

# Financing Capital Repairs and Energy Efficiency Improvements in Russian Multi-family Apartment Buildings

## KEY CONCLUSIONS AND RECOMMENDATIONS



European Bank  
for Reconstruction  
and Development



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**International Finance Corporation**

**European Bank for Reconstruction and Development**

Moscow

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2121 Pennsylvania Ave. NW, Washington, DC 20433  
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One Exchange Square  
London EC2A 2JN United Kingdom

## 1. Core Objective and Approach

International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD), with the support of a group of Russian and international consultants led by the Institute for Urban Economics and ZAO “SENRI” (a Moscow-based energy-efficiency solutions and investment company), have conducted this joint research on potential mechanisms for the financing of capital repair and energy efficiency improvements in multi-family apartment buildings in the Russian Federation<sup>1</sup>. This document summarizes the results of that research and outlines key findings and recommendations on establishing a sustainable system for financing the capital repair and energy-efficient modernization of Russia’s multiple-occupancy housing stock<sup>2</sup>.

This report is the result of research conducted in several stages, as follows:

1. Analysis of international best practice in the organization and financing of capital repair and energy-efficient modernization in multi-family apartment buildings, and recommendations on their application in Russia.
2. Analysis of the current status and condition of Russia’s multiple-occupancy housing stock.
3. Development of mechanisms for the financing of capital repair and energy efficiency improvements in residential buildings, and mechanisms for governmental support.
4. Cost–benefit analysis of various approaches to the organization and financing of capital repair and energy efficiency improvements to Russia’s multiple-occupancy housing stock.
5. Recommendations on the introduction of legal and regulatory reforms essential to facilitate the adoption of those potential financing structures analysis suggests are likely to lead to the best outcomes.

The results of this research are analyzed in the following reports.

1. Analysis of international best practice in organizing and financing capital repairs and energy efficiency modernizations of multi-family buildings in Central and Eastern Europe<sup>3</sup>.
2. Analysis of the current state of the housing stock in Russia.
3. Mechanisms for the financing of capital repair and energy-efficient improvement of multi-family apartment buildings in Russia, and mechanisms for government support.
4. A comparative analysis of the costs and effects of the implementation of six models for financing capital repairs and energy efficiency improvements in multi-family residential buildings in Russia.
5. Required changes and additions to the regulatory framework for implementing the developed model for financing capital repairs and energy efficiency improvements in multi-family residential buildings in Russia<sup>4</sup>.

<sup>1</sup> The opinions and positions expressed in this document are those of IFC and EBRD and should not necessarily be taken as representing the conclusions and/or recommendations of external consultants.

<sup>2</sup> The authors of this report understand that the Government of the Russian Federation is currently reviewing its approach to the organization and financing of the capital repair of the country’s housing stock on a basis somewhat different to that commonly understood to constitute international best practice. Such an approach might, nonetheless, provide a workable solution, and we would not wish to make any comment on this. We also hope that the results of this research might also prove useful in finding a solution to the organization and financing of capital refurbishment projects in Russia.

<sup>3</sup> IFC (2011), Analysis of international best practice in organizing and financing capital repairs and energy efficiency modernizations of multi-family buildings in Central and Eastern Europe. Available at: [http://www1.ifc.org/wps/wcm/connect/region\\_\\_ext\\_content/regions/europe+middle+east+and+north+africa/ifc+in+europe+and+central+asia/publications/analysis+of+international+best+practice+in+organizing+and+financing+capital+repairs+and+energy+efficiency+modernizations+of+multi-family+buildings+in+cecu+%28russian%29](http://www1.ifc.org/wps/wcm/connect/region__ext_content/regions/europe+middle+east+and+north+africa/ifc+in+europe+and+central+asia/publications/analysis+of+international+best+practice+in+organizing+and+financing+capital+repairs+and+energy+efficiency+modernizations+of+multi-family+buildings+in+cecu+%28russian%29).

<sup>4</sup> Each of these reports is available at: <http://www.ebrd.com/pages/sector/energyefficiency/documents.shtml>.

## 2. Key Findings

1. The capital refurbishment and repair of multi-family apartment buildings in Russia is an urgent priority. Approximately 60 percent of the country's multi-family apartment buildings are now deemed to be in urgent need of capital repair as defined under current legislation and urban planning regulations. Estimates of the annual cost of such capital repairs in Russia to 2035 range from RUB220 billion (assuming superficial correction of accumulated problems) to RUB1 trillion (assuming the implementation of thoroughgoing repair and the utilization of energy-saving technologies and materials).
2. Russia's multiple-occupancy housing faces a longstanding need for energy-efficient modernization. In this document the terms "energy-efficient modernization of/energy efficiency improvements in multi-family apartment buildings" refer to the capital repair and reconstruction of existing multiple-occupancy accommodation, undertaken with the objective of improving the energy efficiency of the building in its entirety, as well as improving the comfort of the accommodation therein<sup>5</sup>.
3. Russia's residential sector is the country's second largest total consumer of energy and, as such, has the greatest potential for better energy efficiency. Government intervention in the form of energy efficiency policies and programs could help residential property owners reduce energy consumption (and, consequently, their household expenses) quite considerably: better energy efficiency resulting from the introduction and implementation of energy-efficient products and initiatives could help property owners in the Russian Federation reduce total expenditure on public utilities by an average RUB187,000 per year.
4. The energy-efficient modernization of multiple-occupancy housing is most effective when undertaken as part of a wider program of capital refurbishment and repair – and, by the same token, through the implementation of further energy efficiency initiatives in previously renovated apartment blocks. For this reason it is vital that any centralized system for the fulfillment of state policy in energy efficiency and resources management (specifically through promoting large-scale capital repair and energy efficiency modernization in multi-family apartment buildings) also be supported by clear mechanisms to facilitate the financing of such a system through government funding at the federal and regional levels.
5. Better energy efficiency in the residential sector is also of direct interest to regional and local government insofar as lowering energy consumption can reduce the need for additional capacity in power generation and supply: improving energy efficiency often proves more cost effective than construction of new facilities, and is far faster to implement.
6. International experience suggests that sustainable policy in the repair and modernization of housing stock is contingent upon government establishing precise aims and objectives, in the context of a systematic long-term strategy. Problems and issues pertaining to the maintenance and repair of multi-family apartment buildings must be regulated on the basis of close adherence to the principles of private property and the rule of law. Government

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<sup>5</sup> Russian legislation does not currently provide for a precise definition of the term "modernisation of buildings and structures (infrastructure)," and provides only for "capital refurbishment or reconstruction." At the same time, in practice, regulation governing the financing of capital repairs (under the Housing and Utilities Reform Fund and in other circumstances) is governed by terminology already adopted under various policy guidelines and regulatory and technical documents: "[the] objectives of raising the energy efficiency of multiple-occupancy buildings, the establishment of favorable living conditions for residents, the use of contemporary materials and equipment – all constitute an understanding of the modernization of buildings through capital repair." Provided the layout of individual residences are not altered, certain adaptations of common parts may be undertaken for the purposes of energy efficiency renovation, including: the construction of access facilities for stairways, lifts, and rubbish chutes; the replacement of certain load-bearing structures (including walls, stairs, overhead protection (roofs) and exterior cladding); replacement of roofing and tiles; the installation of building insulation and soundproofing; the installation, re-equipment or improvement of building infrastructure facilities; and the reconstruction of external supply networks (excluding major (trunk) supply lines).

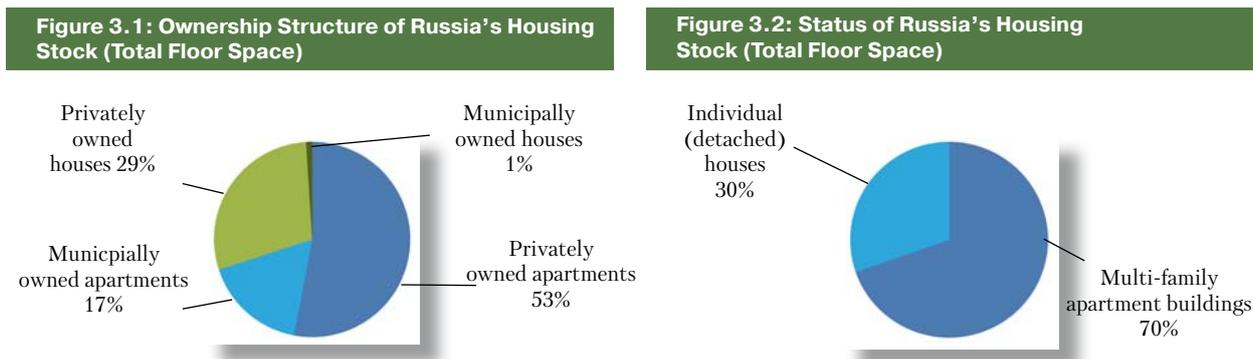
intervention in the management of private property should be limited to health and safety regulation and to initiatives to promote greater autonomy for property owners in improving the physical conditions (as well as the energy efficiency) of their collective property.

7. International experience suggests that the most effective means of ensuring the sustainable financing of capital repairs in multi-family apartment buildings is predicated (as an absolute minimum) on the following three elements.
  - a) Regular contributions (on a compulsory basis, by all apartment owners) into a dedicated fund for maintenance and repair (the “collective building repair fund”) – an essential prerequisite in every multi-family apartment building.
  - b) Credit facilities extended by commercial banks to Homeowners’ Associations, Housing Cooperatives, or Housing Management Companies, facilitated through residents’ regular payment of contributions for the repair and maintenance of their building, held in a dedicated account or collective building repair fund for that purpose.
  - c) Financial support from government in the co-financing of capital repair projects and the provision of state guarantees to banks through dedicated state financial development institutions (guarantee agencies, specialized state banks, investment funds, and so on).
8. In order to gain access to debt finance for capital repair and energy efficiency improvements residents’ associations (Homeowners’ Associations, Housing Cooperatives) must be given viable legal status, must have the right to raise finance on behalf of all residents collectively, and must have the right to enforce collection from those residents failing to meet their obligations in contributing to the cost of such refurbishment or repair.
9. Current legislation in Russia governing the treatment of multi-family apartment buildings as immovable property is currently under-developed. A strong and transparent ownership system can be achieved only when each and every resident within a multi-family apartment building is obliged to become a member of a Homeowners’ Association or other form of collective residents’ association.
10. The following principles should be taken into account in allocating state resources for capital repair in multi-family apartment buildings:
  - a) Governmental support must be of a kind likely to encourage residents to undertake the repair of the entire multi-family apartment building, and not just of their own individual apartments.
  - b) Better energy efficiency must be clearly designated as a priority in any capital repair project co-financed through budgetary (i.e., governmental) sources.
  - c) The level of such governmental support should be directly tied to the extent of energy efficiency improvements (and subsequent energy savings) to be achieved.
  - d) Any decision on the extent of any capital repair to be undertaken in a multi-family apartment building must be taken by the relevant Homeowners’ Association (or other collective organization representing individual property owners) within such building, or by the Housing Management Company or other management agency to which such authority has been delegated.
  - e) Responsibility for the control of funds collected from property owners within a multi-family apartment building rests with the Homeowners’ Association (or other agency (e.g., a Housing Management Company) to which the Homeowners’ Association has delegated such authority).
  - f) Responsibility for the control of funds received from governmental (budgetary) sources rests with the Homeowners’ Association (or other agency (e.g., a Housing Management Company) to which the Homeowners’ Association has delegated such authority).

- g) The most effective use of state support from regional government is as follows:
- i. in subsidizing owners' expenditure on capital repair and energy efficiency improvements; and
  - ii. through the provision of guarantees to reduce commercial risks in the extension of credit facilities or finance to residents' associations, and in the establishment of appropriate guarantee agencies (and investment funds) to facilitate this.
11. Not all property owners may be willing to fulfill their obligations in participating in the financing of capital repairs, and it may be necessary to enforce these. This also applies to those apartment owners who, while willing to meet their obligations, are unable to do so for various reasons, including insufficient funds. In both cases the matter must be resolved through the adoption of effective mechanisms: in the one case through enforcement and, in the other, through the development of sustainable mechanisms for social support and the development of social housing.
12. The development of a sustainable environment for the financing of capital repairs and energy efficiency improvements in multiple-occupancy housing is contingent on the comprehensive reform of current civil and property law, as well as other legislation and regulation.
13. There is a compelling case for taking a holistic approach to addressing the diverse issues associated with financing capital repairs in the residential sector, in particular regarding:
- a) the development of legal institutions governing the management of private property in multi-family apartment buildings (Homeowners' Associations, etc.);
  - b) the development of mechanisms to facilitate collective self-government in multi-family apartment buildings, as well as the development of personal liability of apartment owners; and
  - c) the development of social support mechanisms for socially vulnerable populations and at-risk groups.

### 3. Current Status of Russia's Housing Stock

The total housing stock of the Russian Federation comprises 19,650,000 buildings, with total floor space of 3,177 million square meters – 72 percent of which is located in urban conurbations<sup>6</sup>. The sector is predominated by multi-family apartment buildings, of which there are 3.2 million, with total floor space of 2,237 million square meters. The majority of apartments in multi-family apartment buildings are privately owned (see Figures 3.1 and 3.2, below).



Source: Institute for Urban Economics (2011), "Analysis of the Current Status of Russia's Housing Stock."

- The need for modernization is enormous: some 58–60 percent of the country's total multi-family apartment buildings are in need of extensive capital repair, rising to 93–95 percent in those apartment blocks with an average age of not less than 25 years.
- Major investment will be essential for the renovation of the country's multiple-occupancy residential sector. Estimates of the annual cost of such capital repairs in Russia to 2035 range from RUB220 billion (assuming superficial correction of accumulated problems) to RUB1 trillion (assuming the implementation of thoroughgoing repair and the utilization of energy-saving technologies and materials).
- Data from joint programs co-financed under the auspices of the Housing and Utilities Reform Fund shows the average cost of modernization to be RUB813 per square meter in 2009<sup>7</sup>, increasing to RUB837 in 2010, and RUB833 in 2011<sup>8</sup>: which rather suggests the conduct of selective repairs only, limited to the repair of lifts, roofing, and exterior cladding (facades).

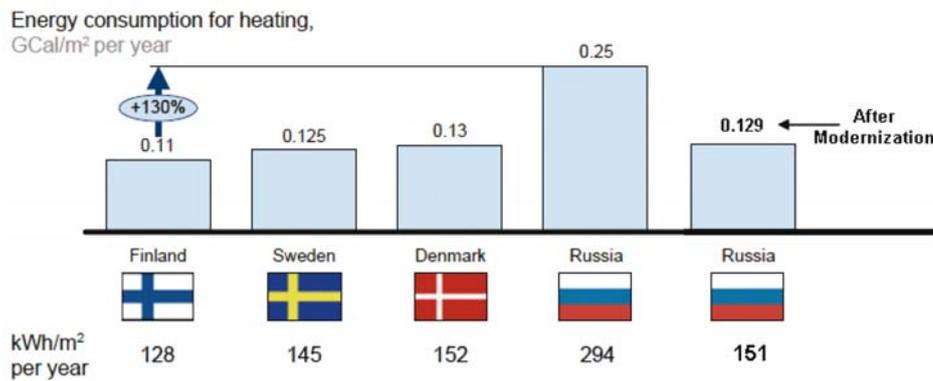
<sup>6</sup> Indicators on housing market characteristics referred to in this section are sourced from data collated through surveys conducted by the Federal State Statistics Service of the Russian Federation: Form No. 1 (Zhilfond), "Housing Stock Data"; From No. 4 (Zhilfond), "Data on the Provision of Residential Accommodation"; and Form No. 1-KR "Data on Capital Repairs to Housing Stock."

<sup>7</sup> Housing and Utilities Reform Fund of the Russian Federation (2010), "Annual Report 2009: Protocol of April 22." Available at: [http://www.fondgkh.ru/data/877/605/1234/OTCHET\\_2010\\_190510.pdf](http://www.fondgkh.ru/data/877/605/1234/OTCHET_2010_190510.pdf).

<sup>8</sup> Housing and Utilities Reform Fund of the Russian Federation (2012) "Information on approved and pending applications for financial assistance from the Fund," March 7. Available at: <http://www.fondgkh.ru/result/result/control/index.html>.

- Energy efficiency is generally low throughout the Russian residential sector. Nonetheless, effective capital repair and modernization of existing housing stock could improve energy efficiency two-fold (see Figure 3.3, below). Potential energy savings throughout the Russian residential sector could, on average, match or exceed 40 per cent of current heating consumption, 37 percent of current electricity consumption, 30 percent of natural gas usage, and 25 percent of water consumption.

**Figure 3.3: Energy Consumption for Heating – Existing Housing Stock**



Source: McKinsey & Company (2009), *Pathways to an energy and carbon efficient Russia*.

- The availability of meters for monitoring energy consumption in Russia remains comparatively low. As at 2010, the availability of meters in multi-family apartment buildings was as follows:
  - The proportion of multi-family apartment buildings with any form of metering device for the monitoring of total-building consumption averaged 27.6 percent, of which 26.9 percent had devices for monitoring of heating consumption; 24 percent consumption of cold water; 28.8 percent consumption of hot water; 28.8 percent electricity usage; and 10.1 percent consumption of gas.
  - The availability of meters monitoring consumption in individual apartments was as follows: one percent of apartments had meters monitoring heating consumption; 22 percent cold water usage; 19 percent hot water usage; 80 percent electricity usage; and five percent consumption of gas.

The absence of such metering facilities means it is difficult to encourage consumers to adopt energy-saving initiatives or behaviors.

## 4. International Experience in Financing Capital Repairs and Energy Efficiency Improvements in Multi-family Apartment Buildings

Research undertaken for this report also included an analysis of capital repairs and energy efficiency improvements in multi-family apartment buildings in six other countries – Estonia, Hungary, Latvia, Lithuania, Poland, and Slovakia<sup>9,10</sup>. This analysis showed the financing and organization of capital repairs in multi-family apartment buildings, and subsequent facilitation of long-term financing for this, to be based on three core sources, as follows.

- Funds from property owners in multi-family apartment buildings, held in a single central fund for the repair of such specific apartment building (as is the case in Estonia, Hungary, Poland, and Slovakia).
- Finance facilities (loans) extended by commercial banks to Homeowners' Associations and/or Housing Management Companies (as is, again, the case in Estonia, Hungary, Latvia, Poland and Slovakia).
- Budgetary support (government funding) Homeowners' Associations, Housing Cooperatives and other residents' representative organizations to support major capital repair projects leading to a significant improvement in energy efficiency (as is the case in all six of the European countries analyzed).

The successful functioning of this system is also contingent upon the following factors.

- *The collective responsibility of all property owners for the proper repair and maintenance of their building* – provided for under legislation in force in each of the above-mentioned countries. Dedicated state or municipal agencies are responsible for monitoring and controlling the maintenance and repair (i.e., the overall state) of such buildings, and can force delinquent owners to comply with legal requirements in this respect.
- *The formation of a dedicated financial resource (the “collective building repair fund”) in all multi-family apartment buildings* – an obligatory requirement in several countries (including Estonia, Poland, and Slovakia), and a requirement on the part of those banks extending finance facilities to Homeowners' Associations and Housing Management Companies in Hungary and Latvia.
- *The compulsory formation of (and participation in) collective organizations for the management, maintenance and repair of multi-family apartment buildings* (Homeowners' Associations and Cooperatives), as is the case in Estonia, Hungary, Latvia, Poland, and Slovakia).
- *The adoption of decision-making processes based on simple majority voting* (and on full participation by all property owners), as is the case in Poland and Slovakia.
- *Charges for heating and other utilities determined on the basis of metered consumption.*

<sup>9</sup> These countries were selected on the basis of several common characteristics, including: the existence of legislation governing representative residents' organizations; the existence of national and municipal government programs providing financial support for the promotion of energy efficiency improvements and repair in multi-family apartment buildings; and the existence of certain historical characteristics similar to those in Russia – e.g., a predominance of multi-family apartment buildings, a high degree of dereliction and decay, mass post-socialist privatization, and so on.

<sup>10</sup> IFC (2011), “Analysis of international best practice in organizing and financing capital repairs and energy efficiency improvements of multi-family apartment buildings in Central and Eastern Europe.” Available at: [http://www1.ifc.org/wps/wcm/connect/Publications\\_EXT\\_Content/IFC\\_External\\_Publication\\_Site/Publications\\_Listing\\_Page?languagesubjectsregions=%2C%2CIFC\\_EXT\\_Design%2FEurope+and+Central+Asia&languages=All+Languages&subjects=All+Subjects&regions=IFC\\_EXT\\_Design%2FEurope+and+Central+Asia](http://www1.ifc.org/wps/wcm/connect/Publications_EXT_Content/IFC_External_Publication_Site/Publications_Listing_Page?languagesubjectsregions=%2C%2CIFC_EXT_Design%2FEurope+and+Central+Asia&languages=All+Languages&subjects=All+Subjects&regions=IFC_EXT_Design%2FEurope+and+Central+Asia).

- *The existence of financial incentives for apartment owners in multi-family apartment buildings, and access to credit facilities:* the most common strategies for risk reduction and greater access to finance being as follows:
  - 1) Given the greater risks involved in extending financing facilities to residents' organizations (collective owners' associations) in the initial stages of their development, the existence of instruments to reduce credit risk allow commercial banks to develop financial instruments (products) appropriate for residential repair and modernization. The management of such risks can be facilitated through various means: through state guarantees (Estonia); through the formation of a "State Guarantee and Development Bank" (Slovakia); through World Bank guarantees (Lithuania), through Building Society saving plans and partial guarantees from IFC (Hungary). All of these structures involve the provision of partial guarantees to commercial banks for credit facilities extended (as a rule, on a reimbursable basis) to residents' organizations<sup>11</sup>.
  - 2) Facilitating access to finance for residential repair and modernization, and improving its affordability for Homeowners' Associations and/or other residents' organizations. In Slovakia a Homeowners' Association can obtain a subsidized loan for energy efficiency improvements in a multi-family apartment building from the State Fund for Housing Development. In Poland a Homeowners' Association can receive a grant from the State Energy Efficiency and Renovation Fund for the partial repayment of loans received for the purposes of modernizing multi-family apartment buildings. Moreover, the size of such loans is tied to the level of energy efficiency achieved (up to a maximum of 20 percent of any such facility) and transferred directly to the lending bank for discharge of the loan upon completion of the project.
- *Public awareness campaigns* are also important insofar as these can help promote attitudinal change in encouraging owners to become less dependent on government and to assume greater responsibility for the maintenance and repair of their own property. Poland, Slovakia, and Estonia have all developed effective public awareness campaigns, to that end.

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<sup>11</sup> A similar scheme currently being implemented in many regions throughout Russia involves the establishment of guarantee funds for small and medium-sized businesses. Such funds provide guarantees for credit facilities extended to small businesses and, in some instances, also provide advisory services to entrepreneurs.

## 5. Structural Analysis of Available Models for the Financing of Capital Repair and Energy Efficiency Improvements in Multi-family Apartment Buildings

Examination of international best practice in the organization and financing of capital repairs and energy efficiency improvements in multi-family apartment buildings reveals a number of common structural elements, including:

- a) the importance of clear and consistent state policy;
- b) the importance of central (federal), regional, and municipal government – in terms of both regulation and direct financial involvement;
- c) the importance of an effective regulatory environment – and, specifically, the need for a viable balance between regulation (and, where necessary, enforcement), versus civil rights and the need for market stimulation;
- d) the need for dedicated government institutions to promote and support government policy;
- e) the need for appropriate forms of financial and fiscal (tax) incentives on the part of government to incentivize property owners to undertake modernization and repair, and the need for mechanisms and strategies to encourage investment and engagement in the sector on the part of commercial banks;
- f) the need for a clear legal delineation of the obligations and responsibilities of property owners, and mechanisms to facilitate the collective management of maintenance, modernization, and repair; and
- g) the importance of access to finance (credit facilities) for owners (i.e., collective residents' associations) to fund the repair and modernization of their apartment building on an affordable basis.

Several models, combining various of the features outlined above, were analyzed in terms of their applicability in Russia. These models are outlined in more detail in Appendix A.

## 6. Mechanism for Financing Capital Repair and Energy Efficiency Improvements in Multi-family Apartment Buildings

Analysis suggests that the most viable model for a sustainable financing solution for capital repair and energy efficiency improvements in residential buildings in Russia might, in the medium term, be one involving a combination of the elements outlined above – the “Integrated Model,” as illustrated in Figure 6.1, below.

The key characteristic of this model is the presence of three sources of funding for the financing of capital repairs and energy efficiency improvements of multi-family apartment buildings:

1. property owners’ own funds, generated through contributions to the mandatory collective building repair fund;
2. finance facilities (credit finance/loans) from commercial banks; and
3. governmental (state) support.

In the medium term this particular model could lead to the possibility of the capital repair of Russia’s housing stock being financed without co-financing from budgetary resources at various levels – with the exception of those social groups that will always be dependent on financial assistance from the state for the maintenance of private property. It also follows that the development of a market for such facilities (and the increasing availability of credit histories and other data in the discharge of such facilities by collective residents’ organizations) will lead to a reduction in the need for governmental support as an essential element in multiple-occupancy capital repair and energy efficiency projects (again, apart from those social groups that will always be in need of such state support).

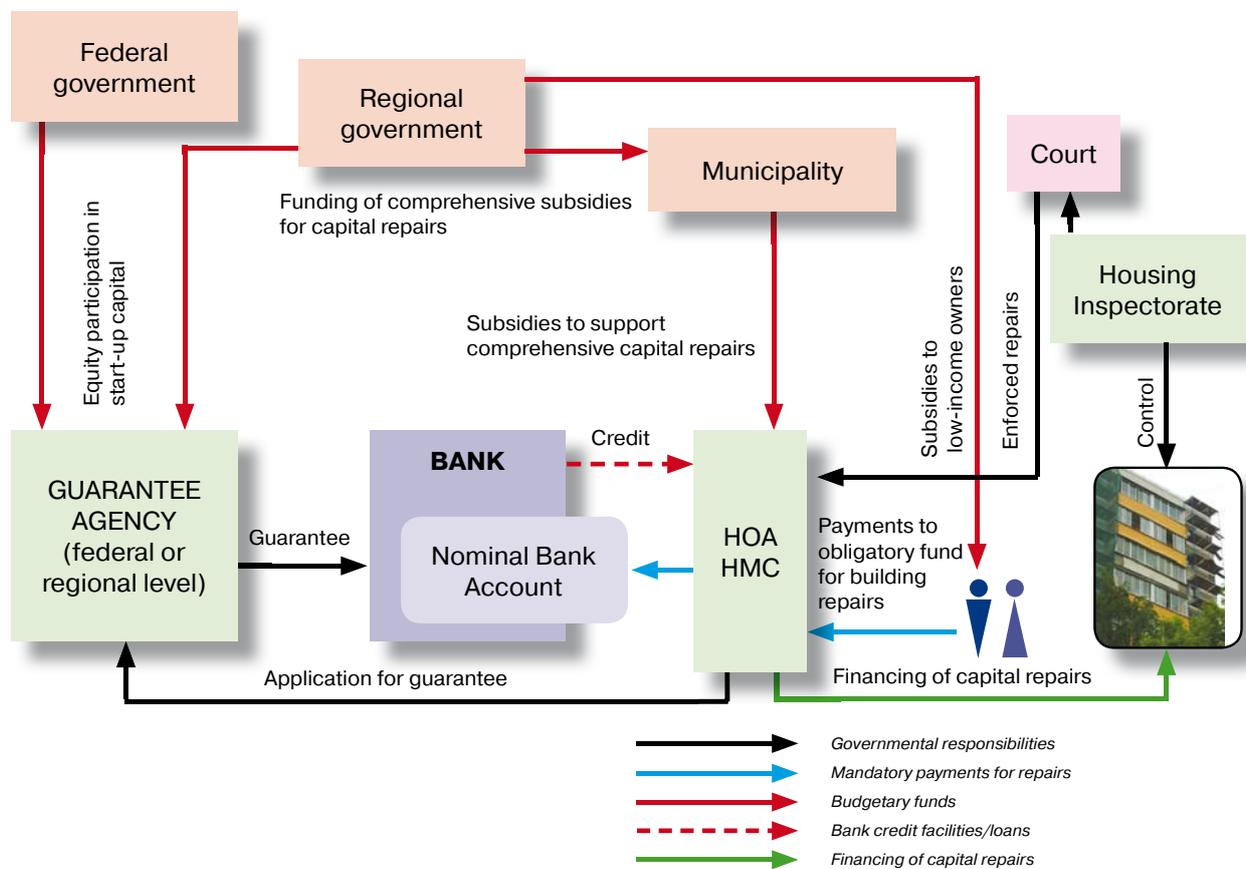
The “Integrated Model” exhibits the following key characteristics (outlined in more detail in Appendix A)<sup>12</sup>.

- The mandatory establishment of a collective fund for capital refurbishment and repair in each individual multi-family apartment building (the “collective building repair fund”).
- Requirements regarding the minimal value for such funds, and the setting of monthly payments thereto, may be determined by regional/municipal government as a condition for receipt of state support (subsidies) or the receipt of guarantees from a state guarantee agency, at the behest of property owners.
- Assets accumulated in such collective fund are deemed to belong to all members of the appropriate representative residents’ organization (Homeowners’ Association, Housing Cooperative, etc.) in common, and are collected and held in a nominal account of such organization<sup>13</sup>.
- Conditions pertaining to the extension of credit facilities by commercial banks.
  - **Any decision (resolution) on the procurement of credit facilities for capital repairs and/or energy efficiency improvements** in a multi-family apartment building is adopted on the basis of a majority vote of the General Meeting (the collective representative body of all property owners) on the basis of a proposal

<sup>12</sup> The proposed model does not include cases where the design features of an apartment building or the degree of deterioration make further repair or modernization impractical or economically inefficient, or where more than 50 percent of property owners are unable to meet their obligations in paying for such maintenance and repair.

<sup>13</sup> A “nominee” (or “special nominal”) account is one in which the named holder holds the assets in such account on behalf of another or on behalf of a collective group or organization (the “beneficiary”) for the conduct of operations using monetary resources not solely or exclusively owned by such named holder. Such accounts (i.e., not under the direct control or ownership of the account holder) are, in Russia, in an early stage of development and exist only to the extent of being discussed in the context of the new Civil Code of the Russian Federation – a piece of legislation itself currently undergoing further development.

Figure 6.1: “Integrated Model”



Source: Adapted from Institute for Urban Economics (2011), “Mechanisms for the Financing of Capital Repairs and Energy Efficiency Improvements to Multi-family Apartment Buildings in Russia and Mechanisms for State Support.”

- covering the scope, duration, and cost of such works, prepared by the relevant authority managing such multi-family apartment building (the Homeowners’ Association or other residents’ collective organization).
  - **The “debtor” or recipient of such credit facilities** is deemed to be the entity responsible for the management of such multi-family apartment building (the Homeowners’ Association or other representative organization) acting on the basis of a decision adopted by the General Meeting.
  - **The disbursement of credit facilities** for capital repair is determined on the basis of the repayments to be made by individual property owners; the level of such payments being determined by the General Meeting of the relevant representative organization in such building.
  - **Credit extended is not secured against immovable property of any kind** – i.e., it is not secured against a Homeowners’ Association, Housing Management Company, or other representative organization as the collective owner of such multi-family apartment building, nor does any liability arise on the part of individual property owners (such credit being secured against receivables (i.e., property owners’ future payments) into the collective building repair fund).
  - At the request of the bank, a **guarantee or surety** may be extended at charge, through a **state guarantee agency**, to cover part of the total credit extended.
- Payments received from property owners, as well as funds received through government support, may be used not just for capital refurbishment and repair (reconstruction) but also for energy efficiency improvements and modernization.
  - Government support initiatives to promote major capital repair and energy efficiency improvement projects, and the development of bank loans as an essential means of financing these measures:

- The total funds available for the subsidizing of capital repairs in the relevant territory are determined under budgetary planning at the federal, regional, or municipal level and are included in such budgets' schedules of protected expenditures (the budgetary term during which such subsidies are to be extended being determined under legislation at the appropriate level of government).
  - Conditions pertaining to the provision of budgetary subsidies to residents' associations for capital repairs and energy efficiency improvements in multi-family apartment buildings are determined at the level of the constituent federal entity (or municipality) in accordance with local needs and priorities – i.e., depending on the level of reconstruction/capital repairs needed to local housing stock, the extent of energy efficiency improvements necessary in multi-family apartment buildings, projected budgetary revenues, and the financial solvency of the local population.
  - Subsidies to mitigate the cost of large-scale capital repairs and energy efficiency improvement projects.
  - Special subsidies to low-income property owners to cover the costs of capital refurbishment.
  - Establishment and funding (capitalization) of specialized development agencies (e.g., federal and/or regional guarantee agencies, investment funds and so on) to guarantee security (i.e., repayment) for lenders and to promote access to finance for the purposes of capital repairs and energy efficiency improvements in multi-family apartment buildings.
- Property owners are independently responsible for adopting any decision on the commencement of payments into the collective building repair fund for the implementation of capital repairs or energy efficiency improvements in accordance with building safety requirements and established parameters for energy efficiency as and when necessary, and also subject to the availability of government support and/or bank financing.
  - Regulatory agencies (e.g., the local housing inspectorate etc.) are required to conduct regular inspections of multi-family apartment buildings depending on the age of a building (i.e., the length of time in which it has been in use) and other criteria. In the event that a building does not meet appropriate safety criteria, and in the event that owners fail to reach a decision on raising finance for repair, a legal judgment may be obtained compelling owners to commence payments into the collective building repair fund to the extent necessary to bring such building into a state of repair at least consistent with minimum legal requirements. The issue of the further intervention of state agencies in matters relating to private property and the conduct of repairs thereto is very delicate, and can be resolved in various ways, ranging from the enforcement of repairs (funded through the municipal or local authority budget with costs subsequently recovered from property owners (secured through a charge on the property in question)) to the compulsory evacuation of residents from a derelict building, with or without relocation to social-sector accommodation: another important issue in this context is the question of the valuation and subsequent use of such derelict building and the land occupied thereby.

Results generated under mathematical modeling of the effectiveness of the above model are based on the assumption that, as a result of various organizational initiatives and incentives, all property owners in multi-family apartment buildings in need of capital refurbishment or energy efficiency improvements will adopt the necessary decisions and will effect regular payments into the collective building repair fund in the same amount as would be required under legislation establishing mandatory payments by virtue of law. On that basis, for the purpose of this analysis it is assumed that total finance raised through voluntary payments will be equal to the amount anticipated under mandatory payments<sup>14</sup>.

Qualitative analysis of the model indicates the following.

- Capital repairs extending to 170–180 million square meters of floor space per year could be achieved by 2035,

<sup>14</sup> The «Integrated Model» mechanism proposed in this document is broadly based on proposals from the Institute for Urban Economics, but differs insofar as the «Integrated Model» does not assume mandatory payments from property owners: the Institute for Urban Economics' model does assume mandatory payments.

amounting to total coverage of 2,900–3,500 million square meters in the period 2012–35.

- During this period (i.e., to 2035) it will also be possible to ensure the continued expansion of those repair projects requiring the most intensive (and costly) overhaul (the proportion of which is expected to grow to between 1.8 and 2.7 percent of total floor space per year), to ensure coverage of 53–80 million square meters by that date. In total, the period from 2012 through 2035 is expected to see the capital repair of 84 percent of Russia's oldest multi-family apartment buildings (i.e., those buildings currently more than 40 years old), as well as the capital repair of 70 percent of apartment buildings constructed 25 or more years ago.
- The market for bank lending in this sector (i.e., for the purpose of capital repairs and energy efficiency improvements) is also expected to increase significantly, from RUB120–140 billion in 2020 to RUB150–310 billion in 2035, once necessary initiatives to facilitate greater access to finance have been implemented. A total RUB3,200–4,000 billion of bank loans are expected to be extended for the purposes of the repair of multi-family apartment buildings in Russia from 2012 through 2035.
- Specialist evaluations suggest that the initial phase of the implementation of the Integrated Model, in which government support is critically important, is likely to last approximately five years – after which point any reduction in state support is likely to have only limited impact.
- Government subsidies, as a proportion of total financing for capital repair projects, are likely to peak at 21 percent in 2015, after which they are expected to reduce to zero by 2026. Government subsidies for capital repair projects from 2012 through 2026 are expected to total RUB280–290 billion (excluding social security costs and expenditures related to the maintenance of guarantee agencies and other development institutions).

Research also revealed a range of legislative and institutional barriers to the implementation of the proposed Integrated Model: these are likely to require specific legal reforms, outlined in section 7, below.

## 7. Making the Necessary Changes to the Legal and Regulatory Framework

Three key problems hinder investment into the modernization of multi-family apartment buildings and the successful implementation of the Integrated Model as outlined above:

1. Insufficient public engagement – i.e., insufficient engagement of property owners in multi-family apartment buildings in the adoption of decisions regarding the management of their property and/or in the financing of repairs to the common parts of such buildings.
2. The absence of clearly defined terms for state support and incentives to encourage owners to contribute to the capital repair and energy efficiency improvement of multiple-occupancy housing stock.
3. The absence of viable security provisions and guarantees for investments (and credit facilities extended) in this sector.

The main decisions which need to be addressed at the federal level in order to implement and initiate mechanisms for the financing of capital repairs and energy efficiency improvement projects in multi-family apartment buildings (as outlined under the proposed Integrated Model) include the following.

- A statutory resolution on the mandatory formation of a collective building repair fund in every multi-family apartment building, and the security of owners' contributions thereto. This would require amendment and revision of the Housing Code, the Civil Code, the Law on Banks and Banking Activities, the Code on Administrative Infringements, and a range of other secondary legislation and regulation.

Such a resolution would remove a key **barrier regarding insufficient engagement on the part of property owners** in taking control of the management of their property and/or in the financing of repairs to the common parts of such buildings, and would encourage the timely adoption of decisions regarding the capital repair and/or energy efficiency improvement of multi-family apartment buildings.

- The setting of minimum requirements governing the collective building repair fund of a building, and the determination of monthly contributions to its establishment and replenishment as a statutory requirement for all property owners applying for state support for the fulfillment of capital repair or energy efficiency improvement projects. This will require amendments to the Housing Code.
- The introduction of legislation and regulation to allow the level of budgetary (state) resources for the support of capital repair and energy efficiency improvement projects to be included in the schedule of protected expenditures in government budgets at all levels (i.e., federal, regional and municipal) to the extent of any period of time permissible by law. This will require reform of current budgetary legislation.
- The establishment of clear and transparent regulation governing the granting of state subsidies to residents' organizations, on competitive terms. This will, in particular, require the adoption of legislation on the kind of state support to be offered to property owners for the implementation of capital repair and energy efficiency improvement projects in multi-family apartment buildings – either through the provision of budgetary subsidies (grants) to meet part of the cost of such projects, or through the inclusion of low-income families' costs (i.e., contributions to the collective building repair fund) under any housing support program. This will require regulation governing the provision of such subsidies to property owners, as well as amendments to the Housing Code.
- The introduction of legislation allowing payments received in the form of subsidies for capital repair and/or energy efficiency improvement projects to be exempt from tax, and allowing concessions to be extended to personal tax payers (in the form of deductible allowances/reimbursement of costs in respect of such projects), to the extent permissible under current legislation. This will require reform of the Tax Code:

Such initiatives would eliminate **the barrier of insufficiency of state subsidies and incentives** to encourage public engagement in and contributions to capital repair and energy efficiency projects in the residential sector, as well as allowing property owners to undertake appropriate financial planning for such projects.

- The introduction of regulation to reduce lending risks (i.e., addressing the security and reliability of borrowers). It is proposed to extend the principle of “subsidiary liability” of the property owners within a multi-family apartment building toward the creditors of any Homeowners’ Association or Housing Management Company financing such capital repair or energy efficiency improvement project(s) prorated to the amounts past due by respective property owners for capital repairs. This will require amendments to the Civil Code.
- Adoption at the federal or regional levels (i.e., at the level of the constituent entities of the Russian Federation) of regulation governing the provision of state support to promote the extension of bank loans (credit facilities) for capital repair and energy efficiency improvement projects in multi-family apartment buildings. Such legislation should clearly define and delineate the core objectives and responsibilities – as well as the operation – of federal and/or regional guarantee agencies and/or investment funds established to that end. This will require amendments to the Housing Code and to legislation governing the provision of state and municipal guarantees:

These initiatives will eliminate **the barrier of the absence of viable security provisions and guarantees** for any credit facilities (loans) extended by commercial banks thus attracted to the sector, and will improve access to finance (as well as reducing the cost of such facilities) for Homeowners’ Associations, Housing Management Companies or other collective residents’ organizations engaging in capital repairs or energy efficiency improvements.

## Appendix A: Outline of Key Models

Figure A1.1: "Mutual Financing" Model

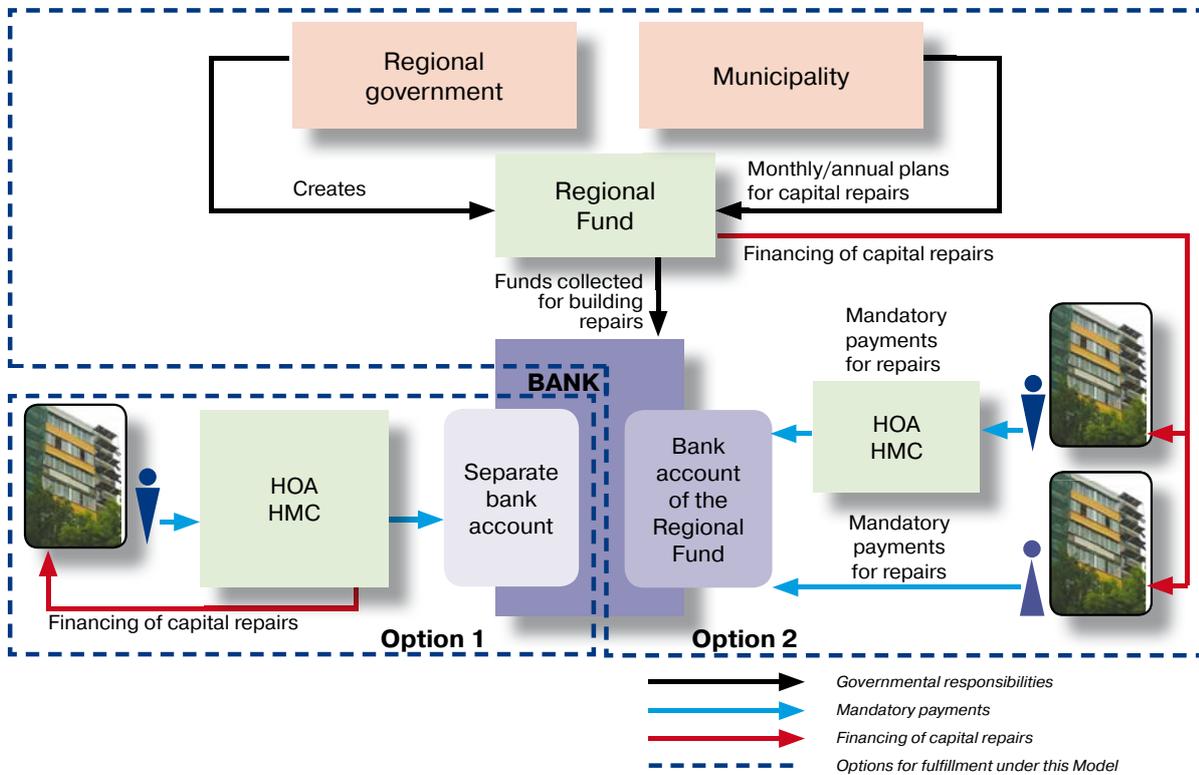
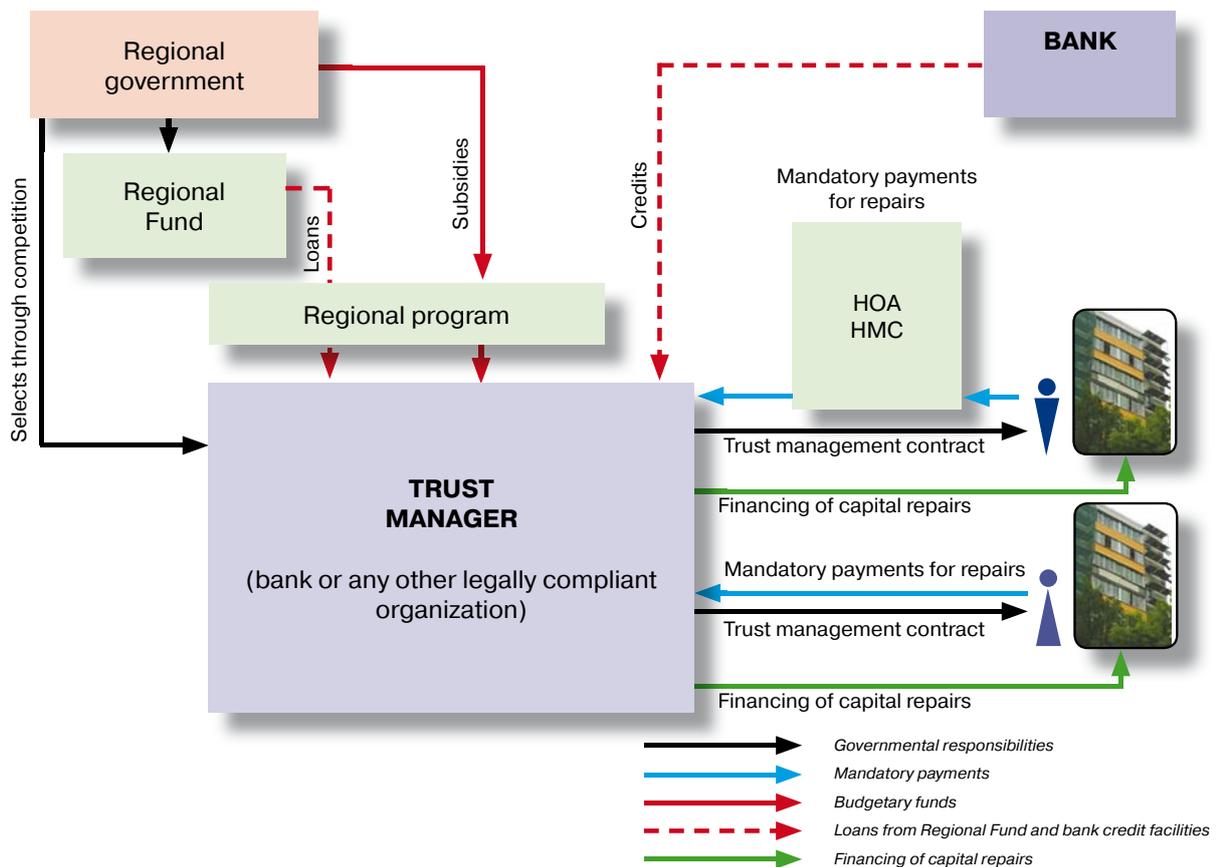
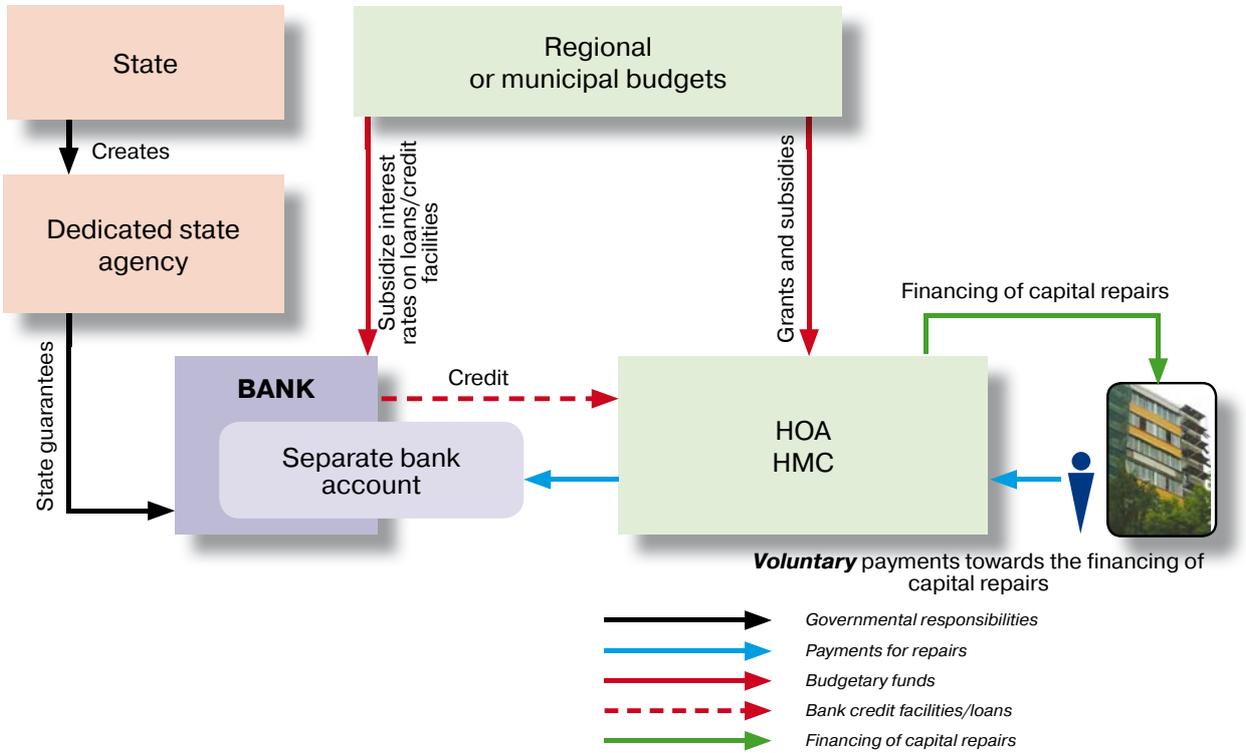


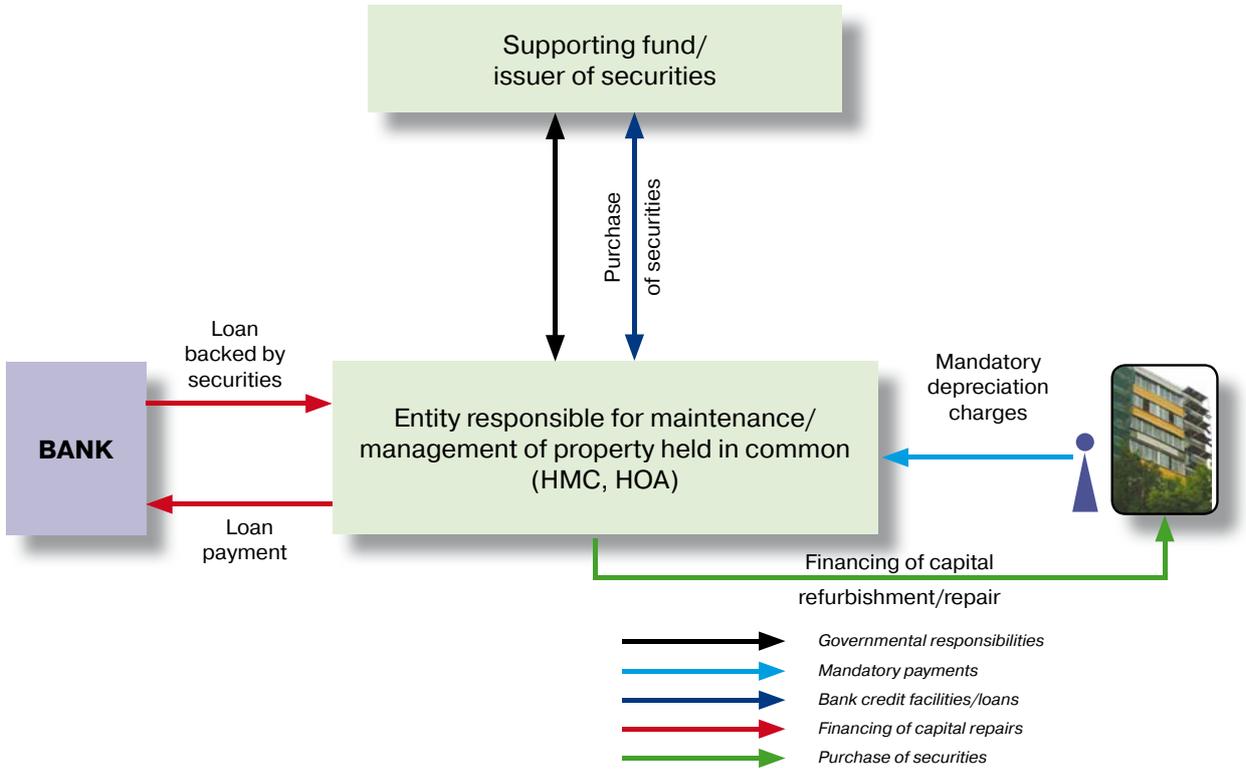
Figure A1.2: "Trust Management" Model



**Figure A1.3: “Voluntary Payments” Model**



**Figure A1.4: “Depreciation Charges” Model**



Source: Adapted from Institute for Urban Economics (2011), “Mechanisms for the Financing of Capital Repairs and Energy Efficiency Improvements to Multi-family Apartment Buildings in Russia and Mechanisms for State Support.”

## Appendix B: Financing the Capital Repair of Multi-family Apartment Buildings in Russia – Comparison of Potential Models

### FINANCING THE CAPITAL REPAIR OF MULTI-FAMILY APARTMENT BUILDINGS IN RUSSIA – COMPARISON OF POTENTIAL MODELS

Key Characteristics	Advantages/Benefits	Disadvantages/Shortcomings	Key Features – Composition and Interrelationships
<p>1. Mutual Financing Model.</p>	<p>Mandatory monthly payments.</p>	<p>Timely commencement of works, paid for through resources held in Regional Fund(s).</p>	<p>Low level of federal government involvement.</p>
<p>Level of monthly payments determined by municipality.</p>	<p>High volumes of repairs during the initial stages of this model.</p>	<p>Neither the “Regional Fund” option (Option 1, Figure A1.1) nor the “Individual Financing” option (Option 2, Figure A1.1; see also first column, below) envisages a clear basis for the provision of regional or municipal budgetary support; a subsequent lack of immediately available funds as a result of this could result in the volumes and/or extent of capital repair projects being reduced.</p>	<p>Low level of budgetary support at all levels.</p>
<p>The preferred option for the distribution/use of collected funds is Option 1: transfer into a “Regional Fund” under management of regional government (the appropriate constituent entity of the Russian Federation) – i.e., the “Regional Fund” option.</p>	<p>Appears to be a quick and uniform solution for all types of multi-family apartment buildings.</p>	<p>Neither the “Regional Fund” nor the “Individual Financing” options clearly envisage the participation of financial institutions/commercial lenders in the financing of capital repair projects in multi-family apartment buildings; a subsequent lack of immediately available funds as a result of this could result in the volumes and/or extent of capital repair projects being reduced.</p>	<p>Low level of financial-sector involvement.</p>

## FINANCING THE CAPITAL REPAIR OF MULTI-FAMILY APARTMENT BUILDINGS IN RUSSIA – COMPARISON OF POTENTIAL MODELS

Key Characteristics	Advantages/Benefits	Disadvantages/Shortcomings	Key Features – Composition and Interrelationships
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Funds sourced from various multi-family apartment buildings within a municipality and collected within a Regional Fund are used for the repair of a range of other multi-family apartment buildings within the same area (i.e., the same municipality).

This model appears to present an easy solution for those owners unwilling or unable to reach a collective decision on the renovation of a building.

Local government agencies play too great a role in this process: a) capital repair projects are undertaken in accordance with local government objectives, and not those of owners themselves; b) the scope of such projects is again determined by local government; c) local government is also responsible for the appointment of suppliers and contractors; and d) the role and engagement of owners in management and capital repair is reduced: all of which gives rise to greater risk of corruption.

Low level of resident/owner participation.

Capital repair to be undertaken on the basis of monthly/annual plans as approved by local government (prioritized on the basis of resources collected in the applicable Regional Fund).

Does not require the adoption of additional legislation or regulation at the federal level.

This model does not prioritize better quality of life or energy efficiency improvements in multi-family apartment buildings: there is a high risk that criteria determining the successful implementation of a system for capital repairs will be determined on the basis of the total number of buildings/total floor space, rather than residents' needs or better energy efficiency.

High dependence on the collection of contributions to collective building repair funds.

FINANCING THE CAPITAL REPAIR OF MULTI-FAMILY APARTMENT BUILDINGS IN RUSSIA – COMPARISON OF POTENTIAL MODELS			
	Key Characteristics	Advantages/Benefits	Disadvantages/Shortcomings
			Key Features – Composition and Interrelationships
	<p>Owners in multi-family apartment buildings have the right (through a decision of the General Meeting) to manage the collection and expenditure of the resources of their own collective building repair fund independently (the “Individual Financing” option, Option 2 in Figure A 1. 1, above) rather than transferring their mandatory contributions to any regional collective system of Regional Funds.</p>		<p>There is no guarantee that owners’ choosing the “Independent Financing” over the “Regional Fund” option will receive equal treatment in the allocation of government support (budgetary funds).</p>
2. Trust Management Model.	<p>Property owners make mandatory monthly contributions for the financing of capital repairs until the collective building repair fund reaches a level determined by regional government.</p> <p>The minimum amount of such mandatory monthly payments for capital repair are determined under regional and municipal legislation.</p>	<p>Expenditure on capital repairs cannot occur without the consent of those owners paying for such repairs.</p> <p>The involvement of commercial banks in the extension of credit facilities for capital repairs is presupposed.</p>	<p>Property owners have no involvement in the adoption of decisions governing the extent of any capital repair (or energy efficiency) project to be undertaken, its duration and/or cost: responsibility for the management and potential expenditure of any funds raised by owners rests with the “Trust Manager” (elected by regional government) rather than with property owners themselves.</p> <p>Problems arising from decision making on capital repairs may result in the volume of such repairs being restricted.</p>
			<p>High risk of instability (“pyramid structure”) without consistent and sustainable support from financial institutions and/or government.</p>
			<p>Considerable potential for corruption.</p>
			<p>Low level of federal government involvement.</p>
			<p>Sustainable budgetary support at the regional level (subject to availability of funds).</p>

## FINANCING THE CAPITAL REPAIR OF MULTI-FAMILY APARTMENT BUILDINGS IN RUSSIA – COMPARISON OF POTENTIAL MODELS

Key Characteristics	Advantages/Benefits	Disadvantages/Shortcomings	Key Features – Composition and Interrelationships
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A “Trust Manager,” appointed by regional government, is responsible for the management of each individual owner’s beneficiary interests in a multi-family apartment building, upon signing of an appropriate trust agreement for a period not exceeding 10 years.

Disposal and management of collective building repair funds:

- Mandatory contributions are paid to the “Trust Manager,” who is obliged to maintain full and appropriate records, broken down to show individual accounts for individual owners in the relevant multi-family apartment building;
- Funds collected from individual owners in a multi-family apartment building may only be spent or disbursed (by the “Trust Manager”) on the capital repair of such specific multi-family apartment building ;
- In the event of insufficient funds being raised by owners, the “Trust Manager” may apply for credit at an appropriate commercial bank.

The state guarantees financial resources accumulated by property owners for capital repair.

Access to state (budgetary) support for capital repair.

The provision of finance facilities through government (budgetary) sources will make commercial loans (commercial banking facilities) far less attractive to owners.

Institutional changes to enable commercial banks to extend credit facilities for capital repair projects (i.e., relating to loan collateralization and security) are not anticipated.

Low level of resident/owner participation.

Low level of participation on the part of commercial banks.

FINANCING THE CAPITAL REPAIR OF MULTI-FAMILY APARTMENT BUILDINGS IN RUSSIA – COMPARISON OF POTENTIAL MODELS		Key Features – Composition and Interrelationships
Key Characteristics	Advantages/Benefits	Disadvantages/Shortcomings
<p>The financing of capital repairs is undertaken on the basis of a decision taken by the General Meeting (of the Homeowners' Association or other appropriate representative residents' organization) on the basis of a mandatory technical inspection (required to be conducted once every five years) or, where owners have failed to adopt such decision, at the instruction of an authorized state agency.</p> <p>Government support may be extended in the form of budgetary subsidies or as loans extended through the Regional Fund (a dedicated facility financed through the regional budget and provided for under the appropriate regional program).</p>	<p>No need for additional legal or regulatory reform at the federal level (subject to the provisions of the new Civil Code).</p>	<p>High level of dependence on financial support from regional budgets.</p>
<p>3. Voluntary Payments Model.</p> <p>This model does not envisage the legal enforcement of mandatory payments for capital repairs; rather, such payments may only be collected following the adoption of an appropriate resolution by the Homeowners' Association or other representative residents' organization.</p>	<p>No mandatory payments are required for capital repairs; financial resources for repairs being raised only on the adoption of an appropriate resolution by the General Meeting.</p>	<p>Risk of a sharp decline in the volume of capital repairs in initial stages due to absence of requirements for mandatory contributions, as well as residents' possible indifference – possible increase in the number of derelict multi-family apartment buildings, as a result.</p>
		<p>Considerable potential for corruption.</p> <p>Major legal reform required initially.</p>

FINANCING THE CAPITAL REPAIR OF MULTI-FAMILY APARTMENT BUILDINGS IN RUSSIA – COMPARISON OF POTENTIAL MODELS			
Key Characteristics	Advantages/Benefits	Disadvantages/Shortcomings	Key Features – Composition and Interrelationships
<p>Owners' in a multi-family apartment building, subject to the adoption of an appropriate resolution by the General Meeting, authorize the Homeowners' Association or Housing Management Company to open a separate bank account for the collection of regular payments received from property owners.</p> <p>Monies held in such account may be disposed of only in accordance with an appropriate resolution by the General Meeting.</p> <p>Raising of finance through commercial bank credit facilities:</p> <ul style="list-style-type: none"> <li>- The procurement of any credit facility must be endorsed by the General Meeting ;</li> <li>- The borrower is deemed to be the Homeowners' Association, other representative residents' organization, or Housing Management Company.</li> </ul>	<p>Independence of property owners in all decision making; development of collective responsibility in the ownership and management of such multi-family apartment building.</p> <p>The use of multiple sources of finance on the part of property owners – including credit finance facilities (loans) and government subsidies.</p> <p>Strategic governmental support in improving energy efficiency in multiple-occupancy housing.</p>	<p>Significant changes to legislation and regulation are unavoidable under this model.</p>	<p>Low level of regulation/ government involvement.</p> <p>Unavoidability of governmental support (through the federal budget) for the lowest-income regions.</p> <p>High level of support required through regional budgets.</p>

## FINANCING THE CAPITAL REPAIR OF MULTI-FAMILY APARTMENT BUILDINGS IN RUSSIA – COMPARISON OF POTENTIAL MODELS

## Key Characteristics

- Potential support strategies:
- Subsidizing interest rates on credit facilities extended for capital repairs ;
  - Extension of subsidies to Housing Management Companies and/or Homeowners' Associations (in the order of 15–20 percent of the total cost of the capital repairs envisaged) to offset the cost of technical inspections/surveys, the finalization and approval of project documentation, or as a down payment on any credit facility ;
  - Establishment of a dedicated state agency for the provision of guarantees to local banks;
  - Provision of subsidies to pensioners, young families and/or families with many children (e.g., for the installation of meters or replacement of heating equipment).

## Advantages/Benefits

## Disadvantages/Shortcomings

## Key Features – Composition and Interrelationships

High level of activity on the part of owners.

High level of engagement on the part of commercial banks/ financial institutions.

Low risk of corruption arising.

This model is likely to be slow to develop in the initial stages, but will allow stable and sustainable growth thereafter.

## FINANCING THE CAPITAL REPAIR OF MULTI-FAMILY APARTMENT BUILDINGS IN RUSSIA – COMPARISON OF POTENTIAL MODELS

Key Characteristics	Advantages/Benefits	Disadvantages/Shortcomings	Key Features – Composition and Interrelationships
<p>4. Depreciation Charges Model.</p> <p>Adoption of legislation governing:            - The depreciation (amortization) of common parts of a multi-family apartment building held as joint property by owners in such multi-family apartment building ;            - Imposition of mandatory monthly depreciation (amortization) charges against such owners of property held in common.</p> <p>The asset holder* of such property held in common shall be deemed to be the organization responsible for overall management of such property, e.g., the Homeowners' Association, Housing Management Company, Housing Cooperative, or similar collective representative organization.</p>	<p>This initiative represents an attempt to account for federal/municipal liabilities for capital repairs not undertaken as at the time such properties were privatized.</p>	<p>Transfer of responsibility for capital repairs in multi-family apartment buildings from apartment owners to Housing Management Companies.</p>	<p>Once established, this model is not dependent on government support.</p>
		<p>Economic and legal injustice in the introduction of depreciation (amortization) charges.</p>	<p>Low involvement of state budgets, at all levels.</p>

*\*Note: Pursuant to current legislation, property held in common by individual owners within a multi-family apartment building is not subject to the same principles of journal-entry bookkeeping applicable to the legal entity responsible for managing such building. The term "asset-holder" is therefore used for convenience in this model.*

## FINANCING THE CAPITAL REPAIR OF MULTI-FAMILY APARTMENT BUILDINGS IN RUSSIA – COMPARISON OF POTENTIAL MODELS

## Key Characteristics

## Advantages/Benefits

## Disadvantages/Shortcomings

## Key Features – Composition and Interrelationships

The level (amount) of such mandatory monthly depreciation (amortization) charge is determined by the above organizations on the basis of a property's cadastral value and applicable depreciation (amortization) rates.

Such cadastral value to be equal to the depreciated replacement cost.

Such mandatory depreciation (amortization) charges to be payable to the appropriate organization (as above) for the maintenance of such multi-family apartment building.

The total amount of amortization charges received from property owners must be used by the organization responsible for the management of such multi-family apartment building solely for the purchase of securities issued by the Regional Fund for the support of the collective owners of such property.

Inadequate financial resources for the capital refurbishment of buildings in poor physical condition (in contrast to the surplus revenue that will result from the repair of new housing or buildings in good condition) as a result of the respective depreciation (amortization) allowed in each case.

It remains unclear which entity will be responsible for the formation, management and capitalization of the Regional Funds (i.e., issuance of securities on its behalf).

It remains unclear which entity will be responsible for determining the extent of any capital refurbishment and/or its duration.

Significant changes to legislation and regulation are unavoidable under this model.

High level of involvement on the part of lenders/financial institutions.

High level of involvement on the part of property owners.

High level of involvement on the part of Housing Management Companies.

High risk of fraud on the part of Housing Management Companies.

FINANCING THE CAPITAL REPAIR OF MULTI-FAMILY APARTMENT BUILDINGS IN RUSSIA – COMPARISON OF POTENTIAL MODELS			
Key Characteristics	Advantages/Benefits	Disadvantages/Shortcomings	Key Features – Composition and Interrelationships
<p>Securities purchased by an organization responsible for the management of a multi-family apartment building may be sold or used as collateral to secure a credit facility to finance the capital repair or energy-efficient modernization of such building.</p>			High risk of fraud on the part of financial institutions and/or issuers of securities.
<p>5. Integrated Model.</p> <p>Mandatory establishment of a collective building repair fund for capital refurbishment and/or energy efficiency modernization of a multi-family apartment building, and the opening of a corresponding nominal bank account.</p> <p>In those multi-family apartment buildings in which no Homeowners' Association has been duly established, the General Meeting shall have the right to appoint any entity (including a Housing Management Company) to open an account in their (collective) interest for the purpose of managing the collective building repair fund, and to take decisions on procedures for the management of such account.</p>	<p>Independence of property owners in all decision making; promotion of collective responsibility among owners in multi-family apartment buildings.</p> <p>Potentially exponential growth in the extent of capital repair projects undertaken, as a result of greater credit facilities increasingly being made available in this sector.</p>	<p>The effective implementation of this model is contingent upon extensive legislative and regulatory reform to remove various barriers to its adoption.</p> <p>Implementation of this model will require a considerable period of time.</p>	<p>High level of legal reform required in initial stages.</p> <p>Moderate level of regulatory/governmental involvement envisaged in respect of budgetary support.</p>

FINANCING THE CAPITAL REPAIR OF MULTI-FAMILY APARTMENT BUILDINGS IN RUSSIA – COMPARISON OF POTENTIAL MODELS			
Key Characteristics	Advantages/Benefits	Disadvantages/Shortcomings	Key Features – Composition and Interrelationships
<p>The minimum amount to be held in such collective building repair fund shall be determined by regional government only as a condition for the receipt of state budgetary support (e.g., subsidies or guarantees).</p> <p>Enforcement of mandatory payment of contributions to such collective building repair fund by court order at the instigation of the Housing Inspectorate in the event that the conduct of such repair is necessary due to the extreme dereliction of such building and/or where the poor maintenance of such building renders it a safety risk, and where owners have not independently adopted a timely resolution on the financing of necessary refurbishment or repair, or on engaging with regional initiatives for government-supported capital repair and modernization of multi-family apartment buildings.</p>	<p>The use of state subsidies to promote energy efficiency improvements in the large-scale repair of multi-family apartment buildings.</p> <p>The existence of mechanisms to allow the adoption of resolutions on capital repair at the direction of state inspection agencies in emergency situations (in the event of a building being in breach of safety standards).</p>	<p>It is possible that the volume (scope) of capital repair projects will decline compared to the period of operation of the Housing and Utilities Reform Fund.</p> <p>Significant level of government support in initial stages.</p>	<p>Government support (through the federal budget) will be unavoidable in supporting low-income and/or disadvantaged regions.</p>

FINANCING THE CAPITAL REPAIR OF MULTI-FAMILY APARTMENT BUILDINGS IN RUSSIA – COMPARISON OF POTENTIAL MODELS			
Key Characteristics	Advantages/Benefits	Disadvantages/Shortcomings	Key Features – Composition and Interrelationships
<p>Any increase in the value of the collective building repair fund beyond the statutory minimum shall be at the sole discretion (i.e., following the adoption of a resolution) of the General Meeting.</p> <p>Payments will continue to be made until such time as the value of the collective building repair fund reaches the minimum level necessary for the receipt of state support or guarantees through the state guarantee agency/fund.</p> <p>Resources (assets) held in the collective building repair fund shall be deemed to be financial resources held by all property owners in common; such resources to be held in the designated (“nominal”) bank account of the Homeowners’ Association or Housing Management Company.</p>	<p>Resolution of the problem of low-income owners through the provision of targeted subsidies for the implementation of capital refurbishment and repair.</p>		<p>Moderate level of support envisaged from regional budgets.</p> <p>High level of involvement on the part of property owners.</p> <p>High level of involvement on the part of financial institutions/lenders.</p>

## FINANCING THE CAPITAL REPAIR OF MULTI-FAMILY APARTMENT BUILDINGS IN RUSSIA – COMPARISON OF POTENTIAL MODELS

### Key Characteristics

### Advantages/Benefits

### Disadvantages/Shortcomings

### Key Features – Composition and Interrelationships

Measures to encourage and promote bank lending:

- Loans extended to Homeowners' Associations and/or Housing Management Companies (as the borrower)
- Credit facilities/loans extended for the capital repair of multi-family apartment buildings to be secured against assets held in the collective building repair fund and/or against receivables arising from property owners' regular mandatory payments thereto ;
- Security of such loans facilitated through the provision of guarantees extended by federal/regional guarantee agencies.

Measures to promote and support the implementation of large-scale capital repair and energy efficiency improvements projects in multi-family apartment buildings:

- Subsidies directed at supporting large-scale repair projects ;
- Low-income families to receive subsidies for the cost of capital refurbishment and repair.

Low risk of corruption arising.

This model is likely to see a slow start, albeit with stable and sustainable growth thereafter.

Once established this model will see a sharp reduction in the need for state support.

EBRD Moscow Office  
Ducat Place III,  
6 Gasheka Street, 125047 Moscow  
Tel: +7 495 787 1111  
Fax: +7 495 787 1122  
<http://www.ebrd.com/russian/pages/country/russia.shtml>

International Finance Corporation  
36 build. 1 Bolshaya Molchanovka Street  
Moscow, 121069, Russia  
Tel: +7 (495) 411 7555  
Fax: +7 (495) 411 7556  
[www.ifc.org/eca](http://www.ifc.org/eca)



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