism or individual spending is a clear indicator of economic and real estate market progress. Without an adequate understanding of the average customer's preferences and fears, realtors and lending agencies cannot expect to satisfy government expectations. This may, in fact,

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98 Michael Heath, "Russian mortgage market reports boost in business"
99 Michael Heath, "Russian market reports boost in business"
be one of the reasons why the Russian federal programs have had limited success: business and political leaders do not fully comprehend the nature of lower class housing woes. Authorities recognize that a significant housing shortage remains, particularly for those whom the government promised housing (such as military members, retirees of government service, et cetera). They also admit that the greater portion of residential buildings have exceeded their life expectancies or require extensive refurbishment. Federal and local governments uphold the idea that average citizens are entitled to clean, decent, and safe quarters, and yet government plans fall short. The problem is not determining what the issues are, but how to correct them. Under the Soviets, plans were developed based on output: how much to spend or distribute—but not in response to a particular demand or to accomplish any specific end result. More so, the mindset was that a “supply was supposed to generate demand.”100 The lack of a 'results-based' orientation renders ventures hollow—there is no way to gauge efficacy or progress, or even determine the true nature of the issue at hand.

As a result, incongruities are evident between the aspirations of the government and the ambitions of the populace. For instance, the Law on the Fundamentals of Housing, which established housing allowances to alleviate fears of rising rents as well as the formation of a mortgage program, was not well publicized. Although the withholding of information may not have been intentional, the result was that far fewer

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people than those eligible applied for these services. State and local governments could then re-designate the funds for other projects—or worse. They possessed no sense of 'demand' that had to be met, only that agencies fulfill arbitrary quotas of disbursement. The Law on Mortgages of 1996 was supposed to lay the basis for a workable mortgage system. Clearly governments did not conduct any effective public campaign, as public opinion polls as late as April 2000 showed that 63 percent of 1,500 people had never heard of the word "mortgage." 9 percent said it was hard to say whether they had heard it; 21 percent said they had at least heard of it. Only 7 percent claimed to know what a mortgage was. In answering the open-ended question "What is a mortgage?" 86 percent of the non-Muscovite responses were entirely wrong, as were 59 percent of respondents in the capital city.\textsuperscript{101}

In 2002, Moscow residents looking for a three-bedroom apartment could expect to pay between $38,000 and $100,000, depending on the proximity to the city center. When one considers the average salary in the capital at the same time was 6,300 RUR (about $210),\textsuperscript{102} it would seem imperative that residents receive mortgages in order to branch out into their own domiciles. Media coverage has stated that the middle class, consisting primarily of young professionals, has constituted the majority of the borrowing pool; however, it has not clearly addressed the predicament in which the lower, more "average" working class finds itself. Conditions vary from region to region. In Moscow prices have been notoriously high. In smaller cities and villages

\textsuperscript{102} Irina Sandul, "Mortgage Loans Blossoming"
real estate has generally been cheaper. Metropolises inherently become the flagships of any national project as they are under greater scrutiny, and may emphasize international standards in maintenance and services, while more rural areas lag behind in providing modern amenities. This being the case, one would expect that residents in Russia's capital city would be more positive about basic living conditions.

In a poll conducted in September 2003, Moscow residents were interviewed about their level of satisfaction with their living accommodations. Slightly more than half (56 percent) were satisfied, 43 percent said they were not, while one percent was noncommittal. More than a third of the respondents were dissatisfied primarily with the size of their apartments, with complaints such as "our housing space is less than the prescribed sanitation norm"; "three families live in my apartment - 12 people in all"; "[there is a] problem of finding housing for our children when they become adults and get married." Seven percent of those polled lamented that their buildings were literally falling apart. Although the slight majority claimed to be satisfied, 76 percent of all respondents were "convinced that in Moscow today, there is very little chance for people like themselves to improve their housing conditions." Although housing credits were hypothetically available for registered Muscovites, 86 percent of the people interviewed said their household income would not permit taking out a mortgage. Some speculated that there would be more applicants if real estate prices were not so "crazy." Only one-fifth of respondents who were dissatisfied with their housing lot would consider a loan, although the younger generation was significantly more
inclined to borrowing money to upgrade their housing.\textsuperscript{103} Notwithstanding the growing availability of mortgages, the majority of buyers and sellers still preferred cash transactions however more difficult it was to gather the funds.

\textbf{2003-2004: The Mortgage System from Crawling to Walking}

In March of 2003, the state committee on the development of mortgages confronted the Duma about mortgage program inadequacies. Ivan Grachyov, the committee chairman, stated "too much red tape makes mortgages more expensive and less attractive" and tried to rally support for a bill that would ultimately protect both investors and homebuyers. Grachyov expressed the causal nature of Russia's lending system as in need of low interest rates and long-term finance, without which people will not take out mortgages. And, although the hope was to attract more borrowers, the system needed to limit the number of issuers so as not to discredit the system.\textsuperscript{104}

Essentially two things needed to be done: firstly, increase the degree of protection by the Federal Commission for Securities and other regulatory agencies for both lenders and borrowers; secondly, to cooperate with the Agency for Housing Mortgage Lending in pursuing avenues which would allow for lower notary and signing fees.

Additionally, as the market gained momentum, interest rates could come down,


resulting in the necessity for making refinancing available for responsible borrowers.\textsuperscript{105}

There is no traceable data to determine whether the specific bill for which Grachyov was lobbying was ever passed. However, his most pressing suggestions were seem to have been at least nominally incorporated later in the year in the Law on Mortgage-Backed Securities.

Although the housing market was expanding at a rate below its estimated potential, other international financial institutions besides TUSRIF agreed to inject funds into the Russian lending system. The World Bank's International Finance Corporation (IFC) agreed to a 5-year, $60 million credit line to support one of the original mortgage providers in Russia, DeltaCredit Bank. DeltaCredit has been among the six fastest-growing banks in the country, garnering investments from Dutch, German, British, and US banks, as well as continuous, noteworthy input from the IFC. One characteristic that sets DeltaCredit apart from other Russian banks is that since 2001 not only has it has held a banking license (which was not a requirement for operation), but it was one of only three Russian banks rated CCC+ by Standard & Poor's (S&P). In addition to being among the most reputable, DeltaCredit also is among the most affordable—rather than competitor's interest rates, which ran in the upper teens, in 2003 DeltaCredit mortgages ranged from 10 to 15 percent with longer financing terms available than the market average.\textsuperscript{106}

\textsuperscript{105} Robin Munro, "Duma Urged to Cut Red Tape"
Unfortunately, banks like DeltaCredit with foreign funding and opportunities for long-term investments have been more the rarity than the norm. In late 2003, the Russian Central Bank and a number of financial institutions were pushing for legislation that would allow for the country's own system of mortgage-backed securities. That is, so lenders would be able "to issue mortgage-backed paper to investors to finance mortgage loans to the general public." This provided Russian banks with a mechanism for ensuring long-term financing, cutting their own risk, while permitting them to offer longer payback terms for homeowners. One catch to the operation is that the lender needs the freedom to recapture assets in the event of default, i.e. eviction and resale. This particular shortcoming tainted the Russian housing market for years, as it was in direct conflict with the federation's constitution. Nonetheless, the law on mortgage-backed securities was passed by the Duma in October 2003. What exists on paper does not necessarily exist in reality: like all previous related legislation, it was months before it could be implemented. In the meanwhile, the investment climate remained lukewarm and, for aspiring homeowners, a stone wall to affordable and appropriate housing.

The following year, 2004, the housing market began to command even the executive branch's attention. The stagnancy of market conditions was precluding the

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tremendous growth that both the country's and international experts knew was possible. New housing construction between 2001 and 2004 increased living space in Russia by 40 million square meters, but the overall volume remained egregiously short. How short? Experts estimated that the need for housing approached 1.5 billion square meters.109 Waiting lists for those households wishing to attain new accommodations were shortening at a snail's pace. Professor Yelena Shomina of the State University of Higher Economics provided a much needed, sobering description of the situation in 2006. As she noted, the waiting list was comprised of about 8.7 percent of the existing residences. In a one-year period, only 5.2 percent of the waitlisted households improved their living conditions. That translates to a 20-year period to fulfill waiting list requests, if current conditions are maintained.110 These are hardly the signs of success President Putin had in mind in 2004 when his administration proposed that mortgage lending was "to become the basic instrument for solving the housing problem."

The key, government and banking authorities felt, lay in constructing a comprehensive and thorough legal foundation for the mortgage industry.111 In President Putin's address to the Duma in January 2004, he said "We must move the

housing problem from the 'pending' category to the 'being solved' category where there are clear perspectives. Banks primarily have been concerned about three issues: 1) ability to recoup losses in the event of insolvency, 2) access to long-term lending resources, and 3) reasonable taxation in the mortgage sector. Without improvements in these areas, mortgages would most likely continue to provide a paltry 0.5 percent of GDP—well below the European Union's 53 percent, Colombia's 12 percent, and South Korea's 14 percent. Banks themselves do not carry full responsibility for the state of the mortgage and lending system. Even with improvements in these areas, Russia's residential sector is not guaranteed success. The key to harnessing its full potential lies in state—state practices, that is. Changing the nature of governmental control over the economy and the role of lending institutions to achieving 'results-based' goals is the only way to liberate Russia's mortgage sector. Most importantly, however, it is the only way to effect real change in the country's living conditions and relieve social tensions.

In sum, despite numerous economic and legislative developments, the real estate market in Russia was performing well below its potential. At the close of 2004, the most salient reasons for its underachievement were hardly new ones. Banks and investors still did not have a guaranteed mechanism to protect their assets in the event of insolvency, nor did they have access to long-term financial resources. Persons wishing to obtain a home frequently did not have adequate or transparent incomes that would allow lenders to more effectively determine loan eligibility. Without a credit bureau, financial institutions were limited further in their efforts to determine creditworthiness.\textsuperscript{116} Housing demand was tremendous because of the chronic shortage of living units, making the process of becoming a homeowner extremely long and expensive. Citizens desperate for improved residential conditions and unfamiliar with the mortgage system could be deceived by disreputable schemes; as a result, the majority of Russians preferred lump-sum cash transactions.

President Vladimir Putin's perspicacity compelled him and his advisors to reevaluate the real estate market. They acknowledged the inadequacy of lending information to the public about mortgages and their credibility, as well as the need to make financing attractive to the people. The president determined that the mortgage system needed to be market-based and supported by a healthy operating environment,\textsuperscript{117} echoing the provisions of the Russian constitution. These epiphanies

\textsuperscript{116} Erin E. Arvedlund, "International Business; Slowly, Home Loans Catch on in Russia"
\textsuperscript{117} "Putin Calls for Mortgage System Improvement," \textit{The Moscow Times}
did not spring up overnight—the ongoing mediocrity of real estate market performance took several years to propel the housing issue to where it is today. 2003 and 2004 were not years of truly commendable progress. There had been measurable growth in the number of banks offering mortgages to approximately 200. Between 2004 and 2005 the number increased slightly once again, to 241.118 In 2005, greater strides were made in the total volume of mortgages that had been dispersed: up RUR 26 billion as of July 1st, and 52.5 billion by January 1, 2006.119

The data clearly reflects a positive trend. Unfortunately, the statistics are not compared with the data, or estimates, of what kind of results would be necessary to fulfill the goals of the Russian government. The cause of this oversight is not simple negligence: it is evidence of the Kremlin's failure to adopt results-based principles. Without data that accurately depicted the severity of shortages and other lifestyle indicators, it has been impossible to construct realistic and operative plans. After receiving promises of housing for decades, millions of people remain on waiting lists—3.3 million as of July 9, 2007—to be exact.120 Construction of new residential buildings has been inadequate for replacing aging facilities. About 150,000 apartments are condemned each year because of inadequate repair; in 2005, 87.8 million square meters of housing fell into this category. According to estimates, 60 percent of the

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current housing stock was built before 1960; 20 percent of city units lack indoor plumbing; and 27 percent of the total population lives without any modern amenities. The average person, whether by renting or owning an apartment, deserves better. And so far, despite the implementation of several federal initiatives (which will be discussed shortly), the government has been unable to fulfill their decades-old promises of decent housing for all. Instead, it has focused on its own efforts and relative expenditures with no perceptible recognition of its culpability.

Public opinion polls are very clear about the view from the bottom rail. The Public Opinion Foundation end-of-year survey reflected a slight rise in optimism from 2004, similar to the slight rises experienced in various parts of the real estate sector. Interviewers asked the question "Was [this year] better, worse, or the same as the previous one for you personally and in general?" In 2005, 47 percent of individuals thought it the same; 32 percent thought it a better year, and only 19 percent considered 2005 worse. The individual "increase in optimism" that FOM detected was indeed very small. In 2004, only 22 percent thought the year was better and 28 percent thought it worse.

With these kinds of trends, it is difficult to definitively say whether there was in fact a collective sense of optimism. It is doubtful, however, when one reviews the responses to "Was the outgoing year 2005 better, worse or the same as the previous one for Russia in general?" Answers to this question were very similar to the last. As

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121 Yelena Shomina, "Housing policy and housing reforms in Russia," slides 6-7
123 Ibid.
FOM noted, "In spite of a noticeable increase in positive evaluations and a decrease in negative opinions compared with last year, today's figures are less "optimistic" than 2003's, when 33% considered the outgoing year a better one for Russia than the previous one, with 11% believing it worse." Perhaps the most telling measure of the populace's contentment with housing was this: only 8 percent of respondents thought there had been any improvement in living conditions.124 Despite the growing number of banks offering mortgages, the increase in applicants, or the amount of money loaned to homebuyers—all measures of progress according to government planning-- only a sliver of the population felt the results. 2005 passed into 2006 with little more progress than the preceding years. The state has provided little if any information, apart from raw data with no interpretation or explanation, which can testify otherwise. Newspaper articles and other media covering the year offer extremely limited coverage of any noteworthy developments.

The only truly exceptional newsworthy event came on September 5, 2005. President Putin announced that the Russian government was launching a program to improve four critical areas: agriculture, education, health care, and housing.125 Given the designation Russia's National Projects, or Россияские Приоритетные Проекты,126 the program proposed a two-year term in which the state would tackle

124 Ibid.
126 Although the popular English translation of the federal program's name is "Russian National Projects," the more literal translation is "Russia's Priority Projects," which may be more indicative of a
problems at the core of substandard conditions in Russia as an "investment in human beings." The Center for Current Politics in Russia determined several reasons why the Putin administration designed the National Projects, giving a fairly comprehensive analysis of the driving concept that ranges at times from extremely pessimistic to credible.

The first reason, the Center suggests, is that of good intentions. Russian leadership sought a way to express their concern for the citizenry and the importance of reducing social dissatisfaction. As the public opinion polls have shown, a sense of discontent pervaded the lower levels of society at the time when the program was first announced. The second explanation for the National Projects may be that the government wanted to distract the public from the ever-growing Stabilization Fund and agitation that the funds were not being used to alleviate social problems. Thirdly, the Center for Current Politics suggests that the initiative is nothing more than a political ploy to identify Putin and certain circles of the federal government as populist, thereby decreasing public attraction to the Communist Party and other opposition. The final reason, the agency explained, was closely related to the third: by the very nature of the program's structure, those individuals who are held in the highest esteem within the population--doctors, teachers, et cetera-- support the president and further his party's

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reach, that of United Russia.\textsuperscript{128} One is wary, as this implies the Putin administration may be ‘buying out’ the country’s middle class for United Russia. The implications of such an agenda are serious, particularly as the Russian Federation prepares for the upcoming presidential elections in 2008.

The structure of the program itself is quite basic. Each of the four projects has its own task force under the auspices of the President's Council and separate budgets, carved from one federal allotment. The majority of the budget has been earmarked for what officials have determined the most critical issue, that of health care. The budget is nearly split in half, as one can observe in the diagram below.\textsuperscript{129}

![Diagram](Image)

At its inception, the proposed budget was set at RUR 115 billion, although it was later increased to 180 billion when it became clear that social tensions were growing and immediate action was necessary. The decades of unfulfilled promises were significant

\textsuperscript{128} Ibid, p. 118-119
on their own; public indignation, however, was burning like a fire fed with gasoline. The income gap continued to increase although profits poured in from the oil and gas industries. People were disgruntled by the widespread and flaunted corruption of oligarchs and bureaucrats. The international community, mesmerized by Russia's economic growth and power politics, generally fails to recognize that "this money never reaches regular citizens."130 The Kremlin has embarked on this new federal venture because, realizing the country's very core has been eroding and its people can no longer be placated with promises.

The national projects are hardly the only measures Moscow has seen fit to take in order to address the escalating tensions in the housing sector. Rather, the first proposal was the federal program titled 'Dwelling', which was supposed to be implemented during the period 2002-2010. Within Dwelling were two subprograms: 'Reform and upgrading of the housing and utilities sector in the Russian Federation' and 'Relocating the citizens of the Russian Federation from slums and dwellings in emergency repair.' The initiative's main purpose was to resolve the housing sector's chronic ailments and establish a basis for healthy self-sustainability, which would be accomplished through four strategies. The UNECE summarized these actions as:131

(1) Ensuring the stable and effective provision of housing and utility services that includes the provision of targeted social support to needy residents;

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130 Ibid, p. 120
131 UNECE, Country Profiles on the Housing Sector—Russia, Housing Reform, p. 30
(2) Making housing more affordable through the development of an effectively functioning housing market and appropriate financial instruments as well as providing support to residents with lower incomes to improve their housing conditions;

(3) Increasing the volume of housing construction by taking into account the demand and requirements of the residents;

(4) Ensuring that the federal budget is used more effectively to address the needs of disadvantaged population groups. This would also provide for re-housing those citizens who resided in condemned dwellings.

'Dwelling’ as a singular effort of the government to correct the situation was ineffectual. The concepts were reasonable if not overly ambitious, demonstrating some understanding that determining demand would be beneficial to the overall success of the program. Yet the state did not successfully implement the program as late as 2005 when the National Priority Projects were announced. Although the newest initiative encompasses several daunting tasks besides improving living conditions, it is apparent that they have, at least in the case of housing, revisited past and failed attempts with the intent of passing them off as new developments. In fact, 'Dwelling' concepts appear nearly verbatim in the National Projects documentation. The 2006 United Nations Millennium Development Goals for Russia also incorporate similar proposals, reaffirming the need for improvements while intimating that previous efforts had produced few results. The repetition of verbiage and plans is surely no coincidence.
As this is the case, it becomes more understandable why the Russian populace has remained skeptical of state promises. The same issues remain, due in large measure to the fact that strategies have also stayed the same. The average person, if at all aware of federal initiatives in the area, has become jaded.

Regardless of earlier failures, the Kremlin resolved to correct longstanding faults in the rudimentary structures of everyday life. By their very nature education, agriculture, and health care are critical for the continuation and productivity of society. Without the ability to feed, care for, and teach the masses, a country cannot progress. Shelter, one of life's basic necessities, almost seems an afterthought, especially as it is taken for granted in the modern era. However, in today's Russia, housing can no longer be relegated to the back burner or simply addressed through reinvented rhetoric. The gravity of the situation has finally compelled leadership to take action. Although federal action to improve agriculture, health care and education systems is of great importance and no doubt fascinating, sadly it falls beyond the scope of this paper. Government activity within the housing sector, particularly in the form of the National Projects and Millennium Development Goals (MDG+) is extremely relevant and warrants closer introspection.
Russian National Projects: Affordable and Comfortable Housing for Russian Citizens

The Russian National Projects as a whole fall under the direction of Dmitri Medvedev. Regardless of former speculation about President Putin's selection of Medvedev as chairman of the government program, the latter has overseen implementation of many new policies. The official designation of the government's initiative to improve living standards reflects two of its four main goals: to make housing affordable, particularly by bettering the mortgage system, and to improve residential conditions. The program provides funding to increase building construction so that more space is available as well to maintain existing building stock. These activities are necessary because without allowing greater access to living space, costs will remain exorbitant and therefore exclusive to lower-income households. Since the demand for housing is consistently great and availability is in short supply, it is more difficult for younger families to secure a new residence. Affordable and Comfortable Housing is therefore designed to directly support young families with special allowances.

Dmitri Medvedev works directly with three entities responsible for the implementation of government directives. These three are Rosstroy,132 the Ministry of Regional Development, and the Ministry of Finance. This tripartite operates on a budget of RUR 212.9 billion and "builds upon accepted fact that the majority of

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132 Rosstroy is the newest generation of the federal construction agency Gosstroy, which had been created during the Soviet era.
families cannot afford to buy their own housing and are reliant on [substandard] Soviet-era accommodation." Their ideals, as mentioned above, have changed very little from those of 'Dwelling.' One may argue that the earlier program has simply been subsumed into the larger, comprehensive project. No data attesting to successes or failures was available either to determine the efficacy of the housing-specific federal venture or to demonstrate its role within the National Projects. None of its guidelines reflected government strategies for accomplishing its goals. One wonders whether the program had any system of self-monitoring. Fortunately, the Russian priority projects appear to diverge from earlier efforts in this regard. The Ministries of Regional Development and Finance and Rosstroy have kept and published statistics regarding the distribution of financial resources within Affordable and Comfortable Housing. Moreover, federal policies and directives are readily accessible via the official Russian National Projects website. On the other hand, these are only examples of the state's continuing tendency to emphasize output rather than results.

A curious thing about Moscow's housing initiatives over the past five years is how very small the body of Western coverage or analysis on the subject has been. A dearth of resources concerning the relations of policies, economic developments, and their effects on various indicators, least of all on the general population is available. The essential provisions of Affordable and Comfortable Housing, beyond the succinct goal to improve living conditions in Russia, remain largely undisclosed in Western

133 This was the amount provided for 2006-2007, with RUR 122.9 billion directly from the RF budget and RUR 90 billion in state guarantees. Data provided by Eurasia Strategies Group: Moscow, Kyiv, Astana, Almaty. Information downloaded from internet as PowerPoint presentation from http://www.mmdcee.com/content.rus, slide 1.
circles. The lack of familiarity with the subject may be excusable in the United States and other countries, particularly when one compares the unfamiliarity of Russians themselves with the National Projects. Shouldn't a government initiative of such tremendous aspirations evoke a greater sense of international interest? Perhaps the global community is content to turn a blind eye to social shortcomings and focus on the enormity that is Russian natural resources. If social issues are "soft" in comparison, it bodes ill for progress—will such grave issues only be addressed by do-gooders and human rights organizations? 'Investment in human beings' should not require good returns to warrant support.

**Investment in human beings: Funding Social Improvements**

The Kremlin has demonstrated more of a determination to make this program work than its predecessors. If President Putin's intentions are indeed to exploit the national projects for personal or political purposes, he has been moderately successful. If his intent was to deliver on government promises to its citizenry, he has also been moderately successful. 'Moderate' implies that individual goals within the plan are being met or narrowly missed. However, determining what specific goals should be in order to effectively abolish current housing woes is more difficult to define. Moreover, there is no sign of a comprehensive body of data that allows for accurately rendering a qualitative and quantitative picture of the situation. What does exist is a collection of program policy letters, outlines of operation strategies, and budget allocations. Generally this information is only available through the federal website with no
In order to improve living conditions, the Russian National Projects (RNP) determined that the first phase of realizing its goals was to focus on four goals (note the focus on output):

(1) Increasing accessibility to housing

(2) Increasing the volume of mortgages

(3) Increasing the volume of residential construction and modernization of the communal infrastructure, and

(4) Fulfilling state requirements for providing housing to categories of citizens, as determined by federal legislation.

These measures are aligned under the program 'Dwelling', continuing as a mechanism of the RNP. Despite its former ineptitude, 'Dwelling' retains its 2002-2010 timeline and operates on resources from the federal compensation fund. Moreover, it has assumed additional tasks such as ensuring that housing is provided to veterans, invalids and families that have handicapped children.

The first goal, increasing the accessibility of housing, intended to improve the living conditions of 69,500 young families over the life of the RNP. Of this number,

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134 The term "communal infrastructure" is admittedly a vague one, as no exact definition of the concept is given in any of the federal documentation, nor are its parameters illustrated through examples of the kinds of improvements necessary within the domain.

27,800 were to be assisted during 2006. In order to accomplish this task, two activities were necessary. The government would provide subsidies to young families either at the time of acquiring a home or upon the first mortgage payment. The amount of the federal subsidy for any household eligible for subsidization was equal to 5 to 10 percent of the average cost of standard housing, but no less than 25 percent from regional or local resources for young families. For young couples with one or more children, it was no less than 30 percent. The second provision called for the development of a lending insurance system with the purpose of lowering the initial payment and fees upon receiving a mortgage.\(^{136}\)

*Affordable and Comfortable Housing* set out to raise the volume of mortgaging by increasing the yearly amount of granted mortgages. In 2006, the goal was to distribute 108 billion rubles; in 2007, 151 billion. Also, Russian legislators aimed to oversee the reduction of interest rates on mortgages to 12 percent in 2006, and down to 11 percent in 2007. The strategy to attain these figures included developing a unified system of mortgage refinancing, with a credit agency called OAO, which was backed by state guarantees—RUR 14 billion in 2006; 16 billion in 2007. The ideal return would pump between 3.5 and 4.5 billion rubles back into the system by the end of 2007. In addition to this specific plan was a more conceptual goal: to develop measures that would guide the formation of a mortgage market with a regulated, rights-protecting basis.\(^{137}\)

\(^{136}\) Ibid, p. 1-2  
\(^{137}\) Ibid, p. 2
The third goal of RNP efforts to improve living standards was to increase the volume of residential construction and to modernize the communal infrastructure. The overall target was to add 4.3 million square meters of living space in 2006, and 7.8 million in 2007. To increase production to this degree, it was also determined that the portion of private investment ideally needed to expand to 20 percent. Within this goal was another subprogram: "Providing land plots with a communal infrastructure for the purposes of residential construction," which is as it sounds—an effort to turn fields to apartments. This included federal guarantees in the amount of 12.5 billion rubles for 2006 and 17.5 billion for 2007, while providing a total 5.5 billion rubles in available subsidies to borrowers. The underling program also envisions the introduction of a system that would curb administrative barriers and develop a market infrastructure, as well as regulate city building and ensure anti-monopolization of residential construction. The final provision of the goal is to modernize the communal infrastructure by means of state support amounting to RUR 10.1 billion. The only description of the task is that financial resources will be extended to those "subjects of the Russian Federation who are satisfying the requirements of developing market relations in the communal-residential sector."\(^{138}\)

The fourth and final Affordable and Comfortable Housing goal is the fulfilling of state requirements for providing housing to the various categories of citizens. The task is rather straightforward, if not overly simple: to improve living conditions for 76,200 families, including veterans and the disabled; there is no indication of the

\(^{138}\) Ibid, p. 3
portion of the population in critical need that this number would benefit. Two methods referenced in Protocol No. 2 lay the basis, though provide no detail about the operational plan, for accomplishing this. First, the program will provide 41.7 billion rubles for the purpose of providing subsidies to citizens of the Russian Federation in the form of state housing certificates. Second, the federal compensation fund will provide 8.2 billion rubles to improve living conditions for veterans and invalids over the two years that the national projects span.\(^{139}\)

The Russian National Projects appear to have a clearly defined purpose and accountability for funds necessary to accomplish it. Unfortunately, as it had been during the Soviet era, the institutions responsible for incorporating changes and restructuring the failed housing sector have not assumed a results-based approach. They have not experienced true change at the core. Rather than compiling data consistently-- from year to year and indicator to indicator-- in order to provide leadership with a baseline from which successes could be measured, the agencies have instead continued to focus on meeting arbitrarily set quotas. The emphasis remains on allocating resources, not the results of the programs that they finance. Where are the comprehensive data sketches that identify the number of people awaiting housing, the amount of housing available, the net gain or loss of that stock after construction and deterioration? These would greatly aid those policy makers determined to bring about real change, because this kind of information would clarify a very important concept: demand. Without having determined the demand, it is impossible to deduce to what

\(^{139}\) Ibid.
Meeting Russia's National Housing Goals—or Not?

It is difficult to say whether RNP are fulfilling their goal of improving living conditions within the country. On one hand, any improvement—whether a reduction of the amount of citizens on the waiting list, or the addition of living space—could be considered a "success." On the other hand, the lack of defined qualitative goals that one would associate with incontrovertible proof of progress has given the Kremlin a loophole in which it can operate beyond profound domestic and international scrutiny. Russian leadership has purposely designed program strategies and definitions of success in terms of the amount of money spent on them. For example, the first goal of Accessible and Comfortable Housing is to increase accessibility to housing, but the main way of accomplishing this is to "better living conditions for 69,500 young families." Through varying increments of subsidization and improving mortgage security RNP will complete the task. But, to what end? What does "bettering living conditions" mean—extracting a young family that shares quarters with numerous relatives and resettling them in a separate space? Bridging their income from poverty to low-to-average? By its very ambiguous nature, this strategy can both instill hope in young families and yet distort state accountability.

Ambiguity threads itself throughout the second goal as well. To "increase the volume of mortgages given out yearly" smacks loudly of Soviet tendencies to focus on
meeting output targets to no specific end. Distributing RUR 108 billion in 2006 in mortgages to RUR 151 billion in 2007 could happen without any changes to the existing structure apart from softening application requirements. The mortgage system before the national projects came online had already been seeking developments like mortgage securities, a credit bureau, and opportunities for foreign investment. The fact that this issue was rolled into the projects makes it appear more a 'filler' than a priority. There is no readily available guidance regarding the distribution of mortgages, whether the resources will target certain areas, categories of people (such as veterans or those with handicaps), or households on waiting lists.

The secondary goal, i.e. the lowering of interest rates incrementally down to 11 percent, is also unusual as a social services goal rather than a natural government-market relationship. Lowered interest rates generally occur as a response to positive growth in the economy. Nevertheless, this has been successful as defined by Kremlin terms although it prompts one to inquire why the government did not tackle the problem sooner—especially since the idea had existed for several years. It may also be that Putin's administration wanted to ensure success to demonstrate the efficacy of the national program, perhaps at a time when his popularity was waning. In this way the Kremlin would garner both global and domestic approbation at a time of its choice, to be exploited as necessary should any entity question the venture. Similarly, the measures called for the formation of a credit bureau and mortgage security system. These have both been realized although it is difficult once again to judge their contributions to the lending process. No comprehensive and accurate data were
available to juxtaposition current trends against those predating the National Projects initiative.

Goal number three is the most perplexing of Affordable and Comfortable Housing proposals. At first glance, introducing 4.3 million square meters in 2006 and 7.8 million in 2007 seems to be a feasible, attainable goal. However, government agencies have no clear determination of how much this would increase the availability of housing. No opposite indicators ground the strategy, such as the average amount of living space that becomes uninhabitable. Russian sources include the goal of decreasing the deterioration of communal structures to 55 percent, but 55 percent of what number? That is a significant rate of degradation and warrants a more explicit explanation. What is the net amount of residential area? Is it more than the previous year’s? One Western source estimates that in order to maintain current levels of housing stock, Russia needs to construct 90 million square meters each year. Moreover, to be on a par with Europe, the country requires closer to 200 million square meters per year. Shots in the dark, present here in the selection of arbitrary construction and quotas, statistically miss their mark.

The remaining portions of the third priority also forego defining the ideal end result. In short, the Russian government will provide subsidies to developers in order to convert land to residence. In one sense, this is helpful because it combines the federal-backed security guarantee with incentives to decrease risk to potential

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140 Nichole Marcus, trans., Protocol No. 2, p. 2
construction companies and investors. Unfortunately the construction industry has long suffered from a lack of internal competition as well as acute corruption. The problem is extremely pervasive and complex, making it doubtful whether other provisions of the national projects could in fact be a remedy, particularly the creation of an agency that thwarts monopolies and administrative barriers. The trend is reminiscent of the Soviet machine with its committees that had many shared responsibilities, few sound goals, and ultimately no accountability.

The concluding subprogram of Affordable and Comfortable Housing is similar to the first as it is distinctly a social welfare mechanism. Whereas the first goal sought to better the living conditions specifically of young families, this final one targets military veterans and disabled persons. Protocol No. 2 stipulates that the state will distribute housing subsidies and certificates in order to fulfill its constitutional obligations. Russian leadership continues to operate within its realm of familiarity, using numbers of families and individuals who have been assisted and the amount of resources expended on the overall effort as indicators of progress. According to the state, the program is working well—and sometimes beating expectations-- because it continues to associate 'money spent' with 'progress,' naively deceiving leaders (although not the populace) into believing work has been done. Herein lies a great conundrum: where does the money really go? It is common knowledge that the sector suffers rampant corruption and needs to be corrected. But given its current hollowness, how can the Russian judicial system play a stronger role in ensuring business is transacted legally?
Despite the lack of transparency, construction companies are erecting more residential buildings that will ideally give the 3.3 million people on the waiting list an opportunity to own a home in their lifetimes.\textsuperscript{142} Despite the arbitrariness of the construction target for the first year of the program, the industry surpassed its goal by building 110 percent of the planned living space.\textsuperscript{143} According to state data, during the first half of 2007, 21.2 million square meters of living area was constructed—nearly 35 percent more than during the same period in 2006.\textsuperscript{144} The increase correlates with a law passed during mid 2006 that finally granted lenders the right to foreclose on homes whose owners defaulted on their mortgages.\textsuperscript{145}

Also, a small media campaign launched by banks, for example Uralsib's "Say No to Rent" program, promoted mortgages in order to dissipate misconceptions about their purpose.\textsuperscript{146} In early 2007, Dmitri Medvedev gave a speech in Novgorod in which he announced that 2006's program goals had been achieved. Of particular significance was the total sum of mortgages taken out—RUR 200 billion—more than twice the amount outlined in the program. He also attributed these developments to the federal

\textsuperscript{143} Eurasia Strategies Group, "Affordable and Comfortable Housing: Fast Facts" slide 3
\textsuperscript{144} Nichole Marcus, trans., \textit{Приоритетные национальные проекты: Совет при Президенте России по реализации приоритетных национальных проектов и демографической политике. По данным Росстата, в первом полугодии в России ввели в эксплуатацию 231,2 тысячи квартир.} [Priority National Projects: President of Russia's Council on the Realization of the Priority National Projects. \textit{According to Rosstat data, in the first half of the year 231,200 apartments entered service in Russia} (June 30, 2007), http://www.rost.ru (accessed October 14, 2007).
\textsuperscript{146} Eurasia Strategies Group "Affordable and Comfortable Housing: Fast Facts" slide 3
subsidies, guarantees, and new system of monitoring or supervision of the mortgage sector, which he considered the most significant of the three.\textsuperscript{147} Whether these efforts are indeed the primary contributors to the aforementioned successes is hard to determine. Regardless of external criticism, the RNP goal for issuing mortgages was surpassed by more than 40 percent and interest rates did drop to 11 percent.\textsuperscript{148}

Besides the introduction of the long-anticipated right to foreclose on residential properties and a few smaller developments, several additional factors may have played a role. An article published through the official RNP website cites several favorable conditions that have contributed to the process of resolving Russia's social problems. Among these aids are two financial considerations: firstly, the Russian state has built up its financial resources and can employ them directly; secondly, the federal budget is not simply a one-year plan, but a three-year cycle, therefore allowing for greater continuity in ensuring resources for socio-economic programs. Of course, strong personalities also play a part in the mix. Curiously enough, the official government website cites the strengthening of state power as a positive mechanism, as it has

\textsuperscript{147} Nichole E. Marcus, trans., Приоритетные национальные проекты: Совет при Президенте России по реализации приоритетных национальных проектов и демографической политике. Выдержки из стенограммы выступления Первого заместителя Председателя Правительства РФ Дмитрия Медведева на совещании "О ходе реализации приоритетного национального проекта 'Доступное и комфортное жилье—гражданам России' в Новгородской области." [Priority National Projects: President of Russia's Council on the Realization of the Priority National Projects. Excerpts from the transcription of the speech by the Russian Federation's first deputy chairman Dmitri Medvedev on the meeting about the course of the implementation of the priority national project 'Accessible and Comfortable Housing for Russian Citizens' in Novgorod oblast (February 7, 2007), http://www.rost.ru (accessed October 12, 2007).]

created new administrative opportunities making it easier to coordinate governmental activity. Finally, the main political actors in the country concur on the need for the government to focus its defined priorities.¹⁴⁹

Obviously determining the level of success the RNP are enjoying is a matter of perspective. Russian leadership in the Kremlin and numerous oblasts generally tend to consider the projects successful, continuously referencing the meeting or surpassing of quotas as evidence of progress. Indications to the contrary seem to consist only of a few news articles about the need to develop the construction industry. More comprehensive coverage of other serious, lurking issues exist to a lesser extent, including the occasional statement of funding concerns, such as the attrition of the housing fund¹⁵⁰ and the high percentage of residential space becoming uninhabitable.¹⁵¹ Not everyone is fooled by the Putin administration's wiles, however. Beyond the Kremlin's control on the media and portrayal of state activity, the United

Nations has taken a vested interest in Russia's progress and seen to it that an external, more objective monitoring program provide information about the nature of 'progress.'

**Millennium Development Goals: a new set of eyes and ears**

President Vladimir Putin and his administration launched the National Priority Projects in 2006 as an "investment in human beings" with the intent to improve four aspects of Russian life. However, old habits of conducting business have been hard to kill so that the program is riddled with inefficiencies. Among the main culprits are the tendencies to concentrate on meeting quotas rather than effecting certain qualitative results, and to create an overly intricate web of management that hampers operations. Moreover, ineffective programs are not scuttled and new ones begun from scratch, but rather they are reinvented or recycled into other state ventures. It has already been illustrated that 'Dwelling,' begun in 2002, was assumed into the national projects four years later in 'Accessible and Comfortable Housing' as part of a subprogram. The inability of the Kremlin to successfully execute plans began to draw an increasing amount of scrutiny. Whether an act of desperation or a political ploy, the Russian decision to implement the United Nations' Millennium Development Goals (MDG+) introduced new concepts and methodology into an otherwise stale environment.

The addition of MDG+ brought the total count of main federal programs related to housing to three. Three programs with overlapping, if not exact, goals "aimed at creating conditions that are conducive to improving people's well-being and increasing
their access to basic social services.\textsuperscript{152} Despite their similarities, however, there was one vast difference: results-based planning with measurable indicators of progress. 'Dwelling' and 'Affordable and Comfortable Housing' remain centered on the distribution of financial resources, which does not create the best opportunity for meeting federal goals as expeditiously or prudently as possible. In the meanwhile, the average citizen had no choice but to wait for housing to become available and then struggle to find or borrow the funds necessary to buy it; or, he could rent an apartment whose rent was increasing more rapidly than the tenant's income. New rounds of government subsidization provide temporary fixes while the roots of the problem remain embedded in outdated approaches. MDG+ presented an opportunity for the state to improve its monitoring techniques and reevaluate its methods for satisfying the country's social demands.

The United Nations Development Program created the MDG+ especially for Russia as a tool for measuring certain critical indicators, which could then be compared against those of other countries and help determine the efficiency of socio-economic policies. The program's outline is clearly optimistic that Russia's National Projects would be successful. It credits the "high level of political control" and the formation of the Council for National Projects and Demographic Policy, as well as the considerable budgetary funds earmarked for RNP as a harbinger of future progress. The document additionally suggests that the Council, with its "right to obtain

\textsuperscript{152} Institute for Complex Strategic Studies, "The Millennium Development Goals and Russia's National Projects: Strategic Choices," p. 5
information from officials, social organizations, and government agencies of various levels," is a valuable asset. However dubious such a claim may seem, it is expounded by skepticism after the outline then claims that "public awareness" and "personalized responsibility" also play a positive, leading role in helping policymakers achieve goals.153

The UN proposed that the MDG+ would augment the national projects by providing "an opportunity to better reflect the strategic nature of the measures proposed within the framework of the National Projects, to better define the approaches to meeting the Projects' goals, and to improve the system of indicators that are used to evaluate the results."154 Furthermore, while RNP covers a two-year period (with the exception of 'Dwelling' and its eight-year plan), the Millennium Goals are more long-term, having been established in 2006 but planned through 2015. The purported strengths of the priority projects include its nature as an extension of government and its claim on federal budgetary resources. The MDG+ planners saw plenty of potential in the venture and an opportunity to "contribute to adjustments in existing approaches, or the adoption of alternatives, as well as the improvement of the set of National Project indicators that are used in assessing overall efficiency."155

United Nations' program developers were not entirely remiss in acknowledging the particular challenges Russia would encounter. As already discussed, MDG+ distinguishes between the results-based strategy of its own structure and the

153 Ibid, p. 6
154 Ibid, p. 5
155 Ibid, p. 8-9
expenditure-based nature of the Russian National Projects. In addition to the tactful observation and the ever-present suggestion that RNP needs to assume a results-based approach, the UN program identifies several problematic areas. The Priority Projects suffer from inexperience in implementing such an approach or successfully completing earlier attempts to rectify Russian living conditions. There were also concerns at the outset of the RNP concerning its sustainability, particularly in terms of allocating and coordinating budgetary requirements.\textsuperscript{156} While the fears of Russia's inexperience and unwillingness to realign its system of indicators appear to be proving themselves true, the financial aspects of RNP are exceeding everyone's expectations. Given the current economic climate and the luxury of full energy coffers, the Kremlin is easily meeting or surpassing its current expenditure-based goals, proving that for the time being, the National Projects are definitely sustainable. However, the question remains: to what ends?

\textit{Part IV: A New Year of Mixed Successes in 2007}

Much like the preceding year, 2007 has seen numerous developments in the four areas addressed by the Russian National Projects as well as the mortgage sector. This is not to say that these progressions have been substantial in the eyes of domestic or international critics of the Putin regime; nonetheless, there are marked differences in both governmental and social attitudes towards homeownership and tenancy. The Kremlin has incrementally allotted increasing amounts of resources towards the

\textsuperscript{156} Ibid, p. 7
national program while continuing to add to the Stabilization Fund, albeit at lesser rates than planned.\textsuperscript{157} Redirecting the funds may be a concerted effort to appease the public, easing tensions over perceived misguided priorities at the state level. It may also be an attempt to showcase Putin's administration and its contributions to society, particularly in stark contrast to former federal leadership. Regardless of the true stimulus, more money is being channeled towards health care, housing, education, and agriculture.

Riding the wave of opportunity, numerous groups have taken advantage of the boon time, voicing their requests for greater results. The 'Just Russia' Party rallied for the "quick and mass construction of social housing,"\textsuperscript{158} the Defense Ministry and veterans have been pushing harder for the state to satisfy the backlog of housing guarantees even to the point of directly appealing to President Putin.\textsuperscript{159} Tenant protests, with the support of the Union of Coordinating Councils (SKS), continue to engage local and federal governments, calling for reforms and financial support in order to independently manage residential buildings and defend their rights. In this case, their efforts have evolved into a full-blown housing movement, much to the dismay of the authorities. Nonetheless, such participation in civil society is evidence of social progress. Since the end of the Soviet era, people eschewed voluntary


\textsuperscript{158} ITAR-TASS, "Just Russia Party urges quick, mass construction of social housing"

involvement in groups and demonstrations for a variety of reasons, including a "strong and lingering sense of distrust of any kind of public organization."\textsuperscript{160} Public campaigning of veterans, tenants, and other citizens for improvements to their housing situations is a healthy sign that old tendencies within society are giving way to newer ones. The fear of reprisal that covered the population for almost a century is subsiding. Citizens are looking for venues to express their concerns about issues that directly impact their lives, such as monetization of benefits and the lack of satisfactory housing. Although government and law enforcement authorities scorn such civil activity, the populace could presumably improve federal initiatives and promote results-based planning.

Although the Federation Council Speaker, Sergei Mironov, revealed that housing conditions have been improved for 30 million people (or 21 percent of the population), the waiting list continues.\textsuperscript{161} The Russian military has experienced its own severe crises during the last few decades. Apart from reevaluating security threats, meeting recruiting quotas for conscripts, and financing modernization, the armed forces have had to deal with the lack of entitlements. Not only are salaries unreliable, but also living quarters. The situation is dire for tens of thousands of servicemen whom the government owes housing; about 139,000 officers alone are awaiting housing that the Defense Ministry is supposed to provide. Many retirees have to wait more than 10 years before they finally receive an apartment despite a plethora

\textsuperscript{161} ITAR-TASS, "Just Russia Party urges quick, mass construction of social housing"
of legislation designed to open other avenues. As a result, a growing, moderately sized
group of servicemen banned together and created the "Movement to Protect the
Housing Rights of Military and Law Enforcement Officers."162 The reason the
government cited for not fulfilling their obligations has always been the lack of funds,
but obviously improving economic conditions and profits from natural resources can
support more construction than is currently underway. No doubt there is a limit as to
how many projects can be carried out with the resources the state has. However,
without developing and fully adopting that results-based ideology proposed by internal
and external experts, Moscow will not get the biggest bang for its buck. And, as it tries
to solve its existing problems by foisting them on other sectors, it is impeding its own
progress. For veterans, this has meant satisfying residential requirements by having to
take out mortgages—mortgages they cannot attain because their employer (i.e., the
state) does not have a record commensurate with energy companies' and the like.

The mortgage industry, on the other hand, enjoyed a better operating
environment. The creation of the credit bureau, decreases in interest rates, and
growing investment in the banking and lending sectors were allowing for further
development of the mortgaging system. The 60 percent of Russians who wanted better
housing163 were acting on their own to secure the means for buying a home. In the first
quarter of 2007 alone, Home Credit and Finance Bank (HCFB), one of the largest

162 Natalya Krainova, "Housing Shortages Dog the Military"
163 "Mortgage Loans Will Total $26bn in Russia by Yearend," FK-Novosti-English Version (September
25, 2007).
consumer-oriented banks in Russia, reported that profits rose and operating income increased about 63 percent more than the same period during the year before. HCFB also revealed that its clientele had grown by 43.5 percent in one year. This figure primarily includes new credit card holders and cash loans, although it does also indicate growth in residential mortgages, which the bank made available in Moscow, and later St. Petersburg, for the first time in its history.\(^{164}\)

A true test of viability for the Russian mortgage lending business came in mid-summer. The United States' real estate market was eroding rather quickly—a result of the sub-prime mortgage crisis sparked by astronomic rates of insolvency. There was great concern among lending institutions and economists that a similar scenario would play out in Russia and capsize the fledgling mortgage market. French and other banks exacerbated tensions by freezing funds backed by unsatisfactory American mortgage loans; some national banks injected liquid assets into the credit market to try to help stabilize the international market.\(^ {165}\) In Russia, however, not everyone was convinced that the country would fall victim, as the conditions causing the crisis in America were not in play in Russia. That is, US lenders granted mortgages to people with no down payments, no confirmed income sources, and low-to-borderline household income.\(^ {166}\)


\(^{166}\) "Mortgage Crisis: How Real Is It?" \textit{Moscow News}, No. 29 (July 27, 2007), in \textit{EastView} database, permanent address: http://0-
Russian banks, however, maintain their severe procedures for approving a loan in order to curb all possibilities of defaulting clients. In fact, the average rate of arrears on mortgages among Russian financial institutions is an enviable one percent. Effects on the Russian market from the American home-loans market fallout were generally positive: trading continued at nearly twice the normal rate, and business and political bodies learned valuable lessons to help prevent opportunities for a mortgage crisis in their own backyard.

The Russian Priority Projects continue to emphasize the necessity of improving living conditions for the country's citizens and the role of home loans as a means of satisfying this national goal. Dmitri Medvedev remains in charge, although not necessarily accountable, for the program's success and modification. Although RNP are still very heavily quota-based, Medvedev is convinced that "people's growing incomes and strict control of macroeconomic parameters [are] the basic conditions for making mortgage loans available and affordable" and that the "current rate on mortgage loans of 10-12 percent [is] unduly high." Carrying such a perspective helps reorient idealistic, outdated ways of thinking that the state will simply be able to provide housing for all its citizens without viable self-perpetuating mechanisms.

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167 Simon Shuster, "Subprime Loan Crisis Claims More Victims"


Mortgages do and will provide a method for attaining domiciles, regardless of how convoluted the process.

Home loans in modern Russia have come a long way from their near-stillbirth in 1992 even if not as far as many experts and households would have hoped. More of the population is aware of the opportunity, albeit many remain skeptical about the trustworthiness and credibility of such ventures. In addition to basic distrust of banking agencies, a simple glance at average charges involved in securing a mortgage in 2007 would undeniably spook an average person. A non-refundable application fee, paid up front, is approximately RUR 1,000 (about $60 USD before the dollar weakened). Small by Western standards, but large by Russian measures when one considers the amount is nearly 20 percent of the average monthly income. An administration fee of one percent of the loan amount, ranging from $200-1500 USD, is due at the time of disbursement; there are diverse charges for prepayment, delays, and safe boxes, among others. Interest rates vary from 10.5 percent for a 5-10 year term; 11 percent for 11-15 years, and 11.5 percent for a 16-20 year mortgage period.\footnote{Mortgage 4 Russia, "Typical mortgage rates and interest charges linked to a Mortgage Loan," http://www.mortgage4russia.com (accessed October 6, 2007).} Interest rates in developed markets average 6-7 percent with longer terms available.\footnote{ITAR-TASS, "Russian mortgage mkt to avoid problems like those in US-Medvedev"} Nonetheless, the Russian home-loan market has improved in several ways: longer terms, more liquidity, a larger client base, and lowered interest rates. Moreover, appraisals are compulsory and an "evaluation of rights to intangible assets under loan...

\footnote{Mortgage 4 Russia, "Typical mortgage rates and interest charges linked to a Mortgage Loan," http://www.mortgage4russia.com (accessed October 6, 2007).}
\footnote{ITAR-TASS, "Russian mortgage mkt to avoid problems like those in US-Medvedev"}
agreements [provide] for a pledged collateral.”172 Regarding banking concerns, the market has been liberated from one of its most onerous obstacles: that of the unconstitutionality of evicting defaulters and recouping loss. The home-loans market is finally responding to economic stimuli rather than government legislation alone.

Conclusions

From the beginning of this study it has been apparent that the road to attaining a new domicile is far from easy for a common Russian citizen. For decades, the greatest portion of the empire's population lived an ascetic life, often with only the bare minimum available to satisfy basic human needs like shelter and food. During the 20th Century, the Kremlin established itself as the man of the Russian household, providing food, income, and housing for its growing family. Past images of leaders as the fathers of the homeland are not so distant from the truth. Unfortunately, the ability of the Soviet regime to support the Russian people atrophied rather early on, so that by the 1960s many citizens found themselves in overly cramped, deteriorating living spaces from which they could not afford to move themselves.

The drop in living standards and the ever-increasing shortage of available living area were not the only hindrances in the housing sector. Citizens were forced to register in those districts that the government specified for employment purposes, frequently requiring relocating to comply. On one hand, this theoretically implied that the new place of employment would provide housing to the worker; on the other hand,

172 Ibid.
any glitch or delays in the hiring process could mean illegal homelessness. At the crux of the problem was a century-old residential permit system, or propiska, which mandated households register themselves at their address. Without a propiska, citizens could not work; without work, citizens could not register. Without a propiska, people could not marry, seek an education, or receive state benefits. For a nation whose people had been figuratively (and often literally) tied to the land for centuries, propiska was yet another form of bondage. Although the Russian Constitution adopted in 1993 essentially rendered the system unconstitutional, many areas—including Moscow and St. Petersburg—continue to enforce a similar code under a different name. Modern residential registration restricts the free movement and benefits to which each Russian citizen is theoretically entitled. The game is the same: keep the people where the state wants them. In this case, those persons whose freedoms are most curbed are minorities fleeing ethnic conflicts and violence in neighboring republics. Despite their vulnerability, they are regularly cast aside or exploited on the grounds of their propiska—or lack thereof.

In addition to the registration system, another inheritance bequeathed to Russia at the end of the Soviet, and subsequently, communist periods was the debacle called 'privatization.' Underway for several years already, the transfer of government and municipal residential properties to individual households was slow, inconsistent, unequal, and under-managed. Many critics of privatization cite the process as the primary cause of the current housing crisis. The transfer from state to private ownership and management was not predicated by a public information campaign that
explained the benefits of owning real estate, responsibilities of new homeowners tête-à-tête the government, and so forth. Those residents in non-privatized apartments were subjected to notorious rental increases that the government was supposed to subsidize. However, as with privatization and the introduction of mortgages, federal and local governments were remiss in providing relevant information to tenants thereby neglecting assistance to countless households who were entitled to housing allowances.

Nonetheless, it was evident even at this early stage in the new Russia that old habits were hard to overcome. The Kremlin determined its success in privatizing facilities according to percentages and quotas with little regard for the people caught up in the process. It would be naïve to believe that tendencies could change overnight, and therefore many domestic and international organizations gave the democratic regime room to maneuver and learn from its mistakes. Unfortunately, President Boris Yeltsin was unable to implement Western models, as he and his cadre had not embraced those elements that made Western structures viable in the first place. The ramifications were visible to the world: the transitioning democracy was not necessarily intended to become fully democratic; the open market, including the housing and mortgage sectors, was not operating freely in tandem with natural economic stimuli. Attempts to introduce legislation and mechanisms into these areas were often nothing more than words on paper. However, there was evidence—such as earlier efforts to privatize businesses and residential areas, to draft a comprehensive and poignant constitution, and to address growing social concerns—that the Kremlin was trying to effect change. The selection, and later election, of Vladmir Putin as
President of the Russian Federation was a turning point in Russia's short post-communist history, opening the door to a new force and energy in Moscow.

From the beginning of his time in office, Putin was confronted with legislation that was in dire need of modernization to address further problems that had arisen. Among these was the preclusive land code, the necessity to develop mortgage-backed securities, and to protect lenders in the case of insolvency. The Kremlin passed new laws that finally permitted these basic elements to take root in the real estate sector and bring forth opportunities that had been squelched by earlier inadequacies. The Putin administration recognized the expanding social tensions brought on by the developing income gap and abuses of position and opportunity. The populace was frustrated with the government and oligarchs for their egregious misspending of profits, i.e. the average citizen did not see proportional increases in his wages or social benefits. As more money was funneled into the Stabilization Fund, people became increasingly discontent with their living conditions, health care, and education.

Plans were in place for responding to the critical shortage of decent housing, although none had positively contributed to easing the strain. Herein lies one facet of the state's failure to solve the crisis: unsuccessful programs were recycled into new federal initiatives. Rather than scrap a program like 'Dwelling,' the government rolled it into the National Projects. 'Dwelling' became a subprogram in the Accessible and Comfortable Housing for Russian Citizens, responsible for a portion of providing improved living conditions to the public. It is suspicious, however, as policies do not differentiate among ‘poor’ or ‘satisfactory’ grades of housing, or what is meant by
‘improved.’ In many ways, one intuits it is a purposeful loophole. When combined with people’s low expectations of housing, the omission results in a nation of people who are predominantly uncertain what kind of housing they deserve. Programs like ‘Dwelling’ and *Accessible and Comfortable Housing* have therefore operated free of another degree of accountability. But this is hardly a unique situation. The entire RNP venture is without a standardized, qualitative representation of results. No chart that compares the results of the copious subprograms in terms of targeted numbers, budget, percentages of the population, or other relevant indicators for such an undertaking exists. Instead, there are myriads of data sheets and articles attesting to success based on the size of expenditures or the percentages of the quotas that have been met. Russian leadership has been fairly successful concealing the true picture of the housing situation by leaving out the counter-variables, if they ever have even calculated them.

As a result, it is doubtful the state has little other than a rough idea of what will fulfill the grandiose plans of the national projects. The Kremlin has maintained to a large degree its tendency to emphasize the funds being invested in them, rather than what measurable progress there is. In the four primary sections of *Affordable and Comfortable Housing*, the guiding document provides no defined, quantitative goals. The closest *Protocol No. 2* comes to doing so is the determination that *Affordable and Comfortable Housing* will improve the living conditions of 69,500 young families and 76,200 veterans and disabled persons. Otherwise, the majority of parameters are concerned with output of financial resources and numbers of people who are assisted—
not with a notable change in standardized indicators, trends, or even public opinion polls.

For this reason, one cannot help but conclude that the Russian federal initiatives will continuously underperform. Inefficiency, corruption, and the lack of a credible monitoring and enforcement system allow the status quo to continue. In the meanwhile, millions of working-class Russians remain on housing lists that, in some cases, predate the fall of the Soviet Union. Those fortunate enough to have received privatized housing were not immune to turmoil in the sector, as they, too, suffered severe complications with utilities and maintenance services. Tenants were among the most unfortunate: if they did not receive ownership rights to their unit, the rental payment increases could force them to live in conditions worse than before privatization. They received no enduring asset, i.e. real estate, and the surge in prices towards market value was not paralleled by a commensurate surge in income. It was unconstitutional to evict tenants for non-payment of rent, but conditions could become so decrepit that tenants relocated to the best of their ability.

The mortgage sector, which was supposed to provide relief from housing woes beginning in the mid-1990s, was not the immediate panacea the government and other insiders had hoped. Legislative and economic obstacles hindered the expeditious establishment of a healthy home-lending system. Today the market is much improved, thanks to changes in land and tax codes, improvements in securities, definitions of lender and borrower rights, and increased investment. However, the potential latent in the Russian mortgage market is currently indeterminable and therefore not fully
exploited. The system has proven its sustainability and resilience through surviving (and sometimes benefiting from) global economic stressors. As 2007 draws to a close, it is possible that new data—perhaps with more meaningful insights—will be publicized. Given the current regime's tendencies to construct plans based on output rather than desired end results, one is disinclined to think that the Russian National Projects, or any of the current federal initiatives, will fundamentally solve the residential crisis within their time projections. More likely than not, genuine success can only be achieved through a change in leadership and goal development. Without either, history is destined to repeat itself. The majority of the Russian people is tired of threadbare excuses and unfulfilled promises—new leadership will need more than that to resolve housing woes and win the approval of the nation.
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