REPORT ON TASK 2.
DEVELOP MECHANISMS FOR THE FUNDING OF CAPITAL REPAIRS AND ENERGY EFFICIENCY IMPROVEMENTS IN APARTMENT BUILDINGS AND MECHANISMS OF STATE SUPPORT

PROJECT:
«RUSSIAN URBAN HOUSING ENERGY EFFICIENCY PROGRAMME – MODEL DEVELOPMENT»

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EXECUTIVE SUMMARY

The report hereunder presents the expert analysis of existing proposals on the establishment of financial mechanisms for capital repairs of apartment buildings and recommendations on the optimal model with due account for best international practices.

The Part I is devoted to evaluation of possible mechanisms of financing capital repairs and energy-efficient modernization of apartment buildings in Russia.

The Section I.1 of the report determines the framework for analysis of the potential financing mechanisms for capital repairs of apartment buildings. Criteria for the evaluation of potential models for financing capital repairs and enhancement of energy efficiency of apartment buildings are described which allow reaching the main goal - to develop a sustainable organizational and financial system that will make it possible to:

- have the building repaired/renovated at any moment, pursuant to a decision of owners of apartments in the building, with a possibility of mobilizing credit resources and state financial support;
- have the building repaired to provide the safety of the building, in the event that owners of apartments failed to make a decision on repairs.

Criteria for evaluation of the potential models of financing are proposed:

1. General Criteria:
   - **Sustainability of the model**: to what degree is the model sustainable within a mid-term (5-10 years) period? In other words, does it allow to provide for sufficient financing of capital repairs in future?
   - **Flexibility of the model**: to what degree does the model allow flexibility so buildings can be renovated at any appropriate time?
   - **Feasibility of the model**: to what degree does the model require for serious institutional and legislative changes? Are the changes needed realizable in short-term period?

2. Institutional Criteria:
   - **Owner engagement**: to what degree does the model require the involvement of owners in the decisions re renovation?
   - **Simplicity of decision making**: to what degree does the model present a transparent and enforceable structure of making and implementation of decisions about capital repairs of apartment buildings?
   - **Protection of owners’ capital**: to what degree does the model provide for protection of owners’ savings for capital repairs against unauthorized utilization?
   - **Securing safety of building**: to what degree does the model provide the safety of the building, in the event that owners of apartments failed to make a decision on repairs?

3. Financing:
   - **Access to financing**: to what degree does the model mobilize credit/private finance?
   - **Measures of engagement of the banking sector**: to what degree does the model facilitate the engagement of the banking sector for the purpose of originating loans for capital repairs.
4. Policies:

- **Enhancement of energy efficiency**: to what degree does this model prioritize the enhancement of energy efficiency in apartment buildings and comprehensive repairs of the latter?
- **Enhancement of competition**: to what degree does the model provide for enhancement of competitive selection of the executor of capital repairs by apartment owners?
- **Low-income households engagement**: to what degree does the model allow the low-income households to receive specific state support enabling them to pay for the capital repairs of the building.

The system of evaluation of proposed models is developed which suggests testing the models against every of 12 selected criteria, and assigning them scores from 1 to 5, and then adjusting the score by weighting coefficients of each criterion.

**The Section I.2** presents a summary description of five proposed financing models, such as following:

Model 1 “Mutual financing of capital repairs by apartment owners in various apartment buildings”;

Model 2 «Trust Management of Funds Earmarked for Financing Capital Repairs»;

Model 3 «Fund for Building Repairs in Combination with Other Sources of Finance»;

Model 4 “Financing capital repairs of apartment buildings via establishing a special management status voluntary payments for capital repairs”;

Model 5 «Financing the capital repairs and upgrading of the common property in apartment buildings through introduction of an institute of mandatory depreciation charges».

**The Section I.3** is devoted to detailed analysis of five proposed mechanisms for establishing mandatory statutory payments for capital repairs.

Comparison of the Russian legislation and the regulatory framework of the Central and East European countries in the context of regulation of issues on carrying out and financing capital repairs of apartment buildings shows that generally lawmakers take similar approaches; however, in some cases the Russian legislation more clearly defines responsibilities of apartment owners for repairs of common property in apartment buildings and the decision-making procedures. The problem with carrying out capital repairs of apartment buildings on the initiative of apartment owners and at their expense is that the existing legal provisions are not widely used in managing apartment buildings in Russia.

The necessity of enhancing the Russian legislation by a mechanism for establishing mandatory regular payments by apartment owners for the purposes of capital repairs of the common property in apartment buildings is understood by all those who, at present, propose models for financing capital repairs and enhancing the energy efficiency of the Russian housing stock for discussion. At the same time, their views on what kind of mechanism should be applied differ considerably.

The comparison of various options for establishing the amounts of mandatory payments from residential property owners for capital repairs and for the duration of mandatory payments.
revealed that formation of a building repairs fund to a minimum amount established by a constituent entity of the Russian Federation is the most acceptable option from the social and economic point of view. The advantages of this option are as follows:

- Simplicity of decision-making on the amount of minimum mandatory payments and on the amount of a building repairs fund;
- Obviousness of the purpose of establishing mandatory payments and building repairs funds for residential property owners;
- Minimization of risks related to depreciation of accumulated funds, because it is assumed that financial institutions will be used instead of long-term accumulation of funds;
- Possibility for residential property owners in each apartment building to make independent decisions on increase of the amount of payments for capital repairs and on increase of a building repairs fund.

The status of accumulated funds as common funds of residential property owners to cover common expenses associated with improvement of common property conditions (capital repairs, energy efficiency enhancement) corresponds to the rights and obligations of common property owners in an apartment building to the maximum extent as compared to all reviewed options for the ownership of funds formed by mandatory payments from residential property owners for capital repairs.

The best possibility for residential property owners in an apartment building given any method of building management to separate common funds for capital repairs from the funds of each particular residential property owner or from the funds of the entity managing such a building is to open a bank account with a special status establishing that funds on such an account belong to residential property owners and not to the account holder.

Out of all reviewed options for accumulating savings for capital repairs the one that ensures the easiest access to the such savings pursuant to a relevant decision made by the apartment owners is the best option because it enables to accumulate money on a separate bank account of a HOA or MO, and to use this money only a relevant resolution by the general meeting of apartment owners in the AB is required.

Out of all reviewed options, only a bank account with a special status (envisaging that the assets on the account are the property of apartment owners rather than of the entity that holds the account) is the best option for the following reasons: all other models proposed for introduction of payments by owners for the purposes of capital repairs do not guarantee that their payments will not be used without their permission, vanish or be embezzled.

Of all the examined options the one entailing the decision-making by a general meeting of apartment owners in an apartment building, based on a proposal made by an entity that manages the building (a management organization or homeowners organization), appears, in the general case, to involve the most simplified procedure of decision-making on capital repairs (list of works, schedule of capital repairs, cost of works).

To simplify the decision-making on capital repairs by apartment owners in an apartment building, it is advisable that legislative changes be introduced according to which a simple majority of votes would be sufficient for apartment owners to make their decisions.
Some models propose, actually, a two-stage decision-making on capital repairs, because along with a resolution passed by a general meeting, the decisions should be also made by either a body of local governance or by an authorized body of state power. This two-stage nature of decision-making on capital repairs of an apartment building makes the procedure more time-consuming and complex. Besides, the owners remain doubtful whether their decision will be executed.

For the case when apartment owners in a building have not made any decision on capital repairs so that to ensure the compliance of their building with technical regulations on safety of buildings, it is recommended that the legislation should be amended to embrace a provision envisaging a decision-making on the basis of the court’s ruling on the suit by a housing supervisory body.

**The Section 1.4** is devoted to analysis of the mechanisms and sources of raising additional commercial capital.

It seems most realistic in the near future to raise funds from the banks for capital repairs and energy-efficient upgrading of apartment buildings in Russia. On the whole most of the Russian banks are experienced in providing long-term loans repaid by individuals. This can mean that in dealing with the issue of security for loans provided for the purpose of capital repairs and energy-efficient upgrading of common property in apartment buildings and the issue of establishing enforcement actions against defaulters under such loans, the experiences in disbursement and repayment of mortgage loans can be applied when working out new types of lending activities. Though, financing of entities carrying out management of apartment buildings (Homeowners' Partnerships and management companies) for the purposes of energy efficiency enhancement of buildings has not been in the area of interest of the commercial banks in Russia up until now.

Shaping of demand for long-term borrowed funds raised in the financial market for the purposes of capital repairs and energy-efficient upgrading of apartment buildings on the part of residential property owners, managing entities and energy service companies in Russia is complicated by the complexity of obtaining and by high cost of loans as well as by a number of legislative and institutional barriers impeding the development of self-management of owners and management of apartment buildings as a business.

At the same time, the Homeowners' Associations and management companies as well as energy service companies are willing to implement energy-saving projects resulting in reduction of utility costs for an apartment building and the achieved savings may be used to meet the loan repayment obligations.

The existence of targeted bank lending products for energy-saving projects of capital repairs and reconstruction of apartment buildings which could be provided without pledge of property at relatively low interest rates stimulates growing demand for loans on the part of Homeowners' Associations and management companies as well as energy service companies. The question is how soon such bank lending products appear in Russia. To precipitate their implementation serious decisions including political are needed. Necessary measures are described further in the Report.

The potential models of financing capital repairs and renovation of apartment buildings are evaluated in the context of access to private financing of capital repairs of and energy efficiency.
improvement in apartment buildings. The analysis of models showed that the existing models of capital repairs financing are mainly focused on the definition of a mechanism for mandatory payments from residential property owners in apartment buildings while a minor part is assigned to lending mechanisms in most of the models. Only Model 3 "Repairs Fund" and Model 4 "Voluntary payments" presuppose that loans should become the main source of financing capital repairs (reconstruction) of apartment buildings. In the rest of the models commercial financing is regarded as theoretical opportunity, or it is indicated that borrowed funds are raised if the accumulated funds of residential property owners are not sufficient for repairs.

The Section 1.5 focuses on possible measures of state support for carrying out capital repairs and energy efficient upgrading of apartment buildings. The section describes, as the guideline, positive practices of the Central European and Baltic states for providing budget support and enhancing energy performance of apartment buildings. A pressing need for funds sufficient to upgrading apartment buildings, which amount cannot be accumulated by the owners in the foreseeable future, made it necessary for the Central European states to co-finance capital repairs and upgrading of housing.

In present-day Russia, capital repairs are funded mainly from the state budget as well. Considering that it is most likely that the Russian state and municipalities will not be able to keep away from co-financing capital repairs of the multi-apartment housing stock, it seems expedient to redirect measures of the state (municipal) support towards at encouraging initiatives of housing owners, creating a stable system of finance on the basis of affordable borrowings at partial reduction of financial burden on owners with regard to improving the condition of housing realty.

Thus, it seems reasonable to provide state support for funding capital repairs and upgrading of apartment buildings as follows:

- provide budget subsidies to co-finance capital repairs / upgrading (including subsidies for payments for capital repairs completed, financing technical expertise and energy audit);
- enhance affordability of loans (including subsidizing interest rates, creation of guarantee agencies).

In so doing measures of state support should be targeted at enhancement of energy efficiency of housing and promotion of competition in the area of housing services.

Besides, it seems advisable to take into account the past and existing positive Russian practice and experience of the Central European and Baltic states when developing programs for funding capital repairs / upgrading of apartment buildings addressed to low income households and try different options of subsidizing low income or socially vulnerable households.

The proposed models of financing capital repairs of apartment buildings in Russia are described and assessed in the context of state support needs. As that both experts, representatives of the executive power, and Russian politicians agree that the state must support homeowners for carrying out capital repairs and upgrading of apartment buildings, this practically unanimous consent is reflected in the models of financing being reviewed. All models include differently prioritized proposals for measures of state support.

The Section 1.6 provides the results of the evaluation of all analyzed models for financing capital repairs of apartment buildings in accordance with developed system of evaluation.
Evaluation of potential mechanisms of financing capital repairs and energy saving in apartment buildings is provided on the basis of criteria formulated proceeding from necessity to create sustainable system which allows to have the apartment building repaired/renovated at any moment, pursuant to a decision of apartment owners who mobilise credit resources and state financial support, as well as to have the building safety provided in the event that owners of apartments failed to make a decision on repairs.

Two models which are Model 3 «Fund for building repairs» and Model 4 «Voluntary payments» have got the highest rates. These two models keep the leading positions within the total rating of models even if any criteria are eliminated from evaluation matrix.

Models ratings distribution constructed on the basis of completed evaluation is pretty stable and is not sensitive towards changing (elimination) of criteria. This evidences about the high extent of objectivity of evaluation completed.

The Part II presents recommendations on implementation of mechanisms of financing capital repairs and energy-efficient modernization of apartment buildings in Russia.

The Section II.1 contains recommendations on an “optimal” model for financing capital repairs and enhancement of energy efficiency of apartment buildings. Recommendations are based on the results of an expert analysis of components of various models, which to the best correspond to the goal of establishing a sustainable organizational and financial system. Criteria of such system are described in Section I.1 of the present report.

The “optimal” model includes three financing sources for capital repairs that are homeowners’ funds accumulated from mandatory payments, loans and state budget support funds.

It is suggested that the obligation of apartment owners in each apartment building to establish a fund for the building repairs should be secured by the law, which will enable them to create a reserve for capital repairs.

A mandatory minimum size of the fund for the building repairs is established by a subject of the RF as well as and a minimum mandatory monthly payment for capital repairs. Apartment owners in an apartment building, subject to a resolution by their general meeting, shall be entitled to establish a larger size of the fund for building repairs and/or a larger amount of payment for capital repairs than those established by a subject of the RF.

Entities that manage apartment buildings (HOAs, management organizations) are obliged to collect mandatory minimum payments for capital repairs set by a subject of the RF during the whole period before the fund for building repairs reaches the established mandatory size. The assets of the fund for building repairs are accumulated on a separate bank account which is opened by managing entity for each building.

The assets accumulated through payments by apartment owners in an apartment buildings for capital repairs shall be targeted assets commonly owned by apartment owners in this building to be used to cover their common expenditures for financing capital repairs (energy efficient renovation) of the building.

To set apart the payments made by apartment owners towards capital repairs of their building from the money of other entities/persons, it is suggested that a specific type of a bank account should be secured in the law, an account for accumulating the funds for capital repairs of the
building - a nominal bank account. It will be possible to use the money sitting on this account only pursuant to a relevant decision by the general meeting of apartment owners in a particular apartment building (and on the basis of a court ruling in cases specified in the law). Besides, the specificity of a nominal account for accumulating the assets of the fund for building repairs is that a group of persons – apartment owners in a specific apartment building rather than a single person will have the right of ownership to the monetary assets accumulated on this account. In such a case, the membership of this group may change in time, so not each owner but the general meeting of apartment owners by a required number of votes is competent to take decisions on the disposal of the accumulated assets.

The decision about capital repairs (renovation) of an apartment building and about use of the accumulated funds is the competency of the general meeting of apartment owners in the apartment building. The decision is made on the basis of proposal of managing entity.

To efficiently implement this provision, it is recommended to augment the legislation with the clauses about the obligations and responsibility of the entities managing apartment buildings for failure to inform the apartment owners about capital repairs and to organize the process of making a decision on the execution of capital repairs.

Besides, the “optimal” model provides for a mechanism for decision-making on capital repairs to ensure the compliance of apartment buildings with mandatory safety requirements and the use of the assets accumulated for capital repairs to finance necessary work, if apartment owners fail to make independent decisions (judgment on housing inspectorate’s claim).

To enable HOAs and management companies to exact the established mandatory payments for capital repairs of an apartment building from the apartment owners in it, it is recommended to supplement the Russian legislation with the provisions which widen the list of measures with regard to a delinquent owner of premises who failed to make a mandatory payment towards capital repairs of the building. Such measures are to allow at least as follows:

- to register the pledge of the owner’s premises in the Unified State Register of Rights to Real Estate and Transactions Herewith (USRR) (as a result, the sale of the premises is impossible without the repayment of the debt);
- Based on the court ruling, to foreclose on the delinquent owner’s premises, including premise which is the only place of residence of the owner.

To efficiently implement the measures of exacting the debt the following is required:

- prompt court proceedings on the claims of HOAs and MOs against delinquent owners;
- prompt enforcement of court rulings.

The proposed “optimal” capital repair financing model assumes that banking loans will be the main source of comprehensive capital repair financing and energy efficient apartment building modernization in Russia; these loans will be secured by mandatory apartment owners capital repair payments.

The decision about the loan for an apartment building capital repair is made by apartment owners of this building (the sufficient number of votes for making a decision should be stipulated by the law, the recommending amount of votes - more than 50 percent of the total amount of owners votes in an apartment building).
The loan borrower is an entity that manages apartment building (HOA or managing company) acting by the apartment building general meeting decision.

The loan payoff is made from apartment owner’s capital repair payments, the necessary amount of which are defined by the apartment owners general meeting in the building.

The loan is provided without apartment building owners property collateral in the building, to HOA or managing company without individual apartment owners guarantees (secured by apartment owners capital repair payments);

By the bank request the guarantee of loan is provided by the specialized guarantee agency created with the government support. The guarantee covers the most part of the loan (75-80%). The guarantee of the loan is provided by the guarantee agency at the cost (1-2 % of loan amount secured by the guarantee).

The guarantee agency can be created as Federal guarantee agency (at the basis of reorganized state corporation – The fund of promoting the reform of housing and utilities infrastructure) with a network of branches in constituent entities of Russian Federation or as regional guarantee agency.

The goal of creating the guarantee agency – development of a new popular credit product in the banking sector for capital repairs and energy efficient renovation of ABs.

The tasks of the guarantee agency are:

- Creating requirements for apartment building capital repair (renovation) projects in order to obtain loan guarantees;
- Creating requirements to the loan borrower to obtain loan guarantees;
- Providing guarantees to commercial banks under loans for the apartment building capital repairs (renovation).

In long-term it might be possible:

- To raise the funds of international financial institutions and institutional investors;
- To provide commercial bank credit lines to finance the energy efficient housing stock renovation.

The proposed model of capital repair and energy efficiency improvement of apartment buildings assumes the state support for the three following directions:

- institutional support;
- budget support;
- information and methodology support.

The institutional support is the state participation (the participation of the subject/subjects of the Russian Federation) in creating of dedicated financial institutions to develop the system of lending for the purposes the housing stock capital repair (renovation), i.e. guarantee agencies providing sureties on loans to HOA and managing companies, as well as raising the funds for housing stock renovation at the financial markets.
The budget support measures are directed at state promotion of the capital repair of the large scale and apartment buildings energy efficiency renovation.

The proposed measures of the budget support include:

- subsidies to legal entities – home owners associations and managing companies;
- subsidies to banks to lower capital repair interest rates for launching the financing program to increase visibility and loans availability for residential owners;
- subsidies to owners – low income population.

Proposed types of subsidies for HOA and managing companies:

- The subsidy for the apartment building energy audit and development of the apartment building capital repair (renovation) engineering documentation;
- The subsidy for capital repair (apartment building renovation):
  - The subsidy for apartment building with long lifetime where urgent capital repair works are required to restore the safety living conditions of the building, whose repair fund does not yet reach the amount necessary to obtain the loan;
  - The subsidy that promotes the apartment building owners to make capital repair decisions with loan financing;
  - The subsidy that promotes energy efficiency renovation of apartment buildings, its amount depends on the increase of energy efficiency (class of energy efficiency) of apartment building.

In order to provide budget support measures it is proposed to provide a legal right to the constituent entity of Russian Federation to provide apartment buildings capital repair (renovation) subsidies within the regional programs.

In order to create the possibility for low income apartment owners to participate in capital repair (renovation) financing it is proposed:

- to extend the current program of housing allowances by including mandatory payments for capital repairs in the subsidized expenditures of owners of apartments;
- to recommend to subjects of the RF to take additional state support measures to low-income apartment owners when they finance comprehensive apartment building capital repair (renovation).
  - provide subsidies to low-income owners enabling them to participate in the drawing up of the capital repair fund required for obtaining a loan;
  - provide a subsidy to repay the interest rate on the loan originated to low-income apartment owners.

The alternative measures in regards to low income apartment owners may be the following:

- to legally establish the deprivatization possibility by owners request (transfer into mutual property) of residential premises after the expiration of the law “About privatization of the housing fund in Russian Federation” as well as regardless of the method of obtaining the
residential premises into their ownership (privatization, purchase-sales, gift, inheritance, etc.);

- to legally establish the possibility of “reverse mortgage” (lifetime rent) for retired population.

The Section II.2 is devoted to detail description of legal and institutional barriers to the implementation of proposed model and the resulting necessary changes in the existing legislation.

At the present time, both legislative and institutional barriers to implementation of the proposed model exist. Such barriers:

- hamper timely decision-making on carrying out and financing of capital repairs and energy efficiency enhancement of apartment buildings;
- prevent homeowners’ associations and management companies from borrowing for capital repairs or reconstruction of apartment buildings, and make such loans too risky for banks;
- do not allow to safely keep the funds from residential property owners accumulated for future repairs on accounts of homeowners’ associations and management companies;
- limit powers of state authorities and local authorities relating to support in the area of capital repairs and renovation of housing and encouragement of competition of housing service providers.

Besides, there are other issues related to the implementation of the proposed financing model (protection of accumulated funds against inflation, prevention from establishing financial pyramids, assets liquidity issues relating to the matching of requested and accumulated funds, procedures for using income from accumulated funds and anti-corruption measures, implementation of the proposed mechanisms, and legal barriers to attracting third parties’ investments).

To overcome the described barriers the Consultant developed suggestions on the necessary amendments to the regulatory framework included in the current report.

The Section II.3 provides a detail analysis of the required policy framework to implement the proposed optimal model worked out on the basis of understanding that the goal of developing financial mechanisms for capital repairs of apartment buildings is to create a sustainable organizational and financial system that will enable to:

- Conduct repairs/renovations of building at any moment based on the decision of apartment owners in the building
- Ensure the possibility of mobilizing credit resources from the banking sector for capital repairs of apartment buildings;
- Create transparent mechanisms for providing budget support of projects on energy efficiency enhancement in apartment buildings;
- Minimize the number of cases when intervention of third parties is required to ensure the safety of apartment buildings;
• Provide for the execution of required repair works to ensure the safety in the case that apartment owners failed to make a decision on repairs.

On the basis of the analysis of the proposed models for financing capital repairs of apartment buildings, one can conclude that the implementation of any of these models implies serious political efforts related to the necessity of making such an unpopular political decision as the introduction of mandatory payments to be made by apartment owners for the purposes of capital repairs.

The main decisions needed to be made at the government level for implementation and launch of mechanisms of financing capital repairs of apartment buildings are as follows:

• A legislative provision on introduction of mandatory payments for capital repairs of apartment buildings. There are several versions of such a provision (defining the target use of the payment, defining mechanisms for accumulating mandatory payments, defining mechanisms for using mandatory payments);

• Legal provisions that reduce the risks of lending to associations of housing owners in apartment buildings (or to MO, acting on the orders by the owners) for the purposes of capital repairs and upgrading of these buildings (solution is issues relating to debt security and reliability of borrowers);

• A decision on the measures of state support required for mobilizing the funds of financial institutions for capital repairs of apartment buildings (creation of state financial development institution / guaranteeing agency);

• Decisions on measures of budget support of housing owners in implementing capital repairs and improvement of energy efficiency of apartment buildings (provision of budget subsidies (grants) for paying a part of the cost of an investment project for capital repairs or upgrading of buildings; subsidizing of loan interest rate, inclusion of homeowners’ expenditures for capital repairs into the housing allowance program to support low-income families).
INTRODUCTION

The present report has been prepared in accordance with requirements set forth in the Terms of References for Consultancy Contract No: C22341/GEF2-2011-07-04 of July 18, 2011 concluded by the European Bank for Reconstruction and Development (hereinafter EBRD) and the Institute for Urban Economics under the Russian Urban Housing Energy Efficiency Programme – Model and Regulatory Framework Development (hereinafter Project).

Project is implemented by the Institute for Urban Economics (IUE) of the Russian Federation in association with Center for Energy Efficiency (CENEf), Russia, Housing Initiative for Eastern Europe (IWO e.V.), Germany, and the Institute of Housing (Institute Byvania), Slovakia (hereinafter Consultant).

In compliance with the Terms of Reference (ToR), Phase I of the Project envisages the development of mechanisms of financing and expert analysis of their potential impact on public expenditures and condition of the housing stock.

The Task # 2 under this Phase is to develop mechanisms for financing capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support (Task 3.2, according to the ToR).

According to the Terms of Reference, the Consultant should develop fundamental models for financing capital repairs of apartment buildings (ABs), which combine the following sources of finance:

1. Funds accumulated through mandatory payments towards capital repairs, which payments are made by owners of premises in ABs.
2. Long-term loans for upgrading ABs mobilized at the financial market
3. State (budget) support funds that ensure long-term financing of the upgrading of ABs.

The report contains a summary description and detailed analysis of possible mechanisms for mobilizing funds from each of the foregoing sources of finance, which are proposed at present for the Russian housing sector. The proposed mechanisms are compared to the best practices of the Central and East European states that had conditions for launching housing sector reforms similar to those existing in Russia. These practices are well known to the Consultant and were described by another consultant to the International Finance Corporation (IFC)¹.

The system of evaluation of proposed financing mechanisms was developed to provide for the most objective analysis. Evaluation system involves number of criteria including institutional and financial criteria, those relating to policies, as well as general criteria reflecting sustainability, flexibility and feasibility of financial models.

¹ Analysis of international best practice in organizing and financing capital repairs and energy efficiency modernizations of multi-family buildings and provision of recommendations applicable to the Russian context, prepared by ZAO «System-Based Energy Efficient Solutions and Investments, in conjunction with GreenMax Capital Advisors for International Finance Corporation (IFC) under the IFC Russia Residential Energy Efficiency Project, 2011.
Mechanisms of financing capital repairs proposed to be realized in Russia were evaluated on the basis of criteria indicated above.

The present Report describes the results of the expert analysis as well as suggestions on the financing model for capital repairs and energy-efficient renovation of housing which is optimal for Russia, and description of legal and institutional frameworks of the optimal model implementation, required changes of legislation and potential barriers.
PART I. EVALUATION OF POSSIBLE MECHANISMS OF FINANCING CAPITAL REPAIRS AND ENERGY-EFFICIENT MODERNIZATION OF APARTMENT BUILDINGS IN RUSSIA
SECTION 1.1. FRAMEWORK FOR ANALYSIS OF THE POTENTIAL FINANCING MECHANISMS

I.1.1. GOAL OF EVALUATION OF POTENTIAL FINANCING MECHANISMS

The purpose of this research in accordance with the ToR is to study, analyse and evaluate existing proposals for the establishment of financial mechanisms for capital repairs of apartment buildings and identify the best possible mechanisms with due regard for best international practices.

The financial mechanism that is the best in terms of facilitating the attainment of the goal of setting up a system of capital repairs of apartment buildings will be considered as the most appropriate, for the further detailed development and improvement and elaboration of suggestions on how to implement the mechanisms in Russia.

Therefore, when conducting the analysis, the first issue to be addressed is as follows:

- what goal is pursued by establishing financial mechanisms for capital repairs of apartment buildings?

The goal pursued by the establishment of the system of financing capital repairs and enhancement of energy efficiency of apartment buildings is to develop a sustainable organizational and financial system that will make it possible to:

- have the building repaired/renovated at any time, pursuant to a decision of owners of apartments in the building, with a possibility of mobilizing credit resources and state financial support;
- have the building repaired to provide the safety of the building, in the event that owners of apartments failed to make a decision on repairs.

Pursuant to this goal, the criteria for the evaluation of models should reflect the following:

- Availability and security of financial resources owned by associations of owners of premises in apartment buildings, which can be promptly mobilized by them for the purposes of conducting capital repairs;
- Availability of clear and simple mechanisms for obtaining, pursuant to a relevant decision by owners of premises, credit resources for the purposes of capital repairs of their building;
- Availability of transparent and competitive mechanisms of budget support of owners of apartment buildings with regard to capital repairs, which mechanisms facilitate implementation of comprehensive capital repairs and enhancement of energy efficiency;
- Minimization of necessity for officials to make administrative decisions on capital repairs of apartment buildings, excluding the cases of court rulings necessitated by a threat to the safety of buildings.
I.1.2. Criteria for Evaluation of Models of Financing and Conducting Capital Repairs

Based on the goal formulated above, the criteria for evaluation of the models of financing are proposed under the following 4 categories:

1. Institutional:
   - **Owner engagement:** to what degree does the model require the involvement of owners in the decisions re renovation?
     
     *This criterion is important because the Russian legislation requires that the owners themselves should make decisions on the condition of the property they own.*
   
   - **Simplicity of decision making:** to what degree does the model present a transparent and enforceable structure of making and implementation of decisions about capital repairs of apartment buildings?
     
     *This criterion reflects the possibility and transparency of decision-making, as well as the fact that it is a difficult task to implement the owners’ decision on capital repairs.*
   
   - **Protection of owners’ capital:** to what degree does the model provide for protection of owners’ savings for capital repairs against unauthorized utilization?
     
     *This criterion is important in the current economic environment in Russia, because it minimizes the risk that owners’ savings for capital repairs will simply vanish, and, at the same time, it enhances the trust in the system as a whole.*
   
   - **Securing safety of building:** to what degree does the model provide for the safety of the building, in the event that owners of apartments failed to make a decision on repairs?
     
     *This criterion is important as the state must control how safety of buildings’ maintenance is secured, so the state may need a possibility to take measures if emergency occurs.*

2. Financing:
   - **Access to finance:** to what degree does the model mobilize credit/private finance?
     
     *This criterion is significant since it makes it possible to increase the volume of financial resources mobilized for capital repairs, and to find an affordable and prompt solution to this task.*
   
   - **Measures of engagement of the banking sector:** to what degree does the model facilitate the engagement of the banking sector for the purpose of originating loans for capital repairs
     
     *This criterion is important at the initial stage, because the banking sector does not have sufficient experience in assessing the risk associated with loan origination to housing owners for the purposes of capital repairs.*

3. Policies:
   - **Enhancement of energy efficiency:** to what degree does this model prioritize the enhancement of energy efficiency in apartment buildings and comprehensive repairs of the latter?
This criterion is important because if this is the case, then several effects are attained: improvement of the quality of a building and reduction of utility fees, as well as the positive impact on environment. It is important to reveal if the model creates specific targets for energy efficiency increase (e.g. energy efficiency increase per ruble of investment or per ruble of state support)

- **Enhancement of competition**: to what degree does the model provide for enhancement of competitive selection of the executor of capital repairs by apartment owners?

  It is important to reveal if policy measures including allocation of state support enhance competitive selection of the executor of capital repairs by apartment owners. This criterion ensures the efficiency, transparency and competitive approach to allocation of budget funds for the purposes of capital repairs.

- **Low-income households engagement**: to what degree does the model allow the low-income households to receive specific state support enabling them to pay for the capital repairs of the building.

  This criterion is important because it makes it possible to engage housing owners with relatively low income in the process of addressing the problem of capital repairs.

4. General Criteria:

- **Sustainability of the model**: to what degree is the model sustainable within a mid-term (5-10 years) period? In other words, does it allow to provide for sufficient financing of capital repairs in future?

  The significance of this criterion can be explained by the impossibility of finding immediate solutions to the problem of capital repairs and the necessity of establishing a system of financing capital repairs of apartment buildings, which will be designed for a long-term period, will be sustainable and predictable for all stakeholders, and will be self-reproductive and bring down needs for budget co-financing.

- **Flexibility of the model**: to what degree does the model allow flexibility so buildings can be repaired, rehabilitated to an appropriate degree, or renovated at an appropriate time?

  This criterion is important as it enables the owners to make flexible decisions with regard to the capital repairs scope and schedules (time between capital repairs) with due account for the owners’ financial capacity.

- **Feasibility of the model**: to what degree does the model require serious institutional and legislative changes? Are the changes needed realizable in the short-term period?

  This criterion shows the degree of feasibility and enforceability of measures and actions included under the model structure. It is important because it reveals administrative, policy, labour and financial inputs needed to implement the model, as well as consequences of its implementation.
I.1.3. Evaluation of the Proposed Models of Financing and Conducting Capital Repairs

On the basis of the criteria offered above the evaluation of proposed Models of financing and conducting capital repairs will be executed.

Experts will estimate to what extent each of the presented models corresponds to each criterion, basing on the review of the answers to questions which reveal the criteria content.

Each criterion will be estimated in a scoring system with marks from 1 to 5.

The Consultant will evaluate the models basing on the following:

The model is marked with 5, if the model fully corresponds to the given criteria;

Mark 4 – The model corresponds to the given criteria, but has some unresolved issues;

Mark 3 – The model conceptually corresponds to the given criteria, but proposals on the practical realization can lead to the criteria default;

Mark 2 – Separate positions of the model correspond to criteria; however, the model as a whole does not correspond to criteria;

Mark 1 – The model completely does not correspond to the given criteria.

For better understanding of methods of evaluation, we can make the following clarification:

- if any model contains clear and well-substantiated provisions that enable to admit that the criterion is met to a great degree, and recommendations with regard to the implementation of these provisions are presented, such a model gets 5 scores;

- if a model contains conceptual provisions and recommendations with regard to their implementation, which are aimed at fulfilling the criterion, but, at the same time, has some reasonable deviations or some unaccounted for risks, or implies complex decisions or public expenditures, or has some other inherent weaknesses that are not obvious yet and that generally just slightly affect the expected final result of the model implementation, such a model gets 4 scores;

- if a model contains conceptual provisions that enable to come closer to the fulfillment of the criterion, but does not propose any recommendations with regard to the implementation or does not properly substantiate these recommendations – it gets 3 scores;

- if a model does not define or does not adequately define the provisions aimed at fulfilling the criterion, but, at least, does not contain any provisions that shall render the implementation of the criterion impossible – it gets 2 scores;

- if a model does not envisage any possibility of meeting the criterion, or contains provisions that render the implementation of the criterion impossible – it gets 1 score.

Since the models proposed are documents that differ both in style and in terms of their purpose (they include two draft laws and three concepts), we deem it hardly possible to propose here a more detailed or more uniform approach to their evaluation.
It is clear that not all selected criteria of model evaluation are of equal importance. Thus, it is necessary to give different weight/score to different criteria under the models evaluation or it is necessary to recognize all criteria equivalent?

In general it is necessary to foresee the possibility of differentiation of the selected criteria that will reflect various influence of each of criteria on the general evaluation of the models.

It can be done in two ways.

The first way is to introduce the scoring system of evaluation criteria based on their importance (for example, mark the less important criteria with 1, important criteria with 2, and the most important criteria with 3). In this case we again use a scoring system.

The second way is to calculate weighting coefficients for each criterion in such a way that the sum of all the coefficients is equaled to 1. For example, if all the 12 criteria have equal significance each criterion will have weighting coefficient equal to 0.083. In this case we use weighting system.

The difference in these approaches is as follows.

The first approach is easier from the point of view of realization and interpretation. With its use we receive the ranged list of models evaluation.

The second approach allows us not only to rank the models, but also to estimate, how far the offered models deviate from some optimal model which has the maximum scores by all criteria. When use weights it is possible not only to compare the models to each other and range them, but also to compare the models with the optimal model, and so to get the models rating.

In this research the Consultant will use the second approach which is weighting models.

Let's answer a question whether the differentiated weight of each of criteria is appropriate.

From the abovementioned set of criteria it is visible that the biggest number of criteria was included into the institutional group, and the least – in the financial group. It means that in case of equal scores of criteria the estimate of institutional aspects of the models will be more significant, than the score of financial aspects (in our case – twofold). In this case the estimate of institutional aspects will be more important than the estimate of the general criteria, because it includes three criteria, and institutional include four criteria.

It is proposed, that the importance of the estimate on each group of criteria was equal and its rate amounted to 0.25. Thus in each group of criteria the weight of criteria is offered to take equal.

Proceeding from the proposed model of equal value for each of groups of criteria defined at the first analysis stage the criteria receive the following weighting rates.

1. General Criteria. The total weight of criteria of this group is 0.25
   1.1. Sustainability of the model: weighting coefficient - 0.083
   1.2. Flexibility of the model: weighting coefficient - 0.083
   1.3. Feasibility of the model: weighting coefficient - 0.083

2. Institutional: The total weight of criteria of this group is 0.25
   2.1. Owner engagement: weighting coefficient - 0.063
2.2. Simplicity of decision making: weighting coefficient - 0.063
2.3. Protection of owners’ capital: weighting coefficient - 0.063
2.4. Securing safety of building: weighting coefficient - 0.063

3. Financing: The total weight of criteria of this group is 0.25
3.1. Access to financing: weighting coefficient - 0.125
3.2. Measures of engagement of the banking sector: weighting rate - 0.125

4. Policies: The total weight of criteria of this group is 0.25
4.1. Enhancement of energy efficiency: weighting coefficient - 0.083
4.2. Enhancement of competition: weighting coefficient - 0.083
4.3. Low-income households engagement: weighting coefficient - 0.083

The analysis of proposed models of financing and conducting capital repairs will be done on the basis of the developed evaluation proceeding from the following algorithm:

1) The evaluation matrix will be constructed within which each model is estimated on every of 12 selected criteria and as a result receives 12 scores from 1 to 5;

2) The rating of each model is defined taking into account weighting coefficients of each criterion. The closer is the final rating to 5, than in a greater degree the model corresponds to criteria of the optimal model;

3) The rating list of models is received on the basis of rating calculation of each model. The rating list makes it possible to make conclusions about expediency of this or that model application.

It is useful to verify the assumptions made on how important the proposed criteria are, and what influence they may have upon decision about choice of the model which is the closest to the optimum. Verification will be made by the use of one-way sensitivity analysis. Consequent elimination of criteria from the evaluation matrix will allow to fix to what extent each criterion affects the breakdown of models by degree of their approximation to the optimal model. It will also allow to reveal criteria which do not affect the breakdown of models and therefore may be eliminated from the final analysis.

I.1.4. ALGORITHM OF CONDUCTING ANALYSIS

In compliance with the Terms of Reference the Consultant is required to analyse the approaches to formation of potential mechanisms of financing and conducting capital repairs and modernisation of apartment buildings, and develop basic model (models) of financing capital repairs which include fund sources as follows:

1. Mandatory statutory payments of apartment owners for capital repairs of apartment building;
2. Long-term commercial financing for the modernisation of the apartment buildings;

The Consultant suggested criteria for evaluation of models of financing and conducting capital repairs within the Section I.1.2 of the Framework for analysis of the potential financing mechanisms. These criteria reflect the most significant aspects of methods of approaching the goal pursued by introduction of the mentioned financing models.

What is at issue is what sequence to keep when executing analysis.

Two approaches are possible:

1. **Direct approach** is to analyse model by model by all the criteria, and get the evaluation matrix at the end;

2. **Systematic approach** is to decompose models by three basic component parts mentioned above as designated in the Terms of Reference, and execute comparative analysis by each of the basic component parts. After analysis of each basic part it will be possible to evaluate if models meet the criteria referring to each part. Though, it is not unlikely that some criteria may be tested only after all the basic parts of analysis are completed, as well as some criteria may be tested after analysis of several basic parts. If that is the case, evaluation of the models by criteria should be executed or corrected at the final stage of analysis.

The systematic approach seems to be more substantive because it on the one hand allows to better and more systematically reveal, describe and evaluate structural, legal and financial mechanisms of introduction of suggested models. On the other hand this approach allows to avoid repetitions within the analysis which may appear if all the models are evaluated one by one by each criterion.

Moreover, not the least argument is that systematic approach better meets the structure of the Project’s Terms of Reference.
SECTION 1.2. SUMMARY DESCRIPTION OF PROPOSED MODELS FOR FINANCING CAPITAL REPAIRS IN RUSSIA

The State Corporation – the Fund for the Promotion of the Housing and Utility Sector Reform (hereinafter the FHUS), which was used by the state to facilitate the financing of regional (municipal) programmes of capital repairs of apartment buildings (AB), will be soon liquidated 2. In light of this it is vitally important now to determine how the financing of programmes on capital repairs and energy efficiency enhancement in the housing stock will be arranged for in the future and what legal and financial mechanisms should be developed to prevent the drop in volumes of capital repairs nationwide.

During the last two years, the bodies of state power and expert community have been discussing the possible mechanisms for the funding of capital repairs. At present, we can talk at least about five different models proposed by various stakeholders, first of all, by the FHUS, Ministry for Regional Development, Ministry for Economic Development and international and Russian non-governmental think tanks.

Herein we give a summary description of several proposed models, which will subsequently be analyzed in detail with regard to key issues relating to the mechanisms of financing using each of the three above-mentioned sources.

The sequence of the description of models is as follows:
- in the beginning we describe the models proposed by executive bodies of state power in chronological order;
- then we describe, in chronological order, the models proposed by the expert community 3.

I.2.1. MODEL «MUTUAL FINANCING»

The Ministry for Regional Development of the Russian Federation (hereinafter – Minregion) proposed a model of regional system for capital repairs of apartment buildings designed by the FHUS and firmly promoted now across Russian regions (hereinafter - model of “Mutual Financing”). Its key elements are mandatory payments made by owners of premises in Abs towards capital repairs and mutual financing of capital repairs by owners of premises in various apartment buildings.

To implement the proposed model, the FHUS and Minregion drafted a Federal law, which envisages the following (Figure 1.):

- Securing in the law the legal provisions on mandatory monthly payments for capital repairs, which should be made by owners of premises in apartment buildings regularly regardless of the amount of savings and the condition of their building;

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2 As stipulated by the law # 185-FZ
3 It is noteworthy that the model proposed by ZAO SBEESI in conjunction with GreenMax Capital Advisors has undergone considerable changes in the process of research implementation. The last version of the model proposed by the ZAO was included in the final report, although this did not alter the chronological order of the models’ description.
• amount of mandatory monthly payments shall be set by a local governance body\(^4\) (within the limits of minimum and maximum payments fixed by a subject of the RF in accordance with the procedure defined by state authorities of the Russian Federation);

• mandatory payments for capital repairs shall be made to bank accounts opened for each apartment building separately in credit institutions, the list of which shall be made by a subject of the Russian Federation in compliance with criteria set by the Government of the Russian Federation;

• the abovementioned separate bank accounts for remittance of mandatory payments to finance capital repairs of apartment buildings shall be opened by homeowners associations, housing cooperatives, special purpose consumer cooperatives (hereinafter HOA), or by management organizations (if no HOA has been created within the apartment building managed by a management organization), or by a person authorized by owners of premises (in case of direct management) – but not later than the time limit stipulated in the law; in the event that the above-mentioned entities/persons have failed to open a separate bank account for remittance of payments for capital repairs within the fixed period of time, such an account shall be opened by an organization authorized by the subject of the Russian Federation to perform functions defined as “monitoring the remittance and targeted use of payments for capital repairs (hereinafter – an authorized organization of a subject of the Russian Federation);

• money, sitting on a separate bank account as a result of mandatory payments for capital repairs shall be deemed to be in common equity ownership of owners of premises in a particular apartment building;

• savings generated by mandatory payments for capital repairs can be accumulated and used in different ways, based on the resolution of the general meeting of owners of premises in an apartment building:

  **Option 1**: payments made by owners of premises towards capital repairs of their building can be accumulated on a separate bank account opened by a HOA of a MO and then be used by a HOA or management company to pay for types of works and services relating to capital repairs of an apartment building, which shall be set by an authorized federal authority, to repay the credits (loans) obtained for those types of works (a bank implements operations on a separate bank account subject to an approval by an authorized body of a subject of the RF);

  **Option 2**: payments made by owners of premises for capital repairs can be transferred into management by an authorized organization of a subject of the RF on terms of repayment and meeting the timeline for further use to finance capital repairs of other apartment buildings on the territory of one and the same municipality (thus, funds for mutual financing of capital repairs shall be formed);

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\(^4\) A local governance body is an official title of municipality used in Russia according to the Constitution and civil legislation.
• funds for mutual financing shall be channeled to finance capital repairs of apartment buildings in compliance with calendar plans for capital repairs approved by local governance bodies, subject to a relevant resolution by the general meeting of owners of premises.

At the demand of a person authorized by the general meeting of owners of premises in an AB, the money transferred into the management by the Regional Fund shall be subsequently remitted to a separate bank account opened by a HOA, management organization or a person/entity authorized by the owners, not later than on July 1 in the year following the year when the Regional Fund received the notification on the decision by the general meeting of owners of premises in this building about the return of money.

We can be certain that the main option for accumulating and using the mandatory payments made by owners of premises within the framework of this model shall be the accumulation of savings in the Regional Fund for subsequent financing of capital repairs of buildings included in the schedule of repairs approved by the local self-governance body. In other words, this is a model, according to which owners of premises in one AB shall lend their own money, through the Regional Fund, for the purposes of making repairs on other buildings.

In addition, the draft Federal Law envisages that:

- the law of a subject of the Russian Federation shall define the procedure for using the loan money or borrowings and/or insurance proceeds to ensure the financing of capital repairs costs in apartment buildings;

- subjects of the Russian Federation shall be able to allocate budget funds for capital repairs of apartment buildings to management organizations and HOAs (according to the effective Housing Code, at present only local governance bodies are entitled to do this).

Hereinafter we shall call this model “Model 1” or «Model 1 “Mutual Financing”». 
FINANCING CAPITAL REPAIRS

Subject of the RF:
- MUNICIPALITY
- REGIONAL FUND (AUTHORIZED ORGANIZATION)

Shall select:
- CALENDAR PLANS FOR CAPITAL REPAIRS

HOA or MO:
- Separate bank account

Payments for repairs:
- Chapters for repairs

Figure 1. Model «Mutual Financing»
1.2.2. MODEL «TRUST MANAGEMENT OF FUNDS EARMARKED FOR FINANCING CAPITAL REPAIRS»

The Ministry for Economic Development of the Russian Federation (hereinafter MED) has developed an alternative model to the Model 1 “Mutual Financing” – model for trust management of funds earmarked for financing capital repairs of apartment buildings, the key element of which is accumulation of funds by owners of premises in each apartment building through transfer of these funds to a trust manager – a single organization in the whole region (hereinafter model “Regional Trust Manager”).

To implement this model MED has drafted a federal law that envisages the following (Figure 2):

- **Payments for capital repairs** of common areas in an apartment building made by owners of premises in it **as long as the amount of funds accumulated as a result of such payments does not reach a certain limit** set by a subject of the Russian Federation in compliance with the rules approved by state authorities of the RF **shall be an integral part of the payments by owners of premises**;

- **The minimum amount of payments for** capital repairs (per one unit of floor space of premises in apartment buildings) shall **be fixed by a subject** of the Russian Federation (in accordance with the rules approved by the Government of the Russian Federation);

- A subject of the Russian Federation shall select on a competitive basis **one organization for trust management of funds** earmarked for financing the capital repairs of apartment buildings on the territory of the subject of the RF (a credit or any other organization can be a trust manager if it meets the requirements set by the Government of the RF);

- **An authorized body of state power** in the subject of the Russian Federation **shall establish trust management in favor of each owner of property** in an apartment building via signing a **contract for trust management of financial resources** with the organization selected through competition.

- A trust management contract shall be signed **for the term not exceeding 10 years** and can be terminated by the founder prematurely in the event that the trust manager inflicts losses on owners of premises. In the event of termination or expiration of the trust management contract, the funds shall be transferred to a new trust manager.

- Management organizations, homeowners associations, persons/entities responsible for the maintenance of common areas in an apartment building (in case of direct management) shall be obliged to remit the collected payments for capital repairs to the trust manager.

- A trust manager shall be obliged to provide for **proper accounting of funds** assigned into trust management **with breakdown by each owner of premises** in an apartment building.

- **When the ownership right to** premises in an AB is transferred to a new owner of premises, the rights to the funds assigned by the former owner in trust management by the new owner, as well as the **obligations to contribute these funds** (which were not met by the former owner) are also transferred to the new owner.

- **In the event that an AB is declared unsafe and is to be pulled down or renovated, the money** transferred by owners of premises in the AB in trust
management shall be refunded to the aforesaid owners, excluding the cases when another housing unit is provided to the citizens evicted from the crumbling building. In the latter case, the money earlier transferred by the owners of premises in trust management shall end up in trust management for the purposes of financing capital repairs in the ABs where the owners moved – in compliance with the procedure specified in the rules for trust management of monetary funds earmarked for financing capital repairs of Abs approved by the Government of the Russian Federation.

- A trust manager shall be entitled to place the available funds assigned into trust management on deposit accounts opened in credit institutions, or to purchase bonds (a trust manager shall receive remunerations out of yields on bonds).

- Funds assigned into trust management shall be spent by the trust manager to finance capital repairs of no other building than the building, the owners of premises in which have remitted those funds to him.

- In the event that the accumulated funds are not sufficient to finance the capital repairs of an apartment building, the trust manager, acting in line with orders of the general meeting of owners of premises, on behalf of owners of premises in the apartment building and on their account, shall attract a credit and/or a loan.

- The financing of capital repairs of an apartment building shall be implemented by a trust manager on the basis of the resolution adopted by:
  
  Option 1: the general meeting of owners of premises in an apartment building based on the results of an obligatory technical inspection of an apartment building conducted by a special-purpose organization once every five years;
  
  Option 2: an authorized body of state power of a subject of the RF (housing inspection) in the event that owners have failed to adopt a resolution on capital repairs implementation.

- A trust manager shall reimburse the owners of premises in apartment buildings the damages they have suffered through the loss of funds during the period of trust management. In the event that the trust manager fails to reimburse the owners for the losses such losses shall be reimbursed on the account of the subject of the Russian Federation. The budget of a subject of the RF shall be used to remedy the flaws (defects) in the capital repairs works revealed during the guarantee period in the event that such flaws (defects) have not been rectified by the contractor and the capital repairs had been conducted pursuant to the decision by an authorized body of state power of the subject of the RF.

The draft federal law also envisages that:

- A subject of the Russian Federation shall approve a regional program for financing capital repairs of apartment buildings for the terms not less than 5, but not more than 10 years, which provides for:
  
  o allocation of subsidies from the budget of a subject of the Russian Federation
or

- origin of loans from the regional fund for financing capital repairs set by a subject of the Russian Federation (loans should be repaid by owners of premises in an apartment building prior to the expiration of the regional program).

Hereinafter we shall call this model «Model 2» or «Model 2 “Trust Management”»
Subject of the RF

Regional funds

Subsidies

Regional program

Trust manager
(a credit institution or any other organization that meets the requirements set by the Government of the Russian Federation)

BANK

Subsidies

Regional program

Payments for repairs

HOA

Payments for repairs

MO

Payments for repairs

Agreement on trust management of funds in the interests of each owner of premises in the AB

Figure 2. Model «Trust Management of Funds Earmarked for Financing Capital Repairs»
1.2.3 Model «Fund for Building Repairs in Combination with Other Sources of Finance»

The independent expert community, relying on best international practices of energy efficient upgrading of apartment buildings and proceeding from the knowledge of specificities of Russian legislation, has designed a concept for financing capital repairs of apartment buildings placed on the website of the Fund “The Institute for Urban Economics”, www.urbaneconomics.ru and presented to the Ministry for Regional Development and Ministry for Economic Development. The model described in the concept envisages financing capital repairs using the following three sources (hereinafter Model “Fund for Building Repairs”):

1) **Fund for building repairs**, created out of mandatory payments of owners of premises in an apartment building;

2) **Loan** originated by a commercial bank (secured by the assets accumulated in the Fund for an apartment building repairs)

3) **Subsidy** (subsidies) allocated from the regional and municipal budgets.

To ensure the financing of capital repairs by owners of premises in an apartment building the Consultant proposes the following (Figure 3):

- To pass into law the obligation of owners of premises in each apartment building to establish a **Fund for building repairs**.

- Fund for building repairs shall be created out of **mandatory monthly payments** by owners of premises in apartment buildings for capital repairs of those. The assets accumulated in the Fund shall be deemed to be **common funds of owners of premises** in the apartment building.

- **Mandatory minimum size of the Fund for building repairs** (to finance urgent works, accidents recovery works) shall be set by a subject of the Russian Federation and the Fund shall be created by owners of premises within a fixed period of time using the mandatory payments, the minimum amount of which is set by a subject of the Russian Federation. Creation of a Fund for building repairs larger than the fixed minimal size (to provide the financing of a certain share of capital repairs required for obtaining a loan and/or a subsidy) shall be implemented subject to a resolution by the general meeting of owners of premises.

- To accumulate and the assets of the Fund for building repairs and set them aside from the assets of other entities (HOA, management company, owners of premises in other apartment buildings), it shall be necessary to pass into law the concept of a **“nominal bank account”** – a special purpose bank account for the money, which shall not be considered the assets of the account owner. This will allow to provide for better security of homeowners’ funds from unauthorized use by other persons or organizations. The right of the owner of such account to dispose of the money sitting on this nominal account shall be restricted by the law and bank regulations. The assets sitting on the nominal bank account shall never be used to satisfy the claims ensuring from the obligations of the owner of this account.

- **The opening of a nominal bank account** for accumulating the assets of the Fund for building repairs shall be an **obligation** of the entity/person managing the apartment building (a management company, HOA, or, in the event of direct management of an apartment building by owners of premises – a person authorized by the general meeting of owners of premises).
Subject of the RF guaranteeing agency.

Municipality

Funds allocated for subsidizing capital repairs

Guaranteeing agency

Contributions to start-up capital

Application for surety

Bank

Surety

Hoa's (or MO's) nominal bank account for assets accumulated in the fund for building repairs

Loan

Hoa, or management organization

Payment for repairs

Subsidy to low-income owners

Figure 3. Model «Fund for Building Repairs in Combination with Other Sources of Finance»
The owner of a nominal bank account shall be able to **dispose of the assets of the Fund for building repairs only on the basis of a relevant resolution by the general meeting** of owners of premises in this particular apartment building and only to attain the goals, that served as grounds for the Fund establishment.

In this case **it is necessary to secure in the law** that if the owners of premises in the apartment building fail to fulfill their obligation to properly maintain the property in their possession (i.e. if the condition of the apartment building contradicts the technical regulations on the safety of buildings and structures) an **authorized state supervisory body (housing inspection) shall forward an instruction to owners of premises** in the apartment building urging them to rectify violations within a fixed period of time. If the owners fail to make good on this instruction of the housing inspection, the latter shall take steps of administrative nature, and later, if necessary, shall go to the **court to take compulsory measures against the owners** so as to make them implement the required actions and bring the property in appropriate condition.

**The entity** that manages the building (a MO or HOA) is entitled to use the money from the Fund for Building Repairs to finance the works specified in the court ruling.

**It is necessary to secure by the law the procedure for the replacement of the owner of a nominal bank account** (in the event of changes in the method of management or replacement of the entity that manages the AB).

To mobilize loans from commercial banks for purposes of financing capital repairs and for enhancement of energy efficiency of apartment buildings, the Concept provides for the following:

**A borrower under a loan** shall be a homeowners association and management organization, both acting on the basis of a resolution passed at a general meeting of owners of premises in an apartment building. **The loan shall be secured by a collateral in the form of assets accumulated in the Fund for apartment building repairs and obligations of owners of premises to make mandatory payments for capital repairs into the Fund for building repairs in the amount required for securing payments under the loan (a future monthly flow of money into the Fund for building repairs).**

**A surety** issued by a regional guaranteeing agency set by a subject of the Russian Federation for the purpose of providing an **additional loan collateral** at the bank’s request shall perform the function of such collateral. The subject of the Russian Federation shall contribute budget funds into the start-up capital of the guaranteeing agency, which, afterwards, shall use its own assets to issue fee-based sureties to HOAs and management organizations for the purposes of capital repairs of apartment buildings or enhancement of their energy efficiency.

**A guaranteeing agency shall develop requirements to the borrower under a loan, as well as to the capital repairs project** for the purposes of issuing a surety to **minimize lending risks.**

In addition, the Concept envisages **support measures** (subsidies) for owners of premises via using the funds of regional and local budgets. The following principles have to be observed to provide subsidies:

- A subsidy shall be granted only in the event that owners of premises in an apartment building have made an independent decision about capital repairs and its funding out of their own savings or debt finance.
- A subsidy shall be granted only to facilitate **comprehensive projects for repairs** (renovation) and **energy efficiency** enhancement of the building (comprehensive repairs
and renovation of buildings imply large investments and, accordingly, subsidies will assist with mobilization of loans).

- **The subsidy amount** should depend on the **energy efficiency enhancement result**.
- The subsidy amount should be truly momentous for housing owners (to be an incentive for the owners of premises to make a decision on comprehensive repairs), but its share in expenditures on repairs should not exceed the share of financing the repairs by owners using their own savings or debt finance.
- Subsidies should promote the development of market competition (providers of services and works should be selected by HOAs and management organizations on alternative basis).

Moreover, it is advisable to provide for **an enhancement of the current program of housing allowances** (subsidies used to pay for housing units and utility services) via including payments for capital repairs of an apartment building into the subsidized expenditures of low-income apartment owners.

Hereinafter we shall call this model «Model 3» or «Model 3 “Fund for Building Repairs”»
I.2.4. MODEL «VOLUNTARY PAYMENTS »

ZAO “System Energy Efficient Solutions and Investments (EESI), which is the Consultant of the International Finance Corporation (IFC), acting in conjunction with GreenMax Capital Advisors, proposed a model for financing capital repairs of apartment buildings via establishing a special management status. A management organization or a HOA shall be authorized by the owners of premises in an apartment building to act on their behalf in all matters relating to saving money and financing capital repairs of the apartment building. This is the only model among those reviewed, which does not envisage that mandatory payments for capital repairs should be secured by the law. Such payments/allocations shall be possible only if the owners pass a relevant decision. Since this is the most apparent difference of this model from all other models, let’s call it «Model “Voluntary payments”».

The following conditions are binding for the efficient implementation of the proposed model (Figure 4):

- **Trust in management organizations should be restored through:**
  - development of mechanisms for performance evaluation of management companies, which would enable the owners to select the most bonafide management organization;
  - development of certain insurance guarantees for bonafide management organizations enabling them to provide long-term services with regard to managing the building.

- **The responsibility of management organizations (MO) or HOA for failure to pass a decision on capital repairs of the apartment building should be increased** through introduction of an administrative responsibility mechanism.

- **A special management status should be established for an apartment building** in the process of capital repairs on it using credit resources of commercial banks:
  - owners of premises in the apartment building, pursuant to the resolution of their general meeting, shall authorize a management organization or a HOA to open a separate bank account for accumulation of regular payments made by owners of premises. In this case the money going to the bank account of the management organization or HOA shall remain in the ownership of owners of premises. The money sitting on the bank account can be disposed of only subject to the decision of the general meeting of owners of premises in the apartment building for the purposes of reimbursement for capital repairs or repayment of a loan;
  - subject to the decision of owners of premises, the management organization or HOA can act as a borrower under a loan and is authorized to recover debts from mala fide owners of premises in respect of current payments and loan repayment;
  - owners of premises shall sign a long-term management contract for the term that is not shorter than the loan repayment period;
  - to finance capital repair works, owners of premises are not entitled to use “direct management” (which is one of the management methods envisaged by the law), they should instead establish a HOA or select a management organization.

- **Financing of capital repairs of an apartment building should be divided into certain stages:**

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5 Report on the project “Designing a model (models) of organizing and financing capital repairs and enhancing the energy performance of apartment buildings in the Russian Federation and developing a relevant regulatory legal framework: Expert analysis of best practices (by example of the Central and East European Countries)”. The report was prepared by EESI and GreenMax for the IFC, 2011.
- the money accumulated in a separate bank account shall primarily be used for:
  - Technical audit;
  - Designing project documentation on capital repairs and having it approved;
  - Saving funds to make down payment for a loan (accounting for minimum 15-20% of the cost of capital repairs).

- An efficient mechanism for recovery of regular non-payments by owners of premises under the loan should be established and such recovery can be achieved through:
  - foreclosing on the wages or other income of the debtor, pursuant to a court ruling;
  - cutting the supply of electricity and gas;
  - remitting a housing allowance to the account of a HOA or a MO.

To increase the responsibility of owners of premises with regard to loan repayment, this model envisages mechanisms that enable the owner to pledge his apartment. In the event that owners refuse to repay the loan, the HOA shall be entitled to conduct open tenders for sale of the property and to repay the outstanding debt of the owner. To fully implement this mechanism, it is necessary to develop municipal housing that shall be provided to debtors under a “naim” (tenancy) agreement.

- A mechanism for commercial loans origination for purposes of capital repairs should be developed through:
  - designing a bank product enabling to extend loans to HOAs or MOs against future cash flows;
  - establishing a system of private fee-based (commercial) guarantees for loans originated for capital repairs and secured by the pledge of common areas in the apartment building, or by the right to claim payments for housing services;
  - creating a system of state guarantees for private banks in the event of implementation by the latter of a list of capital repair activities and/or energy efficient measures with a long recovery period and/or for certain groups of buildings.
Figure 4. Model “Voluntary payments”
• **A system of government incentives to encourage capital repairs should be established through:**
  - subsidizing interest rates on loans extended for capital repairs;
  - refinancing loans originated by commercial banks for the purposes of capital repairs to a HOA or MO, which refinancing should be done through the issue, by a dedicated agency, of bonds guaranteed by the state;
  - providing grants to a HOA or MO accounting for 15-20% of the cost of capital repairs for the purposes of recovering the cost of the technical audit or the cost of finalizing the project documentation on capital repairs and having it approved, or for the purposes of making a down payment for a loan.

• **A system of state support of low-income households should be established in the context of financing capital repairs through:**
  - providing subsidies to pensioners, families with many children and young families to pay down payment for a loan originated for capital repairs;
  - providing grants to pensioners, families with many children and young families to install apartment water meters or replace heating equipment.

This model envisages that mechanisms of state support of financing capital repairs will be implemented stage-by-stage. At the first stage this state support will be rather substantial, whereas at subsequent stages it will be provided only to low-income households.

• **A practical guidance and information support should be provided to HOAs and MOs through:**
  - developing standards for MOs and HOAs on issues relating to capital repairs: model agreements, tentative cost estimates and computations of cost efficiency;
  - conducting large-scale training of management organizations and representatives of HOAs.

• **Public awareness should be attracted to the necessity of capital repairs on the apartment building.**

Hereinafter we shall call this model “Model 4” or «Model 4 “Voluntary payments”».
The Chamber of Commerce and Industry of the Russian Federation (hereinafter CCI) proposed a model for organizing the financing of the capital repairs and upgrading of the common property in apartment buildings. Key elements of this model are mandatory monthly depreciation charges by owners of premises in an apartment building.

To implement the proposed model the CCI prepared a proposal envisaging the following (Figure 5):

- **Institute of depreciation of the common property** of owners of premises in the apartment buildings should be secured in the law;

- **Mandatory monthly depreciation charges** by owners of premises should be secured in the law for the capital repairs of the common property in the apartment building. The beneficiary will be the **entity that maintains the common property of the apartment building in its full economic management**: a HOA, housing construction cooperative (HCC), or a management organization (MO);

- **The size of mandatory monthly depreciation charges** is established by the foregoing entity on the basis of the cadastre value and in accordance with legislative acts specifying the standard size of depreciation charges depending on the type of the building constructed during varying period of time. The cadastre value should be equal to the replacement cost minus depreciation;

- Mandatory depreciation charges are remitted to the foregoing entity **as an integral part of payments for the maintenance of premises in the apartment building**, in which payments for current and capital repairs are replaced by depreciation charges for the capital repairs of the common property;

- **Total depreciation charges** received from the owners by the **entity**, which maintains the common property of the apartment building in its full economic management, shall be used exclusively for the **purchase of securities issued by the Fund Supporting** the owners of residential realty;

- **Securities purchased by the foregoing entity** can be sold or used as a collateral to secure a bank loan originated for the purposes of repairs of the common property in the apartment building and enhancement of its energy efficiency.

An alternative proposal of the CCI with regard to organizing the financing of the capital repairs and upgrading of residential realty envisages the development and approval of draft laws and other legislative acts that should primarily be aimed at the following:

- **Designing the rules for the issue of securities by the Supporting Fund**, procedures for their storage and turnover and for ensuring their profitability;

- **Participation of budgets of all levels** in the start-up capital of the Supporting Fund, as well as in financing the Fund’s activity;

- **Developing the procedure for calculating the cost of services provided by the Supporting Fund, such as** issue of guarantees or sureties for loans originated for repairs and capital repairs of the common property in the apartment building;
Figure 5. Model «Financing the capital repairs and upgrading of the common property in apartment buildings through introduction of an institute of mandatory depreciation charges»
– Designing the procedures and defining the terms for rescheduling the obligations of public authorities with regard to technical capital repairs of the common property in the apartment building;

– Developing standards relating to the control by independent organizations over the maintenance of the common property;

– Finalizing the procedures for alienation of property owned by low-income households unable to properly maintain it with observance of citizens’ rights to housing established by the Constitution of the RF (for example, through introduction of an institute of life-time rent);

– Introducing mandatory insurance of the common property in the apartment building and the procedure for compensating the recipients of housing allowances for the cost of this insurance.

Hereinafter we shall call this model «Model 5» or «Model 5 “Depreciation charges”». 
SECTION I.3. PROPOSALS FOR MECHANISMS OF MANDATORY PAYMENTS AND FUNDRAISING BASED ON THESE PAYMENTS

As seen from the above description of the proposed models of capital repairs finance, all of them focus mainly on defining a mechanism of mandatory payments by owners of premises in apartment buildings. Mechanisms of using other sources of funding (loans and budget resources) are not considered here (except for the third model and fourth model). This is not by accident. Designing a mechanism of mandatory payments by owners for capital repairs of apartment buildings poses a serious problem in the context of both legislation and feasibility in this country today.

It should be noted that all presented models, excluding Model 4, imply the introduction of mandatory payments for capital repairs, the size of which will be determined by public authorities or municipalities rather than by owners of premises in apartment buildings. Such an approach differs from practices existing in most European countries. However, in the Consultant’s opinion, its application might be reasonable in Russia. What matters is what are the principles and mechanisms of accumulating funds based on owners’ mandatory payments and using those funds. This will, to a large extent, predetermine mechanisms of mobilizing other sources of finance: loans and budget resources.

Despite that all the above models of finance suggest introducing a legal provision saying that owners of premises in apartment buildings are obliged to make mandatory payments to be spent on capital repairs of the common property in their buildings, the proposed approaches differ drastically.

I.3.1. EXISTING RUSSIAN LEGISLATION ON MANDATORY NATURE OF PAYMENTS FOR CAPITAL REPAIRS OF APARTMENT BUILDINGS

All the above-mentioned models of financing capital repairs of apartment buildings suggest that the existing legislation should be amended in the context of a mechanism ensuring the collection of mandatory payments from owners of premises for capital repairs of the apartment building.

Let us consider the existing regulatory framework covering the obligations of premises owners to finance capital repairs of common property in an apartment building.

The Civil Code of the Russian Federation (Article 210) provides for a general approach to the property maintenance: “the owner shall bear the burden of maintenance of the property belonging to him, unless provided otherwise by law or contract”.

As regards apartment buildings, the Housing Code of the Russian Federation (hereinafter – RF Housing Code) sets a similar approach according to which “the owners of premises in an apartment building carry the burden of expenditures for maintenance of common property in the apartment building” (RF Housing Code, Article 39, Part 1). The share of mandatory expenses on maintenance of common property in an apartment building to be paid by the owner of premises in such building shall depend on his/her share in the equity ownership right to common property in this building (RF Housing Code, Article 39, Part 2).

The Housing Code defines that:

- Payment by the owner of premises in an apartment building for “maintenance and repairs of residential premises” includes payment for works and services related to management of the apartment building, maintenance, current and capital repairs of
the common property in the apartment building (RF Housing Code, Article 154, Part 2);

- **Payment** for maintenance and repairs of residential premises shall be fixed at the size that will ensure the maintenance of common property in apartment buildings as provided for by the existing legislation (RF Housing Code, Article 156, Part 1);

- **All owners of premises** in an apartment building are obliged to pay expenses on capital repairs of the building from the moment of emergence of the ownership right to premises in this building (RF Housing Code, Article 158, Part 3);

- **In case of transfer of the ownership right** to premises in an apartment building to a new owner, the latter becomes responsible to pay expenses on capital repairs of the apartment building (RF Housing Code, Article 158, Part 3).

The Housing Code also contains provisions regulating the procedure of making decisions to carry out capital repairs, set the size of payment for maintenance of the common property, including capital repairs of apartment buildings. These provisions determine the specificities of decision-making under different options of managing the apartment buildings (Table 1, Annex 6).

The review of the regulatory framework of the Central and East European countries conducted by SENRI/GreenMax⁶ jointly with the Consultant shows that in these countries (Table 1, Annex 7):

- Owners of premises in apartment buildings are legally bound to maintain common property and general expenses are distributed among the owners proportionally to their share in the common equity ownership;

- General rules of managing apartment buildings where premises belong to a variety of owners are established by law so that the lawmakers do not practically regulate the capital repairs issues;

- Some of these countries (Germany, Estonia, Latvia) set requirements to energy efficiency of residential buildings, whereas the others (Poland, Slovakia) – construction standards for commissioned buildings;

- The law does not stipulate that apartment owners are responsible to carry out capital repairs of the building; the state does not define the rate of mandatory payments to be made by the owners of premises for capital repairs purposes. The regulatory framework of some countries (Slovakia, Estonia) provides for the establishment of a fund for building capital repairs;

- Proper maintenance of the building falls within the scope of responsibilities of a homeowners partnership or house manager (management organization) which develop proposals for apartment building maintenance, including the implementation of capital repairs and energy saving activities, and submit these proposals to homeowners with the justification of the amount of payments required for these purposes (see Example 1).

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⁶ Report on the project “Development of model(s) of organization and financing of capital repairs, enhancement of energy efficiency of apartment buildings in the Russian Federation, and relevant regulatory framework: Review of best practices (as exemplified by the Central and East European countries)”. Prepared by SENRI and GreenMax for The International Financial Corporation, 2011
In most countries all decisions are taken at the general meeting of owners of premises in an apartment building by a simple majority (50% +1) of the owners’ votes.

The establishment of a building repairs fund (reserve fund for financing capital repairs, elimination of breakdowns), despite that the national laws do not explicitly define the responsibility to establish such a fund, is widely used in the practice of managing apartment buildings in the Central and East European countries. The amount of contributions to the building repairs fund shall be set at the general meeting of owners of premises in the building (general meeting of members of a homeowners partnership) by a simple majority of votes, after which all owners of premises in the building must pay this amount. Monthly contributions to the building repairs fund may differ drastically and, according to the data collected, they vary within EUR 0.25-1 per sq.m. This fund is used as a source for loan repayments and quite often it serves as the only security for a loan.

Example 1

The Law on Ownership Rights to Apartments in Estonia [RT I, 2000, 92, 601]

Article 15. Management of Apartment Ownership
(1) Management of the common equity ownership is effected by apartment owners on a joint basis if not provided for otherwise by law or an agreement concluded by apartment owners.

(3) Apartment owners may take decisions on day-to-day management by the majority of votes, with consideration of the effective agreements.

(6) Management consistent with the interests of apartment owners is primarily considered to cover:
1) Establishment of internal regulations on the use of common equity ownership;
2) Regular maintenance of common equity ownership;
3) Conclusion by apartment owners of an insurance contract for covering damage on the basis of replacement value of common equity ownership and insurance of apartment owners’ liability;
4) Accumulation of funds to a required limit in the repairs fund;
5) Development of business plan;
6) Tolerance for measures necessary to build up and preserve routine utility infrastructure that the apartment owner finds reasonable.

Article 22. Business Plan and Reporting
(1) House manager shall draw up a business plan for every calendar year which is to include the following:
1) Review of the condition of common equity ownership and scheduled activities;
2) Information about expected revenues and expenditures in the context of management of common equity ownership;
3) Responsibilities of apartment owners to cover expenditures for management of common equity ownership proportionally to the expenses on management of common equity ownership they are required to pay;
4) Amount of contributions to the repairs fund paid to maintain common equity ownership.

(5) Business plan and report shall be approved by the majority of votes of apartment owners.
Comparison of the Russian legislation and the regulatory framework of the Central and East European countries in the context of regulation of issues on carrying out and financing capital repairs of apartment buildings shows that generally lawmakers take similar approaches; however, in some cases the Russian legislation more clearly defines responsibilities of owners of premises for repairs of common property in apartment buildings and the decision-making procedures.

The problem with carrying out capital repairs of apartment buildings on the initiative of owners of premises and at their expense is that the existing legal provisions are not widely used in managing apartment buildings in Russia. This can be explained by the following reasons:

- Poor awareness of citizens – apartment owners – of their responsibility for the apartment building condition (including the implementation of capital repairs and activities on the enhancement of its energy efficiency) and ongoing receipt by them of misleading information via the mass media;

- Broad interpretation by public authorities’ officials, judicial bodies, and the public of the provision stated in the law on privatization and pertaining to the responsibility of the former lessor (state, municipality) to carry out capital repairs of apartment buildings in the event that these buildings needed capital repairs at the moment of privatization of residential premises therein. This makes citizens – apartment owners – confident that the state (bodies of local self-governance) must and will carry out capital repairs of all apartment buildings constructed prior to 1991, so there is no need in collecting money for these purposes by themselves);

- Inconsistent state policy during the implementation of reforms in the area of apartment buildings management, including investing bodies of local self-governance in certain cases defined by law with authority to decide for owners of premises, the practice of regulating (limiting) the amount of payment for maintenance and repairs of common property in apartment buildings, paternalistic approach to providing financial support to regional programs for capital repairs of apartment buildings pursuant to Federal Law No.185-FZ (subsidies for capital repairs may come to 95% of the repairs cost);

- Poor quality of managing apartment buildings by municipal and former municipal organizations, their inability and reluctance to schedule capital repairs of every apartment building and justify the necessity for the repairs and consolidation of funds for capital repairs in advance;

- Negative experience of housing construction cooperatives which lost their capital repairs savings in the 1990s because of a high inflation;

- Low confidence of the population in management organizations (and to a less degree in homeowners partnerships), which is caused, among other things, by negative coverage of their activities in the mass media;

- Low activity (if not to say inactivity) of homeowners themselves who practically neither participate in the decision-making on their common property nor control how organizations charged with managing their buildings do their work.

These and other reasons discourage owners from making decisions pertaining to the period and the scope of works on capital repairs, the amount of payment required to finance capital repairs.
It is necessary to overcome existing attitude of the owners of premises towards financing of
capital repairs and change the practice of managing apartment buildings for the better. To make this realizable, it seems expedient to amend the housing legislation with the provisions that would ensure:

- Creation of an efficient mechanism of setting mandatory payments and collecting them
  from the owners of premises in every apartment building for capital repairs purposes and
  enhancement of energy efficiency of each building;
- Confidence of the owners of premises that capital repairs payments will not be lost
  (embezzled) but will be used properly (for repairs of their building only);
- Opportunities to get loans and budget subsidies for capital repairs of apartment buildings,
  which financial support options should depend on the ability of owners to ensure a steady
  flow of own funds for the capital repairs (upgrade) of their building.

I.3.2. Model mechanisms for establishing mandatory regular payments by owners of
premises towards capital repairs of buildings

The necessity of enhancing the Russian legislation by a mechanism for establishing mandatory
regular payments by owners of premises for the purposes of capital repairs of the common
property in apartment buildings is understood by all those who, at present, propose models for
financing capital repairs and enhancing the energy efficiency of the Russian housing stock for
discussion. At the same time, their views on what kind of mechanism should be applied differ
considerably.

The report prepared by ZAO “System-Based Energy Efficient Solutions and Investments” in
conjunction with GreenMax Capital Advisors for the IFC (hereinafter SBEESI /GreenMax
Report) states that various legal frameworks, including those listed below, can be used to
regulate the financing of capital repairs:

1. Allocations [for capital repairs] included in the real property tax. Drawbacks:
dependence on the budget planning process; impossibility [for owners of premises] to use funds
for specific purposes; risk of inefficient spending of funds;

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7 It is noteworthy that the first version of this report forwarded by the Client to the Consultant contained the
description of the model with mandatory payments by owners of premises. The Report on the Project Designing a
Model (Models) for Organizing and Financing Capital Repairs and Energy Efficiency Enhancement in
Apartment Buildings in the Russian Federation, as well as a Relevant Regulatory Legal Framework: Review
of Best Practices (by the example of countries of Central and Eastern Europe)” was prepared by ZAO
SBEESI in conjunction with GreenMax Capital Advisors for the IFC, 2011. However, on October 21, 2011, the
Consultant received a new version of the report, and the model described in it no longer envisaged the introduction
of mandatory payments.

8 Report on the Project Designing a Model (Models) for Organizing and Financing Capital Repairs and Energy
Efficiency Enhancement in Apartment Buildings in the Russian Federation, as well as a Relevant Regulatory Legal
Framework: Review of Best Practices (by the example of countries of Central and Eastern Europe)”. Prepared by
ZAO SBEESI in conjunction with GreenMax Capital Advisors for the IFC, 2011.
2. **Introduction of a specific tax fee.** Drawbacks: delivery of services is limited to delivery of public services; risk of inefficient spending of funds;

3. **Introduction of a non-tax fee.** Drawbacks: controversial legal status, inefficiency of already existing models (e.g. allocations to the global reserve fund of organizations providing communication services);

4. **Mandatory contributions set for members of homeowners associations.** Drawback: the mandatory membership in a HOA cannot be forced on people;

5. **Direct payments for services.** Drawbacks: according to the effective Housing Code, the exact destination of payments is unclear; risk of the management company withdrawal from the business with all accumulated funds;

6. **Opening a bank account for payments.** Drawbacks: unclear rights to the money; risk of the management company withdrawal from the business with all accumulated funds;

7. **Establishment of trust management of funds.** A relatively safe model widely used in Russia (within the pension system, in the investment area and in providing housing to the military servicemen).

The model proposed by the Chamber of Commerce and Industry describes yet another approach to financing capital repairs of apartment buildings: payments made by citizens for housing services should include depreciation charges for capital repairs of buildings. Out of eight options named in the SBEESI /GreenMax Report for the purposes of legalizing mandatory payments by owners of premises towards capital repairs only four options are used in the proposed models of financing:

- Introduction of a tax fee (or something similar, based on the practices of individual Russian regions, e.g. transfer of funds in the management by the Regional Fund in the model “Mutual Financing”);

- Opening a bank account to accumulate payments for capital repairs with the following options:
  - without establishing a special regime for the bank account (in the model “Mutual Financing”);
  - with establishing a special regime for the bank account (a nominal account in the model “Fund for Building Repairs, model “Voluntary payments”)

- Establishing the trust management of funds with the following options:
  - trust manager – a single organization in the region selected by the subject of the RF (in the model “Regional Trust Manager”);
  - trust manager – HOA or a management organization (in the model “Trust Management by MO (HOA)”)

- Accumulating depreciation charges by the entity that maintains the apartment building in full economic management.

Other mechanisms for introducing mandatory payments by owners of premises (adding payments to the real estate tax, introduction of a specific tax fee, mandatory contributions set for members of homeowners associations, and direct payments for services) are not contained in any of the proposed models of financing capital repairs for reasons, including those stated in the SBEESI /GreenMax Report.
Further on, approaches to the most important issues relating to the mechanism of mandatory payments by housing owners described in the four proposed models are reviewed.

I.3.2.1. Goal of legalizing mandatory payments by owners of premises for capital repairs

Although the answer to the question “What goal is pursued by introducing into a law the mandatory payments by owners of premises in apartment buildings for capital repairs of the latter?” seems to be obvious, we can find quite different answers to it in the reviewed models (Table 1, Annex 8), namely:

- the goal is to **accumulate funds for capital repairs**:
  - on a permanent basis, during the whole period of the AB operation (Model “Mutual Financing”, Model 5 “Depreciation Charges”)
  - as long as it takes to accumulate a sum of money established by a subject of the RF as a maximum capital repairs cost, and afterwards no payments towards capital repairs shall be collected (Model 2 “Trust Manager”);

- the goal is to **establish a reserve fund** for prompt response to emergency situations, and demonstrate the potential of owners of premises in apartment buildings (AB) with regard to ensuring a certain financial flow for the purposes of capital repairs/renovations of buildings so as to obtain a loan (Model “Fund for Building Repairs”).

Differences in goals (which are not unequivocally formulated in most models) can be explained by different approach of designers of models to the issue of the main source of financing the execution of capital repairs of apartment buildings: the already collected payments made by owners of premises, or the funds (loans) they mobilized in financial markets.

Models 3 - “Fund for building repairs” and 4 – “Voluntary payments” envisage that the main source of financing capital repairs (renovations) of an apartment building should be loans. All other models either mention that debt finance is mobilized if the accumulated funds of housing owners are not sufficient for the repairs, or do not envisage the possibility of lending at all (Model 5 “Depreciation Charges”).

I.3.2.2. Size of funds accumulated for capital repairs and amount of mandatory regular payments by owners

Based on the goal pursued by mandatory payments, the objective relating to the size of funds accumulated for capital repairs is determined.

The reviewed models refer to **three options of the required size of funds accumulated for capital repairs**:

1. an unlimited size of funds accumulated through continuously made payments towards capital repairs (model 1 “Mutual Financing” and Model 5 “Depreciation Charges”);
2. the size of accumulated funds sufficient for implementation of comprehensive capital repairs of an apartment building (model 2 “Trust Management”);
3. the size of accumulated funds (the size of the Fund for Capital Repairs of the Building) sufficient for implementation of selective capital repairs and response to emergencies, as
well as for contribution of personal savings in the project on comprehensive capital repairs of the building in the event of obtaining a loan (model 3 “Fund for Building Repairs”)

It is suggested that the amount of mandatory regular payments toward capital repairs shall be established for different models by:

- a body of state power of a subject of the Russian Federation
- a local self-governance body (in the range between minimum and maximum payments set by a subject of the RF)
- a general meeting of owners of premises in an apartment building on the basis of plans for repairs (renovations) of the building, but not less than the amount set by the federal law.
- a HOA or MO – the entities that maintain the building in full economic management on the basis of the cadastrale value of the building and in compliance with legislative acts that establish the standard requirements for depreciation charges.

Only Model 4 – “Voluntary payments” envisages that the establishment of the amount of mandatory payments towards capital repairs should be left at the discretion of owners of premises in apartment buildings (the way it is normally done in the countries of Central and Eastern Europe). All other models envisage that this amount shall be established by the authorities, which fully reflects the current situation in Russia: over twenty years of reforms, owners of premises in apartment buildings have not become responsible stakeholders caring for the preservation and improvement of their realty to the extent enabling them to make independent decisions on repairs and establishment of the amount of payments required towards this end. Hence, four models envisage that, at the legislative level, a certain pressure will be exercised with regard to housing owners forcing them to accumulate their own savings towards capital repairs of their buildings. One of the differences between the foregoing models is hidden in the answer to the following question: does the decision from the superior level on the size of mandatory payments leave an opportunity for housing owners to put forward any initiative? Models 2 – “Trust Manager” and 3 – “Fund for Building Repairs” envisage that owners of premises, acting in accordance with the resolution of the general meeting, can establish an amount of payment for capital repairs larger than the one set by the authorities.

Each of the proposed options of the required size of savings accumulated for capital repairs has its strengths and weaknesses.

Mandatory regular payments for capital repairs that are made during the life of an apartment building

As regards the establishment of the size of mandatory regular payments towards repairs (Model 1 “Mutual Financing” and Model 5 “Depreciation Charges”) it looks attractive due to the fact, that, first of all, this practice is quite familiar (we can say, it is a common practice) both to the authorities and to the population. It was used within the format of Model 1 prior to the enactment of the new Housing Code by many municipalities, and is currently used in individual regions (the best known example is the Republic of Tatarstan) as a basis for the operations of the regional fund for capital repairs, which accumulates payments made by residents of apartment buildings.
Secondly, the advantage of this mechanism lies in the fact that the decision is made promptly and covers all apartment buildings. It does not depend on the condition of a particular AB, the activity level of residents, or the ability of citizens-owners of apartments to be properly organized. Owners do not need to convene general meetings. Management organizations and chairmen of management boards of HOAs do not have to substantiate the cost of repairs, discuss the amount of payments with the owners and obtain their approval to that extent since the decision on the size of payments is made by the body of state power.

Thirdly, the amount of payments for capital repairs established by the authorities, for a number of reasons, cannot be high (e.g. in 2011, in Tatarstan it was at 5 roubles per one square meter of the total floor space of an apartment). It is not too much of a financial burden for the owners, who, instead, can hope (due to the obligations of the authorities to them) that once the capital repairs become due, they will be financed. Therefore, most owners agree to such payments.

Such a simple answer to a complex question (how much is it necessary to pay for capital repairs) can suit a lot of people.

However, the very simplicity of this solution has some negative implications.

Mandatory payments towards capital repairs, which are made regularly during the life of an apartment building as a necessary obligatory component of monthly payments, in the amount set by the authorities rather than by the owners as the following drawback: it is practically not geared to the current technical condition of a particular AB or to the need in repairs and enhancement of energy efficiency. Accordingly, such a payment, or its amount, does not contribute to the understanding by the owners of premises in the AB of what volume of funds is really required to attain a particular result – improvement of the condition of the common property in their building. They pay as much as they were told. As a result, they are not committed to achieve a particular result, such as have repairs completed by a certain deadline. Most frequently, they fail to understand what expenses are necessary to have the building repaired or renovated.

Regular payments, the size of which is established by the bodies of power (Model 1), do not take into account the fact that owners in different buildings bear different expenses, and that owners in some buildings could establish a different (higher, but affordable to them) amount of payments towards repairs, so as to have repairs completed by an earlier date, than the one envisaged in standard requirements or established by the local self-governance body.

Decisions made by the authorities rather than by the owners do not facilitate the evolution of a responsible collective owner of an apartment building. The mechanism of regular payments collection and accumulation of those in centralized funds (in the regional fund for repairs) or by the regional trust manager contributes to the strengthening of the already widely popular point of view that the responsibility for execution of capital repairs is borne and shall be borne in future by the state power bodies of a subject of the RF, or local self-governance bodies rather than by the owners.

As regards the amount of mandatory payments, bodies of state power cannot afford to establish a big amount of payments for capital repairs, since this will cause a social protest of the larger part of the population. The small amount of mandatory payments for capital repairs, although not being burdensome for owners of apartments, results in the necessity:
a) of accumulating the funds of owners of premises in each building within a prolonged period of time before they have enough money required for large-scale repairs, or

b) accumulating all payments in one place (in the regional fund), so as to use the funds of owners of all apartment buildings towards repairs of as many apartment buildings as can be repaired using the collected payments (re-distribution of funds in compliance with the approved schedule of repairs of apartment buildings), and subsequently this cycle recurs.

If owners of premises in each building will have to accumulate their own funds within a prolonged period of time (Option a), this will lead to the situation when capital repairs will not be conducted at all for a long time, which will considerably deteriorate the already difficult situation with regard to the crumbling and low energy efficiency of the housing stock. This will not be acceptable either for the authorities, or for the majority of owners of apartments in the buildings, which are crying for repairs even now. Therefore, the legalizing of a mechanism of establishment by a body of state power of mandatory, but rather moderate payments for capital repairs, in the absence of other significant sources of financing, will inevitably entail the necessity of accumulating such payments in and utilizing them through a single regional fund.

All the above refers to establishing mandatory payments in the form of depreciation charges (Model 5). However, this matter has a specific financial dimension as well. Depreciation is a financial instrument of gradual inclusion of fixed assets (equipment) value of an economic entity in the costs and, finally, in the cost of manufactured goods and rendered services. For this purpose, such equipment belonging to a given business entity is recorded in the accounts, i.e. it is on the books. It is obvious in this connection that there are no substantial grounds to charge depreciation on a building managed by a management company or a Homeowners’ Partnership. Such a building is not owned by these entities and is not used for business activities. Therefore, this method of establishing mandatory payments for capital repairs seems to be not substantially justified.

Mandatory pooling of regular payments from owners in a regional fund (Model 1, Option b) may create a sustainable system of funding capital repairs of apartment buildings only given constant budgetary infusions to compensate the loss of funds due to extension of cheap loans and to inflation. In such a case, residential property owners may expect that capital repairs will be carried out in each apartment building within regulatory established periods (i.e. once every 25-30 years). However, packages of works and catalogues of measures and repair costs will be limited by a regulatory minimum within the framework of programs of a regional fund. The answer to the question what the minimum package of works funded via a regional fund should be and to what extent the energy efficiency of apartment buildings may be increased can be obtained after financial estimates which will be carried out by the Consultant under Task 3.3 of Terms of Reference).

It should be noted that the system of capital repairs funding via a regional fund (Model 1 "Mutual Financing") becomes unstable, if it is assumed (as proposed in the draft law worked out by the Housing and Public Utilities Fund in cooperation with the Ministry of Regional Development) that accumulation of mandatory payments from residential property owners in a regional fund is carried out on a voluntary basis and that residential property owners have the possibility to prematurely withdraw their savings from a regional fund by a resolution of the general meeting.
Mainly residential property owners in those buildings which are already in need of repair will be interested in participation in the system of mutual financing. It can be assumed that residential property owners in new buildings and those buildings which regulatory scheduled repairs will not become due soon (in 10-15 years) would be interested in accumulation of their payments on separate bank accounts which, according to the draft law, must be opened by Homeowners' Partnerships, housing cooperatives or management companies to accumulate funds for repairs. Funds on separate bank accounts will not be part of the fund for mutual financing. In this regard, the amount of funds that will flow into a regional fund and be spent on capital repairs by such a regional fund will be less than the amount of payments on a mandatory basis received from residential property owners in all buildings by a regional fund. Accordingly, the scope of repairs to be carried out in compliance with schedules approved by the local authorities will be reduced.

The possibility for residential property owners in particular buildings to withdraw their funds from a regional fund makes financial flows via such a regional fund unstable. This can adversely affect not only the scope of repairs but also the possibility to gain loans against cash flows generated on the basis of funds voluntarily transferred in trust for capital repairs.

The possibility to raise loans by a regional fund can only be implemented through instruments of budgetary guarantees. Apart from the fact that these opportunities are limited, too, it seems to be more important that in this case a situation may arise where the state supports not the people who are solving an important problem for the state but an especially established institution which prevents competitive players from the financial sector from entering this potential market.

The draft law in which Model 1 "Mutual Financing" is proposed establishes another limitation on the use of funds transferred in trust to regional funds. Funds received from residential property owners in apartment buildings located in a given municipality may be spent on the repair of other buildings located in the same municipality. Under this limitation the entire flow of funds is divided into separate flows on a territorial basis. It may be assumed that funds cycling via a regional fund belonging to small municipalities (or a small number of apartment buildings) will be insignificant and, respectively, the scope of repairs which will be carried out in such municipalities will be small, too.

**Mandatory payments for capital repairs to be made prior to accumulation of funds required for repairs**

Making mandatory monthly payments for capital repairs in the amount established by a public authority (local authority) until necessary funds for capital repairs (within the limits established by a constituent entity of the Russian Federation) are accumulated has the same advantages as mentioned above for regular payments: A decision on the amount of payment is made by authorities and does not require a custom-tailored approach for each apartment building on the part of management companies or organisational efforts to convene general meetings of residential property owners in each apartment building to make a decision on the amount of fees for capital repairs. In addition, this option offers a price guidepost for residential property owners which is the marginal cost of capital repairs established by authorities: The owners would know for how long the payments should be made until the necessary amount of funds is accumulated.

However, taking into account small amounts of mandatory payments established by authorities, the accumulation of funds up to a limit corresponding to marginal cost of capital repairs is little different from the above mechanism of continuous compulsory payments during the useful life
of a building. For buildings which scheduled capital repairs have not become due yet, the payments from owners will be accumulated for a long time, then such funds will be spent on capital repairs and then the owners must again start accumulating funds for the next capital repairs.

This option, just as in case of continuous mandatory payments, is distinguished by such disadvantages as:

- focusing on long-term accumulation of funds generated by mandatory payments from residential property owners;
- remoteness in time of the result of funds raising for the owners (lack of drive for results and, consequently, low motivation of owners);
- depreciation of accumulated funds due to inflation (which has been higher over recent years and is higher at the present time in Russia than in the European countries) and due to outrunning escalation of prices for building materials and construction and erection works;
- continuing deterioration of the condition of apartment buildings while funds for capital repairs are accumulated.

Model 2 "Trust Management" suggests a limitation of the period for accumulation of funds until the amount of marginal cost of comprehensive capital repairs for an apartment building is reached.

It is presumed in the model of trust management that funds generated from mandatory payments may be spent on capital repairs of a particular apartment building in which residential property owners made their payments. This might be considered as an advantage of this model because one of the fundamental principles of civil law is observed, i.e. a property owner bears the burden of maintaining his (her) property. Therefore, the model of trust management is designed to preserve the rights of residential property owners to accrued funds.

However, the model of trust management has a serious disadvantage, if it is reviewed from the perspective of one of the challenges the state is faced with, which is to ensure that capital repairs of apartment buildings are continued after disestablishment of the Housing and Public Utilities Fund and to prevent a sharp decline in the scope of repairs.

- In case of implementation of the "Trust Management" model the payments from residential property owners are received and kept on bank accounts of a trustee, i.e. an agency in a given region selected by the respective constituent entity of the Russian Federation, for the entire period of accumulation of funds up to an amount required for capital repairs.

Over quite a long period of accumulation the funds are frozen on the bank accounts, in such a way being a reliable long-term deposit that can be used by the banks to finance their regular lending operations. Since major repairs are not carried out over the period of accumulation of funds, such funds temporarily flow from the sector of repairs and are used for other purposes in different sectors of economy. Meanwhile the condition of apartment buildings continues to deteriorate. This is the biggest disadvantage of the vehicle proposed in Model 2, "Trust Management". A sharp decline in the scopes of capital repairs over a number of years might be predicted, if not a considerable amount of budgetary funds is committed to financing capital repairs. In order to estimate the scope of repairs in case of implementation of Model 2 and to
substantiate the required budgetary funds (or loans) to prevent a "failure" of capital repairs, special calculations must be performed by the Consultant under Task 3.3 of Terms of Reference.

**Mandatory payments for the period of accumulation of a building repairs fund**

In the third option with regard to the duration and amount of compulsory savings for capital repairs it is suggested that mandatory payments be made by residential property owners as long as a building repairs fund for an apartment building is formed to the minimum amount established by a given constituent entity of the Russian Federation (Model 3 "Fund for Building Repairs").

The purpose of a building repairs fund is:

- to reserve money for immediate actions in emergency situations not contemplated in the current common property maintenance plans for an apartment building (prevention, mitigation and elimination of accident consequences);
- to secure own share in the capital repairs/energy efficiency enhancement project for an apartment building in order to obtain a loan and
- to demonstrate the ability of residential property owners in an apartment building to jointly secure a certain monthly cash flow which can be used for loan repayment.

Consequently, this option of legislative establishment of mandatory payments of residential property owners for capital repairs is not designed for a mandatory continuous or long-term accumulation of funds but it is designed to provide a basis for raising borrowed funds for capital repairs of apartment buildings.

The advantage of this option is that a certain amount of funds is reserved in each apartment building for contingencies, on the other hand the state does not oblige private owners to economically inefficient long-term accumulation of funds in case capital repairs of an apartment building are scheduled at a distant date.

The establishment of minimum amounts of mandatory payments by a public authority of a constituent entity of the Russian Federation to form building repairs funds shall, just as the above options, provide for prompt decision-making, lack of all problems relating to convening and holding of general meetings of residential property owners in each apartment building to establish the amount of payments to form a building repairs fund. At the same time, residential property owners still have the possibility to extend the period and the amount of accumulation of funds by their decision on the basis of a schedule of repairs proposed by the managing entity (or a Homeowners' Partnership) subject to the necessity to provide for the required amount of financing by a deadline to obtain a loan or a budgetary subsidy.

Moreover, the owners may also use a building repairs fund for an indefinitely long accumulation of funds, this being done by their own decision and not by a regulatory requirement.

Model 3 suggests that it should be established that the resources in a building repairs fund may be spent both before and after the minimum amount in a building repairs fund is reached. In the period of formation of a building repairs fund its resources may be spent only for emergency repairs which can not be covered by charges for maintenance and running repairs of common property in an apartment building. In such a case the residential property owners in an apartment building are obliged to make up for the resources spent out of a building repairs fund. After the
required amount of a building repairs fund is reached, its resources may be spent for capital repairs and for energy efficiency enhancement. Upon completion of capital repairs and payment of all costs relating to accomplished works/ rendered services, a building repairs fund shall be refilled up to the minimum amount by means of payments from residential property owners.

The lack of regulatory established mandatory payments from residential property owners for capital repairs as well as the decision-making on establishing such payments and on their amount by residential property owners suggested in Model 4 "Voluntary payments" is actually an option which is already established in the Housing Code. This approach corresponds to international practices, however, it is not widely spread in Russia, so far. The urgency of the issue of capital repairs and energy efficiency enhancement of the housing stock necessitates establishing mandatory payments from residential property owners for capital repairs according to one of the above options.

Conclusions: The comparison of various options for establishing the amounts of mandatory payments from residential property owners for capital repairs and for the duration of mandatory payments revealed that formation of a building repairs fund to a minimum amount established by a constituent entity of the Russian Federation is the most acceptable option from the social and economic point of view. The advantages of this option are as follows:

- Simplicity of decision-making on the amount of minimum mandatory payments and on the amount of a building repairs fund;
- Obviousness of the purpose of establishing mandatory payments and building repairs funds for residential property owners;
- Minimization of risks related to depreciation of accumulated funds, because it is assumed that financial institutions will be used instead of long-term accumulation of funds;
- Possibility for residential property owners in each apartment building to make independent decisions on increase of the amount of payments for capital repairs and on increase of a building repairs fund.

I.3.2.3. Who is the owner of funds formed by mandatory payments from residential property owners for capital repairs?

It is established in the legislation of Central and Eastern Europe that funds paid by residential property owners for the maintenance of common property in an apartment building, including its capital repairs and reconstruction, are owned by residential property owners in such a building and not by a management company, for example (Table 2, Annex 7). If a Homeowners' Partnership is established in an apartment building, these funds are owned by such a HP; As long as all residential property owners are members of the Homeowners' Partnership in a given apartment building, this does not change anything with regard to the fact that residential property owners may consider such funds as their common funds and dispose of such funds by decisions of general meetings.

Particularities of the Russian legislation make the issues relating to ownership of funds formed by mandatory payments from residential property owners for capital repairs, to the legal status of such funds and to entities having a right to dispose of such funds...
extremely important and most complicated in the proposed mechanisms of participation of residential property owners in financing capital repairs of apartment buildings.

The models under review suggest several options for the ownership of funds formed by mandatory payments from residential property owners for capital repairs (Table 2, Annex 8):

1. The funds belong to each particular residential property owner in an apartment building (Model 2 "Trust Management");

2. The funds are a property jointly shared (common funds) by residential property owners in an apartment building (Model 1а "Mutual Financing" and Model 3 "Fund for Building Repairs", Model 4 "Voluntary payments").

3. The funds are owned by the regional fund of capital repairs (Model 1b "Mutual Financing").

4. The funds are owned by the holder of the books, i.e. management company or a Homeowners' Partnership (Model 5 "Depreciation charges").

Based on the common logic of the housing legislation, payment of capital repairs of the common property in an apartment building is part of the obligation of residential property owners to share the common property maintenance costs. After a payment for common expenses is effected, a residential property owner is no longer an owner of contributed funds, for such funds become part of the common pool to cover common expenses.

However, the issue of ownership of accumulated funds is very complicated because according to the Russian legislation the funds received on an account of a legal entity become property of such a legal entity, unless a special status of funds is individually established. Therefore, if mandatory payments from residential property owners are received on the account of the management company, such payments become funds of the management company. Even if a management company opens a separate bank account for accumulation of funds from residential property owners for capital repairs of an apartment building (Model 1а "Mutual Financing"), such an account is owned by the management company and the funds received on this separate account belong to the management company rather than to the residential property owners.

Establishing a Homeowners' Partnership in an apartment building is not a solution to the problem of ownership of funds accumulated for capital repairs for a number of reasons:

- due to voluntary membership of residential property owners in a Homeowners' Partnership such a legal entity may not be stable because a Homeowners' Partnership must be liquidated, if residential property owners in an apartment building, i.e. members of the partnership, have less than 50% of the total number of votes of residential property owners in an apartment building (coping with the legislative problem of membership/ non-membership in the partnership seems unlikely in the foreseeable future);

- If payments for capital repairs from residential property owners (resources in a building repairs fund) are credited to a conventional (not nominal) bank account of a partnership, they become money of the partnership as a legal entity and in case of bankruptcy flow into the bankrupt's estate; in case of liquidation of a partnership under the procedure established by the civil law, the property of a partnership (including monetary resources in a building repairs fund) remaining after fulfillment of all obligations is distributed among the members of a given legal entity, therefore part of residential property owners would lose...
their shares in the building repairs fund (this is not going to happen, if the resources in a building repairs fund are placed on a nominal bank account of the partnership);

- It is allowed by legislation to establish a Homeowners' Partnership for several apartment buildings; in the past few years a great number of Homeowners' Partnerships encompassing several buildings was established; if the resources of each particular building repairs fund are not placed on a partnership's nominal bank account separate for each particular building, the residential property owners in a particular apartment building will not be able to separate their money from the funds of owners in other apartment buildings managed by the partnership;

- The procedure for reorganization of Homeowners' Partnerships encompassing several buildings established by the housing legislation does not regulate distribution of funds of such Homeowners' Partnerships generated from payments (contributions) of residential property owners (members of Homeowners' Partnerships) for capital repairs between partnerships, which are formed by way of separation of a reorganized Homeowners' Partnership or by way of withdrawal of new partnerships from it; respectively, problems during separation of funds for capital repairs are inevitable, if such funds were not placed on separate nominal accounts of each apartment building managed by a Homeowners' Partnership encompassing several buildings;

- Recent establishment of a considerable number of "fictitious" Homeowners' Partnerships has made it impossible for residential property owners to secure control over application of funds coming from the owners by management boards of such partnerships and has resulted in financial irregularities; placement of resources of a building repairs fund onto a nominal bank account even belonging to an "eye-wash" Homeowners' Partnership would protect such resources in the interest of owners.

Transfer of payments for capital repairs from owners in trust to a regional fund (an entity authorized by the respective constituent entity of the Russian Federation) also means that such funds are credited to the account of such a regional fund and become property of this entity (Model 1b "Mutual Financing"). Therefore, a simple indication in the legislation that savings for capital repairs are jointly owned by residential property owners in an apartment building is not a solution to the problem of reservation of rights to such funds by residential property owners.

Currently, one instrument of reservation of ownership rights in case of property transfer in management by another entity, i.e. fiduciary management, is established in the Russian legislation. According to Art. 1012, Part 1 of the Civil Code transfer of property in fiduciary management does not entail transfer of the right of ownership to the managing entity.

As a general rule, money may not be a separate item for fiduciary management (Art. 1013, Part 2 of the Civil Code). An exception established by Federal Law No. 17-FZ dated February 3, 1996 is transfer of money in fiduciary management by a lending institution.

Consequently, a lending institution may be a fiduciary to manage the funds for financing capital repairs.

According to Model 2 "Trust Management" funds from each particular residential property owner and not common funds of residential property owners in an apartment building are deemed to be transferred in fiduciary management. This is a necessitated and artificial model which does not correspond to the essence of relationships of owners in sharing common expenses for capital repairs. There is an obvious contradiction between the declared status of
funds transferred in fiduciary management (funds of each particular owner) and the fact that the decision on application of own funds is made by a general meeting of residential property owners rather than by the owner and the fact that an owner forfeiting the ownership right to a residential unit in an apartment building is not allowed to withdraw his savings transferred in fiduciary management. This is directly suggested in a stipulation of the draft law on fiduciary management of funds for financing capital repairs: "In case of transfer of rights of ownership in a residential unit of an apartment building to a new owner, the rights to funds transferred by the former owner in fiduciary management and also the obligations to make deposits not fulfilled by the former owner are transferred to the new owner."

This confirms the assumption that the declared status of savings (funds of each particular owner) is formal; In fact, the principle of settlement of relationships arising from such accumulation of funds in Model 2 "Trust Management" is identical to settlement of relationships arising from common property maintenance in an apartment building.

It can be said with certainty that a recourse to fiduciary management is associated with the willingness to separate the funds contributed by residential property owners for capital repairs from the funds of the management entity, a Homeowners' Partnership or from the funds of other entities (e.g. an entity authorized by a constituent entity of the Russian Federation to manage such funds).

As a result, the Model "Trust Management" suggests that funds contributed for capital repairs should be linked to particular owners rather than to an apartment building.

To tackle the problem of establishing "common funds of residential property owners to cover common expenses associated with capital repairs of an apartment building" as well as the problem of separation of such funds both from the funds of particular owners and from the funds of any other entities, it is suggested in Model 3 "Fund for Building Repairs" that the instrument of a special bank account should be legislatively established on which account the funds would belong to residential property owners in a particular apartment building and not to the account holder, i.e. a management company or a Homeowners' Partnership. A similar suggestion is contained in Model 4 "Voluntary payments" involving best international practices.

Holding a bank account with a special status will provide for:

- reservation of the right of residential property owners in an apartment building to funds for capital repairs (common funds of residential property owners);
- establishing limitations on use of funds on this account (as per intended purpose only and by a resolution of the general meeting of residential property owners or on the basis of the court decision).

Conclusions

- The status of accumulated funds as common funds of residential property owners to cover common expenses associated with improvement of common property conditions (capital repairs, energy efficiency enhancement) corresponds to the rights and obligations of common property owners in an apartment building to the maximum extent as compared to all reviewed options for the ownership of funds formed by mandatory payments from residential property owners for capital repairs.
The best possibility for residential property owners in an apartment building given any method of building management to separate common funds for capital repairs from the funds of each particular residential property owner or from the funds of the entity managing such a building is to open a **bank account with a special status** establishing that funds on such an account belong to residential property owners and not to the account holder (Model 3 "Fund for Building Repairs", Model 4 "Voluntary payments").

### I.3.2.4. Accessibility of accumulated savings to the owners of premises and making provisions for their targeted use

If owners of premises held a general meeting and approved a resolution on conducting repairs or implementing energy saving activities the **possibility of using the accumulated savings** depends on several factors: who owns the bank account where the savings are accumulated; is it necessary to obtain an approval of any authorized state (municipal) body for utilizing the savings; can these savings be used towards capital repairs of other apartment buildings (ABs). There are the following options:

1. Access to the savings is quite easy if they are accumulated on a separate bank account of a HOA or MO, and if only a relevant resolution by the general meeting of owners of premises in the AB is required for their utilization (Model 3 “Fund for Building Repairs”, Model 4 “Voluntary payments”);

2. Access to the savings is less easy than in option 1 if they are accumulated on a separate bank account of a HOA or MO, but, along with a resolution by the general meeting of owners of premises, an approval by an authorized body of state power is required for their utilization (Model 1 a “Mutual Financing”);

3. Access to the savings is quite difficult if:
   a. They are in trust management, because in this case, along with a resolution by the general meeting of owners of premises, an approval by the trust manager is required, and it will take some time to make the money placed by the trust manager on fixed time deposits, or used by him to purchase bonds, available (Model 2 “Trust Manager”);
   b. All savings are invested in securities issued by the Fund supporting owners of residential realty (Model 5 “Depreciation Charges”);
   c. The savings were transferred into the management by the Regional Fund and used for repairs of other buildings (Model 1 b “Mutual Financing”).

Having an access to the savings accumulated for capital repairs is especially important when it is necessary to execute works to prevent or respond to emergency situations (accidents), which imply more expenditures than the current payments for the building maintenance can cover. If there is not access to the savings or it is difficult, the owners’ expenditures will increase, since extra payments will be required to respond to emergencies (aside from the current regular payments and payments for capital repairs).

To ensure the accessibility of savings accumulated for capital repairs to owners of premises is important, but it is not less important to ensure the **safety of the accumulated savings**, so that they could not be used without the knowledge of owners of premises, embezzled by the entities...
on whose accounts these savings are remitted, or used to satisfy claims against these entities under obligations unrelated to the financing of capital repairs of the building.

The following options exist within the framework of the reviewed models:

1) Possibility of using (by the below listed entities) the payments made by owners of premises for capital repairs without their knowledge due to the absence of any restrictions with regard to disposing of such payments by the entities on whose accounts the payments are remitted:

   a) HOA or MO (Model 1 “Mutual Financing”, Model 5 “Depreciation Charges”);

   b) Regional Fund (Model 1 b “Mutual Financing”);

   c) Trust manager (Model 2 “Trust Management”)

2) Impossibility of using the payments made by owners of premises for capital repairs without a relevant resolution by the general meeting of such owners, because of the restrictions imposed on a special bank account (Model 3 “Fund for Building Repairs”, Model 4 “Voluntary payments”).

As regards Option 1 (a, b, c), there is a high risk of losing the savings accumulated for capital repairs because of a mala fide entity, on whose account this money are remitted, or as a result of the bankruptcy of this entity. Only Model 2 “Trust Management” envisages that the owners of premises in an AB shall be refunded for the savings lost during the period of trust management by the trust manager, and in the event of his failure to do this - from the budget of a subject of the RF. Although this measure is aimed at the protection of economic interests of housing owners, we cannot consider it to be an appropriate measure in the light of budget expenditures involved (the budget assumes responsibility for the activity of a for-profit legal entity – a trust manager, which, most likely, will be no other than a credit organization).

Option 2 provides for a high degree of protection of economic interests of owners of premises, since the special regime of the bank account, on which payments for repairs are accumulated, not only rules out the possibility of using these payments by the entity that opened the account (a HOA or MO) without a resolution by the general meeting, but also eliminates the possibility of using them to satisfy the claims against the HOA or MO in the event of their bankruptcy, because it is evident that this money are not owned either by a HOA or MO.

Conclusions.

- Out of all reviewed options for accumulating savings for capital repairs the one that ensures the easiest access to the such savings pursuant to a relevant decision made by the owners of premises is the best option because it enables to accumulate money on a separate bank account of a HOA or MO, and to use this money only a relevant resolution by the general meeting of owners of premises in the AB is required (Model 3 “Fund for Building Repairs”, Model 4 “Voluntary payments”);

- Out of all reviewed options, only a bank account with a special status (envisaging that the assets on the account are the property of owners of premises rather than of the entity that holds the account) is the best option (Model 3 “Fund for Building Repairs”, Model 4 “Voluntary payments) for the following reasons: all other models proposed for introduction of payments by owners for the purposes of capital repairs do not guarantee that their payments will not be used without their permission, vanish or be embezzled.
I.3.2.5. Decision-making on carrying out and financing capital repairs

Within the models for financing capital repairs, being under consideration herein, there are options of decision-making on carrying out capital repairs financed from mandatory payments (and other possible sources of financing) as follows:

A. A decision on carrying out capital repairs (renovation) of an apartment building is made by a general meeting of owners of premises in an apartment building (Model 3 “Fund for Building Repairs”, Model 4 “Voluntary payments”).

To this effect,

- no regulatory requirement is set with regard to the type of work/capital repair activities, the schedule of capital repairs, the cost of works, while the decision-making is based upon a proposal made by an entity who manages the apartment building;
- the regulatory requirement with regard to the number of votes needed for making a decision (simple majority of votes of owners of premises in an apartment building instead of currently needed two-thirds of votes) (Model 4 “Voluntary payments”).

B. Owners of premises in an apartment building makes their decision, at a general meeting, on performing capital repairs of an apartment building based on the results of an obligatory technical inspection of an apartment building conducted by a specialized organization once every five years (Model 2 “Trust Management”). In making their decision on a list of capital repair activities, the owners of premises are limited to those types of activities which are indicated in a report on technical inspection of an apartment building. Otherwise, a trust manager cannot provide any financing for them.

C. Owners of premises in an apartment building makes their decision, at a general meeting, on carrying out capital repairs of an apartment building, with their resolution needing to get the approval from an authorized body of state power (Model 1 “Mutual Financing”). The approval can be obtained provided that the types of works and services relating to capital repairs of an apartment building, as established by the resolution of a general meeting, match the types of works and services as set by an authorized federal body, while the schedule of capital repairs (the time between capital repairs) matches the one established legislatively for that type of work.

D. Capital repairs of an apartment building are carried out according to a time schedule of capital repairs approved by a body of local governance on the basis of a resolution passed at a general meeting of owners of premises (Model 1 “Mutual Financing”). In this connection, the types of works and services with regard to capital repairs of an apartment building are determined in relation to the time schedule established legislatively by an authorized federal body.

Model 5 “Depreciation Charges” does not contain any proposal as to who makes a decision on capital repairs.

Not a single option under consideration suggests, thus, that the Housing Code’s general rule envisaging a decision on capital repairs being made by a general meeting of owners of premises in an apartment building, should be departed from. Only within one model (Model 4 “Voluntary payments”)...
payments”) there is a suggestion that decision-making should be simplified via reducing the number of votes sufficient for making a decision.

Options B, C and D propose, actually, a two-stage decision-making on capital repairs, because along with a resolution passed by a general meeting, the decisions should be also made by either a body of local governance or by an authorized body of state power. This two-stage nature of decision-making on capital repairs of an apartment building makes the procedure more time-consuming and complex. Besides, the owners remain doubtful whether their decision will be executed. It is unlikely that any intervention by government bodies might be deemed necessary at a time when owners of premises have made their decision on capital repairs to be carried out at their own expense.

Yet with a view to remedying the situation marked by the inactivity of owners of premises and the inability (unwillingness) on the part of management organizations and homeowners associations to initiate decision-making on capital repairs, some models provide for procedures which enable decision-making on capital repairs in the event that technical conditions of a building are such that they necessitate urgent measures to be taken in order to remove a threat to the safety of an apartment building while the owners of premises are reluctant to make relevant decisions. The options are as outlined below:

E. A decision on capital repairs is made by an authorized body of state power of a subject of the Russian Federation (a state housing inspection) in the event that owners failed to make their decision on capital repairs based on the results of a technical inspection of the apartment building conducted by a specialized organization. Pursuant to a resolution made by an authorized body of state power of a subject of the Russian Federation a trust manager provides funds for capital repairs (Model 2 “Trust Management”).

F. If technical conditions of an apartment building are far from complying with technical regulations on safety of buildings and structures, an authorized state supervisory body (a state housing inspection) forwards an instruction to owners of premises in the apartment building urging them to rectify the violations within a fixed period of time. If the owners fail to comply with this instruction of the housing inspection, the latter shall take steps of administrative nature, and then, if necessary, shall go to the court to take compulsory measures against the owners so as to make them carry out the required actions and return the common property to serviceable conditions. The entity that manages the building (a management organization or homeowners organization) is entitled to use the funds for capital repairs to finance the works specified in a court ruling on the suit by the housing inspection.

Whereas Options E and F envisage that owners are not engaged in a decision-making about the use of their funds accumulated for capital repairs, the relevant resolution made by a court deems more reasonable, in this context, than that made by a state body.

Conclusions

- Of all the examined above options the one entailing the decision-making by a general meeting of owners of premises in an apartment building, based on a proposal made by an entity that manages the building (a management organization or homeowners organization), appears, in the general case, to involve the most simplified procedure of
decision-making on capital repairs (list of works, schedule of capital repairs, cost of works);

- To simplify the decision-making on capital repairs by owners of premises in an apartment building, it is advisable that legislative changes be introduced according to which a simple majority of votes would be sufficient for owners of premises to make their decisions;

- For the case when owners of premises in a building have not made any decision on capital repairs so that to ensure the compliance of their building with technical regulations on safety of buildings, it is recommended that the legislation should be amended to embrace a provision envisaging a decision-making on the basis of the court’s ruling on the suit by a housing supervisory body.
SECTION I.4. ANALYSIS OF THE MECHANISMS AND SOURCE OF Raising Commercial Capital

This section of the report deals with the analysis of mechanisms and possible sources for long-term commercial lending to provide for energy-efficient upgrading and capital repairs of apartment buildings. This Section describes successful practices of involving the banking sector in solution of problems related to capital repairs and energy efficiency enhancement of apartment buildings in the countries of Central Europe and in the Baltic States.

Below there is an analysis of conditions for implementation of mechanisms of long-term commercial lending for energy-efficient upgrading and capital repairs of apartment buildings in Russia. Russian commercial banks, pension and investment funds were evaluated as potential sources of loans. This Section also contains an analysis of the demand for long-term loans on the part of Homeowners’ Partnerships, managing companies and energy service companies.

Models proposed by different contractors for financing of capital repairs of apartment buildings in Russia are described and evaluated from the perspective of the extent to which these models allow to implement various lending options for capital repairs and housing stock upgrade projects.

Up to the present moment, budgetary funds have been the main source of financial resources for carrying out capital repairs of apartment buildings in Russia (including energy efficiency enhancement measures or without such measures). Until 2008 such funds were allocated from the budgets of municipalities to fulfill financial obligations of the municipalities as to capital repairs of the urban housing stock. From the moment of coming into force of Federal Law No. 185-FZ dated July 21, 2007 "On the Fund for the Promotion of the Housing and Utility Sector Reforms" budgetary funds are provided in the framework of municipal targeted capital repairs programs in the form of subsidies to legal entities (Homeowners' Partnerships and management companies) covering up to 95% of capital repair costs in buildings included into a municipal targeted program. Funds from the budget are granted on non-repayable terms.

Upon expiration of the said law it is planned to subsequently allocate budgetary funds to finance:

- capital repairs of residential property and other immovable property owned by municipalities;
- part of costs associated with capital repairs and energy-efficient upgrading of common property in apartment buildings in proportion to the share of municipalities (and/or the state) in the jointly shared common property in an apartment building.

Government authorities of constituent entities of the Russian Federation and local authorities retain the right to grant subsidies to legal entities from respective budgets according to the procedure established, respectively, by a regional or local regulatory document, including subsidies to Homeowners' Partnerships and/or management companies for capital repairs and energy-efficient upgrading of common property in apartment buildings.

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9 Such funds are formed from several sources: A major part is formed from the resources of the Fund for the Promotion of the Housing and Utility Sector Reforms and a lesser part is formed from budgetary funds of constituent entities of the Russian Federation and municipal budgets.
In such a case it is presumed that the amount of capital repairs financing from budgetary sources will be significantly reduced. Models of capital repairs financing and reconstruction of apartment buildings currently reviewed by legislators are mainly focused on definition of a mechanism for mandatory payments by residential property owners in apartment buildings. However, representatives of the Russian Government and the State Duma are aware that it doesn't seem possible to lay the entire burden of capital repair costs on the citizens in the near future. In this connection the possibilities for raising funds for capital repairs and energy-efficient upgrading of apartment buildings in the financial market must be taken into account.

I.4.1. EXPERIENCE IN RAISING BORROWED FUNDS FOR CAPITAL REPAIRS AND ENERGY EFFICIENCY ENHANCEMENT OF APARTMENT BUILDINGS IN THE COUNTRIES OF CENTRAL EUROPE AND THE BALTIC STATES

Central European countries and Baltic states (for example, Hungary, Slovakia, Germany, Latvia, Lithuania, Estonia), which in the recent past had a system of housing stock management similar to that in Russia and similar problems related to the unsatisfactory condition of housing, today succeed in tackling these problems. Over the past 15-20 years not only the way of thinking of most apartment owners has undergone drastic changes, but we can talk of remarkable achievements in the upgrading and renovations of apartment buildings.

The availability of loans from the banks (local or international) for residential property owners for capital repairs and energy-efficient upgrading of apartment buildings became one of the main preconditions, apart from the consistent legislative regulation of housing.

I.4.1.1. Availability of banking products for residential property owners in the financial market (loans to housing owners for capital repairs and upgrading of apartment buildings)

Central European countries, Baltic states and Russia have one thing in common: apartment owners’ savings and budget appropriations are usually not sufficient for large-scale repairs and upgrading works to be completed in a building within a short period of time. Therefore, loans provided to owners, home owners associations and managing organizations are an important financial source that serves these purposes.

<table>
<thead>
<tr>
<th>Hungary</th>
<th>At present, Hungary has a lot of banks, both national and those owned by foreigners. Banks provide loans to home owners associations on soft terms – at 6-10% per annum.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latvia</td>
<td>Currently, Latvian banks credit apartment owners associations, cooperatives, private and municipal enterprises, which perform housing management, for the purposes of repairs, renovations, restoration and improvement of energy performance by the common property in apartment buildings. As a rule, such credits are used for winterization of buildings; replacement of the roof; upgrading of heat supplying units; replacement of sanitation systems, electric equipment and wiring; repairs of facades and entrances, etc. Banks’ loans cover</td>
</tr>
</tbody>
</table>

10 On September 25, the Deputy prime-minister of the Government of Russia, Mr. Dmitri Kozak, said that "individuals will pay not more than 5% of costs associated with repairs of residential buildings owned by such individuals". http://www.regnum.ru/news/fd-fareast/1448972.html
up to 100% of the cost of works, and the maximum loan term is 12 years. Owners of apartments use the Fund for Repairs and Technical Maintenance assets to repay the loans.

**Estonia**

Credit products of commercial banks determinate the housing sector development potential in Estonia. The share of commercial banks’ loans is almost 50-60% of all loans provided in the housing sector over the past years, and accounts for almost 10-12% of the total loan portfolio of commercial banks. Over 2001-2006 Estonian banks provided more than two thousand loans to apartment owners associations. More than 25% of associations in the country used bank loans to carry out building repairs.

One of the options for raising loans for the upgrading of old housing stock is to use the funds of state financial institutions (banks, funds, corporations, agencies). Such financial institutions enjoy some form of state support, which enables them to originate loans on soft, non-market terms. Such organizations may establish special requirements to a borrower, for example, with regard to the energy efficiency indicators.

**Slovakia**

Since 2003 the State Fund for Housing Development provides loans with low interest rates to HOAs for the purposes of rectifying structural defects, improvement of the building’s façade and the quality of heat insulation of apartment buildings and detached houses. The loan value might account for 80% of the total project cost, the loan life is up to 20 years (the maximum sum per one apartment is limited), and it is issued at the annual interest rate of 3.3%, if this particular project is an integral part of the State Program for Housing Stock Renovations. Otherwise, it is extended for a term of 10-20 years at the annual interest of 4.9-6.5%. A soft loan may be provided to a project for repairs/upgrading of a building if it meets the requirement of minimum 20% energy saving compared to an estimated energy consumption prior to the project implementation (provided that after the completion of the project the energy spent on heating the building does not exceed the norms set in a special regulation).

In addition, the Slovak government supported a large-scale development of the system of construction savings. Initially it targeted citizens, but since 1999 it had been applied to legal entities, including home owners associations. An association, just like other clients, is entitled to a soft loan to be provided by a construction savings bank after a certain period set for accumulating savings expires and a fixed sum of money is accumulated in savings. According to the effective legislation, bank deposits an association are protected in the same way as citizens’ savings.

**Germany**

In the East Germany most activities related to the rehabilitation of prefabricated panel housing were financed with the loans originated by the state Credit Bank for Development and Renovations (KfW). The Bank provided loans that covered the full cost of a package of activities aimed at rehabilitation of buildings on preferential terms: loan term – up to 25 years, interest rate – 7.5%.
% (to be subsequently reduced), annuity – 9.3 % (in the 1990s), and subsequently – 6.23 % (with the easing of the loan). In case of a large-scale rehabilitation, the interest rate was additionally subsidized.

In international practices, state financial institutions are most frequently used as mechanisms for attracting private financial resources to the publicly relevant area via purposeful actions aimed at reducing the risks associated with financing a selected group of projects (extension of guarantees, repurchase of securities, etc.). As a result, the projects that are important for the state become more acceptable for private financial institutions from the point of view of the ratio of returns on investment to risks involved.

I.4.1.2. Solution to the problem of guaranteeing loan repayment by home owners associations even without real estate (apartment) pledge – new opportunities

Let’s review the international practices of using various types of collateral under a loan contract. The issue of securing a loan contract is tackled in different ways in the East European countries.

In Germany banks provide loans for the upgrading of apartment buildings only on terms of real estate pledge. This enables them to enforce the outstanding loan debt in court in the event that a borrower is unable to fulfill his contractual obligations. It is worth noting that in such cases the borrower is not a citizen or an association of citizens. The possibility of providing such a collateral is explained by the fact that the rehabilitation program encompassed the buildings that were owned by municipalities or for-profit housing organizations, and apartments in such buildings were provided under tenancy contracts.

German banks distinguish between a guaranteed value of the collateral (approximately, equal to 50% of the market value of the real estate) and a risky value of the collateral that exceeds the aforesaid value (zone 1b). A loan guarantee is finalized via making an entry about the loan debt in the land records, which debt encumbers the real estate. If for major upgrading works the guarantee ensuing from the land records is not sufficient (there is zone 1b), it is necessary to obtain an additional state guarantee (surety). In the East Germany sureties under the loans of “zone 1b” are provided on individual basis whenever there is a public interest in conducting major rehabilitation works and if the economic efficiency of the project is proven (in addition, the borrower must be creditworthy). Sureties are extended by dedicated banks of federal lands, in Berlin – by the Investment Berlin Bank (IBB).

A loan guarantee via land records (real estate pledge) meets the interests of not only a bank that thus ensures the loan repayment, but also the interests of a borrower, because the interest rate on such loans is lower (a bank minimizes the margin on the risk of non-payments), and the bank can offer a longer loan term due to reliable guarantees.

As the system of lending to home owners associations for the purposes of capital repairs, renovations and upgrading of apartment buildings evolves, the banks themselves create new opportunities for providing such loans.

Slovakia

A HOA can get a loan without pledging the property and without the guaranteed of the Slovak Bank for Guarantees and Development. This can be done subject to a joint warranty by the HOA members acting as natural persons, or when a fixed term deposit account (which secures the loan) is
Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support

**The Institute for Urban Economics**

**Center for Energy Efficiency (CENeF)**

**Housing Initiative for Eastern Europe (IWO)**

**Institute Byvania (The Institute of Housing)**

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**Lithuania, Latvia, Estonia**

Loans for the purposes of capital repairs, upgrading and energy saving are provided by commercial banks without the pledge of real estate and, in most cases, even without requiring a warranty issue by the owners (in Latvia owners’ warranties are required if no apartment owners association has been established). The only thing that secures the loan repayment is the current account of an association (owners association) or a managing company. Such an account is opened with the creditor bank for the loan term and is used for all payments settlement. In Latvia a bank that wants an additional guarantee can enter a provision into the loan agreement on the possibility of selling to an outside organization the right to enforce the payments for debt servicing, if the borrower fails to fulfill his duties under the loan contract.

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**Slovakia**

Guarantees backing the loans provided to associations, cooperatives and managing organizations are provide by the State Slovak Bank of Guarantees and Development (which is the only non-private bank with the authorized capital formed by state assets).

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**Lithuania, Estonia**

Special purpose guarantee agencies have been established in these countries with active participation of the state. These agencies provide guarantees to apartment owners associations and managing companies when they get loans for the purposes of capital repairs or upgrading of apartment buildings. Such guarantees can amount to 75% of the total loan value. An apartment owners association has to pay the agency for this service and the amount of payment reaches 1.2-1.1% (per annum) of the balance amount covered by the guarantee.

The main goal of guarantee agencies is to enable banks to work with associations and thus to arrive at a conclusion that risks of such lending are relatively low and can easily be assessed because they are covered by mandatory monthly payments by the owners. In the event that the decision to borrow was made by the owners themselves, the amount of monthly payments that secure the repayment of the loan is affordable to the owners (because they have fixed this amount themselves) and the payment discipline in the association is rather good, then the risks faced by banks are minimal. Experience suggests that the role of guarantee agencies in the development of the lending system is gradually diminishing: banks demand less and less such guarantees from the associations. For example, in the first years of the agency activity in Estonia it guaranteed almost 30% of loans, whereas today this figure is less than 3%.

Today banks insist on a guarantee only if the owners of premises in the building have failed to establish an association (in this case a managing organization takes a bank loan).
I.4.1.4. Subsidizing interest rates on the loans made by commercial banks for the purposes of capital repairs and upgrading of housing

The goal of such support rendered to housing owners is to reduce the cost of loans provided by commercial banks for the purposes of upgrading and capital repairs of residential buildings.

| Slovakia | In late 1990s – early 2000s the state and individual municipalities (Bratislava, Kositse, etc.) provided subsidies to reduce the interest rate on the loans provided for the purposes of capital repairs and upgrading of buildings in historic neighborhoods that are a national asset. |
| Estonia | Every year the municipality of the city of Tallinn subsidizes interest rates on the loans made by the bank that wins a special open competition. |

Conclusions:

Successful experience of Central European and Baltic countries can be useful for Russia with regard to:

- Measures to provide for availability of banking products for residential property owners in the financial market (loans to housing owners for capital repairs and upgrading of apartment buildings);
- Solution to the problem of loan security;
- Measures to reduce the risks faced by commercial banks when giving loans to homeowners’ associations;
- Measures to enhance affordability of loans made by commercial banks for homeowners.

I.4.2. SOURCES OF BORROWED FUNDS IN THE FINANCIAL MARKET TO FUND CAPITAL REPAIRS OF APARTMENT BUILDINGS IN RUSSIA

It seems most realistic in the near future to raise funds from the banks for capital repairs and energy-efficient upgrading of apartment buildings in Russia (as reviewed below). Such financial institutions as pension and investment funds may hardly be considered as potential sources of capital for the said purposes.

I.4.2.1. Pension funds

Pension funds in the Russian Federation may not serve as a source of funds available for investments into energy-efficient upgrading of the housing stock due to limitations imposed by the current legislation.
Targets of investments both for the Pension Fund of the Russian Federation and for private pension funds\textsuperscript{11} are limited by law: pension savings may only be invested in assets allowed for investment of pension savings as per Federal Law № 111-FZ dated July 24, 2002 "On investment of funds to finance the funded component of the retirement pension in the Russian Federation".

The Law "On investment of funds to finance the funded component of the retirement pension in the Russian Federation" (Art. 26), in turn,\textsuperscript{12} contains an exhaustive list of assets in which pension accruals may be invested. The permitted assets include:

- securities of the Russian Federation and some international financial institutions; stocks;
- bonds, stocks and mortgage-backed securities of Russian issuers that are traded in organized securities markets and match the criteria established by a respective federal executive agency;
- common stock of index investment funds which allocate funds in public securities of foreign states;
- as well as monetary assets, currency and deposits on accounts with lending institutions.

The said Law (Art. 26, Part 2) contains express prohibition on investing pension savings in other facilities not expressly indicated in the above mentioned list.

It is stipulated by the legislation that pension savings may be invested only if the principles of assets reliability, safeguard of assets, profitability and liquidity of investment portfolios and disclosure and transparency of information as well as the principles of professional investments management are observed (Law "On private pension funds", Art. 24, Part 1). Consequently, investments of pension savings even in legally permitted assets are possible only if the said assets meet a number of additionally imposed legal requirements (Art. 24, Part 4). Besides, the Government of the Russian Federation may impose additional restrictions on investment of pension savings in particular classes of assets permitted by law (Art. 24, Part 6).

Consequently, pension funds are not permitted to make direct investments in capital repairs of buildings as well as to grant loans; they are permitted to merely purchase securities. It should be taken into account that Homeowners’ Partnerships as non-profit organizations are not permitted to issue securities and management companies are normally not in the position to provide sufficient backing for emission of securities\textsuperscript{13} which could be placed to raise funds for investments in capital repairs of buildings.

Therefore, pension funds can not be regarded as a source of funds for investments in capital repairs.

\textbf{I.4.2.2. Investment funds}

Currently, the resources of investment funds are practically not available for investments in energy-efficient upgrading of the housing stock.

\textsuperscript{11} Federal Law No. 75-FZ dated May 7, 1998 "On private pension funds", Art. 24, Par. 2
\textsuperscript{12} Federal Law № 111-FZ dated July 24, 2002 "On investment of funds to finance the funded component of the retirement pension in the Russian Federation";
\textsuperscript{13} Management companies incorporated as open joint stock companies are permitted to issue shares which value may not exceed the amount of authorized capital.
According to various estimates, there are\textsuperscript{14} from 70 to 125 investment funds in the Russian Federation. The main players in the investments market are major foreign entities, including Baring Vostok Capital Partners, AIG-Brunswick Millennium fund, USA-Russia Investment Fund (Delta Capital Management), Russia Partners Management LLC, Sputnik Technology Ventures and others.

Most of the above mentioned investment funds are interested in major projects in Russia (in the order of € 5-8 million) producing a return of not less than 15-25\%. There are smaller investment funds which are ready to invest amounts exceeding € 0.25 million, but according to experts evaluation\textsuperscript{15}, Russian business projects related to construction and operation of real estate are traditionally unattractive to all investment funds due to "low yield and problems exiting projects upon expiration of the investment period, despite low riskiness of projects"\textsuperscript{16}.

\textbf{I.4.2.3. Banks}

Bank loans may be considered a most realistic instrument to raise funds in the Russian capital market for the purpose of capital repairs and energy-efficient upgrading of apartment buildings.

The Russian Federation has a quite advanced banking system: 69 of 100 largest banks in the C.I.S. are located in Russia\textsuperscript{17}. As of 7/10/2011, according to data from the Bank of Russia\textsuperscript{18}, there were 1,123 lending institutions in the country, including 1,063 banks and 60 non-bank lending institutions.

According to the information supplied by the Russian Information Agency Novosty\textsuperscript{19} as of September 1, 2011, the aggregate loan portfolio of the Russian banks amounted to 25.3 trillion Rubles as a result of a positive momentum; this being the case, the amount of loans extended both to legal entities (non-lending institutions) and individuals is increasing.

It ought to be noted that the concentration of loans in the Russian banking system is at a high level. Over 50\% of the total amount of loans were provided by five largest banks. 50 largest banks accounted for almost 84\% of all loans provided in the country. Meanwhile, 90\% of all loans are accounted for the top hundred banks.

Over a number of years the Russian banks have been servicing individuals providing short-term consumer loans and long-term mortgage loans. 621 (58\%) of all Russian lending institutions provide residential mortgage loans\textsuperscript{20}. In 2010, such loans in the amount of 276.1 billion Rubles were provided by the top ten banks having the most extensive mortgage loan portfolio.

Based on this, a conclusion may be drawn that \textit{on the whole most of the Russian banks are experienced in providing long-term loans repaid by individuals. This can mean that in dealing with the issue of security for loans provided for the purpose of capital repairs and energy-efficient upgrading of common property in apartment buildings and the issue of establishing enforcement actions against defaulters under such loans, the experiences in disbursement and repayment of mortgage loans can be applied when working out new types of lending activities}.  

\textsuperscript{15} "Investment funds: Who puts up purse?" M. Zouyeva, - Securities Market Magazine.
\textsuperscript{16} See in place cited.
\textsuperscript{17}\url{http://ria.ru/research_rating/20110711/399970542.html}
\textsuperscript{18}\url{http://www.cbr.ru/analytics/bank_system/}
\textsuperscript{19}\url{http://ria.ru/research_rating/20110921/44069177.html}
\textsuperscript{20}\url{http://www.rusipoteka.ru/marketing/01/opusanie/}
As for the loans currently provided by banks for legal entities, such loans are mainly intended to business development. The results of an enquiry among executives of financial institutions (commercial banks, investment companies, investment banks and investment branches of full-service banks) conducted annually by the experts of BDO Group in Russia revealed that banks and other financial institutions mostly prefer to finance trade, energy industry and mass consumer goods manufacturing. The said preferences, according to BDO data, remain unchanged over a number of years. Debt financing for entities from the housing and utilities sector also has been ranking last (15th place) in the rating of preferences of commercial banks and other financial institutions.

In this connection, 66% of banks prefer to grant loans for medium-sized businesses (with annual operating revenues of € 8-80 million), the rest being almost equally shared by small business (operating revenues up to € 8 million p.a.) and big business (operating revenues exceeding € 80 million p.a.) financing. More than half of the respondent executives of financial institutions consider it preferable to finance projects with a budget up to € 8 million, in which case 67% pointed out that equity capital requirements for a borrower/investee should amount to 20-30% of the project costs.

Financial status of a company, financial forecasts, availability of a security and the situation in the respective market sector are heading the list of requirements of commercial banks to investees. In addition, a transparent organisational structure of a legal entity, the availability of guarantees, a management and accounting system are among top ten requirements.

Preferences of the banks with regard to time periods for which financing is predominantly provided seem critical: 77% of the respondent executives of financial institutions prefer to provide loans for a period from 1 to 5 years with such loans being considered medium-term loans. Long-term financing (5 years and more) is made available by only 2% of banks and financial institutions.

Consequently, Russian banks are currently focused on granting medium-term (from 1 year to 5 years) loans in an amount of up to € 8 million for the development of medium-sized businesses in the sectors of trade, energy industry and mass consumer goods manufacturing. The most important requirements to a borrower are financial stability of a corporate borrower and the availability of a collateral.

Financing of entities carrying out management of apartment buildings (Homeowners' Partnerships and management companies) for the purposes of energy efficiency enhancement of buildings has not been in the area of interest of the commercial banks in Russia up until now.

The following can be named among the reasons for the lack of interest on the part of the banks in extension of loans for the purposes of capital repairs and energy-efficient upgrading of the housing stock:

- lack (on the part of Homeowners' Partnerships\textsuperscript{22}) or insufficiency (on the part of management companies\textsuperscript{23}) of marketable collateral to secure loans;

- unreliability of a Homeowners' Partnership as a borrower due to the possibility of liquidation in case the number of owners who are members of a given Homeowners' Partnership is reducing and the number of member votes in a Homeowners' Partnership becomes less than 50\% of the total votes of residential property owners in an apartment building\textsuperscript{24} and in case the owners are not liable for obligations of a Homeowners' Partnership towards a bank\textsuperscript{25};

- riskiness of loan services for "a group of residential property owners" due to doubts about a 100\%-repayment of the respective loan portion by each of the owners;

- lack of credit history in a Homeowners' Partnership and in management companies, as a rule;

- lack of sustainable demand for loans for the purposes of capital repairs and upgrading of apartment buildings.

At the same time, if a possibility emerges to mitigate the risks associated with loan services for owners designated for capital repairs and upgrading of apartment buildings, the banks show greater interest in extension of such loans. Currently, there are scattered examples for extension of such loans in Russia.

For example, Center-Invest Bank in the town of Rostov-on-Don is implementing an energy efficiency enhancement program in the housing and utilities sector in the South of Russia with the financial support of the International Financial Corporation (IFC). As part of this program, the Center-Invest Bank provided loans in 2009-2010 to at least one Homeowners' Partnership and one management company in the Rostov Oblast for the implementation of energy efficiency enhancement measures in apartment buildings. Raising of funds from an international financial institution allowed to make the conditions of these loans affordable for residential property owners; however, the loan security applied in this particular case (a guarantee by the board members of the Homeowners' Partnership) may hardly be replicated.

In 2009, the Moscow Housing Finance Bank proposed a loan product for Homeowners' Partnerships for upgrading (capital repairs) of apartment buildings; however, very high interest rates proposed by the bank made such a loan unattractive for the Homeowners' Partnerships. The bank extended just one loan of this kind; however, the works financed by this loan did not include resource-saving measures and the amount of the loan was commensurate with a two-month payment for maintenance and reconditioning of the common property in this particular apartment building.

\textsuperscript{22} Despite the fact that in compliance with the Housing Code (Art. 151) a Homeowners' Partnership may own real estate property which can be pledged as a collateral, a Homeowners' Partnership has no opportunity to purchase such real estate property. At the moment of incorporation of Homeowners' Partnerships the entire residential space in apartment buildings already belongs to residential property owners (individuals or legal entities) or is jointly shared by residential property owners.

\textsuperscript{23} In accordance with Federal Law "On Limited Liability Companies" No. 14-FZ dated 08/02/1998 (Art. 14, Part 1) the minimum amount of registered capital of a LLC is 10,000 Rubles.

\textsuperscript{24} Housing Code, Art. 141, Part 2.

\textsuperscript{25} Housing Code, Art. 135, Part 6.
Conclusions

- Out of all the financial institutions acting at Russian financial market, it seems most realistic in the near future to raise funds from the banks for capital repairs and energy-efficient upgrading of apartment buildings in Russia.

- On the whole most of the Russian banks are experienced in providing long-term loans repaid by individuals. This can mean that in dealing with the issue of security for loans provided for the purpose of capital repairs and energy-efficient upgrading of common property in apartment buildings and the issue of establishing enforcement actions against defaulters under such loans, the experiences in disbursement and repayment of mortgage loans can be applied when working out new types of lending activities.

- Financing of entities carrying out management of apartment buildings (Homeowners' Partnerships and management companies) for the purposes of energy efficiency enhancement of buildings has not been in the area of interest of the commercial banks in Russia up until now.

- There is the first positive practice of commercial credits given by Russian banks for financing of energy-efficient repairs in apartment buildings

I.4.3. DEMAND FOR LONG-TERM LOANS

Currently, neither owners nor the management companies are overwhelmingly in the position to implement measures aimed at energy efficiency enhancement of apartment buildings from own funds only. In this regard, the affordability of borrowed funds for capital repairs and upgrading of apartment buildings is of great importance.

However, the demand for long-term loans of commercial banks or loans of other financial institutions for the purposes of capital repairs and upgrading of apartment buildings on the part of residential property owners, management companies or energy service companies has been practically unformed up to the present moment in Russia.

I.4.3.1. Residential property owners and Homeowners' Partnerships

The main obstacle for residential property owners to turn for a long-term loan is that payments for the maintenance and reconditioning of common property will inevitably have to be increased to repay the loan due to high interest rates. High interest rates, in turn, result, first of all, from a high level of inflation in the country and, as a consequence, from high refinance rates established by the Bank of Russia. Secondly, the fact that loan services for Homeowners' Partnerships and even for management companies are associated with high risks due to the lack of liquid collaterals and loan guarantees and to unstable legal status of Homeowners' Partnerships (optional membership in a Homeowners' Partnership and, as a result, possibility of liquidation of a Homeowners' Partnership practically at any time) has an impact on the interest rates.

Besides, regulatory requirements imposed by the Russian legislation as to enforcement actions against residential property owners who have outstanding payments for the maintenance and
reconditioning of common property do not make Homeowners' Partnerships confident that they will be reimbursed for owners' payment arrears related to capital repairs.

At the same time, there is plenty of examples in Russian towns of how Homeowners' Partnerships implement relatively low-cost energy-saving projects in apartment buildings they manage yet effecting a noticeable saving on utility costs. As a rule, such projects are financed using funds collected by owners on the account of a Homeowners' Partnership. Recently, examples of comprehensive capital repairs with implementation of energy-efficient upgrading of buildings using budgetary subsidies are encountered.

**Consequently, the Homeowners' Partnerships demonstrate their interest and willingness to implement energy-saving projects** which result in reduction of utility costs of a homeowners' partnership and, therefore, in decrease of owners' utility payments. The possibility that unsecured and cheap loans for Homeowners' Partnerships may be offered can spur the interest of owners in implementation of energy efficiency enhancement projects for apartment buildings.

### I.4.3.2. Management companies

Up to the present moment the management companies were not interested in raising loans for upgrading of apartment buildings because they did not regard this kind of activity as a beneficial and necessary part of their job.

This is primarily accounted for instability of the position of management companies under current legislative conditions. The term of a contract for management of an apartment building may not exceed 5 years, according to the Housing Code. It is a too short period for capital-intensive energy-saving measures within which investments in energy efficiency may not pay back. Besides, the method of management of an apartment building may be changed at any time by resolution of the general meeting of residential property owners and the management contract concluded with a management company may be canceled (or not prolonged for a new term). Apart from this, management companies normally don't have a sufficient collateral allowing to raise low-interest loans.

In order to make express demand for loans to finance capital repairs and energy efficiency enhancement of apartment buildings appear on the part of management companies, it is necessary to:

- establish a possibility for conclusion of long-term contracts for management of apartment buildings in case of implementation of energy-saving projects;
- establish regulatory measures to levy execution on the property of owners who have outstanding payments (arrears) for the maintenance and reconditioning (including capital repairs) of common property similar to recovery proceedings against property financed by a bank loan and pledged as a security for repayment of such a loan.

In addition, the management companies will have to learn to build up their relationship with clients, i.e. residential property owners, in such a manner that the latter make decisions on capital repairs and entrust management companies with raising loans in the financial market for project implementation and repay their debts to banks in good faith.

### I.4.3.3. Energy service companies

Another possibility to raise funds from the financial market into the housing sector is to conclude contracts for implementation of energy-saving measures with energy service companies. In such
In a case, it ought to be noted that the relationships with energy service companies presupposing payback of investments made by ESCOs based on energy cost savings just start to evolve in Russia at the present time.

The essence of an energy service (performance) contract is that an ESCO invests own or borrowed funds in implementation of energy-saving measures and then gets the invested funds repaid over the term of contract with a certain rate of return based on energy efficiency enhancement which is normally expressed in reduction of consumption of energy resources.

A possibility to obtain bank loans for implementation of energy service contracts is an important precondition for feasibility of such contracts and energy service companies operating in the Russian market could form a certain demand for long-term loans. The most probable borrowers are major energy service companies having sufficient backing which allows to have access to resources of banks and other financial institutions. Such entities are normally interested in major projects involving implementation of the same measures in a great number of facilities of one owner. In the housing sector it is hard to suggest energy-saving projects in big clusters of apartment buildings: Each apartment building is a separate object of management with regard to which decisions are made by residential property owners in this building only. Consequently, an energy service contract will be concluded for rendering of services and execution of works relating to just one building and the price of such a contract will be relatively low. It means that loan amounts will be small, too, whereas costs of bank expert examination of the project and the borrower will make a considerable portion of the loan amount.

Conclusions:

- Consequently, shaping of demand for long-term borrowed funds raised in the financial market for the purposes of capital repairs and energy-efficient upgrading of apartment buildings on the part of residential property owners, managing entities and energy service companies in Russia is complicated by the complexity of obtaining and by high cost of loans as well as by a number of legislative and institutional barriers impeding the development of self-management of owners and management of apartment buildings as a business.

- At the same time, the Homeowners' Partnerships and management companies as well as energy service companies are willing to implement energy-saving projects resulting in reduction of utility costs for an apartment building and the achieved savings may be used to meet the loan repayment obligations.

- The existence of targeted bank lending products for energy-saving projects of capital repairs and reconstruction of apartment buildings which could be provided without pledge of property at relatively low interest rates stimulates growing demand for loans on the part of Homeowners' Partnerships and management companies as well as energy service companies.
I.4.4. POSSIBLE MECHANISMS FOR RAISING BORROWED FUNDS FOR CAPITAL REPAIRS AND ENERGY EFFICIENCY ENHANCEMENT OF A BUILDING IN RUSSIA

I.4.4.1. Analysis of the proposed models for financing capital repairs of apartment buildings with regard to possibilities of raising borrowed funds from banks and other financial institutions

Models of capital repairs financing described in the foregoing sections are mainly focused on the definition of a mechanism for mandatory payments from residential property owners in apartment buildings while a minor part is assigned to lending mechanisms in most of the models. Model 3 "Repairs Fund" and Model 4 "Voluntary payments" presuppose that loans should become the main source of financing capital repairs (reconstruction) of apartment buildings. In the rest of the models it is indicated that borrowed funds are raised if the accumulated funds of residential property owners are not sufficient for repairs.

I.4.4.1.1. Model 1 "Mutual Financing"

In Model 1 it is presupposed that "the procedure for application of loan funds and borrowed funds and (or) insurance to secure financing of expenditures associated with capital repairs of apartment buildings shall be established by law of a constituent entity of the Russian Federation." This being the case, it is not specified for whom or for what entities using loan and borrowed funds to secure financing of expenditures associated with capital repairs of apartment buildings such a procedure shall be established.

Since this model has already gained currency in a number of regions, an example shall be given of how the issue of loan financing of capital repairs in apartment buildings is dealt with at the regional level. In September 2011, the Government of the Republic of Bashkortostan, Sberbank and the Fund for the Promotion of the Housing and Utility Sector Reform concluded a framework agreement on establishment of the Regional Fund for Reconstruction and Capital Repairs of Apartment Buildings. It is presupposed in the concept for establishing the said Regional Fund that the Regional Fund may:

- raise loan funds for financing capital repairs of apartment buildings;
- grant sureties to Homeowners' Partnerships on loans raised by such partnerships;
- make temporarily surplus funds available as loans to Homeowners' Partnerships or management companies and authorized lending institutions.

Therefore, in Model 1 "Mutual Financing" raising of borrowed funds from financial institutions for capital repairs of apartment buildings is not considered a significant funding mechanism; however room is left for various loan financing packages for capital repairs of apartment buildings in which regional funds of capital repairs or Homeowners' Partnerships/ management companies may act as borrowers.

That said, none of the analyzed documents containing proposals on implementation of Model 1 includes information allowing to make a judgement on proposals for securing loans, requirements to a borrower and to a capital repairs project as well as to eventual features of a loan product and to measures of government support intended to attract commercial banks and to mitigate their risks (guarantees etc.) or to measures of government support of residential property owners obtaining a loan for capital repairs and energy efficiency enhancement of an apartment building.
I.4.4.1.2. Model 2 "Trust Management"

In is presupposed in Model 2 that "in case funds accumulated from charges for capital repairs are insufficient for financing capital repairs a trustee is entitled, on behalf and on account of residential property owners, to raise credits and loans for capital repairs financing on the instructions contained in the resolution on carrying out capital repairs adopted by the general meeting of residential property owners in an apartment building or by a public authority of a constituent entity of the Russian Federation.

It is established in the said draft federal law that a constituent entity of the Russian Federation shall approve a regional program of financing capital repairs of apartment buildings for a period of not less than 5 and not more than 10 years which involves, among other things, granting of loans from the regional fund for financing capital repairs established by a constituent entity of the Russian Federation (The loans must be repaid by residential property owners of an apartment building prior to completion of the regional program.).

In such a manner, this model provides for possible raising of bank loans and borrowed funds from the regional fund for financing capital repairs, however marginal importance is attached to this option as a "fallback measure" in case funds accumulated from residential property owners are insufficient. Model 2 "Trust Management" also specifies possible loan facilities and measures for involving banks and other financial institutions, just as Model 1.

I.4.4.1.3. Model 3 "Building repairs fund"

Model 3 allows for financing of capital repairs based on a combination of equity funds accumulated in the building repairs fund and raised borrowed funds (a loan from a commercial bank). In such a case, borrowed funds, i.e. loans from commercial banks are the main funding source in terms of volume in the framework of this model.

According to this model, "own funds of residential property owners should be accumulated in the building repairs fund for a time (preferably from 2 to 5 years) to finance a certain portion of costs (e.g. not less than 10-20%) of comprehensive capital repairs (reconstruction) of an apartment building on this basis." This is determined by the fact that, as specified in Section I.4.1., commercial banks in Russia require that a borrower participates in financing of projects with own funds (normally 20-30% of project costs).

In that case the intention behind accumulation of funds is not only to accumulate a significant part of funds necessary to obtain a loan but also to demonstrate to the lending bank the ability of residential property owners in an apartment building to make certain monthly payments to the building repairs fund on the basis of which payments the loan will subsequently be repaid. Besides, it is presupposed in Model 3 that the resources in a building repairs fund can be used for repayment of credits (loans) obtained for financing of capital repairs (reconstruction) of an apartment building as well as for loan servicing.

The following is stipulated in Model 3 as key features of financing of capital repairs and energy efficiency enhancement of apartment buildings:

- A Homeowners' Partnership or a management company acting on the basis of a resolution of the general meeting of residential property owners in an apartment building function as a loan debtor;
• Funds accumulated in the building repairs fund and obligations of residential property owners as to charges for capital repairs payable into the building repairs fund in the amount necessary to secure loan repayment (future monthly cash flow into the building repairs fund) are deemed a security for the loan;

• As an additional security for the loan, at the request of the bank, a security furnished by the regional guarantee agency established by a constituent entity of the Russian Federation for this purpose is considered; Such securities are furnished by a guarantee agency for Homeowners' Partnerships and management companies on a fee paid basis for obtaining a loan from a commercial bank for capital repairs of apartment buildings and enhancement of their energy efficiency.

It is presupposed in Model 3 that a guarantee agency must be authorized to work out requirements to a borrower as well as requirements to a capital repairs project for furnishing a security in order to mitigate lending risks; Also suggestions are contained with regard to minimum requirements to a borrower relating to financial discipline of residential property owners in an apartment building.

In order to secure fulfillment of loan repayment obligations by residential property owners it is proposed in Model 3 to legislatively establish such liability measures for residential property owners in case of untimely or incomplete payments as the right of a creditor (Homeowners' Partnership or a management company) to register mortgage on residential property of an owner in the registry of immovable property (Uniform State Register of Immovable Property Rights and Transactions) (as a result, sale of this property without settlement of debts will not be possible) and to levy execution, due to debts, upon owner's residential property even if such property is the single place of owner's residence.

I.4.4.1.4. Model 4 "Voluntary payments"

In Model 4 detailed proposals on issues related to raising bank loans for capital repairs are contained and it is presupposed that a management company or a Homeowners' Partnership, by the decision of residential property owners:

- may act as a loan debtor;
- may be entitled to collect payments from residential property owners for loan repayment and to collect arrears of dues and payments for loan settlement from careless residential property owners.

In case the borrower is a management company, residential property owners conclude a long-term management contract for a term not less than the loan repayment period.

Funds accumulated on a separate bank account are primarily used for preparation of the project and for accrual of funds for the initial instalment to obtain a loan (not less than 15-20% of capital repair costs).

To strengthen the liability of residential property owners for loan repayment it is proposed in this Model to use mechanisms allowing to take the apartment of an owner as a collateral. In case of owner's repudiation a Homeowners' Partnership is entitled to hold open auctions to sell real property and to recover the accrued debts of an owner.
In order to establish mechanisms of commercial loan services to finance capital repairs Model 4 "Voluntary payments" suggests the necessity to establish:

- "a banking product which allows to credit Homeowners' Partnerships or management companies against future cash flows;
- a system of partial fee-based (commercial) guarantees on loans for capital repairs secured on the common property in an apartment building against the right to claim utility payments;
- a public system for furnishing of guarantees for private banks in case of implementation of a certain catalogue of capital repair items and (or) energy-saving measures with a long payback period and (or) for certain groups of buildings";

One of the proposed measures is also the exemption of commercial banks from the necessity to accumulate reserves in the Central Bank on unsecured loans extended for the purpose of financing of capital repairs of apartment buildings.

I.4.4.1.5. Model 5 "Depreciation charges"

Model 5 is based on mandatory payments from residential property owners and, just as Model 1, does not practically deal with the issues of raising borrowed funds for financing capital repairs and upgrading of apartment buildings merely letting in a hypothetic possibility of raising loans.

This possibility is described as a possibility "to reckon on relatively cheap funding from Russian banks and raising extra-budgetary funds for the housing sector against pledging of new securities or against guarantees or sureties granted by a financial institution to be established or against obligations of associations of entities managing apartment buildings" and is expressed in the following provisions:

- Depreciation charges received from residential property owners by the holder of common property in an apartment building (holder of the books) are mandatorily used for the purchase of securities issued by the Fund for the Support of Residential Property Owners (which is formed as a result of reorganization of Fund for the Promotion of the Housing and Utility Sector Reform) and these securities, in turn, "may be sold or may become a collateral when raising a bank loan for repairs of the common property in an apartment building an for energy efficiency enhancement of such a building."
- The financial institution under formation, i.e. the Fund for the Support of Residential Property Owners will be able or be obliged (it is not clear from the analyzed documents) to furnish guarantees or sureties on loans for repairs and reconditioning of the common property in apartment buildings.

I.4.4.2. Approaches to solutions of key issues related to loan services for projects of capital repairs and upgrading of apartment buildings

Hereinafter approaches to currently arising key questions with regard to the mechanism of loan services for capital repairs and upgrading of apartment buildings in the proposed Models (see Table 3, Annex 8) are considered.
I.4.4.2.1. Who makes decisions on raising a loan?

Model 1 "Mutual Financing" and Model 5 "Depreciation Charges" do not suggest any solution to the issues as to who shall make the decisions on raising borrowed funds for carrying out capital repairs in apartment buildings. It is presupposed in all other models that such a decision should be made by residential property owners in an apartment building.

In all descriptions of Models 2, 3, and 4 it is indicated that such a decision is made at a general meeting of residential property owners in apartment buildings by a majority of votes (the quorum for decision-making shall be established by law).

This corresponds to practices accepted in the countries of Central Europe and in the Baltic States described in Section I.4.1. and appears to be absolutely correct because the responsibility for repayment of loan debts will lie exactly with the residential property owners.

I.4.4.2.2. Who is the borrower?

Only Model 5 "Depreciation Charges" does not contain direct indications as to who may act as a borrower for debt financing of capital repair projects. Three of five Models, i.e. Model 1 "Mutual Financing" Model 3 "Building Repairs Fund" and Model 4 "Voluntary payments" presuppose that loans are provided to a Homeowners' Partnership or a management company. However, in the last two models it is specified that a management company may act as a borrower for a capital repairs loan if so instructed by residential property owners.

This proposal corresponds to best international practices: In most of the countries of Central Europe and in the Baltic States the major part of loans for capital repairs and upgrading of apartment buildings is provided to associations of residential property owners. In order to implement this proposal under Russian conditions it is necessary to legislatively settle the issue of stability of a Homeowners' Partnership since the current stipulations of the Housing Code relating to optional membership in a Homeowners' Partnership and to the possibility of its liquidation in case of a critical decrease in number of members of this entity or in case of alteration of the method of management by owners' decision turn a Homeowners' Partnership into an unreliable borrower. Model 3 “Fund for Building Repairs” suggests to introduce changes in legislation in order to secure durability of homeowners’ association which goes on repaying a loan before the loan is paid off.

As for the management companies, their reliability as a borrower under a long-term loan is also currently placed in doubt by the banks since the term of a management contract does not exceed five years and, in addition, a contract with residential property owners may be terminated earlier, if the owners decide to change the method of management. Being deprived of payments from owners, a management company may repay a loan only out of its registered capital the amount of which may not exceed 10,000 Rubles. Therefore, to provide an opportunity for the management companies to act as a qualified borrower under long-term loans for capital repairs of apartment buildings it will also be necessary to establish regulatory measures to provide for greater stability of borrowing management companies in contractual relationships with the owners. Only Model 4 “Voluntary payments” includes suggestions on how to solve this issue.

Theoretically, each of the residential property owners may apply to a bank for a loan to finance his portion of costs associated with capital repairs of the building (such an experience exists in some countries). In such a case, the bank will consider each of the residential property owners as a borrower which entails more time for collection and evaluation of documents both for...
residential property owners and for the bank whereas a loan may be denied for part of the owners. An association of residential property owners currently existing in apartment buildings can not be actually considered as a borrower by a bank. Even if all residential property owners would be considered as co-borrowers under a loan, for a bank it would rank with providing a separate loan for each particular owner. Therefore, the proposal described in Models 1, 3 and 4 stipulating that a legal entity should be the borrower under a loan may be considered as the most reasonable one.

Model 1 "Mutual Financing" also allows for the regional capital repairs fund to act as a borrower of funds for capital repairs. It can be assumed that a regional fund would need additional money, if the resources collected by owners in the said fund turn out insufficient at any moment to cover the commitments of the fund as to capital repairs financing for the buildings in which the regulatory established deadline for capital repairs becomes due and in which the residential property owners (participating in the system of voluntary mutual financing) have made the decision to carry out capital repairs. Since a regional capital repairs fund does not dispose of other sources to replenish the funds except for payments from owners, the fund will have to repay the loan (with interest payment) using payments from owners. This will entail the necessity for the local authorities to sharply increase the amount of mandatory payments which may cause social unrest. A situation where regional funds have to apply for loans given insufficiency of funds and the lack of other sources of replenishment makes the system extremely unstable.

Model 2 "Trust Management" presupposes that a trustee acts as a loan borrower raising credits and loans "on behalf and for account of residential property owners in an apartment building".

It ought to be noted that this proposal is inconsistent with the current civil legislation. Firstly, the Civil Code reads that a trustee acts in his own name26 and not on behalf of the proxy giver, however in the interest of the latter. Secondly, only a lending institution is entitled to manage funds from residential property owners27.

It appears from this that Model 2 "Trust Management" requires refinement. Otherwise the implementation of this model in the existing wording will require revision of the Civil Code and the banking legislation in order to prevent, among other things, the occurrence of a conflict of interests which will probably emerge, if a lending institution (bank) acting as a trustee will take out a loan on behalf of the owners from itself.

1.4.4.2.3. Security for a loan

Loan security is one of the most important issues on which solution the affordability of capital repair loans for Homeowners' Partnerships and management companies mainly depends. As the experience of other countries reveals, repairs and energy saving in apartment buildings are put into practice as soon as residential property owners represented by their associations get a chance to take loans without a pledge of real property, since the Homeowners' Partnerships do not own real property and the apartment owners are not willing to pledge their residential property. The possibility to take loans against future payment flows and/or against guarantees by third party

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26 Civil Code of the Russian Federation, Art. 1012, Part 3
entities has encouraged energy-efficient repairs in Slovakia, Estonia, Hungary and other countries.

Model 1 "Mutual Financing" and Model 2 "Trust Management" analyzed in this report do not offer a solution to this problem.

It is proposed in Model 5 "Depreciation Charges" that securities issued by the Fund for the Support of Residential Property Owners (to be established as a result of reorganization of the Fund for the Promotion of the Housing and Utility Sector Reform) should be used as a security of bank loans extended for common property repairs in apartment buildings and for energy efficiency enhancement of such buildings. It is currently unclear what liquidity such securities will possess, since it is not indicated in this model what such securities will be backed with. Therefore, the affordability of loans against securities of the Fund for the Support of Residential Property Owners is questionable.

Model 3 "Building Repairs Fund" and Model 4 "Voluntary payments" suggest solutions based on best international practices, i.e. extension of loans without the pledge of real property secured on future payment flows from owners into a building repairs fund (Model 3) or payments specially designated for loan repayment and loan servicing (Model 4).

In the first instance (Model 3) the existence of an already formed or a being-formed building repairs fund will serve for the lending bank as a conformation that residential property owners are able to make their monthly payments in the established amount and that they will be reliable borrowers under a loan.

However, it ought to be noted that due to the fact that funds on accounts of legal entities may not be a subject of pledge (this is prohibited by a Decree of the Supreme Arbitration Court of the Russian Federation) and future payments are not considered in the banking legislation as a security for loans, a loan provided by a bank to a Homeowners' Partnership or a management company without pledge of real property or securities will be deemed an unsecured loan. This entails the necessity for commercial banks to make reserves in the Central Bank on unsecured loans and, respectively, to raise the interest rates. Therefore, Model 4 "Voluntary payments" suggests the necessity of making amendments to the rules of the Central Bank of RF in order to dispense commercial banks with the necessity of making reserves in the Central Bank on unsecured loans provided for financing of capital repairs of apartment buildings.

Also Model 3 and Model 4 presuppose that sureties by third parties (agencies) may be used as an additional security for loans.

It is proposed in Model 3 "Building Repairs Fund" that the constituent entities of the Russian Federation may establish regional guarantee agencies which will grant sureties to Homeowners' Partnerships and management companies on a fee paid basis for obtaining loans from commercial banks for capital repairs of apartment buildings and enhancement of their energy efficiency.

- Model 4 "Voluntary payments" suggests the necessity of establishing a system of partial fee-based (commercial) guarantees on loans for capital repairs "secured on the common property in an apartment building against the right to claim utility payments"; The feasibility of the last suggestion seems doubtful: Firstly, receiving a guarantee for a fee and, secondly, against pledge of real property and the right to claim utility payments can hardly be attractive for residential property owners. Besides, common property in apartment buildings is not subject to foreclosure.
and, consequently, may not be pledged. If there are rooms in specie in a building which are not part of the common property but are in joint shared ownership of residential property owners, an unanimous consent of all owners is required for pledging which is unlikely achievable.

- Model 4 "Voluntary payments" also suggests the necessity of government guarantees for commercial banks furnished for a particular catalogue of capital repair measures and (or) particular groups of buildings and (or) for implementation of very efficient energy-saving measures with a long payback period. This proposal may be efficient at the stage of pilot projects designed to attain goals strictly set by the state policy. However, to secure the really required scope of capital repairs and to implement energy efficiency enhancement projects on a permanent basis, the extension of loans for these purposes shall become a normal practice and an attractive business for commercial banks. It seems redundant to furnish government guarantees at the cost of the budget to commercial banks which gain sufficient profit out of granting of loans.

1.4.4.2.4. Requirements to a borrower

Only two of the models reviewed in the context of this analysis, i.e. Model 3 "Building Repairs Fund" and Model 4 "Voluntary payments", contain proposals on working out requirements to a borrower.

The proposals in Model 4 "Voluntary payments" are relating to requirements for accumulation (by means of payments from all owners into a special account opened by a management company or a Homeowners' Partnership) of initial funds to finance technical audit and work out a repairs project and to the initial instalment when obtaining a loan which instalment shall amount to not less than 15-20% of capital repair costs.

Model 3 "Building Repairs Fund" presupposes that the requirements to a borrower shall be established by a guarantee agency. Such requirements may include:

- The aggregate debt of residential property owners to the Homeowners' Partnership (management company) on mandatory contributions (payments) must not exceed 10% of the amount of monthly average accounts payable for the last 6 months (or for the past year);
- The amount of money in a building repairs fund prior to application for a loan or a guarantee must be not less than 10% of capital repair costs;
- eventual additional requirements as to a non-expendable balance in the building repairs fund in the amount of three monthly loan payments);
- The amount which is paid by residential property owners into the building repairs fund shall exceed monthly loan payments by no less than 15% (as of the month of concluding the credit facility agreement, by latest).

These proposals are based on the experience gained in other countries of Europe, particularly in Estonia, Latvia, Slovakia, Poland and Hungary. In these countries the requirements to a borrower are normally worked out at the initial stage by government institutions or by the institutions authorized by the state (e.g. a guarantee agency) in order to support commercial banks in mitigation of risks associated with loans extended to the associations of residential property owners.

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28 The authors of the model refer to the present experience of Estonia and other countries of Eastern Europe
Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support for capital repairs and upgrading of buildings and are subsequently modified by the banks on the basis of lending experiences obtained.

1.4.4.2.5. Requirements for the project

In the course of definition of measures for public support of capital repairs and raising targeted loans in the countries of Central Europe and the Baltic States, essential attention was given to the ability to achieve actual energy savings in apartment buildings as a result of projects implemented by residential property owners. That is why in Slovakia, for example, the Government Fund of Housing Development is implementing a program for soft loans extension (at low interest rates) to Homeowners' Partnerships subject to achievement of 20% energy savings as a minimum (under the condition that heating energy consumption upon project completion will not exceed a rate stipulated by a special regulation). In Hungary the interest rates are subsidized up to a level of 3-4% p.a. for loans to finance projects which result in energy efficiency enhancement and using renewable sources of energy.

Banks that finance energy efficient upgrading of housing do not obligate the borrower to attain a certain level of energy saving. However, there is one common eligibility requirement – substantiation of the sources to be used for loan repayment, which sources can be either increased payments by owners, or savings through reduced consumption of utility resources.

Financing models proposed for implementation in Russia do not currently contain proposals on establishing requirements for projects of capital repairs of apartment buildings. Merely Model 3 "Building Repairs Fund" includes a proposal to vest the regional guarantee agencies under formation with the authority to work out requirements to capital repair projects, if Homeowners' Partnerships or management companies are willing to obtain a loan for financing of such projects and apply to a guarantee agency for a surety.

1.4.4.2.6. Loan term and interest rates

None of the models under review contains proposals or assumptions with regard to eventual features of a banking product, such as eventual loan term and interest rate. Although these issues directly affect affordability and attractiveness of loans for residential property owners, it appears to be fully justified at the moment that no special emphasis is put on that at this stage of development of financing models. Higher order issues are of top priority at the moment, i.e. purpose of implementation of the proposed mechanisms; establishment or refraining from establishment of mandatory payments of residential property owners; removal of legislative and institutional barriers for involvement of the banking sector into financing of capital repairs of apartment buildings.

1.4.4.2.7. Measures applied to defaulters on obligations related to loan repayment

One of the crucial points related to mitigation of banking repayment risks is establishment of regulatory measures for enforced collection of debts. Such measures are designed not only to secure receipt of the required amounts by a bank for repayment of loans provided but also to increase the liability of owners.

In such countries as Slovakia and Estonia the registration of mortgages on property of debtors is applied as an enforcement action up to settlement of debts. This measure entailing a restriction on sale of property is applied in parallel with standard procedures for collection of arrears on particular payment obligations including judicial recourse for a decision on payment of debts in
favour of the claimant. In a number of countries, e.g. Estonia, Slovakia, Poland, the legislation provides for a possibility (after standard procedures have failed to yield results) of a court decision on sale of residential property of the debtor at an open auction and awarding part of property sales proceeds to the lender in the amount necessary for debt repayment.

Two of the analyzed models of capital repairs financing proposed for implementation in Russia, i.e. Model 3 "Building Repairs Fund" and Model 4 "Voluntary payments" include enforcement actions against defaulters on obligations related to debt repayment.

Model 3 "Building Repairs Fund", based on international experiences, suggests the necessity of making amendments to the legislation of the Russian Federation as to:

- establishment of a right of the lender (a Homeowners' Partnership or a management company) to register pledge of residential property of a debtor/owner in the registry of immovable property (Uniform State Register of Immovable Property Rights and Transactions) (as a result, sale of this property without settlement of debts will not be possible),

- the possibility to levy execution, due to debts, upon owner's residential property even if such property is the single place of owner's residence.

It is proposed in Model 4 "Voluntary payments" that the following measures shall be applied in case of default in payments over 5-6 months:

- electricity and gas cutoff;

- upon application of a Homeowners' Partnership or a management company subsidies for utility payments shall be directly transferred into the account of a Homeowners' Partnership or a management company;

- Execution shall be levied upon the salary and other incomes of a debtor by a court order;

In addition, Model 4, just as the foregoing model, suggests the necessity to establish mechanisms allowing a Homeowners' Partnership to take in pledge the residential property of a debtor and to "hold auctions to sell the property (sale of an apartment without provision of housing and with deprivation of rights to the apartment reserving the right of residence)". It is suggested in this model that a right should be legislatively reserved for pensioners to make a reverse mortgage agreement with the bank (similar to life annuity).

Other models reviewed in the context of this analysis do not suggest any enforcement actions against defaulters.

I.4.4.2.8. Incentives for the banking sector to participate in lending to projects of capital repairs and energy saving in apartment buildings

Three of the models analyzed in this Section, except for Model 1 "Mutual Financing" and Model 2 "Trust Management", include, based on experiences in a number of countries of Eastern Europe, measures of government support designed to create possibilities for mitigation of risks of commercial banks related to loan services for projects of capital repairs and upgrading of apartment buildings.

The main instrument for such supporting measures, according to the said models, is state participation in establishing special-purpose organizations which mission will be to furnish guarantees on loans (Models 3, 4, 5). In Model 3 it is proposed to establish guarantee agencies at the level of constituent entities of the Russian Federation while Model 5 suggests the
establishment of the Fund for the Support of Residential Property Owners on the basis of the reorganized Fund for the Promotion of the Housing and Utility Sector Reform. Model 4 includes the establishment of a joint stock company with state participation for refinancing of loans provided by commercial banks for capital repairs by means of issuing government-guaranteed bonds, similar to a system established in the sphere of mortgage lending.

The existence of such organizations appears to be crucially important for establishing a competitive environment for debt financing of energy efficiency enhancement. The mission of such institutions shall ultimately consist in creation of a marketable banking product for debt financing of upgrading of apartment buildings. It also appears reasonable for such institutions to establish clear and executable requirements to investment projects of energy-efficient upgrading, requirements to borrowers and to carry out analysis (underwriting) of borrowers’ applications in order to form a basis for commercial banks for independent evaluation of borrowers and projects and for mitigation of risks related to such loans. In case of successful completion of this mission the demand for guarantees will no longer exist. Analogous financial institutions in Slovakia, Poland and Estonia fulfill like tasks.

Model 4 "Voluntary payments" also suggests the necessity of government guarantees for commercial banks furnished "for a particular catalogue of capital repair measures and (or) particular groups of buildings and (or) for implementation of very efficient energy-saving measures with a long payback period which necessity does not seem advisable for reasons described in Subsection I.4.4.3.3. "Security for a loan".

The main characteristics of conditions for extension of loans to residential property owners for capital repairs and energy-efficient upgrading of apartment buildings in the countries of Central Europe and in the Baltic States are described in Table 3, Annex 7.

The main approaches in the analyzed models of financing capital repairs of apartment buildings in Russia to the solution of problems related to extension of loans to residential property owners for capital repairs and energy-efficient upgrading of apartment buildings are described in Table 3, Annex 8.

Conclusions:

- Only two models of all (Model 3 "Repairs Fund" and Model 4 "Voluntary payments") presuppose that loans should become the main source of financing capital repairs (reconstruction) of apartment buildings.
- In the rest of the models it is indicated that borrowed funds are raised if the accumulated funds of residential property owners are not sufficient for repairs. The minor part is assigned to lending mechanisms in most of the models.
SECTION I.5. ADDITIONAL STATE SUPPORT NEEDS

This section focuses on possible measures of state support for carrying out capital repairs and energy efficient upgrading of apartment buildings. The section describes positive practices of the Central European and Baltic states for providing budget support and enhancing energy performance of apartment buildings.

In what follows possible options and types of state support in the context of how they should be combined with other sources of financing capital repairs, such as own funds (mandatory payments) of citizens-owners of premises and financial institutions (banks’) funds raised on the financial market are analyzed. Budget support options are assessed in the context of purposes for which the support is provided, including encouragement of owners’ initiatives, promotion of the banking sector involvement, support to low-income households, stimulation of energy saving, etc.

The proposed models of financing capital repairs of apartment buildings in Russia are described and assessed in the context of state support needs.

I.5.1. PRACTICE OF PROVIDING BUDGET SUPPORT TO OWNERS OF PREMISES FOR CAPITAL REPAIRS AND UPGRADING OF APARTMENT BUILDINGS IN THE EAST EUROPEAN AND BALTIC STATES

Target programs for capital repairs and upgrading of the housing stock exist in all East European countries – EU members. The state (municipal) support is aimed to stimulate initiatives of owners of premises and relieve a part of financial burden from their shoulders as regards keeping housing in a proper condition or improving the level of comfort in apartment buildings. This support is provided in the form of budget subsidies and/or an opportunity to get a cheap loan.

I.5.1.1. Budget support (subsidies and compensations) for financing capital repairs and upgrading of an apartment building

In a number of East European countries and Baltic states housing owners are funded from the state and/or municipal budget to finance a part of expenditures on capital repairs of their building. The support of the owners in the form of budget subsidies for capital repairs/upgrading stimulate the owners to take initiatives and decide on carrying out capital repairs, allocate own and borrowed funds to finance the repairs. Budget funds are gratuitous and non-repayable subsidies (grants) provided to co-finance expenditures on capital repairs (upgrading) or are provided in the form of compensating the owner for a certain portion of his actual expenses.

In Poland, Lithuania and Estonia, support is provided in the form of subsidies in the amount of 10-30%. In Estonia, no specific requirements to the energy efficiency level resulting from the repairs are set for providing a subsidy (10%), whereas in Poland and Lithuania targeted programs are oriented at energy efficient activities and the size of subsidies (18-20 % in Poland and 15-30 % in Lithuania) depends on the achieved level of saving the energy for heating purposes.

The following are the principles common for all surveyed countries:

Owners initiate a decision to conduct capital repairs of the building, and a general meeting of owners approves this decision;
Budget funds are allocated upon an application by the owners (or organizations authorized by them), and, as a rule, are provided through a competitive bidding;

Budget funds are allocated only on condition that a certain portion of works is co-financed by owners of premises themselves (with the help of their savings or bank loans) and only in the event of actual co-financing.

<table>
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<tr>
<th>Country</th>
<th>Description</th>
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<tbody>
<tr>
<td>Slovakia</td>
<td>Subsidies are allocated from the state budget to rectify defects in prefabricated panel apartment buildings that appeared due to faulty design solutions and violations of construction technology, if such defects appear in minimum 20% of buildings of a particular series. The maximum amount of a subsidy (depending on the type of defect) might reach 50% of the expenses incurred in the process of defect rectification (repairs), but is limited by a certain maximum amount per one apartment. A municipality, a housing construction cooperative, a HOA or the building manager – each of the aforesaid can apply for a subsidy. Subsidies are granted on condition that there is an expert opinion about the necessity of repair works, which opinion should be prepared by a competent expert, and provided that the repairs will be conducted in a manner that will obviously rectify the defect.</td>
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<tr>
<td>Hungary</td>
<td>Financial assistance is provided to HOAs and housing cooperatives from municipal budget funds via annual competitions for grants awards. When a competition is announced a municipality defines priority fields of activity to be covered by grants (e.g. renovations of the heating system, repairs on the roof, replacement of elevators, heat insulation of facades, etc.) Thus municipalities implement a well-defined technical policy. A HOA can take part in the municipal competition for grant awards and get budget funds on several occasions in the process of stage-by-stage repairs on the building. The annual program of competitions for grant awards of the city of Budapest envisages that HOAs should contribute not less than 60% of their own funds for the repairs. Another indispensable condition is that minimum three bidders should take part in the competition, as a result of which a contractor shall be selected. Budget funds are spent to pay off the very last invoice issued by the contractor upon the completion of his work.</td>
</tr>
<tr>
<td>Estonia</td>
<td>Apartment owners associations (an analogue of Russian home owners associations) submit applications, on the basis of which they get special benefits in the form of indemnifications for a part of owners’ expenses on capital repairs or upgrading that has already been completed. A benefit for repairs is intended to compensate owners for a part of their expenditures on the repairs of key structures (supporting and walling structures), and it accounts for 10% of the cost of works (but is limited by a certain maximum amount per one square meter of the total floor space of apartments). Budget funds are limited, therefore they are distributed in accordance with effective rules among apartment owners associations that have to apply in due time and must meet the conditions</td>
</tr>
</tbody>
</table>
Lithuania

A HOA can get a state grant in the amount up to 30% of the cost of a project for the housing upgrading within the framework of a government program for housing upgrading (approved in 2004), which will encourage housing owners to establish associations, renovate their houses and implement energy saving technologies. At the same time, the program “From a renovated house – to the renovated city” approved by Vilnius City Council makes it possible to supplement the state grant with the funds of the city grant (accounting for 15% of the project cost). In this case the association’s own funds should account for not less than 10% of the project cost, and the remaining sum of money can be borrowed from a bank and guaranteed by a special purpose agency. As expected, by 2020 70% of old houses in Lithuania will be renovated due to availability of various sources of financing.

I.5.1.2. Budget allowances for financing the technical expertise and energy auditing of a building

Estonia

Apartment owners associations are granted special allowances if they apply for those. Allowances are shaped as compensations for a part of owners’ expenditures on technical expertise and energy auditing of a building and account for 50% of the cost of works (although their maximum amount per one building is limited).

Latvia

The state Agency of Housing has designed a program for supporting housing owners in the process of technical expertise and energy auditing of apartment buildings. Pursuant to an energy audit conducted in accordance with approved methodology, owners receive an “energy passport” – a standard document that contains the information about energy consumption in a particular apartment building compared to the consumption in other residential buildings (and relevant energy efficiency grades are assigned). It also contains the information about key factors that influence energy consumption. Apartment owners associations in the buildings constructed before 1992 are assisted with energy auditing, provided that 75% of owners approve the decision on conducting an energy audit. In 2004-2005, energy auditing was conducted in 208 buildings in 18 cities in Latvia.

I.5.1.3. Subsidizing interest rates on the loans made by commercial banks for the purposes of capital repairs and upgrading of housing

The goal of such support rendered to housing owners is to reduce the cost of loans provided by commercial banks for the purposes of upgrading and capital repairs of residential buildings.

Slovakia

In late 1990s – early 2000s the state and individual municipalities (Bratislava, Kositse, etc.) provided subsidies to reduce the interest rate on the loans provided for the purposes of capital repairs and upgrading of buildings in historic neighborhoods that are a national asset.
I.5.1.4. Budget support to low-income households for paying expenses on capital repairs and upgrading of apartment buildings

Such a kind of support to owners of premises is aimed to make loans granted by commercial banks for capital repairs and upgrading of residential buildings more affordable to borrowers.

<table>
<thead>
<tr>
<th>Country</th>
<th>Details</th>
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<tbody>
<tr>
<td>Estonia</td>
<td>Every year the municipality of the city of Tallinn subsidizes interest rates on the loans made by the bank that wins a special open competition.</td>
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<th>Country</th>
<th>Details</th>
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<tr>
<td>Hungary</td>
<td>After amending the law on social assistance, subsidies to pay for housing maintenance and utility services are provided and also some households may receive an allowance to pay arrears of these payments in Hungary from 1&lt;sup&gt;st&lt;/sup&gt; June, 2004.</td>
</tr>
<tr>
<td>Slovakia</td>
<td>Since 2000 low-income households receive by law housing allowances (state social benefits) to pay expenses related to the use of an apartment or a single residential house (rent and utility services). The main eligibility criterion for getting a housing allowance is the fact of whether a citizen has paid rent and utility services in full. Whenever a share of household's allowable expenses on paying rent and utility services comes to the threshold value 30% of the household's income, such a household becomes eligible for housing allowance. The housing allowance is provided to a citizen, it is paid on a monthly basis upon expiry of every month and after confirmation of rent payment for the preceding month&lt;sup&gt;29&lt;/sup&gt;. Before that, there are special non-repayable subsidies for purchase or reconstruction of apartment/house; the subsidies are allocated depending on household’s income.</td>
</tr>
<tr>
<td>Lithuania</td>
<td>Special favorable conditions of crediting are established for low-income households; the state subsidizes annual interest rates right up to 6% during half of loan pay-back period (up to 10 years).</td>
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I.5.2. REVIEW OF MAIN FORMS OF STATE SUPPORT

I.5.2.1. Integration of state support in the system of financing capital repairs from other sources of funding

Legislation of various countries provides for an obligation of owners of premises in apartment buildings to ensure the safety of their common property (common equity property) and bear expenses on its rehabilitation. However, not a single legislation in any country establishes either an obligatory amount of payment for rehabilitation, or the method of financing rehabilitation. Such issues are within the scope of competence of property owners. There is only one exception – Belarus, where, according to the Resolution issued by the Council of Ministers of the Republic, “owners of residential premises, tenants, members of an organization of citizens-developers shall make obligatory monthly contributions towards rehabilitation of residential buildings equal to 100 percent of the amount of fees for technical maintenance of residential premises”. These contributions are paid from the communal and repair budgets.

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contributions are accumulated on sub-accounts of housing maintenance organizations, city (district) associations within the housing and utility sector, local executive and regulatory bodies, which sub-accounts are opened to accumulate contributions made by people for the purposes of rehabilitation of the housing stock\textsuperscript{30}.

Review of international practices of financing the rehabilitation and modernization of the multi-apartment housing stock demonstrates that housing owners use the following key methods of financing the rehabilitation/modernization:

- using the reserve fund (repair fund) of an association of owners of premises in an apartment building (association, partnership, cooperative), which fund is created during a rather prolonged period of time pursuant to a resolution issued by the general meeting for the purposes of rehabilitation;
- using one-time rather large cash contributions made by owners of premises in an apartment building for the purposes of repairs;
- using borrowings in the financial market\textsuperscript{31}.

As a rule, using the reserve fund (repair fund) of an association of owners of premises in an apartment building (a legal entity) in combination with loans is the main mechanism for financing the rehabilitation and modernization of apartment buildings applied in international practices.

In the 1990s, in the process of large-scale housing privatization, the countries of Central Europe and EECCA faced the problem of dilapidating apartment buildings and non-existent rehabilitation of those, not to mention any modernization. There were no real financial mechanisms for mobilizing funds on acceptable conditions. Due to high inflation rate, savings schemes did not work either. Moreover, not only in Russia but also many other countries, there were prolonged discussions about who should pay for the first rehabilitation of apartment buildings after they have been privatized – the old owner, i.e. the state, or new private owners.

A pressing need for funds sufficient to upgrading apartment buildings, which amount cannot be accumulated by the owners in the foreseeable future, made it necessary for the Central European states to co-finance capital repairs and upgrading of housing. In present-day Russia, capital repairs are funded mainly from the state budget as well. Considering that it is most likely that the Russian state and municipalities will not be able to keep away from co-financing capital repairs of the multi-apartment housing stock, it seems expedient to redirect measures of the state (municipal) support towards at encouraging initiatives of housing owners, creating a stable system of finance on the basis of affordable borrowings at partial reduction of financial burden on owners with regard to improving the condition of housing realty.

Thus, it seems reasonable to provide state support for funding capital repairs and upgrading of apartment buildings as follows:

- provide budget subsidies to co-finance capital repairs / upgrading;
- enhance affordability of loans.


I.5.2.2. Budget subsidies

I.5.2.2.1. Subsidies to legal entities

During 2008-2011, allocation of budget grants in Russia for the purposes of rehabilitation of apartment buildings is implemented via a dedicated state corporation – the Fund for the Promotion of the Housing and Utility Sector Reform. As a rule, the share of budget grants in the cost of rehabilitation is at 95%, and housing owners invest not less than 5% of the cost.

Meanwhile the policy of providing budget subsidies for capital repairs in the Central European countries features a variety of options, specifically:

- “stimulation” of providing subsidies that encourage launching capital repairs programs,
- target programs for subsidizing energy efficient activities (the size of subsidies depends on the amount of savings from reduced thermal energy consumption,
- special subsidies allocated for carrying out some kinds of activities, for instance energy audit or other priority works that require funding from the budget;
- subsidies to low-income citizens for paying expenses on repairs, etc.

Based on the foreign practice, one may suppose that allocation of budget funds for co-financing projects for capital repairs and upgrading of apartment buildings in the near future may appear not the least prerequisite for success.

Of great importance is that budget funds should be allocated on at maximum transparent terms and conditions, where criteria for selection of apartment buildings are clearly defined. These criteria may include, for instance, owners’ decision to borrow funds for building upgrading; project characteristics proving the complexity of building modernization activities as well as indices of energy efficiency uplift after the building upgrade; age, and technical condition of an apartment building, etc. Criteria may determine both the eligibility of apartment buildings for subsidizing and the amount of a subsidy provided.

I.5.2.2.2. Subsidies to low income citizens

All the Central European and Baltic states mentioned in this report have different programs for subsidizing low income families from the state budget. In Latvia, Lithuania, Slovakia, Poland these programs are designed to cover citizens’ expenditures for capital repairs / upgrading of their housing.

In Russia, the program for providing citizens with target subsidies to pay the expenditures for housing maintenance and utility services has been implementing since the mid-1990s. However, this subsidy does not cover expenditures for capital repairs paid by owners of premises. In the meantime, the practice proves paramount importance of providing apartment owners whose income is recognized low with target subsidies for capital repairs / upgrading of apartment buildings (including loan repayments).

In this connection, it seems advisable to take into account the practice of the Central European and Baltic states when developing programs for funding capital repairs / upgrading of apartment buildings addressed to low income households and try different options of subsidizing low income or socially vulnerable families.
I.5.2.3. Affordability of loans for capital repairs and upgrading of apartment buildings

I.5.2.3.1. Budget subsidizing of interest rates

This approach does not seem indisputable from the viewpoint of economy but it is attractive enough in the political context. Some of the Central European and Baltic states, for instance Estonia and Slovakia, applied this approach at the first stage of establishing the system of financing capital repairs and upgrading of apartment buildings through mobilization of commercial banks’ resources.

Use of this approach in Russia seems realizable at least during the pilot projects implementation.

I.5.2.3.2. Institutional measures for enhancement of loan affordability

The Central European and Baltic states ensured the affordability of loans differently.

In some cases special-purpose state financial institutions were created, which originated relatively cheap (“reduced”) loans, while in other cases stake was initially placed on market terms of lending.

However, even in the latter cases, to attract banks to the new lending sector, state institutions were established, which designed requirements to such loans and assumed, on commercial terms, risks of non-repayment of loans through extending guarantees to banks for such loans.

To promote programs for bank lending of capital repairs / upgrading of apartment buildings in Russia it is advisable to use the practice existing in some Central European and Baltic states where the state participated in establishing specialized agencies charged with providing guarantees (sureties) under loans for upgrading apartment buildings to banks-creditors in the event that investment projects that need funding and borrowers meet the agency’s eligibility criteria.

The main purpose of guarantee agencies is to form a new financial product so that afterwards it could be widely used by banks. When providing a loan guarantee, the agency demonstrates its own practice of working with homeowners partnerships to banks so as to assure the latter that risks of lending homeowners partnerships are evaluable and relatively low. In this case, loan repayment is secured by homeowners’ monthly mandatory payments. If homeowners themselves decide to raise a loan, the amount of monthly mandatory payments is sufficient to ensure loan repayment and affordable to the homeowners (as they themselves set this amount), and the payment discipline in the homeowners partnership is strict enough, bank risks are minimal.

The practice shows that sooner or later guarantee agencies begin to play a less active role in the lending system development. Banks require a progressively less amount of such guarantees as they themselves can assess project and borrowers’ eligibility. For instance, in Estonia in the first years of the KredEx Agency work it guaranteed approximately 30% of loans, whereas presently – less than 3%. Now banks require such a guarantee only if owners of premises in an apartment building did no establish a partnership (management organization applies for a loan).

Recommendations on the most acceptable and useful for Russia measures of state support are given in Section II.1. «Recommendations on optimal model of financing capital repairs and renovation of apartment buildings”.

Conclusions:
It seems reasonable to use international practices of state support for funding capital repairs and upgrading of apartment buildings with regard to:

- Provision of budget subsidies to co-finance capital repairs / upgrading;
- Enhancement of affordability of loans.

I.5.3. REVIEW OF PROPOSED MODELS OF FINANCING CAPITAL REPAIRS OF APARTMENT BUILDINGS IN THE STATE SUPPORT CONTEXT

As described in the foregoing sections, three of the models for financing capital repairs and upgrading of apartment buildings being reviewed here, specifically Model 1 “Co-Financing”, Model 2 “Trust Management”, and Model 5 “Depreciation Charges”, are based on the mechanism of mandatory payments to be made by owners of premises in apartment buildings, whereas the two remaining models (Model 3 “Repairs Fund” and Model 4 “Voluntary payments”) offer to finance capital repairs from a combination of homeowners’ funds and borrowings.

Noteworthy that both experts, representatives of the executive power, and Russian politicians agree that the state must support homeowners for carrying out capital repairs and upgrading of apartment buildings and this practically unanimous consent is reflected in the models of financing being reviewed. All models include proposals for measures of state support but prioritize them differently.

I.5.3.1. Model 1 “Co-Finance”

This model envisages a possibility of providing budget support to homeowners partnerships (housing cooperatives) and management organizations for capital repairs of apartment buildings from the budgets of RF subjects and municipalities. It should be noted that up to now the Housing Code has defined that only local governments are responsible to provide budget funds to the aforesaid legal entities for capital repairs of apartment buildings and, consequently, attributed these measures of budget support (subsidies) to expenditure obligations of the local budgets. Thus, the proposal containing in Model 1 multiplies chances of receiving budget support by homeowners partnerships and management organizations.

Based on the principles of Model 1 “Co-Finance”, the Concept of establishing a Regional fund for renovations and capital repairs of apartment buildings in the Republic of Bashkortostan, partly described in subsection I.4.4.2.1, stipulates that:

- budgetary funds allocated from the budgets of the Russian Federation subjects and municipalities for the needs of homeowners partnerships and management organizations shall be transferred to the Regional fund for renovations and capital repairs of apartment buildings;
- authorized organization of a Russian Federation subject (capital repairs supervising agency) sets eligibility criteria for providing budget support;
- Regional fund distributes budget resources in conformity with the criteria.

Thus, it can be stated that Model 1 “Co-Finance” considers the budgetary finance of the projects for capital repairs as an additional support provided on the basis of compliance with some
criteria rather than the main source of funding. This reflects, first, a rational intention of the Russian Government to lessen a load on the budget, from which capital repairs have been financed in full up to now, and, second, the Government’s readiness to support conducting of capital repairs and upgrading of apartment buildings on a formalized competitive basis (by criteria). It should be noted that budget support in this model is provided by decision of the Russian Federation subjects (municipalities) rather than as a matter of course.

Model 1 does not contain any recommendations on the lines, terms, and criteria of providing budget support.

1.5.3.2. Model 2 “Trust Management”

According to Model 2, Russian Federation subjects approve a regional program for funding of capital repairs of apartment buildings for the period of at least five (5) but no longer than ten (10) years covering apartment buildings commissioned no later than 01.01.1993. The program “stipulates lending of owners of premises in apartment buildings” from the regional fund for financing capital repairs established in a Russian Federation subject. Meanwhile, it says that the regional program implementation schedule “may include measures for providing subsidies from the budget of the Russian Federation subject”.

Thus, Model 2 does not stipulate state support for capital repairs of apartment buildings from federal authorities. The model considers measures of budget support as an option only, leaving it to the discretion of each Russian Federation subject. The model does not contain any proposal for the lines and terms of budget support.

1.5.3.3. Model 3 “Fund for Capital Repairs of Building”

Model 3 provides for financing of capital repairs from a combination of sources; specifically from homeowners’ funds accumulated in the Fund for capital repairs of building, by raising (commercial) loans, and provision of support (subsidies) to owners of premises from the regional and local budget. When subsidies are provided, Model 3 stipulates compliance with the following principles:

- **Support of homeowners’ initiatives:** subsidies are provided only if owners of premises in apartment buildings independently took a decision to carry out capital repairs and finance it from their own and borrowed funds;
- **Support of comprehensive repairs:** subsidies are provided to finance only projects for comprehensive repairs (renovations) and enhancement of energy performance of buildings (comprehensive repairs and renovations of buildings require substantial investments and, consequently, subsidies will contribute to fundraising);
- **Support of energy efficiency:** the size of subsidies must depend on the amount of energy savings;
- **Stimulation of homeowners to finance:** the subsidy amount shall be substantial enough for owners of premises (to serve as an incentive for homeowners to make a decision on capital repairs), but not exceed homeowners’ share in financing capital repairs from own and borrowed funds;
- **Support of competition on the market:** subsidies are provided only if contractors and service providers are selected by homeowners partnerships and management organizations on a competitive basis.
Besides, Model 3 suggest extending the ongoing housing allowance program (subsidies to pay rent and utility services) by including payment for capital repairs of apartment buildings in subsidized expenses of apartment owners with low income.

I.5.3.4. Model 4 «Voluntary payments»

Model 4 proposes the substantial state support measures for apartment building owners and their associations during the capital repair and apartment buildings renovation.

The proposals include several levels of support measures to the owners and capital repair stimulus:

- **State promotion of large scale capital repair and owners support while providing capital repair financing (measures of urgent and target character that cover only certain group of buildings):**
  - providing grants for HOA and managing companies who were the first of taking capital repair loans (for example, in the amount of 15-20% of capital repair cost to cover initial owners costs),
  - providing grants to HOA and managing companies (that requested them within a limited period of time) to cover the most energy efficient measures but those who have long pay off period,
  - subsidizing the interest rates for capital repair loans,
  - tax exemption of funds spent by owners on capital repair;

- Creation of state support system for low income population for capital repair financing:
  - inclusion of capital repair expenses in a list of payments for which the state provides subsidies for apartment and utility payments;
  - providing (by HOA request (managing companies)) subsidies for initial capital repair contribution for retired persons, young families, families with many kids.
  - providing (by HOA request (managing companies)) grants for retired people, young families, families with many kids to install apartment water meters, efficient water distribution system, new windows, replacement of heating elements as well as partial payments for apartment buildings capital repair.

Besides, Model 4 «Voluntary payments» is the only model from the list of discussed ones that include the proposals for methodological and information support to HOA and managing companies (development of standards for all aspects of capital repair preparation and completion, sample forms of documentation, cost efficiency calculations including the ones required for loan applications; conduct of large scale training of HOA managers and representatives), as well as broad information distribution to population about capital repair possibilities and efficiency (brochures, television educational programs, special lessons at schools describing the necessity and possibilities of energy efficiency, environmental protection to kids and their responsibilities in this process).

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32 The Budget code mentions that budget grants are treated as subsidies to legal entities
I.5.3.5. Model 5 «Depreciation Allowances»

Model 5 envisions the necessity of the government to accept its obligations for “unfinished repairs” during the apartments privatization period taking into account that “private owners are far from fully bearing the burden of maintaining its own property». In accordance with this model the state support should provide necessary funds by the Russian Government to execute its obligations for apartment buildings capital repair and to transfer its funds into the residential owners support Fund that will be created by reorganizing the current Fund of reforming the housing and utilities infrastructure sector.

Besides, Model 5 determines that “the amount of apartment owners mandatory depreciation allowances in apartment buildings should be calculated taking into account the subsidies to low income households», therefore stressing the necessity of budget support measures to low income apartment owners. However, the Model does not propose the mechanism of providing those subsidies or any other forms of state support.

I.5.4. Methods to Key Issues Regarding Capital Repair and Apartment Buildings Renovation State Support Measures

Further, the key methods are reviewed in regards to the most currently important issues about capital repair and apartment buildings renovation state measures in the proposed models.

I.5.4.1. The Goals of State Support

The answers to the question about the goals of state support in proposed capital repair financing models are different and directly linked to the issue how detailed the described mechanism of state support in the concepts of the models.

Model 1 «Mutual financing» does not have any details of state support mechanism by just showing its possibility. The goal of support is not described other than in a general concept of the Housing code: apartment buildings capital repair budget funds can be provided “with the goal of apartment buildings maintenance”.

Model 2 also reviews budget support measures as an option that can be utilized by the decision of constituent entity of the Russian Federation and does not describe the goals of possible state support.

Model 3 «Repair Fund» determines that the goals of apartment buildings capital repair state support can be the following:

- support of residential owners initiatives;
- support of comprehensive repairs;
- support of apartment buildings energy efficiency improvement;
- encouraging the owners financial participation;
- support of competition at the market of managing housing companies.

The model 4 «Voluntary payments» has the goal among others to create the system of large scale capital repair state promotion and to create the system of state support to low income population for capital repair financing.
Model 5 «Depreciation allowances» does not propose the direct goal of state support but one can see from its concept that the goal is to compensate the current state debts for “unfinished repair” of the housing stock.

Therefore, the description of Models 3 and 4 propose the most clear goals of state support measures, also in both cases the goals are being described as incentive for better quality living standards and increasing the apartment owners responsibility in apartment buildings, and the goals have features of development and future growth. At the same time, Model 5 proposes to correct past years mistakes (per model authors opinion) in regards to housing maintenance as the goal of state participation in capital repair financing. This can hardly be characterized as a functional decision: first, up to the present moment the obligations of the former landlord (state, municipalities) are not determined and can be the subject of speculations, and second, compensation of state debts will not create the stable system of capital repair financing in the future.

I.5.4.2. Types of State Support

The proposed types of state support in described models can be generally divided into three groups:

- institutional,
- budget,
- informational.

The institutional support measures proposed in the models are related to state participation in creation of special financial institutions whose tasks will be providing loan guarantees: guarantee agencies (Model 3), joint stock company with state participation to refinance the loans provided by commercial banks for capital repair works (Model 4), and the Fund of residential owners support on the basis of reorganized Fund of housing and utilities infrastructure (Model 5). The proposed institutional support measures are described in detail in subsection I.4.4.3.8. of the current report.

The proposed budget support measures include:

- subsidies to legal entities (Models 1, 3, 4) – home owners associations and managing companies;
- subsidies to banks (Models 3, 4) to lower the interest rates for the capital repair loans;
- subsidies to population (Models 2, 3, 4, 5).

There is a more detailed description in subsection 1.5.4.3. «Recipients of support measures».

Besides, Model 4 «Voluntary payments» include proposals for the methodological and informational support of HOA and managing companies and informing the population:

- development of standards for all aspects of preparation and capital repair completion,
- development of sample forms of documentation,
- cost efficiency analysis including obtaining the banking loans;
- conduct of large scale training of HOA managers and representatives;
- massive distribution of information through brochures, television educational programs and special lessons at schools.

It is necessary to note that to ensure the large scale of repairs the introduction of all state support measures proposed by models will require substantial budget expenses. At the same time the
designated use of each type of budget support will influence the scale, schedule and stages in its provision. Thus, the subsidy to interest rate – is a measure of initial period, though the subsidies to home owners association and managing companies that are mainly related to the comprehensive repairs and reaching the target energy efficiency level most probably will be demanded on the next stages.

1.5.4.3. The Recipients of Support Funds

Speaking of capital repair budget support measures the proposed models differently approach the concept of the recipient of a such support.

Model 1 «Mutual financing» proposes providing the subsidies to home owners associations (housing cooperatives) and managing companies. At the same time as the example of Bashkiriya Regional fund conceptional creation shows this can mean that the budget funds will be directly transferred to the Regional fund rather than to associations and managing companies, and the first will distribute the above mentioned funds, - once again it is unclear to whom: to associations (managing companies) or directly to contactors. That means that Regional funds will manage all capital repair financing funds including owners accumulation funds and budget support funds.

Model 2 «Trust management» does not directly specify who is the recipient of the subsidies. However, since the Model proposes the possibility within the same regional program to provide the budget subsidies as well as loans from capital repair financing regional fund and the latter are provided to apartment owners, one can assume that the subsidies should also be provided to apartment owners. However, the program does not describe the terms and method of providing subsidies to owners.

Model 3 «Repair Fund» and Model 4 «Voluntary payments» proposes subsidies to legal entities as well as subsidies to population as budget support measures.

The main type of state support as proposed in the models is subsidies (in the concept of Model 4 – budget grants), provided to home owners associations and managing companies to co-finance capital repair expenses. Model 3 «Repair Fund» proposes that such subsidies should be provided on certain conditions – therefore, budget co-financing will promote the independence in owners decision making, the comprehensive and energy efficient repair approach, promote the competition among housing organizations. Model 4 “Voluntary payments” also proposes the terms of providing subsidies to home owners associations (managing companies). Besides the proposals similar to the Model 3 ones - providing a limited number or the amount of special subsidies (grants) to encourage those associations and managing companies that were the first to take commercial banks loans for capital repair financing.

Also, Models 3 and 4 propose the subsidy of interest rates of the loans at the cost of regional and local budget. The mechanism of using this support measure is not described in details in the models, however, from the concepts of the models that are based on international experience one can conclude that these measures are provided to commercial banks. In Model 3 description it is indicated that in order to define the amount of subsidies the additional research is needed but assumed that in current financial environment the final “discount” interest rate for the loan should not exceed more than 8%-10%.

Models 3 and 4, as well as Model 5 «Depreciation allowances» indicate the importance of such type of budget support as subsidies to low income population (families) that are apartment owners and bear the capital repair expenses. This will increase the possibility of making the
positive decisions about building renovation at the apartment owners general meetings in apartment buildings and will allow low income families to participate in financial modernization arrangements along with other apartment owners.

The program of providing targeted subsidies to population to pay for apartment fees and utility bills has been working in Russia since the middle of nineties. But this subsidy does not take into account the apartment owners expenses for capital repair. Meanwhile the practice shows that it is very important to provide targeted subsidies to low income apartment owners to cover expenses related to apartment buildings capital repair/modernization (including interest rates payments for the loans).

In this regards, Model 3 “Repair Fund” and Model 4 “Voluntary payments” propose to broaden the subsidies program for apartment fees and utility bills by including capital repair expenses including loan interest rates payments into apartment owners expenses subsidies.

Besides, Model 4 “Voluntary payments” proposes the possibility of providing subsidies to several types of socially vulnerable households: retired population, young families and families with many kids to cover the initial contribution for capital repair financing (when taking the loan) and the subsidies to install the apartment water meters, efficient water distribution devices, new windows and replacing of heating devices.

Model 5 «Depreciation allowances» also speaks about the necessity to lower the burden of expenses of low income households that is why this model assumes that the amount of apartment owners mandatory depreciation expenses in apartment buildings should be calculated taking into account housing subsidies to low income households.

1.5.4.4. The Energy Savings Incentive

Among all reviewed models only model 3 “Repair Fund” proposes the necessity of correlation between the support provided in the forms of subsidies to home owners associations and managing companies and planned energy efficiency performance growth of the apartment building. In other words, Model 3 proposes the support measures to reach certain targeted energy savings indicators that are determined by the Government of Russian Federation or constituent entities of Russian Federation.

Model 4 «Voluntary payments» has a set of proposals for government policy development in the area of energy savings and providing incentive state support to apartment owners to increase energy efficiency of apartment buildings. The proposals are directed to create conditions to introduce energy services in residential area, energy savings advocacy as well as providing the state support (grants) to implement energy efficient measures that have a long pay off period.

At the same time, the model does not have recommendations how to link the state support with targeted energy savings indicators and implementation of government policy in energy savings area.

Model 1 «Mutual financing» declares the necessity to comply with safety and energy efficient Russian legislation requirements for apartment owners and entities managing owners associations and making apartment building capital repair decisions.

Model 5 «Depreciation allowances» also declares the necessity to increase apartment buildings energy efficiency. However, state support measures within the framework of these two models
are not linked in any way with energy efficiency requirements, in other words, models do not provide energy efficiency incentives during the apartment buildings capital repair.

One can not deny the fact that apartment buildings energy efficiency is poorly reflected in the models. High Russian economy energy consumption testifies the non-efficient energy resources consumption, impact the energy safety of the country, environment and population health. The potential of decreasing energy consumption in Russia is so high that task-oriented actions in this area can result in 45% savings in full energy consumption (and correspondingly in 50% decrease in carbon dioxide emissions) as to compare to 2005. Therefore, energy efficiency investments can provide the decrease in energy consumption and satisfy the increasing demand for energy resources while making the costs three times less than investments required to build new generating capacities.

It is obvious today that it is necessary to dramatically change the situation in energy consumption area, to increase energy efficiency in the economy. Meanwhile, it is necessary first to use the potential of the energy consumption decrease in a residential fund. However, in Russia it is a shame how few energy efficient projects are utilized in the residential sector; the reason for this, first of all, is the lack of goal-oriented and consistent government policy and energy savings incentives for apartment owners in apartment buildings.

While planning budget support measures it is necessary to consider the necessity of promoting incentives for energy resources consumers and create conditions for long term energy savings projects financing in the residential sector.

I.5.4.5. Promoting Competition Among Housing and Repair and Building Companies

Model 1 «Mutual financing» and Model 5 «Depreciation allowances» do not contain any recommendations in regards to who and on what terms should choose the contractor for capital repair, inspect the quality of completed works, pay for the works. The state support measures in these models do not in any way correlate with the development of competition at the housing services market. This brings the conclusion that development of competition is not of the priority tasks of the government policy in accordance with these two models.

Three of reviewed models: Model 2 “Trust management”, Model 3 “Repair Fund” and Model 4 “Voluntary payments” touch on the issues of competition at the housing services market.

Model 2 «Trust management» proposes the legal tightening of choosing contractors who will execute the works towards apartment owners and trust manager at the basis of competition. At the same time, the model does not contain more specific proposals for competitive selection procedure. This can lead to the situation when constituent entities of Russian Federation might require at least from trust manages to use the procedures similar to current competitive selections during state purchases that in practice do not stimulate competition and can not provide the high quality of works. Meanwhile providing budget support measures to apartment owners (subsidies from the budgets of constituent entities of Russian Federation) is not linked to the competitive selection of capital repair contractors.

Model 4 «Voluntary payments» do not include proposals how to link the state support provision to HOA and managing companies with competitive selection of capital repair contractors and energy efficiency growth, as in Model 2, although in Model 4 there are proposals for providing capital repair budget support measures where apartment owners independently make capital repair decision, are prepared to ensure its completion, quality control and ensure the completion.
Only Model 3 “Repair Fund” contains the conceptual proposal to provide the budget assistance (subsidies) to home owners associations and/or managing companies in case if those who perform the works and provide services are being chosen at the alternative basis.

The question about promoting competition at the residential services area through providing state support measures is feasible from the point of efficiency and transparency of budget support and its goal towards quality improvement of housing stock.

The main features of providing loans to apartment owners for capital repair and apartment buildings energy efficient modernization in the countries of Central Europe and Baltic are described in table 4, Annex 7.

The main approaches in reviewed apartment buildings capital repair financing models in Russia for capital repair and apartment buildings energy efficient modernization loans to apartment owners are described in table 4, Annex 8.

Conclusions:

- All models include proposals for measures of state support of homeowners conducting capital repairs and renovation of apartment buildings but prioritize them differently.
- Only two models (Model 3 “Fund for building repairs” and “Voluntary payments”) envision that measures of state support should be of special purpose and stimulate intensification of homeowners’ initiatives.
- All analyzed models suffer from the same shortcoming that is absence of records or poor reflection of possibility to target state policy and budget support measures at enhancement of energy efficiency.
SECTION I.6. GENERAL EVALUATION OF MODELS FOR FINANCING CAPITAL REPAIRS AND ANALYSIS OF SENSITIVITY OF ACHIEVED RESULTS

The centerpiece of this section will be the evaluation of the models according to institutional, financial, political and general criteria. The overall results of the models’ evaluation and the analysis of achieved results will also be covered herein.

I.6.1. EVALUATION OF MODELS ACCORDING TO INSTITUTIONAL CRITERIA

Upon reviewing different approaches proposed in models in regards to introduction of mandatory payments for capital repair financing one can rate the models based on a certain criteria in accordance with the list (see section I.1).

The analysis provides the scores based on the following criteria group:

- **Owner engagement**: to what degree does the model require the involvement of owners in the decisions re renovation?

- **Simplicity of decision making**: to what degree does the model present a transparent and enforceable structure of making and implementation of decisions about capital repairs of apartment buildings?

- **Protection of owners’ capital**: to what degree does the model provide for protection of owners’ savings for capital repairs against unauthorized utilization?

- **Securing safety of building**: to what degree does the model provide the safety of the building, in the event that owners of apartments failed to make a decision on repairs?

Upon information received let us make a comparative analysis of the models looking at each criteria. The methodology of analysis is described in appendix 1.

**Criterion 1. Owner engagement: to what degree does the model require the involvement of owners in the decisions re renovation?**

*This criterion is important because the owners themselves should make decisions on the condition of the property they own.*

Let us explore how to ensure the involvement of owners in the decisions regarding capital repair in each of the models.

**Model 1 «Mutual financing».** In accordance with the Model 1 the amount of mandatory monthly payment is established by the local authorities rather than owners of premises in apartment buildings. The mandatory capital repair payments are made by the owners of premises on a constant basis regardless of the condition of the building, demand in repair and its schedule.

Owner’s engagement in making decisions in regards to capital repair (renovation) of an apartment building is limited to the fact that their general meeting should decide if the funds received through mandatory payments will be transferred to the Regional fund to be used for financing of renovation of other apartment buildings or not, and decide about the capital repair schedule and types of works and services.
The owner’s decisions execution in regards to the building renovation and spending of the accumulated funds is limited because accumulated funds can be spent only on the works approved by authorized federal body and conducted only after the normative life period, only after the approval of the authorized regional body, and only within schedule approved by the municipality.

In most cases the renovation funds are expected to be received by the Regional renovation fund. In this case the Regional fund and the municipality administration will manage the renovation funds of the owners of premises. And owner’s engagement in making decisions for building renovation is bureaucratic.

Therefore it is necessary to acknowledge that the level of owners involvement in renovation decisions of the building in this model is low, the score is 2 points.

**Model 2 «Trust management»**. Model 2 envisioned that the main decisions in regards to renovation are being made by the authorized regional bodies rather than the owners of the premises.

It is not necessary to have the approval from the owners of premises to collect the renovation payments and transfer the payments into the trust management structure. The list of works for the renovation is established by the law and the regional renovation finance program. The list of capital repair works, the schedule and their cost estimate are established by a specialized organization that makes engineering surveys of buildings. The owners are required to order such an engineering survey of the building every five years, and after the survey completion to make decision on conducting capital repairs. If the decision is not made by owners, everything will be decided on their behalf by the authorized regional government body, and at the next steps, by the trust manager.

The participation of owners of premises in making decisions about renovation of the building is limited by their right to approve the larger amount of capital repair defined by the constituent entity of Russian Federation, to approve the proposal of the organization that conducted the engineering survey in regards to the condition, schedule and cost estimates of the repair and to delegate the right to get financing for renovation.

Therefore, the level of owners’ engagement in making decisions for capital repair in Model 2 is less than in Model 1; score is 1 point.

**Model 3 «Repair Fund»**. Model 3 envisioned to introduce the legal requirement for the owners of premises to create the repair fund for each building. The required minimal amount of the repair fund for the building and the minimal mandatory payment for repairs is defined by the constituent entity of Russian Federation. The owners of premises can make a decision to establish a larger payment for repair and a larger repair fund. All decisions in regards to the repair of the building are being made at the general meeting of owners of premises.

The level of owners engagement in making decisions for capital repair is very high, score is 4 points.

**Model 4 «Voluntary payments»**. Model 4 does not assume any administrative interference in the process of making decisions of the owners in regards to funds for capital repair as well as in regards to the capital repair itself. All decisions about capital repair and its financing are of the competence of the general meeting of the owners of premises in an apartment building.
Model 4 provides the maximum freedom to the owners in making decisions about capital repair and its financing means and assumes the maximum engagement of the owners of premises in making decisions; score is 5 points.

Model 5 «Depreciation». Model 5 assumes the introduction of mandatory depreciation allowances for building maintenance as part of the total payment for common property maintenance in an apartment building, the mandatory depreciation allowances are defined by the statutory norm. Investments into securities of the residential owners support Fund is the legal “books holder” responsibility of the organization that manages the apartment building.

The proposed model does not describe the participation of owners of premises in making decisions for the capital repair. But one can assume that owners of premises do not influence the decision in regards to capital repair since in accordance with the model this is the responsibility of the organization that holds the books, and the funds received as depreciation allowances belong to this organization.

The influence of owners of premises on decision making in this model is negligible; score is 2 points.

Criterion 2. Simplicity of decision making: to what degree does the model present a transparent and enforceable structure of making and implementation of decisions about capital repairs of apartment buildings?

This criterion reflects the possibility and transparency of decision-making, as well as the fact that it is a difficult task to implement the owners’ decision on capital repairs.

Let us compare the decision making procedure in regards to capital repair in two different models. Our assumption is that the optimal option is the most simple decision making procedure on capital repair by the owners that represent the majority stake in the total property of the building. The decisions made by other individuals – bureaucrats, managers and etc. do not have the sufficient level of transparency. Besides, the execution complexity of owners’ decision is being evaluated, i.e. how the funds accumulated by the owners decisions are accessible for capital repair financing. It depends on who in accordance with the model legally owns the funds received by capital repair payments and whether the owners decision is required for that. Also it depends on the availability of monetary funds that may be inaccessible since they have already spent for capital repair of other buildings or invested into securities.

Model 1 «Mutual financing». In accordance with the Model 1, although the accumulated funds are owned by the owners of premises, the implementation of decisions made by owners depend on the decision of the local authority and(or) approval of the authorized body of the constituent entity of Russian Federation, i.e. decisions are being made at different levels that make the whole procedure very difficult. The decisions made by the bodies of government or local authorities in most cases will not be transparent. The owners accessibility to the accumulated funds will be difficult.

The procedure for making decision on capital repair in Model 1 is difficult, the process of making decision by the authorities in most cases will not be transparent, accessibility of accumulated funds for owners of premises is low; score is 2 points.
Model 2 «Trust management». Model 2 assumes that capital repair allowances are owned by each owner of premises in the apartment building but are managed by beneficial trustee – organization chosen by the constituent body of Russian Federation. Although the decision on capital repair is being made by the general meeting of the owners and therefore the capital repair decision making procedure is pretty transparent, the reality of such venue is very doubtful. First, there is a legal problem in regards to the status of accumulated funds. To what extent the general meeting has the right to manage the funds of individual owners of apartments? Whether it is necessary that each owner agree to the general meeting decision and transfer his own funds precisely to this capital repair? To what extent the owners decision is required for managing trustee that acts on behalf of the managing agreements signed with the constituent entity of Russian Federation and has to act in accordance with the terms of this agreement. Obviously there are substantial risks. Second if the beneficial trustee allocates the funds for a long term period (and he is interested in doing so), then accumulated funds may not be accessible for financing the repair by the date defined by the general meeting.

Model 2 include the transparent procedure of decision making on capital repair at the general meeting of apartment owners but bears the large risks in execution of those decisions; score is 3 points.

Model 3 «Repair Fund». In accordance with model 3 the capital repair payments are owned by all owners of apartment buildings and received on the escrow account of the building. The capital repair decision is made by the general meeting of apartment owners. Accumulated funds are easily accessible for owners decisions execution. The execution problems may occur in case of a poor financial discipline of owners. Although Model 3 proposes certain measures to increase that discipline but they require serious and possibly “unpopular” changes in current legislation.

Therefore, Model 3 is of high transparency and execution of capital repair decision making but bear the risks of non-fulfillment in case of owners poor financial discipline; score is 4 points.

Model 4 «Voluntary payments». In this model as well as in Model 3 capital repair payments are owned by apartment owners of the building and the capital repair decisions are made at the general meeting. Model 4 provides the transparency of decision and sufficient level of execution simplicity. Besides, it contains the additional proposals to simplify the capital repair decision making procedure (decreasing the number of votes required for making decision on capital repair in comparison to the current legislation norms) as well as proposals to strengthen the legal measures for non payments.

The measures proposed in the model should provide the opportunity to make capital repair decisions based on openness and transparency taking into account the opinions of the majority of apartment owners in the building and ensure the execution mechanism of these decisions; score is 5 points.

Model 5 «Depreciation allowances». In accordance with this model the funds received from the owners as depreciation expenses become the funds of the organization that “holds the books” of the building. The level of apartment owners participation in decision making is not defined, therefore the transparency of decision making is of big issue. Funds accessibility for repair financing is low since all the funds are invested in securities of the residential owners support
Fund There is a risk that these securities will lose the value within time and will be of low liquidity by the date of planned repair.

**Decision making procedures are not transparent, accessibility of funds for repair is low, score is 1 point.**

**Criterion 3. Protection of owners’ capital: to what degree does the model provide for protection of owners’ savings for capital repairs against unauthorized utilization?**

This criterion is important in the current economic environment here in Russia, because it minimizes the risk that owners’ savings for capital repairs will simply vanish, and, at the same time, it enhances the trust in the system as a whole.

Owners’ capital protection include several issues.

First, these funds should be received. Therefore it is necessary to analyze the proposed measures to work with non-payers.

Second, the Consultant assumes that most probably these funds will be accumulated rather than used purposely. Therefore it is important to evaluate which approaches models propose to avoid the inflationary depreciation of these funds.

And third the most important – does somebody else can use those funds besides the apartment owners.

Therefore, when evaluating the models by using this criterion we will evaluate the capital owners protection of the funds received for capital repair in accordance with the following analysis:

- legal loophole that these funds can be used by other legal entities;
- inflationary depreciation of owners capital;
- secure the capital repair funds collectability.

**Model 1 «Mutual financing».** Although Model 1 proposes the status of apartment owners accumulated funds on capital repair as the common property of apartment owners, the Model does not propose the legal mechanism for establishment and protection of such status. In fact these funds when being received at the banking account of HOA or the managing company become the funds of these legal entities and when transferred to the Regional fund account become the property of this fund. Long-term accumulation of funds on banking accounts of HOA and managing companies result in their substantial inflationary depreciation (though some losses can be compensated by bank interests).

The use of apartment owners’ funds received from one apartment buildings to repair other buildings and transferred to the Regional fund to manage them basically means discount lending (without interest) for capital repair of apartment buildings within the capital repair municipal programs. Such preferential loans results in substantial depreciation of apartment owners capital because the funds are transferred to Regional fund during the accumulation period and apartment owners of the buildings that used the funds for capital repair “borrowed” from other apartment owners will payoff the loans without interest (or maybe at preferential low rates).

Therefore the transfer of capital repair payments into the Regional fund is beneficial only for apartment owners of those buildings where the capital repair will occur in the first years of Regional fund activity. For owners of other buildings the funds transfer into Regional fund mean
large inflationary losses. Besides, such “mutual financing” is of high risk since the question about increasing the owners’ financial discipline for capital repair payments is almost not discussed. The model does not propose any compensation from possible losses of owners capital during the Regional fund activity using the budget of the constituent entity of Russian Federation that authorized this organization to manage the capital repair finances. It is very likely that when residential owners of a certain building addressed the regional fund to get their capital repair finances, the amount of monetary funds may be substantially less than the transferred amounts or there may be no funds at all.

**Model 2 «Trust management»**. The model ensures the legal ownership of the accumulated funds of apartment owners in buildings. No other entities can use these funds. The peculiarity of this model is safekeeping of owners’ funds and the possibility of their growth. However it should be acknowledged that so far the mechanisms how to ensure the growth of these funds as a result of trust management and the cost of their creation are not clear. There may be compensation of losses of owners’ funds during the period of trust management at the cost of the manager or funds of the constituent entity of Russian federation if the manager’s funds are insufficient.

**The legal ownership and safe keeping of owners funds are insured during the period of trust management. No measures to ensure the collection of mandatory capital repair owners payments are proposed. Score is 4 points.**

**Model 3 «Repair Fund»**. Model 3 assumes that accumulated capital repair are the common property of apartment owners of the building and the decisions of their usage can be made only by owners themselves at the general meeting. The special regime of the banking account where the funds are being accumulated ensures the impossibility of unauthorized usage of these funds. The model proposed the limits for accumulation period and minimization of the mandatory amount of the repair fund that decreases the inflationary losses. The longer period of funds accumulation at the banking account is being approved by the owners’ decision, so in this situation owners take the inflationary risks by themselves.

The model proposes the introduction of statutory measures to ensure the mandatory capital repair payments collection.

**The legal ownership and safe keeping of owners’ funds are insured by establishing the special regime of the banking account. The inflationary losses risks are minimized by mandatory capital repair funds accumulation. The introduction of mandatory payments collection measures is proposed. The score is 4 points.**
Model 4 «Voluntary payments». In Model 4 the repair funds are the ownership of the apartment owners and their usage is possible only by owners’ decision at the general meeting. This provides for certain security of funds from unauthorized use by other persons. However there is no special proposal in Model 4 how to ensure the ownership of accumulated owners’ funds that are kept at the escrow account of HOA or managing company in addition to general norms of civil legislation. In accordance with this model the duration and the amount of accumulated funds are defined by the owners’ decision thus by taking their own inflationary risks. The model proposed a list of measures to increase the collection of mandatory apartment owners’ payments.

Model does not have details how to ensure the legal ownership and safe keeping of accumulated apartment owners’ funds at the account of HOA or managing company. The inflationary risks for the accumulation period is undertaken by apartment owners. The introduction of measures to collect mandatory owners’ capital repair payments is proposed. Score is 3 points.

Model 5 «Depreciation allowances». In Model 5 capital repair funds in the form of depreciation expenses are mandatory invested into residential owners support Fund securities that are kept by organization that manages the apartment building and become its ownership. Such organization can be represented as HOA or managing company. In the HOA situation the proceeds from selling securities most likely will be spent at the apartment owners’ discretion. When the managing company manages the building there is a high risk that these funds will be used without owners notification. There is also a risk of loosing value and lack of liquidity of securities where the accumulated capital repair funds were invested in. Besides, there is a risk of using these securities to payoff the debts of HOA and managing company.

There is a high risk of unauthorized usage and loosing value of accumulated capital repair funds. No measures to ensure the collection of mandatory capital repair owners funds are proposed. Score is 1 point.

Criterion 4. Securing safety of building: to what degree does the model provide the safety of the building, in the event that owners of apartments failed to make a decision on repairs?

This criterion is important as the state must control how safety of buildings’ maintenance is secured, so the state may need a possibility to take measures if emergency occurs.

This criterion evaluates the possibility of external and quick decision to use the capital repair funds in case that it is unsafe to live in the building if it is found by the government residential inspection and if the apartment owners fail to make a decision on repair. This criterion is of high importance in Russia during modern times while the apartment owners’ activity is low and deterioration of many buildings is high.

Model 1 «Mutual financing» Model 1 does not propose the decision making mechanism to ensure the emergency capital repair works and the usage of owners accumulated funds in case the owners have not made that decision. It can be assumed that Regional fund money can be
used in the situation of unsafe living conditions in the building that are defined by the
government inspection. There can be a risk that all moneys of the fund are used for capital repair
financing in accordance with the approved schedule.

**The mechanism of decision making in case of unsafe living conditions is not defined. Score is 2 points.**

Model 2 «Trust management». Model 2 allows to use funds in trust management quickly in
case of unsafe living conditions of the building and if owners fail to make a necessary repair
decision. These decisions can be made by the authorized government bodies of the constituent
entity of Russian Federation and the trust manager should execute them.

**The decision making mechanism in case of unsafe living conditions in the building and
owners failure to make a capital repair decision is defined. Score is 5 points.**

Model 3 «Repair Fund» The model 3 envisions that in case of unsafe living conditions
findings the government inspection should instruct the apartment owners to liquidate this danger.
And only in the case of owners failure to execute this instruction it appeals to the court to
encourage owners to act. In this case the court can make a decision to use accumulated funds for
necessary repair works. Therefore, liquidation of unsafe living conditions can be of a lengthy
process.

**The decision making mechanism in case of unsafe living conditions and owners failure to
make a repair decision is defined but its execution may require lengthy period of time. Score
is 4 points.**

Model 4 «Voluntary payments». Model 4 does not have any detailed proposals how the
accumulated capital repair funds system works in case of occurring unsafe living conditions.
Based on the general model it can be assumed that since the owners are responsible for
maintaining the building the government inspection should address the claims to owners in case
of occurring unsafe living conditions. The model also proposed the introduction of
administrative responsibility of HOA and managing organizations in a failure to reach a repair
decision.

**The model does not have any detailed proposals about the decision making process of using
capital repair accumulated funds in case of occurring unsafe living conditions. Score is 2
points.**

Model 5 «Depreciation expenses». There is no list of actions in case of occurring unsafe living
conditions in an apartment building and the possibility of using accumulated repair funds to
liquidate this hazard. The model envisions that the claims from government bodies should be
addressed to so called “books holder” – the entity that is responsible for building maintenance
(HOA or managing company)
The model does not have detailed proposals about the decision making mechanism of using the capital repair accumulated funds in case of occurring unsafe living conditions. Score is 1 point.

In the Table 1 below the results of models ratings are being consolidated by institutional criteria.

Table 1. Results of models ratings by institutional criteria

<table>
<thead>
<tr>
<th>#</th>
<th>Model</th>
<th>Owner engagement</th>
<th>Simplicity of decision making</th>
<th>Protection of owner’s capital</th>
<th>Securing safety of building</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Model 1 «Mutual financing»</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>2.</td>
<td>Model 2 «Trust management»</td>
<td>1</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>13</td>
</tr>
<tr>
<td>3.</td>
<td>Model 3 «Repair Fund»</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>4.</td>
<td>Model 4 «Voluntary payments»</td>
<td>5</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td>5.</td>
<td>Model «Depreciation allowances»</td>
<td>5</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>5</td>
</tr>
</tbody>
</table>

I.6.2. EVALUATION OF MODELS ACCORDING TO FINANCIAL CRITERIA

Based on the analysis of approaches, which are proposed within the models and enable the introduction of lending mechanisms for the purpose of financing capital repairs and energy efficiency improvement in apartment buildings, the analyzed models can be evaluated to determine if they meet certain criteria from the list of designed evaluation criteria (see Section I.1).

After the analysis has been performed the models can be evaluated according to a third set of criteria “Financing”:

- **Access to financing**: to what degree does the model mobilize credit/private finance?

- **Measures of engagement of the banking sector**: to what degree does the model facilitate the engagement of the banking sector for the purpose of originating loans for capital repairs

Based on the information received let us carry out a comparative analysis of the models according to each criterion. The analysis technique is given in Section I.1.

**Criterion 1. Access to financing**: to what degree does the model mobilize credit/private finance?
This criterion is significant since it makes it possible to increase the volume of financial resources mobilized for capital repairs, and to find an affordable and prompt solution to this task.

Let us consider how various models make it possible to raise credit finance for capital repairs of and energy saving in apartment buildings.

Model 1 “Mutual Financing”. Model 1 implies that procedures regulating the use of loan funds for financing capital repairs of apartment buildings should be set by the law of a subject of the Russian Federation. Yet there is no indication of who, or what organization from those using the loan funds for financing capital repairs of apartment buildings, should such procedures be established for. The model contains no other proposals on development of lending mechanisms for financing the capital repairs of and energy efficiency improvement in apartment buildings.

Hence, within Model 1 “Mutual Financing” the raising of credit resources from financial institutions - for financing the capital repairs of and energy efficiency improvement in apartment buildings – is not considered to be a significant financial vehicle. At the same time, the model, in theory, allows for lending for capital repairs of apartment buildings and entitles regional authorities to envisage all the necessary legislative measures to this end.

The model is virtually inefficient in terms of paving the way for using credit funds to finance capital repairs of and enhancement of energy efficiency in apartment buildings. The degree of credit funds availability is low within the model; the evaluation score “2”.

Model 2 “Trust Management”. The model envisages that in the event that the funds accumulated from the owners’ payments are not sufficient, a trust manager can, on behalf and at the expense of owners of housing units in apartment buildings, obtain loans for financing the capital repairs.

The model also allows for the possibility of taking out the loans from a regional fund for capital repairs financing, established by a subject of the Russian Federation, within the framework of a regional programme for financing capital repairs of apartment buildings.

Consequently, the model envisages the possibility of raising the credit resources from banks as well as that of obtaining the loan funds from a regional fund in order to finance the capital repairs of and enhancement of energy efficiency in apartment buildings. At the same time, the model attaches a marginal importance to such a possibility, while perceiving this as a “plan B” to be used in case of scarcity of the funds accumulated by owners. Moreover, the model lacks any proposals on how to ensure the repayment of loans, appearing, thus, to be less sustainable. To make things worse, the use of the model may entail a conflict of interest because a lending institution acts both as a trust manager and, within this model, as a borrower.

In spite of envisaging the possibility of raising the credit resources from financial institutions for capital repairs of apartment buildings, the model relies on it only as on a backup plan; the proposals relating to the model’s implementation entail the risk of hampering the availability of credit resources; the evaluation score “2”.

Model 3 “Fund for Building Repairs”. The model relies on a mechanism of financing the capital repairs by using a combination of the owners’ accumulated funds and credit resources (a loan taken out from a commercial bank), while the share of loans in total financing within the model make them a principal source of financing. The model envisages the possibility for...
homeowners associations and management organization to raise loans (on behalf of owners), and contains proposals aiming to adjust current law in part of ensuring the availability of such loans. The proposals embrace the measures as listed below:

- ensuring a better and wider loan security,
- enhancing the reliability of homeowners associations and management organizations as borrowers,
- mitigating the risks of commercial banks with regards to the loans which are paid off from the payments made by many owners, including the guarantees provided by dedicated financial institutions as well as measures involving the enforced collection of the owners’ debts;
- reducing interests rates on the loans originated for the owners of premises.

The degree of availability of loan resources within the model is very high, but only provided that current law is amended and the state gets involved in establishing financial institutions – guarantee agencies; the evaluation score “4”.

Model 4 “Voluntary payments”. Like the preceding model, this one suggests that various sources of financing the capital repairs should be combined, with private financing taking the lead, and an option of entitling the associations of owners of premises (or management organizations) to act as borrowers should be given consideration to. There are proposals, within Model 4, which relate to raising bank loans for capital repairs. These proposals are designed with even more detail than those outlined within Model 3. All the proposals seek to improve the availability of loans. Certain proposals, for instance, those implying the provision of state guarantees to commercial banks are deemed unnecessary. This model, just like the preceding one, requires that current law should be amended.

The degree of availability of loan resources within the model is very high, but only provided that current law is amended and state participates in establishing financial institutions – agencies for refinancing the loans which have been originated for capital repairs; the evaluation score “5”.

Model 5 “Depreciation Charges”. The model relies on mandatory depreciation charges by owners, and, as is the case of Model 1, it allows for raising loan funds.

The model assumes that the state should recognize its obligations relating to the “repairs undone” for the period of privatization of apartments, and, seeking to meet its obligations, allocates the necessary funds to the Fund for Support of Owners of Residential Realty which will be established by way of reorganizing the current Housing and Utilities Reform Fund. The use of this Fund’s assets for the purpose of performing the state’s obligations relating to the “repairs undone” comprises the main financing vehicle according to the model.

The scheme of lending within the model is of a secondary nature, and does not provide for owners making their decision with regard to raising a loan; the evaluation score “2”.

Criterion 2. Measures of engagement of the banking sector: to what degree does the model facilitate the engagement of the banking sector for the purpose of originating loans for capital repairs?

This criterion is important at the initial stage, because the banking sector does not have sufficient experience in assessing the risk associated with loan origination to housing owners for the purposes of capital repairs.
Let us evaluate the models to find out whether they include any measures facilitating the engagement of the banking sector for the purpose of originating loans for capital repairs of and energy efficiency improvement in apartment buildings, notably, the measures with the focus on mitigating the risks of commercial banks associated with origination of loans for these purposes.

**Model 1 “Mutual Financing”.** According to the model, the legislative bodies of the subjects of the Russian Federation should be charged with responsibility for approving the procedures which regulate the use of credit resources for financing capital repairs in apartment buildings. Though the model lacks any proposal on engaging the banking sector, such proposals can be, in theory, designed and approved by individually by each region of Russia.

*The degree of the banking sector’s engagement in financing capital repairs of and enhancement of energy efficiency in apartment buildings, as provided by the model, is low, and will vary from region to region; the evaluation score “2”.*

**Model 2 “Trust Management”.** According to the model and in conformity with current law, a lending institution (a bank or non-bank lending institution) is entitled to act as a trust manager. This is the only fact on the basis of which a conclusion can be drawn about the banking sector’s engagement in implementing the model. For all that, the model lacks practical proposals relating to getting the banks engaged in extending long-term loans for capital repairs, because, within the model, lending is not viewed as a potentially important vehicle of financing the capital repairs.

*The high degree of the banking sector’s engagement in financing the capital repairs is explained only by the fact that banks act as both trust managers and potential borrowers; the proposals on engaging the banks in lending are non-existent; the evaluation score “2”.*

**Model 3 “Fund for Building Repairs”.** Model 3 contains a set of proposals aiming to pave the way for mitigating the risks of commercial banks associated with lending to homeowners associations for the purpose of financing the capital repairs. These proposals envisage the provision of a possibility to a lending bank to make sure of a borrower’s payment discipline, and monitor the receipt of payments on the account of a borrower. The proposals also give consideration to the measures with regard to mandatory collection of the owners’ debts. The model also suggests that guarantees of dedicated financial institutions (guaranteed agencies) should be introduced to the practice of lending. Additionally, the model embraces the proposals on legislatively improved sustainability of homeowners associations and their reliability as borrowers.

*There are proposals embedded into Model 3 which look to ensuring the engagement of banking sector in extending loans for capital repairs of apartment buildings. However, the implementation of all the abovementioned proposals necessitates the introduction of legislative amendments; the evaluation score “4”.*

**Model 4 “Voluntary payments”.** This model, along with Model 3, outlines the proposals on how to mitigate the risks of those commercial banks which are engaged in extending the loans to homeowners associations for the purpose of capital repairs. In addition to the preceding model, the measures proposed within this one, also include the possibility of refinancing the loans originated by commercial banks for capital repairs via the issuance of bonds by a joint stock company, jointly with the state and which are guaranteed by the state (in much the same manner as the system established for mortgage lending).
The model also provides for measures implying the introduction of long-term management agreements in order to enhance the reliability of management organizations acting as borrowers.

There are detailed proposals on the banking sector engagement in lending for capital repairs of apartment buildings described within Model 4. Yet legislative changes are needed to implement all the proposals as outlined above; the evaluation score “5”.

Model 5 “Depreciation Charges”. There are proposals, embedded within the model, which may facilitate the mitigation of risks associated with the commercial banks’ lending to homeowners associations for the purpose of capital repairs, specifically, securing of a loan with assets to the Fund for Support of Owners of Residential Realty which will be established by way of reorganizing the current Housing and Utilities Reform Fund, and granting the guarantees by that organization. But it is obvious that once the owners of privatized housing units receive these assets, they would prefer to use them, rather than loans, for financing the capital repairs. What liquidity would the mentioned assets have is not clear at the moment.

The model envisages the possibility of using certain measures aiming to reduce the risks of commercial banks which give their loans for financing the capital repairs. Though the chances of implementing the mechanisms deem slim; the evaluation score “2”.

Table 2. Results of evaluating the models according to financial criteria

<table>
<thead>
<tr>
<th>#</th>
<th>Model</th>
<th>Financial criteria</th>
<th>Access to financing</th>
<th>Measures of engagement of the banking sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Model 1 “Mutual Financing”</td>
<td></td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>2.</td>
<td>Model 2 “Trust Management”</td>
<td></td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>3.</td>
<td>Model 3 “Fund for Building Repairs”</td>
<td></td>
<td>4</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>4.</td>
<td>Model 4 “Voluntary payments”</td>
<td></td>
<td>5</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>5.</td>
<td>Model 5 “Depreciation Charges”</td>
<td></td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
</tbody>
</table>
I.6.3. Evaluation of Models According to State Policy Criteria

Based on the analysis of approaches, within the models, which enable the introduction of state support mechanisms for financing capital repairs of and energy efficiency improvement in apartment buildings, the analyzed models can be evaluated to determine if they meet certain criteria from the list of designed evaluation criteria (see Section I.1).

Once the analysis has been performed a model can be evaluated according to a third set of criteria “Policies”:

- **Enhancement of energy efficiency**: to what degree does this model prioritize the enhancement of energy efficiency in apartment buildings and comprehensive repairs of the latter?
- **Enhancement of competition**: to what degree does the model provide for enhancement of competitive selection of the executor of capital repairs by apartment owners?
- **Low-income households engagement**: to what degree does the model allow the low-income households to receive specific state support enabling them to pay for the capital repairs of the building.

Using the received information we should carry out a comparative analysis of the models according to each criterion. Let us consider what forms of state support for financing the capital repairs of and energy efficiency improvement in apartment buildings are suggested within various models, and to what degree can the state support be transparent and efficient. A description of the analysis method is given in Section I.1.

**Criterion 1. Enhancement of energy efficiency**: to what degree does this model prioritize the enhancement of energy efficiency in apartment buildings and comprehensive repairs of the latter?

This criterion is important because if this is the case, then several effects are attained: improvement of the quality of a building and reduction of utility fees, as well as the positive impact on environment. It is important to reveal if the model creates specific targets for energy efficiency increase (e.g. energy efficiency increase per ruble of investment or per ruble of state support).

Let us consider to what degree does the measures of state support, proposed within the models, aim to ensure the enhancement of energy efficiency in apartment buildings.

**Model 1 “Mutual Financing”**. In Model 1 there is a possibility of providing state support measures via allocating the funds of regional and local budgets to homeowners associations (housing cooperatives) and management organizations for capital repairs of apartment buildings.

Then the model demands that the owners of premises and management bodies of associations of owners of premises, who are making decisions on capital repairs of apartment buildings, have to take into account the need to comply with requirements to reliability, safety and energy efficiency in apartment buildings as established by the law of the Russian Federation.

Yet the measures of state support are anything but oriented towards meeting the energy efficiency requirements. In other words, the model does not encourage the attainment of energy efficiency through capital repairs; the evaluation score “2”.

**Model 2 “Trust Management”**. According to the model a subject of the Russian Federation approves a long-term regional programme to facilitate the financing of capital repairs of apartment buildings, as well as a plan for implementation of the abovementioned programme, may include such measures as allocation of subsidies from the budget of a subject of the Russian Federation. The model does not specify whom the budget support goes to. There is no proposal,
embedded within the model, with regard to any activity aiming to ensure energy efficiency in apartment buildings.

Hence, the model is deemed inadequate in terms of enhancing energy efficiency in apartment buildings; the evaluation score “1”.

Model 3 “Fund for Building Repairs”. The model advocates the allocation of budget funds to owners of premises and/or associations of owners of premises for the purpose of capital repairs of and enhancement of energy efficiency in apartment buildings. The model envisages that budget funds (in the form of subsidies) should be granted for the purposes of:

– Encouraging the incentives of owners of premises;
– Financing comprehensive repairs and enhancement of energy efficiency.

The model suggests that the amount of a budget subsidy should be proportional to the achieved result of energy saving, though it does not contain any recommendations as to how implement the proposal; the evaluation score “3”.

Model 4 “Voluntary payments”. Within Model 4 there is a set of proposals on the development of state energy efficiency policy and provision of a facilitating state support to owners of premises for the purpose of enhancing the energy efficiency in apartment buildings. The focus of the proposals is on setting the stage for introduction of energy performance contracting in housing sector, raising public awareness of the importance of energy saving, and also for provision of state support (grants) to finance energy efficiency measures with a long recovery period.

For all that, the model does not have any recommendation as to how to reconcile the state support measures with energy saving targets, and implement various components of the state energy saving policy; the evaluation score “3”.

Model 5 “Depreciation Charges”. The model relies on recognizing, by the state, of its obligations relating to “undone repairs” for the period of privatization of apartments, and provides for allocation of budget funds to finance the fulfillment of relevant obligations by the state for the purpose of forming the capital of the Fund for Support of Owners of Residential Realty which will be established by way of reorganizing the current Housing and Utilities Reform Fund. The assets of the Fund are intended for the use by a balance-sheet holder of an apartment building to finance the capital repairs of and improve the energy efficiency in apartment buildings.

The model implies that certain state support should be provided to finance capital repairs, and it advocates the need for enhancement of energy efficiency in apartment buildings, yet it does not include any proposal encouraging in terms of energy saving; the evaluation score “2”.

Criterion 2. Enhancement of competition: to what degree does the model provide for enhancement of competitive selection of the executor of capital repairs by apartment owners?

It is important to reveal if policy measures including allocation of state support enhance competitive selection of the executor of capital repairs by apartment owners. This criterion ensures the efficiency, transparency and competitive approach to allocation of budget funds for the purposes of capital repairs.
Let us consider to what degree the state policy measures, proposed within the models, seek to encourage competition in the housing sector.

**Model 1 “Mutual Financing”**. The model does not provide any recommendation as to who and on what terms would select a contractor to carry out capital repairs, control the performance quality and pay to an executor. The encouragement of competition between housing organizations is not listed among the components of state policy under this model for financing the capital repairs; **the evaluation score “1”**.

**Model 2 “Trust Management”**. This model envisages a legally fixed requirement to a trust manager to competitively select a contractor for capital repairs. At the same time the model fails to provide for specific recommendations as to the procedures of competitive selection. For this reason the subjects of the Russian Federation would ask trust managers that the latter should apply the procedures similar to those which are used for public procurement. These, actually, are inefficient in terms of encouraging the competition. They are unable to ensure a high quality of performance.

In spite of its assumed commitment to competitive selection of contractors the model lacks any enabling proposal with regard to encouraging the development of a competitive environment via the implementation of state support measures for financing of capital repairs; **the evaluation score “2”**.

**Model 3 “Fund for Building Repairs”**. The model envisages the allocation of budget funds to owners of premises and / or an association of owners of premises for the purpose of financing the capital repairs of and enhancement of energy efficiency in apartment buildings, while one of the goals of the latter consists in encouraging the competition between housing organizations and construction and repair companies. There is a conceptual proposal, contained within the model, which involves the allocation of budget funds (subsidies) to a homeowners association and / or a management organization in the event that an executor of works and services is selected alternatively.

The model has a conceptual proposal on how to encourage the competition in the housing sector, yet this model is a deficient one because of its lack of relevant recommendations in more detail; **the evaluation score “3”**.

**Model 4 “Voluntary payments”**. This model, just like Model 3, suggests that budget funds should be allocated to finance the capital repairs of the apartment buildings in which the owners of premises have taken independent decisions on capital repairs, and are ready to make all the necessary arrangements, control the performance of works and achieve the results.

However, within the model there is no proposal that should reconcile the allocation of state support to a homeowners association and / or a management organization, and the competitive selection of an executor of works for the purpose of capital repairs and enhancement of energy efficiency; **the evaluation score “3”**.

**Model 5 “Depreciation Charges”**. The encouragement of competition between housing organizations is not in the focus of state policy under this model of financing the capital repairs; **the evaluation score “1”**.

**Criterion 3. Low-income households engagement**: to what degree does the model allow the low-income households to receive specific state support enabling them to pay for the capital repairs of the building?
This criterion is important because it makes it possible to engage housing owners with relatively low income in the process of addressing the problem of capital repairs.

Let us consider, to what degree do the measures of state support, proposed by the models, allow low income owners of premises to get engaged in financing the capital repairs of and enhancement of energy efficiency in apartment buildings.

**Model 1 “Mutual Financing”**. Model 1 makes it possible to allocate funds from regional and local budgets to homeowners associations (housing cooperatives) and management organizations for capital repairs of apartment buildings.

But the model proposes no budget support to low income owners of premises for the purpose of financing the costs of capital repairs in apartment buildings. More than that, the model prohibits the introduction of such a measure of social support to certain (socially vulnerable) groups of population as financing the costs of capital repairs in apartment buildings.

So the model does not envisage any possibility of providing the state support to low income owners of premises; **the evaluation score “1”**.

**Model 2 “Trust Management”**. Model 2, just like Model 1, lacks any measure of state support to be addressed to low income owners of premises for financing the costs of capital repairs; **the evaluation score “1”**.

**Model 3 “Fund for Building Repairs”**. The model implies that owners of premises in apartment buildings commit themselves to accumulating a capital repairs fund of an established size. In the event that any owner fails to contribute to accumulating the fund, this would constitute a non-fulfillment of the requirement of law and may have negative consequences in terms of possible capital repairs in case such a need arises.

Therefore, the model provides for a reduced risk of owners’ non-payment via allocating the state support, in the form of budget subsidies, to low-income owners to finance the costs of capital repairs of common property in an apartment building. To that end, it is suggested that current program of subsidizing the housing and utility payments should be extended.

The model contains a conceptual proposal relating to allocation of budget subsidies to low income owners, yet the lack of more detailed recommendations in that regard make the model a deficient one; **the evaluation score “3”**.

**Model 4 “Voluntary payments”**. As in the case of the preceding model, this one suggests that every owner of premises, including those with low income, should be engaged in financing the capital repairs. To that end the model envisages to do as follows:

- Extend the list of housing and utility subsidies by adding the subsidies for capital repairs to it.
- Provide (upon the request of a HOA or a management organization) subsidies to pensioners, young families, families with many children to pay down payment for a loan originated for capital repairs,
- Provide (upon the request of a HOA or a management organization) grants to pensioners, young families, families with many children to install apartment water meters, water saving taps, new windows, replace heating equipment, and also finance a portion of payments for capital repairs in apartment buildings.
The Institute for Urban Economics

Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support

The model envisages substantial support measures addressed to low income households and socially vulnerable ones. The capital repairs on a larger scale would require more budget funds to finance the abovementioned measures of state support, which may impede the introduction of the model; the evaluation score “4”.

Model 5 “Depreciation Charges”. According to the model, the state needs to recognize its obligations relating to “undone repairs” for the period of privatization of apartments. The fact that private owners happen to be unable to fully pay the costs of maintaining the residential realty they own should be particularly taken into consideration. The model establishes that an amount of mandatory depreciation charges to be paid by the owners of premises in apartment buildings should be calculated with due account for housing subsidies for low income households. Yet any proposal on mechanisms for provision of such subsidies is non-existent.

The model does not reveal any proposal relating to the mechanisms of granting housing subsidies to low income households; the evaluation score “2”.

Table 3. Results of evaluating the models according to criteria of state policy on capital repairs and energy efficiency improvements

<table>
<thead>
<tr>
<th>#</th>
<th>Model</th>
<th>Criteria of state policy on capital repairs and energy efficiency improvement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Enhancement of energy efficiency</td>
</tr>
<tr>
<td>1.</td>
<td>Model 1 “Mutual Financing”</td>
<td>2</td>
</tr>
<tr>
<td>2.</td>
<td>Model 2 “Trust Management”</td>
<td>1</td>
</tr>
<tr>
<td>3.</td>
<td>Model 3 “Fund for Building Repairs”</td>
<td>3</td>
</tr>
<tr>
<td>4.</td>
<td>Model 4 “Voluntary payments”</td>
<td>3</td>
</tr>
<tr>
<td>5.</td>
<td>Model 5 “Depreciation Charges”</td>
<td>2</td>
</tr>
</tbody>
</table>

I.6.4. EVALUATION OF MODELS ACCORDING TO GENERAL CRITERIA

In compliance with the designed technique (see Section I.1) general criteria rely on such characteristics of the models being investigated as sustainability of their performance, flexibility of their application and complexity of its creation.

General Criteria are formulated as follows:

- **Sustainability of the model**: to what degree is the model sustainable within a mid-term (5-10 years) period? In other words, does it allow to provide for sufficient financing of capital repairs in future?
- **Flexibility of the model**: to what degree does the model allow flexibility so buildings can be renovated at any appropriate time?
- **Feasibility of the model**: to what degree does the model require for serious institutional and legislative changes? Are the changes needed realizable in short-term period?

Based on the information received let us carry out a comparative analysis of the models according to each criterion. The analysis technique is given in Section I.1.
• **Criterion 1. Sustainability of the model**: to what degree is the model sustainable within a mid-term (5-10 years) period? In other words, does it allow to provide for sufficient financing of capital repairs in future?

The significance of this criterion can be explained by the impossibility of finding prompt solutions to the problem of capital repairs and the necessity of establishing a system of financing capital repairs of apartment buildings, which will be designed for a long-term period, will be sustainable and predictable for all stakeholders.

Let us consider to what degree the performance of each model will be sustainable in the long run.

**Model 1 “Mutual Financing”**. The performed analysis reveals that Model 1 contains the features of a financial pyramid. By giving soft loans to owners of housing units in these apartment buildings out of the funds accumulated by owners in other buildings, a regional fund for capital repairs financing may very likely provoke a situation when the owners of premises in not yet repaired apartment buildings remain without the funds they invested into their regional fund. A regional fund’s sustainability can be achieved only via regular inflow of budget funds. But such budget contribution implies that the funds should be transferred to a dedicated organization rather than to people. Hence, *Model 1 can be described as highly unsustainable within a mid-term period; the evaluation score “1”.*

**Model 2 “Trust Management”**. Model 2 assumes that the funds of owners of housing units will be the main instrument of financing the capital repairs of apartment buildings. Additionally, the state will secure safety of the funds by way of introducing a mandatory trust management performed by competitively selected trust managers. This gives grounds for suggesting that the model should be sustainable. Risks may arise only due to mala fide trust managers. It's another matter that without funds raised in financial markets (this model considers relevant activities only as secondary ones), the amount of financing on the basis of this model will be far from substantial. *Model 2 is distinguished for its sufficiently high sustainability and, pitifully, small amount of capital repairs done; the evaluation score “4”.*

**Model 3 “Fund for Building Repairs”**. Model 3 relies on a vast engagement of financial institutions in lending for capital repairs of apartment buildings. The international practice proves the models of this type to be sustainable, and, more than that, their application entails a so-called “chain reaction” effect according to which the very first successful results provoke interest on the part of an increasingly large number of potential participants. *The model is highly sustainable due to developed lending instruments; the evaluation score “5”.*

**Model 4 “Voluntary payments”**. In what concerns funds raising mechanisms Model 4 shows little difference from Model 3. The model under consideration relies on developed lending products for financing of capital repairs. For that reason the model possesses the same advantages as Model 3. Hence, *the model is highly sustainable thanks to developed lending mechanisms; the evaluation score “5”.*

**Model 5 “Depreciation Charges”**. Within Model 5 the Fund for Support of Owners of Residential Realty may secure possible loans for capital repairs of apartment buildings. In this regard it is assumed that the institution would also accumulate the funds of owners of housing units in the form of depreciation charges and budget funds that would be equal to recognized...
state obligations relating to the “repairs undone”. Yet, the quality of security under relevant loans is vastly questionable. For this reason, the sustainability of this model is considered to be low within a mid-term period: the evaluation score “2”.

**Criterion 2. Flexibility of the model: to what degree does the model allow flexibility so buildings can be renovated at any appropriate time?**

This criterion is important as it enables the owners to make flexible decisions with regard to the capital repairs scope and schedules (time between capital repairs) with due account.

Let us compare the models to find out whether the owners of housing units in apartment buildings could make flexible decisions, in terms of capital repairs’ scope, schedules, access and financing, etc., when using the proposed mechanisms. The Consultant deems it important that the owners should enjoy, as much as possible, the freedom of making their decisions on issues relating to arrangement and financing of capital repairs.

**Model 1 “Mutual Financing”**. Model 1 allows for flexibility when it comes to making decisions, by owners of housing units, with regard to capital repairs. Still a problem may appear at the stage of implementing relevant decisions, because it is highly probable that a regional fund turns out to be short of money at that moment. The funds can be either handed out to finance on-lending activities, or can vanish altogether due to an unsustainable operating structure of a regional fund. That is why the decisions made by owners should coincide with the availability of resources in a regional fund of capital repairs. **Model 1 is scarcely dependent on owners’ decisions made with regard to schedules of capital repairs; the evaluation score “2”**.

**Model 2 “Trust Management”**. Model 2 is also relatively mildly dependent on the owners' intentions with regard to capital repairs. Trust management implies that funds should be used on a fixed-term basis. This means that, without fear of losing their finance, in perspective, the owners can make their decisions on capital repairs only within a timeframe as agreed in a trust management contract. **Model 2 is restrained by a time-frame of decision-making with regard to capital repairs. Hence, it is deemed insufficiently dependent; the evaluation score “3”**.

**Model 3 “Fund for Building Repairs”**. Model 3 assumes that a decision-making on capital repairs, their scope and schedule, is, definitely, in the domain of owners, and depend only on their financial and organizational capacity, rather than on the model itself. So, it should be recognized that the model is, in a great measure, flexible on the part of owners of premises in apartment buildings; **the evaluation score “5”**.

**Model 4 “Voluntary payments”**. Model 4 is similar to Model 3 in so far as it refers to the banking sector’s attitude to capital repairs of apartment buildings. In this case a decision-making on capital repairs, their scope and schedule, is also in the domain of owners, and depend only on their financial and organizational capacity, rather than on the model itself. **The model is highly flexible on the part of owners of premises in apartment buildings; the evaluation score “5”**.

**Model 5 “Depreciation Charges”**. Model 5 is scarcely flexible because all finance is accumulated by the owners of housing units in apartment buildings in one place - the Fund for Support of Owners of Residential Realty. The mechanisms of lending and those enabling the engagement of the banking sector are mostly limited, in fact, as well as the initiative of owners with regard to carrying out the capital repairs. **In view of this, the model is hardly flexible in terms of its potential to allow for more diversified capital repairs; the evaluation score “2”**.
Criterion 3 Feasibility of the model: to what degree does the model require for serious institutional and legislative changes? Are the changes needed realizable in short-term period?

This criterion shows the degree of feasibility and enforceability of measures and actions included under the model structure. It is important because it reveals administrative, policy, labour and financial inputs needed to implement the model, as well as consequences of its implementation.

Model 1 “Mutual Financing”. The model does not require serious institutional changes. In this respect, the major legislative novelty consists in introduction of a scheme of the owners’ mandatory payments for capital repairs. The model appears to be simple and comprehensible. Besides, it considerably increases the administrative resources of regional officers. Consequently, the model can be readily approved because of its simplicity and attractiveness to regional officers; the evaluation score “4”.

Model 2 “Trust Management”. The model has the backing of the Ministry of Economic Development and Trade, though its officers are well aware of the model’s deficiencies and bottlenecks. This model, like Model 1, has a relative advantage – it does not require serious legislative changes. Hence, the models’ feasibility can be ranked as largely sound; the evaluation score “3”.

Model 3 “Fund for Building Repairs”. Model 3 entails the most substantial legislative changes. These would also involve the changes to housing and banking laws. This is the strongest deficiency of the model. In view of serious legislative changes, necessitated by the model, its feasibility deems rather unpractical; the evaluation score “2”.

Model 4 “Voluntary payments”. Model 4 also makes it necessary to introduce certain legislative changes as is the case of Model 3. The chances of its approval are also slim. Hence, the model’s feasibility also ranks as unpractical; the evaluation score “2”.

Model 5 “Depreciation Charges”. Model 5 involves the use of mechanisms which are inconsistent with applicable civil law. The introduction of depreciation charges with regard to the property, which is neither used by business entities for economic activities nor owned by them, appears to be absolutely unreasonable. The same is true of a “balance-sheet” mechanism for apartment buildings. An economic agent may have, on its balance sheet, only the property it owns. In no way this can be applied to an apartment building since its constituent elements (apartments) are owned by various owners. On account of Model 5 being vastly incompatible with law its introduction appears to be unreasonable; the evaluation score “1”.

Table 4. Results of evaluating the models according to general criteria

<table>
<thead>
<tr>
<th>#</th>
<th>Model</th>
<th>Sustainability</th>
<th>Flexibility</th>
<th>Feasibility</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Model 1 “Mutual Financing”</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>2.</td>
<td>Model 2 “Trust Management”</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>3.</td>
<td>Model 3 “Fund for Building Repairs”</td>
<td>5</td>
<td>5</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>4.</td>
<td>Model 4 “Voluntary payments”</td>
<td>5</td>
<td>5</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>5.</td>
<td>Model 5 “Depreciation Charges”</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>5</td>
</tr>
</tbody>
</table>
The tables 5 and 6 below present the total aggregated evaluation of financing models of capital repairs by all the criteria.

The results of evaluation shows that two models which are Model 4 "Voluntary Payments" and Model 3 "Fund for Building Repairs" meet the criteria of analysis to a greater extent than the other models. The "optimal" model described further was developed on the basis of the two winner-models mentionned above.
Table 5. Evaluation of models of financing capital repairs and energy saving in apartment buildings (by all criteria)

<table>
<thead>
<tr>
<th>Models</th>
<th>Institutional Criteria</th>
<th>Criteria of Financing</th>
<th>Criteria of State Policies</th>
<th>General Criteria</th>
<th>Total rates (adjusted for weights)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Owner engagement</td>
<td>Simplicity of decision making</td>
<td>Protection of owners capital</td>
<td>Securing safety of building</td>
<td>Access to financing</td>
</tr>
<tr>
<td>Score</td>
<td>Rate adjusted for weight</td>
<td>Score</td>
<td>Rate adjusted for weight</td>
<td>Score</td>
<td>Rate adjusted for weight</td>
</tr>
<tr>
<td>Model 1</td>
<td>2</td>
<td>0.126</td>
<td>2</td>
<td>0.126</td>
<td>1</td>
</tr>
<tr>
<td>Model 2</td>
<td>1</td>
<td>0.063</td>
<td>3</td>
<td>0.189</td>
<td>4</td>
</tr>
<tr>
<td>Model 3</td>
<td>4</td>
<td>0.252</td>
<td>4</td>
<td>0.252</td>
<td>4</td>
</tr>
<tr>
<td>Model 4</td>
<td>5</td>
<td>0.315</td>
<td>5</td>
<td>0.315</td>
<td>3</td>
</tr>
<tr>
<td>Model 5</td>
<td>2</td>
<td>0.126</td>
<td>1</td>
<td>0.063</td>
<td>1</td>
</tr>
</tbody>
</table>

Table 6. Summary table of evaluation of financing models of capital repairs by groups of the criteria

<table>
<thead>
<tr>
<th>#</th>
<th>Model</th>
<th>Institutional criteria</th>
<th>Financial criteria</th>
<th>Criteria for state policy on capital repairs and energy efficiency improvement</th>
<th>General criteria</th>
<th>Total score</th>
<th>Total rate adjusted for weights</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Model 1 “Mutual Financing”</td>
<td>7</td>
<td>0.441</td>
<td>4</td>
<td>0.5</td>
<td>4</td>
<td>0.332</td>
</tr>
<tr>
<td>2.</td>
<td>Model 2 “Trust Management”</td>
<td>13</td>
<td>0.819</td>
<td>4</td>
<td>0.5</td>
<td>4</td>
<td>0.332</td>
</tr>
<tr>
<td>3.</td>
<td>Model 3 “Fund for Building Repairs”</td>
<td>16</td>
<td>1.008</td>
<td>9</td>
<td>1.125</td>
<td>9</td>
<td>0.747</td>
</tr>
<tr>
<td>4.</td>
<td>Model 4 “Voluntary payments”</td>
<td>15</td>
<td>0.945</td>
<td>10</td>
<td>1.25</td>
<td>9</td>
<td>0.747</td>
</tr>
<tr>
<td>5.</td>
<td>Model 5 “Depreciation Charges”</td>
<td>5</td>
<td>0.315</td>
<td>4</td>
<td>0.5</td>
<td>5</td>
<td>0.415</td>
</tr>
</tbody>
</table>
I.6.5. SENSITIVITY ANALYSIS OF MODELS FOR APARTMENT BUILDINGS CAPITAL REPAIR FINANCING

Value of the proposed criteria and their influence on decision making for choosing the model that is in maximum proximity to the optimal one is proved by sensitivity criteria analysis for the method of “equal consistent” analysis (one-way sensitivity analysis).

First, to conduct the analysis the outcome which is object of influence was determined, and factors which influence the outcome were identified.

The total rates of each model and distribution of positions in a rating of models are accepted as the outcome which sensitivity and stability should be tested.

It is possible to allocate three groups of factors which influence total rates and on distribution of positions in a rating of models:

a) The set of criteria against which the models are estimated: in this case one can test how the outcome (total rates and the rating) depends on structure of criteria;

b) The weights assigned to the groups of criteria: groups of criteria were assigned equal weights under the present evaluation. We could assign different weights to groups to test the sensitivity of evaluation results. However rating distribution against two groups of criteria coincides with the distribution in the total rating, and rating distribution against the rest two groups is the same as for positions of “leading models”. This means that testing of sensitivity of outcomes to weighting coefficients of groups of criteria will be senseless;

c) The weights assigned to criteria: the weights of criteria within each groups are equal. We could change weights, setting scope and the rules for changing each weighting coefficient; however this analysis will be unnecessarily cumbersome and purely scholastic.

Thus, under the present analysis we selected to test sensitivity of the total rate of each model and distribution of position of models in the rating to structure of factors (evaluation criteria).

Therefore, in order to make the sensitivity analysis of models, the method of consistently excluding criteria from the matrix of estimation and changes in models ratings distribution as a result of estimations as well as analysis of average deviations from the generic model valuation was used while each factor is being excluded. Such method allowed to define the level of sensitivity of influence of each criteria on distribution of models and correspondence of analyzed models to the optimal model.

The analysis showed the following.

1. Models ratings distribution is pretty stable and is not sensitive towards elimination of majority of criteria. Fluctuations are mainly connected with the positions of leaders in the estimation which are Model 4 «Voluntary payments» (the first place) and Model 3 «Fund for Building Repairs» (the second place).

In five cases the changes of model ratings are observed including 4 cases when Model 3 takes the first place – when excluding factors of owners participation, simplicity in making and executing decisions by owners, access to finance and providing budget support to low income owners;

In one case Models 1 and 5 change their places - Model 5 takes the 4th place instead of Model 1 – when excluding the factor of model execution.

2. The gap between the first place (Model 4) and the second place (Model 3) is insignificant, it is 0.062 points, and after consequent elimination of criteria the gap increases in eight cases but still does not exceed 0.2 point.

Meanwhile the gaps between models evaluations are pretty wide:
• Between the second place (Model 3) and third place (Model 2) – 1.4 points;
  o the gap becomes substantially less when excluding the financial indicators but at the same time it is still negligible - up to 1.2 points,
  o the gap increases when excluding four criteria, the most substantially – when excluding the criteria of the model execution (up to 1.6 points);

• between the third (Model 2) and the forth place (Model 1) – 0.6 points;
  o the gap decreases up to 0.45 points when excluding factors of owners protection, the buildings safety and model resistance;
  o the gap increases when excluding six criteria, mostly visible – when excluding the criteria of model execution and promoting the energy efficiency.

3. Therefore, models positions in ratings are mostly defined by the evaluations of these models for the following criteria:

• Model 1 for the most criteria substantially loose to the other evaluated models except the one; at the forth place in ratings Model 1 mostly keeps the criteria of the model execution, since the Model does not require serious institutional changes and the foundation for its introduction is pretty well prepared;

• the position of Model 2 in rating at the third place is defined most equally by influence of all criteria but criteria of owners protection, ensuring the safety of the building and resistance of the model allow it to get the higher score than Model 1 and Model 5;

• financial criteria in regards to measures ensuring raising the debt at the financial market has mostly influence the leadership positions of Model 3 and Model 4 ratings;

• Model 5 position in ratings for the last place is defined by influence of all criteria while excluding the criteria of the model execution provides the loss of Model 1 and the place of Model 5 in rating is increased.

4. The analysis showed that two criteria in the group of financial criteria have the same influence on the final result of valuation. This is explained by correlation between the mentioned criteria. Criteria «Availability of loan resources for apartment owners» is the most common one and correlated with criteria «Measures of banking sector involvement». Thus, in three reviewed models the availability of loan resources is not reviewed as a necessary factor since there are no proposed measures of banking sector involvement. Otherwise, in two other models the concrete measures are proposed that can assist in banking sector involvement and therefore can increase the availability of loans.

Therefore one of two criteria - «Measures of banking sector involvement» - could be excluded from the matrix as negligible since it will not in any way influence the place distribution in models ratings. After this there will be only one criteria in the group of financial criteria. However, the value of having the possibility to raise debt financing at the financial market for apartment owners, the duration of necessary accumulation, lack of proposals for investments from the business side and the limitation of the budget support is very high.

Therefore, when eliminating one of the two financial criteria from the matrix the weight of the remaining financial criteria should be equal to the weight of the whole group of financial criteria – 0.25. It will not influence the final estimations result.

Moreover if one will continue to consistently exclude criteria from the remaining eleven and exclude the only financial criteria that has the larger weight than before, - it can also influence the distribution of places in models ratings though will improve the estimation of Model 2.
5. Since all criteria have their weights the amount of which is equal to one, the excluding of one criteria will result in necessity of increasing the weight coefficient for each of the remaining criteria and changing the final estimation of the models. The analysis of average deviations from the basic final estimation of the models\(^{33}\) was provided while excluding each of the criteria. The average deviation was defined as average of calculated deviations in percentage (towards the larger or lesser side) of each model estimation arising while excluding either one of criteria from the matrix.

The analysis of average deviations of the estimations shows that:

- The most average deviation (around 4.85\%) characterizes the criteria of the model execution;
- The majority of criteria (eight out of twelve) have the value of average deviation of the estimation in the range from 2.4\% up to 3.44\%; in this group – both financial criteria, three criteria related to the measures of state support (promoting of energy efficiency, promoting of competition and providing the budget support to low income population), two institutional criteria – protection of owners’ capital and ensuring the safety of the building, as well as general criteria of the resistance of the model;
- The least average deviations – in the range from 1.4\% up to 2.00\% - are features of the remaining two institutional criteria and the general criteria of the flexibility of the model.

![Average Deviation of Total Rate Revised from Total Rate Basic, %](image)

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Average deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Simplicity of decision making</td>
<td>1</td>
</tr>
<tr>
<td>2 Owner engagement</td>
<td>2</td>
</tr>
<tr>
<td>3 Flexibility</td>
<td>3</td>
</tr>
<tr>
<td>4 Enhancement of energy efficiency</td>
<td>4</td>
</tr>
<tr>
<td>5 Access to financing</td>
<td>5</td>
</tr>
<tr>
<td>6 Protection of owners’ capital</td>
<td>6</td>
</tr>
<tr>
<td>7 Low – income household engagement</td>
<td>7</td>
</tr>
<tr>
<td>8 Securing safety of building</td>
<td>8</td>
</tr>
<tr>
<td>9 Measures of engagement of the banking sector</td>
<td>9</td>
</tr>
<tr>
<td>10 Enhancement of competition</td>
<td>10</td>
</tr>
<tr>
<td>11 Sustainability</td>
<td>11</td>
</tr>
<tr>
<td>12 Feasibility</td>
<td>12</td>
</tr>
</tbody>
</table>

Figure 6. Average Deviation of Total Rate Revised from Total Rate Basic, %

\(^{33}\) Basic final estimationная – received while taking into account all twelve criteria
Therefore, mostly changes in models estimations are happened while excluding the criteria of model execution as well as criteria of promoting the competition and the resistance of the model. However, one can not consider the indicator of the average deviation as a reflection of the value of criteria of models distribution as a result of estimations since the change in estimation from 3% up to 5% as compared to the basic estimation has minor influence on the result of places distribution in the models ratings. As it was said earlier, excluding the criteria of model execution resulted in changing the models places at the 4th and 5th places. The change in model places – the leaders of the ratings happens while excluding criteria from the group of average as well as from the group of low average deviations of the estimations.

**Conclusion:**

- Evaluation of potential mechanisms of financing capital repairs and energy saving in apartment buildings is provided on the basis of criteria formulated proceeding from necessity to create sustainable system which allows to have the apartment building repaired/renovated at any moment, pursuant to a decision of apartment owners who mobilise credit resources and state financial support, as well as to have the building safety provided in the event that owners of apartments failed to make a decision on repairs.

- Two models which are Model 4 «Voluntary payments» and Model 3 «Fund for building repairs» have got the highest rates. These two models keep the leading positions within the total rating of models even if any criteria are eliminated from evaluation matrix.

- Models ratings distribution constructed on the basis of completed evaluation is pretty stable and is not sensitive towards changing (elimination) of criteria. This evidences about the high extent of objectivity of evaluation completed.
PART II. RECOMMENDATIONS ON IMPLEMENTATION OF MECHANISMS OF FINANCING CAPITAL REPAIRS AND ENERGY-EFFICIENT MODERNIZATION OF APARTMENT BUILDINGS IN RUSSIA
SECTION II.1. RECOMMENDATIONS ON AN “OPTIMAL” MODEL FOR FINANCING CAPITAL REPAIRS OF APARTMENT BUILDINGS

Assessment of the proposed models enabled to identify proposals that meet, to the maximum degree, the earlier described criteria, and accordingly, comply with the goal of establishing a sustainable organizational and financial system for capital repairs funding.

Based on such proposals and with due account for the necessity of preparing a more detailed description of different proposals, the Consultant offers in this section an “optimal” model of financing capital repairs and enhancing the energy efficiency of apartment buildings. This “optimal” model contains conceptual proposals (and some recommendations on their implementation) with regard to obligatory participation of owners in financing capital repairs of apartment buildings, mobilization of loans from commercial banks to finance capital repairs (renovations) of apartment buildings, measures of state support of housing owners in the process of capital repairs (renovations) of apartment buildings. The optimal model is evaluated with the very same criteria that were used for the assessment of the proposed five models of financing capital repairs of apartment buildings.

The Consultant suggests that the optimal model be implemented in the Russian Federation. Toward this end, in the subsequent sections, we describe and analyze the possible barriers in the way of this model implementation as well as policy decisions needed for successful application of the proposals contained in the optimal model.

II.1.1. INTRODUCTION OF MANDATORY REGULAR PAYMENTS BY OWNERS FOR CAPITAL REPAIRS

II.1.1.1. Establishment of a fund for building repairs

It is suggested that the obligation of owners of premises in each apartment building to establish a fund for the building repairs should be secured by the law, which will enable them to create a reserve for capital repairs.

A subject of the RF, acting according to the rules approved by the Government of the RF, shall establish:

- a mandatory minimum size of the fund for the building repairs as a percentage (for example 10%) of the standard cost of comprehensive capital repairs of an apartment building set by a subject of the RF, which capital repairs are aimed at securing the safety and energy efficiency of the building (possibly, the cost of such repairs can be differentiated for municipalities on the territory of a subject of the Russian Federation and types of apartment buildings – by design and floor plan parameters and level of improvements);

- a minimum mandatory monthly payment for capital repairs of a building estimated per one square meter of premises of an owner in an apartment building.

If the assets of the fund for repairs are expended for the purposes selective repair works before the fund for building repairs reaches the threshold set for its minimum size, owners of premises in the apartment building shall be obliged to supplement the expended assets of the fund. In this case the monthly mandatory payments amount is kept intact. Once the fund for repairs reaches the minimum threshold set for its size, the assets from this fund can be expended for specified purposes with subsequent restoration of the minimum size of the fund for repairs via making
monthly mandatory payments.

**Entities that manage apartment buildings** (HOAs, management organizations) and management organizations responsible for the maintenance of an apartment building if it is managed directly by owners of premises are obliged to:

- **collect mandatory minimum payments for capital repairs** set by a subject of the RF during the whole period before the fund for building repairs reaches the established mandatory size;
- **open a bank account separate for each building** to accumulate the assets of the fund for building repairs, which is created out of payments by owners of premises towards capital repairs, and remit on this account the payments collected for capital repairs;
- **take actions, secured in the law, against owners of premises who fail to meet their obligations with regard to making mandatory payments for capital repairs and other mandatory payments**;
- **regularly submit to owners** of premises in an apartment building the **information on the condition of the fund for building repairs**, and on whether its size corresponds to the set requirements (and the decision of owners of premises);
- **remit the money from the fund for building repairs** to a separate bank account opened by a new manager in the event that the management of the building is assigned to another entity (when the method of management changes or a management organization is replaced); and **submit to the new manager the information** about the fulfillment of obligations by owners of premises in the apartment building with regard to making payments for capital repairs.

**An authorized body of the subject of the RF (housing inspection) shall be entitled to:**

- exercise control over the drawing up of the Fund for repairs in the apartment building;
- take administrative measures envisaged by the law against entities managing ABs for failure to conduct activities aimed at the drawing up of the Fund for repairs.

**Owners of premises in an apartment building**, subject to a resolution by their general meeting, shall be entitled to:

- establish a larger size of the fund for building repairs and/or a larger amount of payment for capital repairs than those established by a subject of the RF.

**II.1.1.2. Ownership of the assets of the fund for building repairs and disposal of these assets**

To establish the **legal status and the purpose of the assets** accumulated through mandatory payments by owners of premises for capital repairs of their building, it is proposed to **secure in the law** that:

- **the assets** accumulated through payments by owners of premises in an apartment buildings for capital repairs shall be **targeted assets commonly owned by owners of premises in this building to be used to cover their common expenditures for financing capital repairs (energy efficient renovation) of the building**;
- **once the right of ownership to the premises in** the apartment building is terminated, **the money** contributed by the owner of premises into the fund for the building repairs **shall not be refunded** to him, and **the obligations of this former owner** with regard to making an established payment for capital repairs of the building **shall be transferred to the new owner** of the premises;
the distribution of assets of the fund for apartment building repairs between owners of premises proportionate to their share in the common equity ownership (with due account for their actual contribution to the establishment of the fund) is possible only in case that there is a decision on the demolition of the building recognized as unsafe and not eligible for capital repairs (renovations), as well as in case when owners of premises decide that the apartment building should not be rehabilitated if it was destroyed as a result of a natural or production induces calamity. At the same time, all expenditures related to the demolition of the apartment building should be covered prior to the distribution of the money sitting in the fund for building repairs and refund of the owners of premises.

To set apart the payments made by owners of premises towards capital repairs of their building from the money of each owner of premises and from the money of other entities/persons (owners of premises in other apartment buildings, HOAs, management organizations), it is suggested that a specific type of a bank account should be secured in the law, an account for accumulating the funds for capital repairs of the building - a nominal bank account.

A nominal bank account is opened by a bank for a client (owner of the account) for conducting operations with the monetary assets not owned by the client (owner of the account). The right of the owner of the account to dispose of the money sitting on it is restricted by the law and bank regulations. The money on the nominal account cannot be used to satisfy any claims under the obligations of the owner of the account.

In the context of the assets of the fund for building repairs, the opening of a nominal bank account means that:

- the owner of a nominal bank account is an entity that manages the apartment building – a management organization or a HOA, and the money on this account belong to the owners of premises in the apartment building, for capital repairs of which the fund was established and this account was opened;

- the address of the apartment building should be used in the details of the nominal bank account;

- it will be possible to use the money sitting on this account only pursuant to a relevant decision by the general meeting of owners of premises in a particular apartment building (and on the basis of a court ruling in cases specified in the law);

- the law defines the procedure for transfer of money from one nominal account to another nominal account in the event of changes in the method of managing the apartment building or if the management organization is replaced by another one.

The assets of the fund for apartment building repairs in the amount established by a subject of the RF, which are placed on a nominal bank account, should be protected against a possible bankruptcy of the bank where this nominal account was opened, in a manner similar to the one applied when protecting citizens’ savings on bank accounts.

II.1.3. Targeted use of the savings accumulated through mandatory payments by owners for capital repairs of their building

To ensure the targeted use of the assets of the fund for building repairs accumulated through mandatory payments by housing owners for capital repairs, it is suggested that it should be secured by the law, what types of expenditures can be covered by these assets.
It is recommended to secure in the law that the money of the fund for building repairs can be used to cover all types of expenses related to capital repairs (replacement) of elements of the common property, to renovation of the apartment building, response to accidents and prevention of those, if no payment for management, maintenance and current repairs of the common property in an apartment building has been established:

- energy and special technical inspection of an apartment building (with the exception of the annual technical inspection of common property to be carried out by an entity (person) managing the apartment building in compliance with the Rules for common property maintenance in an apartment building);
- development and approval of project documentation to carry out capital repairs (renovations) of an apartment building;
- implementation of capital repair works (renovations) of an apartment building;
- technical supervision of capital repair works (renovations) of an apartment building;
- repayment of credits (loans) made available to finance capital repairs (renovations) of an apartment building;
- implementation of urgent works to eliminate the threat to the safe occupancy of an apartment building, prevention or response to accidents and their consequences, if payment for these works was not envisaged by the annual estimate of costs of maintenance and repairs of the common property in the apartment building, or if the current payments are not sufficient for payment for these works (the procedure for making a decision on the use of the assets of the fund for building repairs as payment for urgent works is defined by the law or resolutions of the RF Government); on elements of common property in an apartment building;
- demolition of an apartment building in the event that it is declared unsafe and not eligible for rehabilitation (renovations).

II.1.1.4. Making a decision on implementation of capital repairs and use of the assets of the fund for building repairs

According to the effective legislation, the approval of the decision about capital repairs and renovations of an apartment building is within the competency of the general meeting of owners of premises in the apartment building (Housing Code, Art.44, part 2, clause 1).

To efficiently implement this provision, it is recommended to augment the legislation with the following clauses:

- about the obligation of the entity managing an apartment building (HOA, management organization) to conduct regular inspections of the common property, evaluate its technical condition, compliance with mandatory safety requirements (including compliance with the requirements to energy efficiency), and to prepare for the owners of premises the information and proposals enabling them to pass a decision on conducting capital repairs/renovation of the building (on the condition of the building, prioritization and complex of the works, cost, timeline for execution of works, expected effects from the repairs, methods of financing, possible measures of budget support, etc.).
• **about the reduction of the number of voices needed for making decisions on** the implementation and financing of capital repairs to the level of simple majority;

• **about the introduction of an administrative responsibility of** entities managing apartment buildings for failure to inform the owners of premises about capital repairs and to organize the process of making a decision on the execution of capital repairs;

• **about the competency of the bodies of state housing supervision** – in the event that the owners of premises in the apartment building failed, within an established period of time, to make a decision on execution of capital repairs of the common property in accordance with the resolution of the body of state housing supervision on the necessity to address the discrepancy with the mandatory requirements to the building safety, this body of state housing supervision is entitled to take administrative measures against the owners of premises and/or the entity managing the building; moreover, if necessary, the state housing supervision body can go to the court with a request to pass a ruling empowering the entity managing the apartment building to use the assets of the Fund for building repairs towards financing the works needed to remove the threat to the safety of the building, and forcing the owners of premises to make additional necessary payments to cover the cost of such works.

II.1.1.5. Measures related to the fulfillment of obligations of owners of premises to make payments towards capital repairs of the apartment building

To enable HOAs and MOs to exact the established mandatory payments for capital repairs of an apartment building from the owners of premises in it, it is recommended to supplement the Russian legislation with the following provisions **defining the rights of an entity managing an apartment building** (a HOA or MO) with regard to a delinquent owner of premises who failed to make a mandatory payment towards capital repairs of the building:

- if his delinquency is **within the range of 3 to 6 months**:
  - to limit or halt the electricity and/or gas supply to him;
  - based on a court ruling, to foreclose on the wages and other income and property of the debtor;

- if his delinquency is **within the range of 6 to 12 months**:
  - to register the pledge of the owner’s premises in the Unified State Register of Rights to Real Estate and Transactions Herewith (USRR) (as a result, the sale of the premises is impossible without the repayment of the debt);

- if his delinquency **exceeds 12 months**:
  - Based on the court ruling, to foreclose on the delinquent owner’s premises.

In the event that the foreclosed premises is the only place of residence of the owner and his family, the legislation can provide that a court ruling can oblige the local self-governance body, law enforcement officer or entity managing the building to use the proceeds from the sale of the property and the money left after the repayment of debt towards the purchase of another residential premises for the purposes of providing the latter to the former owner under a tenancy (“naim”) agreement (requirements to the floor space and improvements of such premises shall not be established).
In the event that a municipality has a municipal housing stock that can be provided under tenancy agreements, and the owner, whose property was foreclosed on, falls in the category of low-income households, a court may rule that the local self-governance body is obliged to provide to the former owner some premises under a tenancy agreement without the right to privatized the premises.

To efficiently implement the measures of exacting the debt the following is required:

- prompt court proceedings on the claims of HOAs and MOs against delinquent owners;
- prompt enforcement of court rulings.

In addition, to address the problem of delinquency of owners of premises with regard to mandatory payments, the following is required:

- development of municipal housing, which could be provided under social tenancy (“naim”) agreements to the households that find it burdensome to maintain a housing of their own;
- the possibility for pensioners to sign a reverse mortgage agreement with a bank.
Recommended mechanism for financing capital repairs from homeowners funds

- Establishing the fund for building repairs is the responsibility of homeowners
- A decision on a mandatory size of the fund for building repairs and the amount of a mandatory payment shall be made by a subject of the Russian Federation at the initiative of owners
- Prescribed amount of mandatory accumulation funds (minimization of inflation-related losses)
- The money of the fund for capital repairs is common resources of owners
- Special regime for the bank account (the money is not owned by the owner of a bank account)
- A possibility of carrying out capital repairs pursuant to a court ruling in the event that owners failed to make their decision

Figure 7. Recommended mechanism for financing capital repairs from homeowners funds
II.1.2. COMMERCIAL BANKS LOANS FOR CAPITAL REPAIR (RENOVATION) APARTMENT BUILDING FINANCING

The proposed “optimal” capital repair financing model assumes that banking loans will be the main source of comprehensive capital repair financing and energy efficient apartment building modernization in Russia; these loans will be secured by mandatory apartment owners capital repair payments.

Main elements of capital repair financing system:

- **The decision about the loan** for an apartment building capital repair is made by apartment owners of this building based on a list of works, repair schedule and its cost, prepared by the manager of the apartment building (HOA or managing company);

- Apartment owners make a decision about the loan at the general meeting by majority votes (the sufficient number of votes for making a decision should be stipulated by the law, the recommending amount of votes - more than 50 percent of the total amount of owners votes in an apartment building);

- **The loan borrower** is an entity that manages apartment building (HOA or managing company) acting by the apartment building general meeting decision;

- **The loan payoff is made from apartment owners capital repair payments**, the necessary amount of which are defined by the apartment owners general meeting in the building (general meeting decision provides the right to the bank for monthly funds withdrawals to payoff the loan by using the banking account where apartment owners capital repair payments are received);

- **The loan** is provided without apartment building owners property collateral in the building, to HOA or managing company without individual apartment owners guarantees (secured by apartment owners capital repair payments);

- By the bank request the guarantee of loan is provided by the specialized guarantee agency created with the government support;

- The guarantee covers the most part of the loan (75-80%);

- The guarantee of the loan is provided by the guarantee agency at the cost (1-2 % of loan amount secured by the guarantee).

**The guarantee agency** can be created as:

- Federal guarantee agency (at the basis of reorganized state corporation – The fund of promoting the reform of housing and utilities infrastructure) with a network of branches in constituent entities of Russian Federation;

- Regional guarantee agency.

**The goal of creating the guarantee agency** – development of a new popular credit product in the banking sector for capital repairs and energy efficient upgrading of apartment buildings.

**The tasks of the guarantee agency** are:

At the first stage:

- Creating requirements for apartment building capital repair (renovation) projects in order to obtain loan guarantees;

- Creating requirements to the loan borrower to obtain loan guarantees;
Providing sureties to commercial banks under loans for the apartment building capital repairs (renovation).

In long-term it might be possible:

- To raise the funds of international financial institutions and institutional investors;
- To provide commercial bank credit lines to finance the energy efficient housing stock renovation.

**The guarantee agency requirements to the** apartment building capital repair (renovation) **projects** to obtain the loan guarantee may be the following:

- The apartment building capital repair (renovation) project should provide safety and(or) energy efficiency requirements of the apartment building
- The works/measures mentioned in an engineering survey and (or) energy survey of the building (and recommended by the energy auditors for similar buildings) should be included in the list of works of the project;
- The apartment building capital repair (renovation) project (a list of works and their cost) should be approved at the apartment owners' general meeting in the apartment building.

**Guarantee agency requirements to the borrowers** of the loan to obtain the guarantee of low risks for the agency may be the following:

- **Financial requirements:**
  - **Financial discipline of apartment owners** (collectability of payments is not less than 95%);
  - **The size of repair fund before financing** (not less than 10 - 20% of the capital repair cost of the project + unspent balance in the amount of 3 months loan payment);
  - **The amount of apartment owners payments into the building repair fund ensures the loan payoff** taking into account the level of collectability of mandatory payments (monthly payments into building repair fund should exceed monthly loan payments for no less than 15%);
  - Apartment building insurance for the duration of the loan;

- **Administrative requirements:**
  - HOA consists of the same building apartment owners (**more than 80% owners are members of HOA**);
  - HOA has the working experience of no less than 6 - 12 months;
  - HOA has no past due financial obligations for taxes, fees and utility bills;
  - The funds for building repair are held at the separate account opened by HOA
  - The HOA account is opened in a lending bank;
  - All decisions in regards to the apartment building capital repair (renovation) are made at the general meeting and the amount of votes in decision making is in correspondence with the legislation;
• The contractor for the works (not less than from 3 quotes) is chosen and the preliminary contractor agreement is signed;

• The inspection entity is chosen.

The guarantee agency established at the federal level can also play the substantial role in housing legislation improvement to develop the system of the housing fund energy efficiency renovation financing. Besides, the federal guarantee agency may run the state programs for capital repair support and housing fund energy efficiency improvement.
FUND OF FINANCIAL INSTITUTIONS
Recommended mechanism for taking out loans from commercial banks for financing capital repairs

- Decision on raising a loan shall be made by a general meeting of owners
- HOA, MO are borrowers under loans, but owners assume loan payment obligations
- Loan “against a financial flow” + a surety by a guarantee agency
- Federal Guarantee Agency prepares requirements to borrowers and projects; designs legislative proposals

Figure 8. Recommended mechanism for taking out loans from commercial banks for financing capital repairs
II.1.3. **State Support of Residential Owners During Apartment Building Capital Repair (Renovation)**

The proposed model of capital repair and energy efficiency improvement of apartment buildings assumes the state support for the three following directions:

- institutional support;
- budget support;
- information and methodology support.

The **institutional support** is the state participation (the participation of the subject/subjects of the Russian Federation) in creating of dedicated financial institutions to develop the system of lending for the purposes the housing stock capital repair (renovation), i.e. guarantee agencies providing sureties on loans to HOA and managing companies, as well as raising the funds for housing stock renovation at the financial markets.

The **budget support measures** are directed at state promotion of the capital repair of the large scale and apartment buildings energy efficiency renovation.

The proposed measures of the budget support include:

- subsidies to legal entities – home owners associations and managing companies;
- subsidies to banks to lower capital repair interest rates for launching the financing program to increase visibility and loans availability for residential owners\(^{34}\);
- subsidies to owners – low income population.

### II.1.3.1. Subsidies to Home Owners Association and Managing Companies

Budget support (subsidies) to HOA and managing companies shall be provided on the basis of the following principles:

- **support of homeowners’ initiatives** (subsidy is provided only if owners of premises independently took a decision on carrying out rehabilitation and financing thereof from own and borrowed funds);

- **support of comprehensive rehabilitation** aimed to enhance energy performance of apartment building or renovations of the building (comprehensive repairs, building renovations require substantial investments and, consequently, subsidies will further fundraising);

- **subsidy amount** shall depend on the achieved outcome of energy efficiency improvement;

- support of competition on the market (contractors and service providers shall be selected by homeowners partnerships and management organizations on a competitive basis).

Budget support (subsidies) to owners of premises in apartment building when their carrying a burden of financing (from their own and borrowed funds) rehabilitation works shall be provided on the basis of the following principles:

- **support of homeowners’ initiatives** (subsidy is provided only if owners of premises independently took a decision on carrying out rehabilitation and financing thereof from own and borrowed funds);

- **support of comprehensive rehabilitation** aimed to enhance energy performance of apartment building or renovations of the building (comprehensive repairs, building

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\(^{34}\) The economic efficiency of this measure is dubious, but it’s in great political demand.
Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support

Renovations require substantial investments and, consequently, subsidies will further fundraising;

- **subsidy amount** shall depend on the **achieved outcome** of energy efficiency improvement;
- support of competition on the market (contractors and service providers shall be selected by homeowners partnerships and management organizations on a competitive basis from several bidders).

**Types of subsidies for HOA and managing companies:**

- The subsidy for the apartment building energy audit and development of the apartment building capital repair (renovation) engineering documentation.

This subsidy is most important during the first stage of developing the housing fund energy efficiency renovation programs to gather information about different types of building defects that result in increased energy consumption, about the set of works and measures to reach the maximum level of energy efficiency, about the most efficient decisions of the projects. The energy audit report and the submission of the building renovation project to the authorized state agency to create the data base for housing stock energy efficiency modernization should be the condition of providing this type of subsidy.

- The subsidy for capital repair (apartment building renovation):
  - The subsidy for **apartment building with long lifetime** where urgent capital repair works are required to restore the safety living conditions of the building, whose repair fund does not yet reach the amount necessary to obtain the loan (the subsidy is provided in order to reach the total amount of apartment owners own capital accumulated in the repair fund and the amount of subsidy of total repair satisfy the banking requirement to provide the loan);

This type of subsidy is of a special purpose, it is provided to repair the buildings whose owners due to the poor technical condition of the building do not have time to accumulate necessary funds in the building repair fund to obtain the loan for repair.

  - The subsidy that **promotes** the apartment building owners to make capital repair decisions with loan financing (subsidies are provided to HOA and managing companies who are the first to request capital repair loans based on apartment owners decisions provided that the repair cost, for example, is less than 1 thous. rubles per 1 square meter of space in apartment building and the loan share in project financing is less than, for example, 50%);

This type of subsidy if very important at the first stage – launching of capital repair financing programs – to attract attention of apartment owners to the new possibilities of capital repair financing. The amount of budget funds for these types of subsidies is limited and the apartment owners should be broadly informed of this. The amount of this type of subsidy may reach, for example, 10-15% of the capital repair cost.

  - The subsidy that **promotes energy efficiency renovation** of apartment buildings (the subsidy is provided only for the projects of comprehensive building capital repair (renovation), its amount depends on the increase of energy efficiency (class of energy efficiency) of apartment building;

The amount of this type of subsidy should be significant for apartment owners (to create stimulus to building energy efficiency renovation), but should not exceed the share of repair financing of the owners themselves at the cost of their own and loan finances (from 20% to 40% depending...
on the result). The amount of subsidy is defined in accordance with the planned renovation project energy savings (calculated change in the class of building energy efficiency). The energy auditor is responsible for reaching the planned energy savings result in accordance with energy savings report recommendations and measures. The condition of loan financing is the submission of annual energy consumption reports by the building manager to the authorized state body within several years after completion of the project in order to create the data base for energy efficient housing fund modernization.

A budget subsidy shall be granted to a homeowners association or management organization in the event that the package of application documents submitted to an authorized local governance body or to a subject of the Russian Federation contains documents proving that a HOA or a MO have contracted an organization, which will perform capital repairs (renovations) of a building, on competitive basis out of at least three \(^ {35} \) bidders. Such documents submitted by a HOA or a MO can include: copies of bids submitted by competing organizations: copies of reports (protocols) issued by a HOA or a MO on the assessment of bids; a copy of the protocol of the meeting of the management board of the HOA held to select a contractor, or of the protocol of the meeting of the building Council held to decide whether to participate or not in the process of selecting a contractor.

Budget subsidy for HOA and managing company is provided in accordance with the following:

- the decision about the budget subsidy is made before the beginning of the repair (before signing of the loan agreement);
- the subsidy funds are transferred to the subsidy recipient after completion and acceptance of works for the last payment to the contractor taking into account the amount of capital repair expenses rather than the amount defined by the decision to provide a loan.

In order to provide budget support measures it is proposed to provide a legal right to the constituent entity of Russian Federation to provide apartment buildings capital repair (renovation) subsidies within the regional programs.

II.1.3.2. Subsidies to owners – low income population

In order to create the possibility for low income apartment owners to participate in capital repair (renovation) financing it is proposed:

- to extend the current program of housing allowances by including mandatory payments for capital repairs in the subsidized expenditures of owners of apartments;
- to recommend to subjects of the RF to take additional state support measures to low-income apartment owners when they finance comprehensive apartment building capital repair (renovation):
  - provide subsidies to low-income owners enabling them to participate in the drawing up of the capital repair fund required for obtaining a loan;
  - provide a subsidy to repay the interest rate on the loan originated to low-income apartment owners.

The alternative measures in regards to low income apartment owners may be the following:

\(^ {35} \) If there is no enough supply of housing maintenance and construction companies in a small municipality, the number of competitive proposals can be limited by 2.
to legally establish the de-privatization possibility by owners request (transfer into mutual property) of residential premises after the expiration of the law “About privatization of the housing fund in Russian Federation” as well as regardless of the method of obtaining the residential premises into their ownership (privatization, purchase-sales, gift, inheritance, etc.)

• to legally establish the possibility of “reverse mortgage” (lifetime rent) for retired population.

II.1.3.3. Information and methodology support

• **Provision of information to apartment owners:**
  - About legislation requirement in regards to safe and energy efficient condition of residential buildings;
  - About the responsibilities of apartment owners and entities that manage the apartment buildings, to ensure the safety and energy efficiency of residential buildings;
  - About the advantages of energy savings, comprehensive renovation of apartment buildings;
  - About possibilities and conditions of obtaining the loan financing and budget support for apartment buildings capital repair (renovation);
  - About the best practice of housing fund energy efficient renovation.

• **Methodological support of HOA and managing companies:**
  - Distribution of the energy audit results of the typical apartment buildings, recommendations for a set of works and measures of reaching energy savings and decreasing the payment amounts of utility bills;
  - Development and distribution of project decisions to conduct the typical apartment buildings renovation;
  - Consulting and methodological recommendations, sample forms of documents, efficiency costs calculations to develop the proposals to owners to make the decision about comprehensive apartment building capital repair (renovation), submission of loan applications, budget support and other questions;
  - The conduct of broad training of managers and HOA representatives, apartment building boards.
FEDERAL GUARANTEE AGENCY
(restructured Housing and Utility Fund)

BANK

HOA, Management organization

MUNICIPALUTY

REGIONAL BRANCH

SUBJECT OF THE RF

RUSSIAN FEDERATION

Contributions to start-up capital

Funds allocated for subsidizing capital repairs

Subsidies for reducing an interest rate on a loan

Subsidies to low-income owners

Nominal bank account for assets accumulated in the fund for building repairs

Payment for repairs

Subsidies for support of comprehensive repairs

• Institutional support
• Budget support (subsidies)
• Information and methodology support

Figure 9. Recommended mechanism for providing the state support
Suggested Optimal Model for Financing Capital Repairs of Apartment Buildings in Russia

RUSSIAN FEDERATION
- Contributions to start-up capital

FEDERAL GUARANTEE AGENCY (restructured Housing and Utility Fund)

REGIONAL BRANCH
- Surety

SUBJECT OF THE RF
- Subsidies for reducing an interest rate on a loan
- Funds allocated for subsidizing capital repairs

MUNICIPALITY
- Subsidies for support of comprehensive repairs
- Subsidies to low-income owners

BANK
- Nominal bank account for assets accumulated in the Fund for building repairs
- Application for surety

HOA, Management organization
- Capital repairs finance

COURT
- Oversight

HOUSING INSPECTION
- Payment for repairs

Figure 10. Suggested optimal model for financing capital repairs of apartment buildings
II.1.4. EVALUATION OF OPTIMAL MODEL FOR FINANCING CAPITAL REPAIRS OF APARTMENT BUILDINGS

The suggested “Optimal” Model of financing capital repairs and energy-efficient renovation of apartment buildings was developed with regard to different models’ components which to the most significant degree meet objectives of creation of stable organizational and financial system. Below the suggested “optimal” model is evaluated against the criteria described in Section I.1 of the Report.

II.1.4.1. Evaluation of optimal model according to institutional criteria

- **Criterion 1. Owner engagement**: to what degree does the model require the involvement of owners in the decisions re renovation?

The Optimal Model envisioned introducing the legal requirement for the owners of premises to create the repair fund for each building. The required minimal amount of the repair fund for the building and the minimal mandatory payment for repairs is defined by the constituent entity of Russian Federation. The owners of premises can make a decision to establish a larger payment for repair and a larger repair fund. All decisions in regards to the repair of the building are being made at the general meeting of owners of premises.

*The level of owners’ engagement in making decisions for capital repair is very high, though limited as to defining minimal amount of the repair fund; score is 4 points.*

- **Criterion 2. Simplicity of decision making**: to what degree does the model present a transparent and enforceable structure of making and implementation of decisions about capital repairs of apartment buildings?

In accordance with the Optimal Model the capital repair payments are owned by all owners of apartment buildings and received on the escrow account of the building. The capital repair decision is made by the general meeting of apartment owners. Accumulated funds are easily accessible for owners’ decisions execution. The Model provides the transparency of decision and sufficient level of execution simplicity. Besides, it contains the additional proposals to simplify the capital repair decision making procedure (decreasing the number of votes required for making decision on capital repair in comparison to the current legislation norms) as well as proposals to strengthen the legal measures for non-payments.

*The measures proposed in the model should provide the opportunity to make capital repair decisions based on openness and transparency taking into account the opinions of the majority of apartment owners in the building and ensure the execution mechanism of these decisions; score is 5 points.*

- **Criterion 3. Protection of owners’ capital**: to what degree does the model provide for protection of owners’ savings for capital repairs against unauthorized utilization?

The Optimal Model assumes that accumulated capital repair are the common property of apartment owners of the building and the decisions of their usage can be made only by owners themselves at the general meeting. The special regime of the banking account where the funds are being accumulated ensures the impossibility of unauthorized usage of these funds. The model proposed to limit accumulation period and minimization of the mandatory amount of the repair fund that decreases the inflationary losses. The model proposes the introduction of statutory measures to ensure the mandatory capital repair payments collection. The model proposed also to regulate order of transfer of funds from one escrow account to another escrow account if method of building management or management organization was changed.
The legal ownership and safe keeping of owners funds are insured by establishing the special regime of the banking account. The inflationary losses risks are minimized by mandatory capital repair funds accumulation. The introduction of mandatory payments collection measures is proposed. The score is 5 points.

- **Criterion 4. Securing safety of building:** to what degree does the model provide the safety of the building, in the event that owners of apartments failed to make a decision on repairs?

The Optimal Model envisions that in case of unsafe living conditions findings the government inspection should instruct the apartment owners to liquidate this danger. In the event that the owners of premises in the apartment building failed, within an established period of time, to make a decision on execution of capital repairs of the common property, the bodies of state housing supervision is entitled to take administrative measures against the owners of premises and/or the entity managing the building; moreover, if necessary, the state housing supervision body can go to the court with a request to use the assets of the Fund for building repairs towards financing the works needed. Besides, the Optimal Model suggests introducing administrative responsibility of entities managing apartment buildings for failure to inform the owners of premises about capital repairs and to organize the process of making a decision on the execution of capital repairs.

The decision making mechanism in case of unsafe living conditions and owners failure to make a repair decision is defined. The score is 5 points.

**II.1.4.2. Evaluation of optimal model according to financial criteria**

- **Criterion 1. Access to finance:** to what degree does the model mobilize credit/private finance?

The Optimal Model relies on a mechanism of financing the capital repairs by using a combination of the owners’ accumulated funds and credit resources (a loan taken out from a commercial bank), while the share of loans in total financing within the model make them a principal source of financing. The model envisages the possibility for homeowners associations and management organization to raise loans (on behalf of owners), and contains proposals aiming to adjust current law in part of ensuring the availability of such loans (i.e. ensuring a better and wider loan security, enhancing the reliability of homeowners associations and management organizations as borrowers, mitigating the risks of commercial banks with regards to the loans which are paid off from the payments made by many owners, including the guarantees provided by dedicated financial institutions as well as measures involving the enforced collection of the owners’ debts, reducing interests rates on the loans originated for the owners of premises).

The degree of availability of loan resources within the model is very high; the evaluation score is 5 points.

- **Criterion 2. Measures of engagement of the banking sector:** to what degree does the model facilitate the engagement of the banking sector for the purpose of originating loans for capital repairs?

The Optimal Model contains a set of proposals aiming to pave the way for mitigating the risks of commercial banks associated with lending to homeowners associations for the purpose of financing the capital repairs. These proposals envisage the provision of a possibility to a lending bank to make sure of a borrower’s payment discipline, and monitor the receipt of payments on
the account of a borrower. The proposals also give consideration to the measures with regard to mandatory collection of the owners’ debts. The model also suggests that guarantees of dedicated financial institutions (guaranteed agencies) should be introduced to the practice of lending. Additionally, the model embraces the proposals on legislatively improved sustainability of homeowners associations and their reliability as borrowers.

The model contains detailed proposals to ensure the engagement of banking sector in extending loans for capital repairs of apartment building; the score is 5 points.

II.1.4.3. Evaluation of optimal model according to state policy criteria

- **Criterion 1. Enhancement of energy efficiency:** to what degree does this model prioritize the enhancement of energy efficiency in apartment buildings and comprehensive repairs of the latter?

The model advocates the allocation of budget funds to owners of premises and / or associations of owners of premises for the purpose of capital repairs of and enhancement of energy efficiency in apartment buildings. The model envisages that budget funds (in the form of subsidies) that promote energy efficiency renovation of apartment buildings should be granted for the purposes of financing comprehensive capital repairs and renovation of apartment buildings while its amount depends on the increase of energy efficiency (class of energy efficiency) of apartment building. Moreover, the model envisions to allocate subsidies for the apartment building energy audit and development of the apartment building capital repair (renovation) engineering documentation.

The model suggests that the amount of a budget subsidy should be proportional to the achieved result of energy saving, and contains recommendations as to how implement the proposal; the score is 5 points.

- **Criterion 2. Enhancement of competition:** to what degree does the model provide for enhancement of competitive selection of the executor of capital repairs by apartment owners?

The Optimal Model envisages the allocation of budget funds to owners of premises and / or an association of owners in the event that an executor of works and services is selected on the competitive basis from several bidders.

The model has a proposal and recommendations on how to encourage the competition in the housing sector, the score is 5 points.

- **Criterion 3. Low-income households engagement:** to what degree does the model allow the low-income households to receive specific state support enabling them to pay for the capital repairs of the building?
The Optimal Model suggests that every owner of premises, including those with low income, should be engaged in financing the capital repairs. Therefore, the model provides for allocating the state support, in the form of budget subsidies, to low-income owners to finance the costs of capital repairs of common property in an apartment building. To that end, it is suggested that current program of subsidizing the housing and utility payments should be extended. Besides, the model suggests additional measures of support in the form of subsidies to low-income owners enabling them to participate in the drawing up of the capital repair fund required for obtaining a loan, and subsidy to repay the interest rate on the loan. The model also proposes alternative measures (possibility to deprivatize a unit by owner’s request regardless of the method of obtaining the residential premises into their ownership (privatization, purchase-sales, gift, inheritance, etc.), and possibility of “reverse mortgage” (lifetime rent) for retired people.

The proposes significant support measures for low income and socially vulnerable owners; the evaluation score is 5 points.

II.1.4.4. Evaluation of optimal model according to general criteria

• **Criterion 1. Sustainability of the model:** to what degree is the model sustainable within a mid-term (5-10 years) period? In other words, does it allow to provide for sufficient financing of capital repairs in future?

The Optimal Model relies on a vast engagement of financial institutions in lending for capital repairs of apartment buildings. The international practice proves the models of this type to be sustainable, and, more than that, their application entails a so-called “chain reaction” effect according to which the very first successful results provoke interest on the part of an increasingly large number of potential participants.

The model is highly sustainable due to developed lending instruments; the score is 5 points.

• **Criterion 2. Flexibility of the model:** to what degree does the model allow flexibility so buildings can be renovated at any appropriate time?

The Optimal Model assumes that a decision-making on capital repairs, their scope and schedule, is, definitely, in the domain of owners, and depend only on their financial and organizational capacity, rather than on the model itself. So, it should be recognized that the model is, in a great measure, flexible on the part of owners of premises in apartment buildings; the score is 5 points.

• **Criterion 3. Feasibility of the model:** to what degree does the model require for serious institutional and legislative changes? Are the changes needed realizable in short-term period?

The Optimal Model entails utterly substantial legislative changes. These would also involve the changes to housing and banking laws. At the same time, necessity to establish liability of homeowners for condition of apartment buildings and financial participation of owners in buildings capital repairs and renovation is unconditional for Russian politics and experts, as well as necessity to certain state support of financing capital repairs.

In view of serious legislative changes, necessitated by the model, its feasibility deems rather unpractical; the evaluation score is 3 points.
Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support

Table 7. Results of evaluation of the Optimal Models

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<tr>
<th>Model</th>
<th>Institutional criteria</th>
<th>Financial criteria</th>
<th>Criteria for state policy on capital repairs and energy efficiency improvement</th>
<th>General criteria</th>
<th>Total score</th>
<th>Total rate adjusted for weights</th>
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II.2. DETAILLED ANALYSIS OF BARRIERS TO IMPLEMENTATION OF THE PROPOSED MODEL OF FINANCING CAPITAL REPAIRS AND ENERGY EFFICIENCY ENHANCEMENT OF APARTMENT BUILDINGS

Based on the analysis of various models for financing capital repairs of apartment buildings proposed for Russia and on best international practices, the Consultant proposed an optimal financing model described in Section II.1.

At the present time, both legislative and institutional barriers to implementation of the proposed model exist.

In this section the identified barriers to implementation of the proposed model of financing capital repairs and the required changes in legislation to overcome these barriers are described.

II.2.1. DECISION – MAKING ON CARRYING OUT AND FINANCING OF CAPITAL REPAIRS AND ENERGY EFFICIENCY ENHANCEMENT OF APARTMENT BUILDINGS

Issues relating to decision-making on carrying out and financing of capital repairs of apartment buildings are regulated by the Housing Code of the Russian Federation in sufficient detail. Other legislative acts stipulate mandatory requirements to the technical condition of buildings and their energy efficiency. However, the existing legislative regulations are not observed in practice. Recent changes introduced in the Housing Code designated the authorized public agency to carry out public housing supervision over compliance with mandatory legal requirements, i.e. the State Housing Inspectorate.

At the same time, there is a number of barriers to timely decision-making by residential property owners on carrying out capital repairs of a building and on securing of financing of capital repairs by payments from residential property owners.

Legislative barriers:

- Law of the Russian Federation "On Housing Stock Privatization in the Russian Federation" stipulates the obligation, however undefined in terms of the scope of obligations and range of beneficial owners, of former lessors of residential units in the state-owned and municipal housing stock to carry out capital repairs of apartment buildings. This causes groundless expectations of all owners of privatized apartments contemplating that their apartment buildings should be repaired by local authorities using budget funds.
- There are no requirements in the Housing Code as to mandatory payments by residential property owners for future capital repairs;
- Administrative responsibility of residential property owners is not established for default on obligation to properly maintain the common property in an apartment building and for failure to make a decision on carrying out capital repairs in cases where the condition of a building does not comply with safety requirements;
- There is no requirement in the legislation with regard to mandatory establishment of Homeowners' Associations in apartment buildings with residential units owned by different persons and with regard to mandatory participation of all residential property owners in a Homeowners' Association. As a result, a number of problems occurs related to the decision-making on capital repairs, accumulation of funds for repairs and raising loans. For example, in case a Homeowners' Association is established in a building, the decisions relating to capital repairs are made by two different bodies managing the common property in an apartment building:
- decisions on carrying out capital repairs/reconstruction of a building are made by the general meeting of residential property owners in an apartment building;
- decisions on approval of budget estimates and on the amounts of payments and contributions by residential property owners and also on raising a loan are made by the general meeting of members of a Homeowners' Association;
  • A high threshold is legislatively established for making a decision on carrying out capital repairs (reconstruction) of an apartment building (from two thirds to 100% of votes) which creates difficulties in making the required decisions;
  • There is no established procedure for state authorities or local authorities with regard to decision-making on carrying out works required to eliminate the danger to safety of dwelling, in case residential property owners failed to make a required decision.

**Institutional barriers:**
- The state policy for implementation of reforms in management of apartment buildings is inconsistent, a paternalistic approach prevails along with the desire to place decisions related to management of apartment buildings which are to be made by owners on authorities along with the responsibility for carrying out capital repairs.
- Residential property owners in apartment buildings are poorly informed about their responsibility for the condition of the common property and they believe that the responsibility for carrying out capital repairs in apartment buildings rests with local authorities (the state) and get permanently confused by mass media;
- Homeowners' Associations have not yet become a prevailing form of self-organization of residential property owners for decision-making on common property management;
- Residential property owners in apartment buildings not associated in HOAs are disunited and practically do not participate in common property management and do not make the required decisions on carrying out capital repairs, energy-saving measures and accumulation of funds for future repairs;
- The management companies usually operate in compliance with the same principles as public utility companies and do not request residential property owners to plan capital repairs (reconstruction) of buildings and to accumulate the required funds for such repairs by means of a capital repairs charge established by the general meeting.

**II.2.2. THE STATUS OF HOMEOWNERS ASSOCIATIONS (HOAs) AND MANAGEMENT COMPANIES**

Currently neither HOAs nor management companies represent legal entities which could be reliable borrowers under loans for capital repairs or reconstruction of apartment buildings on which accounts the funds from residential property owners accumulated for future repairs could be safely kept.

**Legislative barriers:**
- The Russian legislation makes a HOA an unstable entity and, respectively, an unreliable borrower from the viewpoint of banks, since a HOA as a legal entity may be liquidated by a decision of residential property owners in an apartment building in case
  o HOA-members have less than 50% of the total number of votes of residential property owners in an apartment building (as a result of cessation of membership in a HOA by a part of residential property owners);
  o the general meeting of residential property owners in a building makes the decision to change the method of management.
• Lack of liability of HOA-members (residential property owners in an apartment building) for obligations of a HOA which creates repayment risks under loans for capital repairs of apartment buildings in the event of liquidation of a HOA;
• The term of a management contract is limited by the Housing Code and does not exceed 5 years. In addition, a contract for management of an apartment building may be terminated early by residential property owners unilaterally in case residential property owners make a decision to choose another method of management of their apartment building or in case they are dissatisfied with the quality of services rendered by a management company. The instability of relationships between a management company and residential property owners in an building impedes raising of major long-term loans by a management company to carry out comprehensive capital repairs (reconstruction) of a building.
• In accordance with the legislation, payment from residential property owners received on a bank account of a HOA or a management company become property of these legal entities:
  o There is no possibility to establish the status of funds accumulated for capital repairs as funds owned by residential property owners and to guarantee that these savings will not be used without consent of residential property owners;
  o There is a risk that savings for capital repairs may be used to satisfy third party claims on obligations of HOAs or management companies.

Institutional barriers:
  – Low level of credibility of management companies (and, to a lesser extent, of HOAs) to the population which, among other things, is related to negative media coverage of their activities; The residential property owners are uptight about accumulating funds for future capital repairs on accounts.

II.2.3. FINANCIAL INSTITUTIONS AND ACTIVITIES OF POTENTIAL BORROWERS

Currently banks are the only possible source of debt financing in the financial market. However, provision of bank loans to Homeowners’ Associations and management companies for capital repairs (reconstruction) of apartment buildings is practically lacking.

Legislative barriers:
• The absence in the Russian legislation of a provision on nominal account, i.e. the account the assets on which do not belong to the account holder, is a barrier to accumulating the assets of owners of premises on a separate bank account open by a legal entity managing an apartment building. Besides, the specificity of a nominal account for accumulating the assets of the fund for building repairs is that a group of persons – owners of premises in a specific apartment building rather than a single person will have the right of ownership to the monetary assets accumulated on this account. In such a case, the membership of this group may change in time, so not each owner but the general meeting of owners of premises by a required number of votes is competent to take decisions on the disposal of the accumulated assets
• The Russian banking legislation allows for extension of loans without real estate mortgage (unsecured loans) only under the condition that additional reserves are made with the Central Bank. Homeowners' Associations and most of the management companies do not own real property which could be pledged to obtain a loan for capital repairs of apartment buildings. Respectively, the banks will provide loans to such entities only at high interest rates which makes such loans unattractive for HOAs and management companies;
• There are no laws and regulations as to establishment of guarantee agencies using budgetary funds for granting sureties under loans to HOAs and management companies;
• The Russian legislation contains insufficient instruments to collect mandatory payments for capital repairs from residential property owners, including funds for repayment of loans. The is no possibility established by law to register mortgage on residential property of an owning debtor and to discharge obligations of a debtor at the cost of real property, even if such property is the single place of owner's residence. This increases the risks of HOAs and management companies associated with repayment of loans and, respectively, the exposure of banks;

  A loan for capital repairs of a building is repaid by means of payments from residential property owners. However, the decision on raising a loan is made by residential property owners only, if a Homeowners' Association is established in an apartment building; such a decision is made by those owners only who are members of a HOA (therefore it is possible that problems will occur in the future associated with collection of payments from owners who are not members of a HOA). If a Homeowners' Association is not established in a building, the necessity for residential property owners to take part in the decision-making on raising a loan by the management company for capital repairs is not legislatively established and therefore no obligations arise for residential property owners as to loan repayment. Making an independent decision to raise a loan by the management company represents its commercial risk which is relatively high due to the possibility that residential property owners can unilaterally terminate the contract for management of the apartment building;

• The expenditures of residential property owners on capital repairs (including loan repayment) are not included in the list of expenditures for which a budgetary subsidy is granted to low-income individuals.

Institutional barriers:

– The banks have no experience in providing loans which are supposed to be repaid by means of payments from a quite big group of people varying over time, i.e. residential property owners in an apartment building. The banks are unable to assess risks under such loans and therefore consider these loans as highly risky.

– The Homeowners' Associations and management companies have no experience in raising loans (no credit history);

– There is no system of granting sureties under loans to Homeowners' Associations or management companies for capital repairs (reconstruction) of apartment buildings;

– The residential property owners keep hoping for significant budgetary support for financing capital repairs of apartment buildings;

– Regional and municipal programs of capital repairs do not include measures encouraging residential property owners to raise loans to carry out comprehensive repairs (energy-efficient reconstruction) of apartment buildings;

– Residential property owners and HOAs believe that loans are too expensive due to high interest rates;

– Residential property owners are uptight about raising loans for which repayment they will possibly have to pay for careless neighbors.

II.2.4. POWERS OF STATE AUTHORITIES AND LOCAL AUTHORITIES

Large powers are established by the Housing Code for state authorities of constituent entities of the Russian Federation and local authorities in the sphere of management of apartment buildings. For example, regional public housing supervision authorities exercise control over compliance of buildings with mandatory requirements for safety and energy-efficiency and are authorized to issue instructions to Homeowners' Associations and management companies to rectify discovered violations. Local authorities are entitled to establish the amount of payment for maintenance and repairs of the common property in an apartment building, if residential property...
owners in an apartment building failed to make a decision on the amount of such payment at the general meeting. According to the current legislation, neither state authorities of a constituent entity of the Russian Federation nor local authorities may oblige residential property owners to make a reserve of funds and to accumulate funds for future capital repairs. The legislation does not expressly establish the right of constituent entities of the Russian Federation to grant subsidies for capital repairs to Homeowners' Associations and management companies for capital repairs of apartment buildings. A municipality is currently authorized to take ownership of residential units only from former tenants of municipal (state-owned) apartments and not from all owners (individuals) who are unable to bear the burden of maintenance of their residential real estate. The possibility of deprivatization of residential property is limited by the validity period of the law on housing stock privatization. Consequently, the problem of "poor owners" also requires a change in legislation for its solution.

II.2.5. PROCUREMENT OF SERVICES AND WORKS RELATED TO CAPITAL REPAIRS

In accordance with the Russian legislation carrying out of capital repairs of apartment buildings in which residential units are partially or fully privately owned, does not pertain to the sphere of public or municipal services. Therefore, the law on public procurement does not apply to the procedure of selection of contractors and price making for owner-contractor agreements. Contractors for repairs are selected by Homeowners' Associations or management companies in the already formed market for construction and repair works. At the same time, there is a number of problems related to selection of contractors (such problems are still possible in future).

- There are no generally accepted procedures for selection of contractors on a competitive basis by HOAs or management companies; due to this contractors are frequently selected on a non-competitive basis and residential property owners are not confident that a contractor is able to render services/execute works with high quality and that the contract is not overpriced (particularly but not exclusively due to corruption). Guidelines on criteria and procedures for selection of contractors on a competitive basis and participation of representatives of residential property owners in selection of contractors for repairs in a building managed by a management company are required.

- In the course of implementation of regional and municipal programs of capital repairs in compliance with Federal Law No. 185-FZ in a number of regions and municipalities malpractices occurred where state authorities of constituent entities of the Russian Federation and local authorities urged Homeowners' Associations and management companies for selection of contractors to be guided by:
  - the law on public procurement (including appointment and approval of committees for selection of contractors by public authorities) as a result of which contractors were selected by the lowest bid price and not by the price-quality ratio;
  - the list of contractors recommended by authorities (this could have been a silent condition for including an apartment building into a program for obtaining a capital repairs subsidy); part of these contractors was affiliated with persons from municipal and regional authorities.

In addition, the practice in forming the lists of apartment buildings which were included into municipal capital repairs programs under Federal Law No. 185-FZ was characterized by the lack of publicly disclosed criteria and transparent procedures for selection of apartment buildings to be granted budgetary subsidies which almost surely involves corruption when distributing budgetary funds. It is necessary to provide measures for prevention of such practices of grating budgetary subsidies and securities for a loan in future. For example, in the practices of other
countries one of the conditions for granting a security or subsidy is that a contractor should be selected by a HOA or a management company of at least three bidders and that all bids submitted by contractors must be attached to the application for a security or subsidy and that the selection of a contractor must be substantiated. Recommendations on the procedure of processing of applications for budgetary subsidies may be approved by the Government of the Russian Federation.

II.2.6. OTHER ISSUES RELATED TO THE IMPLEMENTATION OF THE PROPOSED FINANCING MODEL

- **The protection of accumulated funds from inflation**

The proposed model does not suggest long-time accumulating and keeping funds formed due to mandatory payments by owners of premises for capital repairs. When the amount of accumulated funds comes to a minimum size of the fund for capital repairs of building established by a RF subject (10% of the cost of comprehensive capital repairs) owners of premises may not pay mandatory fees for capital repairs as required by law if capital repairs are not scheduled for the near-term period. Should funds accumulated in the fund for capital repairs are not expected to be used for a while, they can be placed on fixed term deposit accounts at a risk discount as used in general practice.

As an additional measure to protect funds accumulated in the fund for capital repairs of building against inflation it is proposed to amend the existing tax legislation with a provision, according to which income received from the placement of available funds of the fund for capital repairs of building on deposit accounts are not liable to profit tax similar to how it is being planned to introduce in relation to revenues “in the form of funds of owners of premises in apartment buildings credited to the accounts of homeowners partnerships, housing and construction, as well as other specialized consumer cooperatives, management organizations engaged in managing apartment buildings for the purpose of financing capital repairs of apartment buildings and common property in these buildings”36

- **Avoiding financial pyramids in case savings are accumulated under management of special purpose fund(s)**

The proposed model does not provide for a possibility of using homeowners’ payments accumulated for capital repairs of building to finance repairs of other apartment buildings as well as of using accumulated payments without homeowners’ consent. That is why this model has no sing of financial pyramid in contrast to Model 1 “Co-Finance”.

- **Fund liquidity issues relating to the matching of requested and accumulated funds**

According to this model, the assets of the fund for capital repairs are kept on a separate bank account of a legal entity managing an apartment building (HOA or management organization) so they are always available for financing capital repairs in accordance with the decision made by owners of premises. These assets shall not be invested in securities unlike Model 5 “Depreciation Charges”, which suggest investing in a mandatory manner, and Model 2 “Trust Management”, which allows such investment. Consequently, no liquidity problem arises.

• The procedure for the use of proceeds and anti-corruption measures
According to this model, income derived from placing the assets of the fund for capital repairs on a deposit account is transferred to the fund for capital repairs of an apartment building and belongs to owners of premises in this building. The derived income shall not be expended for paying remuneration to a house manager (management organization). Consequently, there is no risk of corruption and no need for applying anti-corruption measures. This is doing well in comparison with Model 1b “Co-Finance” and Model 2 “Trust Management”, according to which the assets derived from mandatory payments of owners of premises for repairs shall be transferred for trust management to the only organization in the region (Regional Fund or organization-trustee) to be selected by a RF subject.

• The enforcement of the proposed mechanisms
The proposed “optimal” model of financing capital repairs is based on the combination of the decisions independently taken by owners of premises in an apartment building and passed by public authorities.

According to this model, decisions on a mandatory minimum size of the fund for capital repairs and a minimum mandatory payment to be made by owners of premises to form a fund for repairs shall be made by public authorities of a RF subject. However, HOAs and management organizations are responsible to execute these decisions. These legal entities must open bank accounts for accumulating mandatory payments. The implementation of these decisions will cause no problem as the activities of legal entities engaged in managing apartment buildings is under control of both regional agencies of state housing supervisions (housing inspectorates) and local governments.

Thus, even if owners of premises fail to make independent decisions, the fund for building repairs will be formed in line with decisions passed by public authorities in compliance with the law.

Besides, the “optimal” model provides for a mechanism for decision-making on capital repairs to ensure the compliance of apartment buildings with mandatory safety requirements and the use of the assets accumulated for capital repairs to finance necessary work (judgment on housing inspectorate’s claim).

• Legal barriers to attracting third party investments (such as Housing Management Companies and ESCOs) in the housing stock
Investments by third parties – management organizations and energy service companies (ESCO) – in the projects for capital repairs and enhancement of energy efficiency of apartment buildings are possible subject to the condition that obligations of the other party (owners of premises in an apartment building) for making regular payments to return the invested funds are defined. Legal barriers to investments by a management organization are:

– Statutory limitation of the validity period of contracts for managing apartment buildings (substantial investments cannot be paid back for this period);
– Possibility for owners of premises to unilaterally refuse to fulfill a contract for managing an apartment building;
– No possibility to directly collect from owners of residential premises arrears in payments for capital repairs (renovation) of apartment buildings.
Energy service companies shall conclude a contract with a legal entity managing an apartment building – HOA or management organization. In the context of the payback of funds invested in enhancement of energy efficiency of apartment buildings ESCO face the following problems:

- Possibility of liquidating HOA or terminating the activity of this management organization for managing an apartment building (unreliability of the other contracting party in the long-term perspective);
- Unsecured obligations of the other contracting party (risk of inability to ensure 100% collectability of payments from owners of premises in an apartment building).

To get over these barriers it is necessary that:

- Third parties’ investments in an apartment building are allowed on the basis of a decision made by the general meeting of owners of premises in this building;
- Owners of premises in an apartment building are obliged to make regular payments to ensure the payback of third parties’ investments (according to a decision passed by the general meeting) irrespective of the building management option and an entity managing the building;
- Mechanisms of fairly simple and quick debt collection from owners of premises exist.

The proposed amendments to the regulatory framework designed to remove barriers to implementing the proposed “optimal” model of financing capital repairs and enhancing energy efficiency of apartment buildings are summarized in Table 1, Annex 10.
SECTION II.3. ANALYSIS OF THE REQUIRED POLICY FRAMEWORK

II.3.1. GOAL OF THE REQUIRED POLICY FRAMEWORK

The problem of capital repairs and energy efficiency enhancement in ABs in Russia at present concerns almost fifty percent of the country population and is so great in terms of scale, importance and value that it can rightfully be called a vital national issue.

When identifying the required policy framework it is necessary to answer, first of all, the following question:
- what goal does the state pursue when developing financial mechanisms for capital repairs of ABs?

Several goals can be formulated. Obviously, depending on the goal the mechanisms for attaining it will differ.

The possible goals are as follows:

- To prevent the reduction of volumes of capital repairs of ABs once the Fund for the Promotion of the Housing and Utility Sector Reform is liquidated;
- To reduce budget expenditures on capital repairs of ABs;
- To ensure state control over the condition of ABs and provide for the possibility of taking preventive measures for building repairs;
- To develop sustainable financial mechanisms for capital repairs of ABs, based on the responsibility of owners of premises for the condition of their buildings, as well as on the mobilization of funds of financial institutions and state incentives.

These goals are not interchangeable, although some of them have common objectives. However, identification of the main goal is of crucial importance. Obviously, different goals have different sets of factors (criteria) for achieving appropriate results. Based on the best international practices, the Consultant believes that the state policy goal in this area should be formulated in the following wording:

The goal pursued by the establishment of a system of financing capital repairs and energy efficiency enhancement in ABs is to develop a sustainable organizational and financial system that will enable to:

- Conduct repairs/renovations of building at any moment based on the decision of owners of premises in the building
- Ensure the possibility of mobilizing credit resources from the banking sector for capital repairs of ABs;
- Create transparent mechanisms for providing budget support of projects on energy efficiency enhancement in ABs;
- Minimize the number of cases when intervention of third parties is required to ensure the safety of ABs;
- Provide for the execution of required repair works to ensure the safety in case that owners of premises failed to make a decision on repairs.
On the basis of the analysis of the proposed models for financing capital repairs of ABs, we can conclude that the implementation of any of these models implies serious political efforts related to the necessity of making such an unpopular political decision as the introduction of mandatory payments to be made by apartment owners for the purposes of capital repairs. The government considered that this decision is fraught with such enormous political risks that postponed the process of making a decision on mechanisms for financing capital repairs until after the election period – i.e. after May 2012. It opens a window of opportunity for additional professional debates on the best possible solution of this complex task.

Let’s identify the main decisions needed to be made at the government level for implementation and launch of mechanisms of financing capital repairs of ABs:

- A legislative provision on introduction of mandatory payments for capital repairs of ABs. There are several versions of such a provision. The provision as such does not give grounds for large-scale debates among officials and experts, although it does not match the international practice. However, the goals and mechanisms of its realization are an object of serious disagreements.
- Legal provisions that reduce the risks of lending to associations of housing owners in ABs (or to MO, acting on the orders by the owners) for the purposes of capital repairs and upgrading of these buildings.
- A decision on the measures of state support required for mobilizing the funds of financial institutions for capital repairs of ABs.
- Decisions on measures of budget support of housing owners in implementing capital repairs and improvement of energy efficiency of ABs.

The Consultant described 3 possible scenarios of developments with regard to capital repairs of ABs:

- Sluggish development.
- Accelerated development.
- “Like in Europe” scenario.

For each of the foregoing scenarios, a model list of capital repairs/upgrading activities was composed, cost estimate of these activities and assessment of their implications from the angle of energy efficiency was made.

It is of principal importance that the state policy should encourage the scenarios that could really result in the improvement of the quality of life of citizens.

II.3.2. ORGANIZING THE FINANCING OF CAPITAL REPAIRS

Virtually all of the proposed models of capital repairs of ABs envisage the availability of two mechanisms of financing:

- Mandatory payments by owners of premises in ABs;
- Lending of capital repairs

In general the Consultant supports the concept of the responsibility of owners for the condition of the housing in their possession and the idea of their independency as regards making decisions on repairs and renovations of the building and selecting methods for implementation of these decisions. However, in the Consultant’s opinion, the introduction of mandatory payments by owners to the fund for the building repairs is reasonable. This viewpoint is in line with international practices and is based on full understanding of Russian realities. The introduction of mandatory payments to be made by owners is a condition for the launch of the programme on capital repairs, which condition is envisaged by four out of five models, and the Consultant fully
agrees to this approach. At the same time, the status of owners’ savings and the regime selected for using those, as well as mechanisms selected for their protection are very important.

Proposed mechanisms of mandatory payments differ considerably in the reviewed models (see section 1.3.2.). A political decision will help to select the mechanism, which to the greatest degree corresponds to the goal set. As regards mechanisms of lending, in most models they are not well enough defined to assist with composing a list of required political decisions. In this situation we’ll have to refer to the best international practices as well.

Let’s review the necessary political decisions with regard to defining mechanisms of mandatory payments by owners.

- **Defining the target use of the payment:**
  - The main source of funding capital repairs – *introduction of permanent obligations to make payments for capital repairs*;
  - or
  - Accumulation of limited assets to be used for the purposes of selective or emergency building repairs, or to be used as a contribution of savings for the purposes of obtaining a loan – *mandatory payments are introduced for the period needed for accumulation of a minimum amount of funds for the identified purposes, as well as in case of spending these funds*;

*Based on the analysis results, the second option is a much better candidate for legalization.*

- **Defining mechanisms for accumulating mandatory payments.** This issue proved to be one of the most problematic one as regards the reviewed models. Such a situation can be explained by the fact that Russian legislation does not contain any legal substantiation for the obviously correct solution to this problem: these mandatory payments should be in common ownership of owners of premises in the building.

Russian banking legislation proceeds from the assumption that the owner of a bank account is simultaneously the owner of the money sitting on this account. At the same time, the use of money can be limited due to various obligations, e.g. – by a trust management agreement. However, in this case the owner of the account, in any event, owns the money. For example, the money on a HOA’s account belongs to the HOA, rather than to owners of premises. And this money can be used to repay the HOA’s obligations to creditors in the event of HOA’s bankruptcy. The fate of the money collected is even more vague, if no HOA has been established in the building.

The proposed models contain the following set of mechanisms for accumulating mandatory payments:

- The savings, pursuant to the owners’ decision, shall be transferred to the regional fund for capital repairs and end up in its ownership;
- The accumulated funds remain in the ownership of each payer and are to be transferred into trust management by a credit institutions selected by a state governance body of a subject of the RF;
- The accumulated funds become a common monetary asset of owners in the apartment building and acquire a special legal status; at the same time they shall be placed on the account/accounts of a particular private individual or legal entity.
Based on the analysis outputs, the last option most fully matches the earlier defined state policy goal. At the same time, it implies the introduction of the most serious novelties in the laws. For example, a legal definition of nominal accounts is required – accounts that are owned by persons/entities that are not owners of the money sitting on such accounts.

- **Defining mechanisms for using mandatory payments.** In section I.3.2. the Consultant answered the key question: who should make decisions on the use of mandatory payments. It should be the payers themselves – owners of premises in this particular building. However one issue should be discussed: what kind of measures should be taken in the event of a threat to the safety of the building and housing owners’ failure to act?

When answering this question, representatives of federal bodies of power in most cases answered that in such cases the local self-governance bodies must be hold responsible, which will enable to make prompt decisions. At the same time, an access of the third parties (the very same self-governance bodies) to the savings of housing owners should be secured in the law. Such an approach gives rise to serious objections because, on the one hand, it effectively lifts the responsibility for the housing condition from the housing owners, and, on the other hand, it is fraught with possible abuse of such powers by officials. Therefore, we deem that the most appropriate model is the one envisaging that state controlling bodies file claims against housing owners with regard to using unsafe buildings and in the event of their failure to act – the state controlling bodies go to the court. In this case the savings of owners for capital repairs can be used based on a court ruling, to eliminate the threat to the safety.

*Let’s review the necessary political decisions with regard to identifying lending mechanisms.*

According to international practices, prior to the upgrading of ABs, borrowings can be made either by associations of housing owners (HOA, in case of Russia), or MO.

The major political issues that surface in connection with selecting lending mechanisms are related to the evolution of a bona fide borrower. This can be achieved via applying several approaches:

- Making an attempt to assess whether a borrower has a liquid loan security and whether it can be used to increase the affordability of loans;
- Via viewing the future payments as an acceptable loan security and in this connection to enhance the legal mechanisms that could ensure that mandatory payments are made.

The international practices demonstrate that the use of mortgage mechanisms to secure loans for capital repairs (pledge of owners’ apartments or pledge of singled-out elements of common property) yields no positive results. People do not want to expose their housing or elements of their building to risks for the purposes of addressing the task of the building upgrading. This position can be easily understood, therefore the Consultant suggests that none of the exotic options should be analyzed (options, where owners of the building propose to use basements that are an integral part of the common property to secure the loan). Generally speaking, only the premises that are equipped with the building communications fall in the category of the common
property. And this is exactly why such premises cannot be alienated, i.e. to be used to secure a loan.

Therefore, according to the international practices, the main efforts should be focused on the implementation of another approach, when the beneficiaries’ – housing owners’ capacity to pay and the financial reliability of the borrower – a HOA or a MO should be viewed as a possible loan security.

It is noteworthy that in most Russian regions (excluding economically depressive territories) the payment discipline of residents is rather good (the housing and utility payments collection rate varies between 90% and 97%). From the legal point of view, only one substantial issue is worth to be discussed: is it possible, in the event of systematic non-payments, to foreclose on the only housing owned by a citizen? Such foreclosure does exist in international practices. The same approach is proposed in Model 4 “Voluntary payments”. However, the Russian legislation rules this out. Naturally, this is yet another example of the state’s paternalistic attitude to housing owners in ABs. We believe, it should be altered and brought in line with international standard approaches.

As regards the problem of non-payments, there is yet another, even more important issue: the performance of the judicial system. The impossibility of getting a prompt court ruling in case of non-payments and judicial bureaucratic procedures very frequently deprive court proceedings against non-payers of any sense. And this is yet another political task.

When discussing the issue of financial reliability of a borrower it is necessary to clarify certain things. Neither a HOA (as a legal entity), nor a MO are the beneficiaries under a loan. Only housing owners are such beneficiaries, they assume the obligation to repay the loan, whereas a HOA or a MO only act as their authorized agents. In international practices, the resolutions passed by general meetings of owners and resolutions of HOAs have practically similar power, because if a HOA is established, all owners become its members. However, it is not so in the Russian legislation. Every singly owners is entitled to independently decide whether he wants to join the HOA established in his building or not. However, in cases when owners, whose share in the common equity property is less than 50%, become members of a HOA, such a HOA should be liquidated. It means that thus the borrower ceased to exist! Therefore, the legal regulation of a sustainable structure of a HOA, in which all housing owners participate as its members, is an important political task. It goes well beyond the issues of capital repairs. We believe that, if there is an adequate political will, it will be possible to develop a legal structure, which will not contradict the 1997 resolution of the Constitutional Court on voluntary membership in HOA. But to attain this, the institute of HOAs must be altered. This is a difficult task that cannot be quickly addressed. Nevertheless, this task must be put on the agenda. Along with this, it is necessary to find proper administrative and managerial decisions acceptable today. Such decisions proceed from the following : the money of owners for capital repairs (including their payments under a loan) should be singled out from the funds of a HOA or MO, and Models 3 and 4 contain proposals with regard to relevant mechanisms for attaining this.

II.3.3. ANALYSIS OF A POSSIBLE ROLE OF THE FUND FOR THE PROMOTION OF THE HOUSING AND UTILITY REFORM

Widespread conducting of capital repairs of apartment buildings in Russia started upon adopting Federal Law No.185-FZ “On the Fund for the Promotion of the Housing and Utility Sector Reform” as of 21 July, 2007 (hereinafter – Law No.185).

The Law stated that with the view of creating living conditions safe and comfortable to citizens, enhancing the reform of the housing and utility sector, creating efficient mechanisms for
managing the housing stock, and implementing resource-saving technologies, the Fund for the Promotion of the Housing and Utility Sector Reform was established as a non-profit organization in the form of a state corporation. The Law defined the status, objectives, responsibilities and powers of the Fund for providing financial support to Russian Federation subjects and municipalities for conducting of capital repairs of apartment buildings as well as relocation of citizens from the unsafe housing stock.

The Fund responsibilities include:

- Provision of financial support to Russian Federation subjects on their requests that meet legally defined conditions and requirements;
- Provision of methodological support to Russian Federation subjects in the process of their preparing requests and required documentation;
- Monitoring of implementing regional targeted programs for conducting of capital repairs of apartment buildings and regional targeted programs for relocation of citizens from the unsafe housing stock, as well as of how criteria for providing financial support from the Fund’s budget are met.

Fund’s property consists of the asset contribution of the Russian Federation – RUR 240 billion and revenues from the placement of temporary free funds (the order of placement is defined by the RF Government). Of this amount, RUR 144 billion (60 percent) are allocated for conducting of capital repairs of apartment buildings and RUR 96 billion (40 percent) – for relocation of citizens from the unsafe housing stock.

The activities of the Fund for the Promotion of the Housing and Utility Sector Reform consisted in financing capital repairs, which along with subsidies from the regional and local budgets accounted for 95% of the capital repairs cost. Owners of premises paid the remaining 5%. Thus, the state almost entirely funded the conducting of capital repairs.

In accordance with the Law, the Fund shall act till 1 January, 2012 and then it is subject to liquidation on the ground that the Fund’s resources necessary for its operation will be exhausted prior to expiry of the aforesaid period. Nevertheless, presently a political decision on the continuation of the Fund activities has been passed.

However, it is also clear that the state budget has no resources sufficient to support the Fund activities on such a large scale as before and one should find alternative approaches to upgrading apartment buildings.

The Consultant finds it possible to reorganize the activity of the Fund for the Promotion of the Housing and Utility Sector Reform in such a way that it will act as a state financial development institution.

The activities of the Fund for the Promotion of the Housing and Utility Sector Reform shall be aimed at creating stable and affordable to citizens financial mechanisms of upgrading apartment buildings in order to enhance energy efficiency of these buildings and improve the standard of living for Russian citizens.

To implement measures of the state support for mobilizing private investments in upgrading of the housing sector and enhancement of the level of comfort for living, it seems expedient to use in Russia the existing foreign practices of establishing state financial development institutions and their operations.
II.3.3.1. Operational policy of the Fund for the Promotion of the Housing and Utility Sector Reform as a state financial development institution

According to the world practice, state financial development institutions (development banks, funds, corporations, agencies, etc.) are special-purpose financial institutions focused on long-term finance of socially important projects that further economic growth, development of economy, and implementation of social tasks. Unlike private financial institutions (commercial banks, investment funds, leasing companies) that have much in common in terms of the organization name and transactions conducted with state financial development institutions, the ultimate goal of the latter is not to gain the maximum profit but to perform tasks set by the state.

The key task of state development institutions is to select and provide financial support under projects that are of high priority for the development of the national economy but do not receive sufficient financial support from the private sector due to, among other things, such projects feature a high risk, long payback period, the complexity of financial support mechanisms, etc. State financial development institutions may provide financial support through both direct lending the borrowers, including co-lending with private financial institutions, and reducing the risks via administration of guarantees, insurance of credits, etc., which makes the socially important projects attractive to the private financial institutions in terms of the profit-to-risk ratio under such projects.

Thus, state financial development institutions do not act as a source of budget resources allocated to support certainly loss-making projects but play the role of a catalyst for attracting private investments in priority sectors of economy, business segments, and enterprises.

Activities supported by state financial development institutions include socially important projects. Among them are the projects for thermal upgrade of apartment buildings.

Core activities of state financial development institutions

State financial development institutions should focus on the following:

- project evaluation;
- project lending;
- provision of guarantees under commercial banks’ operations of lending the borrowers;
- arrangements to finance projects with the assistance of international financial institutions and participation in syndicated lending;
- provision of professional financial services (use of derivatives, assets securitization, etc.) aimed to reduce risks;
  - performance of leasing operations;
- provision of consulting services to private financial institutions and their prospective clients;
- provision of consulting services to enterprises involved in implementing the projects being of high priority to the state.

Basic principles and mechanisms of the state financial development institutions' performance

According to successful international practices (primarily the experience of new industrial countries comparable with Russia in terms of the quality of state and market institutions), to
ensure the effectiveness of state financial development institutions’ activities and mitigate risks of their operations it is expedient to use the following principles and mechanisms:

**A) Special legal status of state financial development institutions**

Since state financial development institutions are of great importance for the finance system, these institutions usually have the status of public organizations and operate on the basis of specially adopted legal acts. Relevant laws should contain all key provisions regulating the activity of state financial development institutions and may be used as constituent documents of these institutions.

According to these laws, state financial development institutions may carry out different banking, insurance, investment, and other operations necessary to support priority projects; which, however, does not put them on a par with the appropriate private financial institutions in the state regulation context. A special system of state regulation and oversight, including specific requirements for financial indicators and criteria, shall be created for state financial development institutions. Such control can be effected by either a body of banking supervision or a relevant ministry.

**B) Specialization of state financial development institutions**

Specialization contributes to the enhancement of the effectiveness of state financial development institutions’ activities as it allows them to make their activities more predictable for market players, reduce costs, and improve the quality of project evaluation. At the same time specialization simplifies the assessment of state financial development institutions’ efficiency for the state.

The first aspect of specialization is the institutional form of state financial development institutions that predetermines main mechanisms and instruments used by these institutions in their work: development bank, development fund, insurance company, leasing company, etc. Besides, a specific state financial development institution may be specialized in a certain area (for instance, assistance in the attraction of investments in the utility sector, support in modernization and enhancement of energy performance of apartment buildings).

**Sources of state financial development institutions’ resources**

Like any financial organization state financial development institutions may finance different projects from their own budgets or through debt financing. The state budget is the major source of own funds of state financial development institutions. Regional authorities (especially those in which regions state financial development institutions carry out their activities), as well as international financial organizations, may have a share in the authorized capital of state financial development institutions.

Along with the use of own budget resources state financial development institutions are allowed to use different debt financing mechanisms, such as issue of bonds and their offering on the domestic and foreign financial markets, as well as the promotion of bank lending. In order to reduce the cost of such borrowings and, consequently, the cost of funding carried out by state financial development institutions it seems advisable to provide state guarantees under state financial development institutions’ obligations. Such guarantees should be issued under specific borrowings made by state financial development institutions or ensue from the law.

To mitigate state expenditures on capitalization of state financial development institutions as well as increase the level of their responsibility for their performance the funding of state financial development institutions’ activities via debt financing mechanisms should prevail over the funding from the institutions’ own budgets in the long-term perspective.
Areas of using state financial development institutions’ resources

The key areas of using funds of a specific state financial development institution shall be determined by the goals and objectives (strategic approaches) that are set forth in a relevant law as well as in normative and legal acts regulating the institution's activity. These key areas should agree with the institution's specialization.

Tactical objectives and tasks set to state financial development institutions in the short-term perspective and related areas of using their resources shall be determined by the institutions’ supreme management bodies (board of directors, supervisory board).

Specific projects worthy of support from state financial development institutions shall be selected by either the institutions' management on the basis of internal documents regulating the selection procedures or private financial institutions acting as the agents of the state financial development institutions.

The transparent and open-to-the-public system of making decisions on the provision of finance, which clearly defines the project selection criteria and the powers of different management bodies of state financial development institutions, makes is possible to ensure the protection of these institutions against political pressure in favor of concrete projects as well as mitigate corruption risks.

Mechanisms of interaction with ultimate borrowers

The analysis of state financial development institutions' operations makes it possible to point out two alternative models. According to the first (single-tier) model, state financial development institutions carry out their activities on the project selection and finance and thereby interact with recipients of the state support (ultimate borrowers) through accessible financial instruments, such as lending and provision of loans, share in the capital, insurance of risks, leasing, etc.

The other (two-tier or infrastructure model) considers state financial development institutions as a tool of launching specific programs for supporting selected target groups (sectors of economy) through the existing private financial institutions. According to this model, state financial development institutions determine the methodology and criteria of project selection; select banks or companies-agents; assess their performance and operational efficiency, provide them with information and consulting support. The said banks or companies-agents contact directly with the ultimate recipients of funds and actually finance the project; however a part of funds they receive from state financial development institutions on a paid or return basis. If the two-tier model is the case, state financial development institutions may also issue guarantees under the loans commercial banks grant to ultimate borrowers.

The world practice proves that the two-tier (“infrastructure”) model ensures a higher efficiency of the state financial development institutions system usually due to separating the functions of drawing up eligibility criteria for projects and selecting the projects. The model also makes the project selection criteria more clear and transparent. According to this model, step by step commercial banks and other private financial institutions are being involved to solve tasks set to state financial development institutions, which favors gradual filling of “market breaks”. Besides, this model is to a less extent subject to corruption risks. In some cases, however, it may seem more expedient to establish a state financial development institution based on the single-tier model or combination of the two models.

Self-sufficiency of state financial development institutions

Self-sufficiency rather than profit maximization will be the goal of state financial development institutions. Projected unprofitability of their operations may, on the one side, stimulate
inefficient use of financial resources available and, on the other side, distort market environment. Specifically, lending of ultimate borrowers by state financial development institutions at concessional (i.e. lower) interest rates does not seem reasonable.

In the process of their work state financial development institutions come across two types of risks of deviation from the optimum model. On the one side, the management of these organizations may prefer the business model allowing them to earn profit ("risk of commercialization of state financial development institutions"), which disagrees with the objectives declared by the state when establishing these institutions. On the other side, state authorities responsible to control state financial development institutions may get interested in turning these financial institutions into the tool of veiled distribution of “public subsidies” allowing them to solve current tactical tasks, which hinders state financial development institutions in implementing their strategic policies on the financial market and often makes them unprofitable ("risk of state financial development institutions’ transformation into the Government agents"). It is necessary to avoid both extremes. The optimum model of state financial development institutions stipulates self-sufficiency without profit maximization.

**Preference for projects co-finance with private financial institutions**

This principle is aimed to improve the quality of risk management as well as involve commercial enterprises in the investment process. Usually a commercial entity participating in the project and assuming a part of risks may better assess the market risks of the project than a public officer or a staff member of the state financial development institution. This is true for both direct lending by state financial development institutions under the “single-tier model” and indirect finance of projects under the “two-tier (infrastructure) model”, as well as funding via an interest in organizations.

Thus, considering that state financial development institutions take a special place in the financial system, these institutions do not compete with private financial institutions but interact with them and supplement each other.

**Operations transparency**

Special legal status of state financial development institutions stipulating that these institutions are not subject to regulation and supervision relevant regulatory authorities exercise in relation to other market players may become a source of higher risks arising from the behavior of the management and employees of state financial development institutions authorized to make that or that decision or influence the decision-making process (opportunistic behavior, conflict of interests). That is why the maximum transparency of state financial development institutions' activities is an additional factor that ensures the efficiency of these institutions.

With this in view, state financial development institutions are subject to independent audit and shall initiate appropriate procedures with an eye on being awarded with an international credit rating. Many countries also practice external independent auditing of state financial development institutions' activities by inviting for this purpose experts from international audit organizations.

Figure 11 presents principles of state financial development institutions' operational policy.
Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support.

Figure 11. Principles of state financial development institutions' operational policy
Selection of optimal model of state financial development institutions' operation

When selecting between the single-tier and two-tier models of state financial development institutions’ operation, it should be considered that the two-tier model seems to be more efficient in the long-term perspective. However, quick elaboration of definite and consistent with Russia realities terms and requirements under state financial development institutions' programs for banks-agents and companies-agents looks problematic.

Therefore, at the initial stage of establishing state financial development institutions it makes sense to use both models and combine them even within the framework of some individual institutions, when necessary. State financial development institutions themselves are expected to implement pilot projects in new areas of operation in order to test an appropriate methodology of project evaluation and support with the view of its further transfer to commercial banks or companies-agents State financial development institutions will dominate the selection and support of projects at the initial stage; however, subsequently it is expected that their participation will significantly decrease and they will focus on the development and optimization of project support methodologies. In so doing, the main part of financial resources of state financial development institutions shall be distributed on a competitive basis among commercial banks and companies-agents that further communicate prospective clients directly.

Such an approach allows them to ensure transparency while selecting projects worthy of support, decrease political pressure on state financial development institutions during the project selection (because banks-agents rather than the said institutions choose the projects), create prerequisites for the involvement of private financial institutions in the implementation of state financial development institutions' programs, with complete substitution of public funds, when possible.

The provision of guarantees (insurance of certain risks) by state financial development institutions is the key element of the suggested “combined” model. In this case, a state financial development institution assumes a part of project risks, whereas a commercial bank provides direct financing. Non-use of public funds is the advantage of this approach.

II.3.3.2. Concept of the future activity of the Fund for the Promotion of the Housing and Utility Sector Reform after its reorganization is completed

Today the problem of modernization and enhancement of energy efficiency of apartment buildings is pointed out as one of the most significant socioeconomic issues closely connected with the improvement of the standard of living for citizens in Russia. According to the national legislation, owners of privatized apartments shall carry the burden of responsibility for their condition, including rehabilitation and modernization. However, at this moment owners of privatized apartments cannot afford to pay all home maintenance expenses. Municipal budgets cannot assume the required burden of these expenditures either. Considering the existing world practice, it is necessary to form a system of the state support for the rehabilitation and modernization of the housing stock.

A key element of the state support of projects on capital repairs and upgrading of the housing stock is the establishment of a state financial investment institution via reorganization of the Fund for the Promotion of the Housing and Utility Sector Reform (hereinafter the Fund).

The Fund for the Promotion of the Housing and Utility Sector Reform will focus on establishing a system of lending cooperatives of homeowners so as to implement projects for apartment buildings modernization with an eye on enhancing their energy performance.
To solve this task the Fund for the Promotion of the Housing and utility Sector Reform must be allowed to carry out the following activities:

- evaluation of projects for modernization of apartment buildings and enhancement of their energy performance;
- lending under such projects;
- provision of guarantees under commercial banks’ operations of lending the borrowers;
- arrangements to finance projects with the assistance of international financial institutions, provide banks-partners with credit facilities;
- provision of professional financial services (use of derivatives, assets securitization, etc.) aimed to mitigate risks;
- generalization of the practices of financing the projects for apartment buildings modernization and development of proposals addressed to public authorities regarding the improvement of the regulatory framework to reduce lending risks and make borrowings cheaper.

Fund for the promotion of the Housing and Utility Sector Reform shall finance projects for modernization of apartment buildings either from its own budget or through borrowings. The public finance is the main source of the Fund's own resources. Regional authorities (especially those in which regions the Fund's first projects will be implemented) as well international financial organizations may have a share in the authorized capital of the Fund.

Along with the use of own budget resources the Fund is allowed to use different debt financing mechanisms, primarily, issue bonds and offer them on the domestic and foreign financial markets, as well as raise bank loans. However, such a kind of the Fund's activity will be feasible and make sense at the following stages, after completed projects demonstrate the Fund's effectiveness, rather than at the initial stage. In order to reduce the cost of such borrowings and, consequently, the cost of funding carried out by the Fund for the Promotion of the Housing and Utility Sector Reform, it seems advisable to provide state guarantees under the Fund’s obligations.

To mitigate public expenditures on capitalization of the Fund for the Promotion of the Housing and Utility Sector Reform as well as increase the level of responsibility of the Fund's management for the achieved outcome, the funding of the Fund’s activities via borrowings made on the market should prevail over the funding from its own budget in the long-term perspective.

The Consultant believes that the process of establishment and further development of the Fund for the Promotion of the Housing and Utility Sector Reform should include three stages, with a different focus on activities at each stage (Figure 12.)
Figure 12. Stages of activity of the reorganized Fund

STAGE I
(2012-2013)

- DEVELOPMENT OF REQUIREMENTS TO PROJECTS AND BORROWERS
- LENDING OF THERMAL UPGRADE OF APARTMENT BUILDINGS UNDER PILOT PROJECTS

Own resources

STAGE II
(2014-2015)

- ATTRACTION OF BANKS THROUGH PROVIDING LOAN GUARANTEES ON A PAID BASIS

OWN RESOURCES

STAGE III
(FROM 2016)

- INCREASE IN FINANCIAL RESOURCES TO ENSURE THE GROWTH OF LENDING DEMAND
- PROVISION OF CREDIT FACILITIES TO SECOND-TIER BANKS

LOAN REPAYMENT
Stage I (2012-2013)

During Stage I the Fund for the Promotion of the Housing and Utility Sector Reform will provide loans under the pilot projects for thermal upgrade of apartment buildings.

The lending process shall be preceded by development of requirements to both the projects to be funded by attracted loans and to the borrowers.

As far as eligibility criteria for borrowers is concerned, all relevant details should be discussed at the first stage of the reorganized Fund's activities. The review of the Russian housing legislation has demonstrated that today none of economic entities in the housing sector can be considered by financial institutions as a reliable borrower. In this connection it is necessary, based on the existing regulatory framework, to define minimum requirements to the participants of the pilot lending projects. In so doing, it should be taken into account that the task of lending risk mitigation to an affordable level looks unrealizable at the stage of implementing the pilot projects. Therefore, when providing loans at this stage, the Fund for the Promotion of the Housing and Utility Sector Reform has to take such risks which may not ensure the Fund's financial viability.

At the stage of implementation of pilot projects the support from regional authorities, including financial support, is of essential importance. Therefore, it is important at this stage that the criteria for selection of borrowers by the Fund are brought in line, without replication, with the eligibility criteria for those entities which regional authorities are planning to support financially.

The major task of the first stage of the pilot projects implementation is to demonstrate that apartment buildings can actually be upgraded through borrowings and obtain practical results that would serve as a basis for the regulatory framework improvement.

It should be emphasized that the future successful work of the Fund for the Promotion of the Housing and Utility Sector Reform as a state financial development institution is possible only if the Russian housing legislation is significantly improved.

Stage II (2014-2015)

During Stage II the Fund for the Promotion of the Housing and Utility Sector Reform shall involve the banks in lending the projects for apartment buildings modernization through providing them with loan guarantees on a paid basis at its own expense.

The loan guarantees may cover only a part of borrowed funds rather than the full amount of borrowings. In so doing, a tendency towards decreasing the part covered by guarantees should be clearly seen.

Such an approach will make it possible to significantly increase the volume of lending offers through involvement of commercial banks in the lending process.

Unlike the first stage, the loan repayment is the key objective of the Fund's activity.

At this stage, of great importance is also the analytic activity of the Fund for the Promotion of the Housing and Utility Sector Reform aimed to improve the housing and banking legislation.

The essence of this stage is to introduce to the bank sector a new market segment with a very high potential demand. As the national legislation is improved and banks become more experienced in lending, they are most likely to refuse guarantee services the Fund for the Promotion of the Housing and utility Sector Reform provides on a paid basis.

Two scenarios of the further process development are possible at this stage:
After the Fund for the Promotion of the Housing and Utility Sector Reform attains its key objective, it may gradually curb its activity and finally “leave the scene”, with the burden of lending the apartment buildings modernization projects being shifted onto the market players only.

The Fund for the Promotion of the Housing and Utility Sector Reform may attract additional finance to lend the modernization of apartment buildings with an eye on decreasing the cost and increasing the extent of lending.

The world practice shows that demand for apartment buildings modernization is snowballing like a chain reaction.

Therefore, to ensure the adequate supply against the growing demand should be the key objective of the Fund for the Promotion of the Housing and Utility Sector Reform during the third stage.

**Stage III (from 2016)**

If Stage II is completed successfully, the Fund's credit rating may be high enough to attract, on affordable terms, resources of international financial organizations and such institutional investors as pension funds and insurance companies for implementing projects of apartment buildings modernization, as well as float bonded loans. Should the state is ready provides guarantees under the obligations of the Fund, the latter's credit rating may be raised.

Therefore the Stage III objective is to increase financial resources of the Fund so as to ensure lending under projects for apartment buildings modernization on a large scale.

Fund for the Promotion of the Housing and Utility Sector Reform will use borrowed funds to provide credit facilities to the second-tier partner banks so that the latter could lend under projects for apartment buildings modernization in accordance with the approved procedures.

The introduction of such financial mechanisms gives every reason not only to make loans cheaper but to attract “long-term money” to this sector, which will allow them to extend the loan period and make lending terms more affordable for the borrower.

Provision of loan guarantees on a paid basis is also possible during this stage.

Building up a network of branches of the Fund is an issue that requires separate discussion and a sufficient level of detail.

**II.3.4. MEASURES OF STATE SUPPORT FOR FINANCING PROJECTS ON CAPITAL REPAIRS AND UPGRADING OF APARTMENT BUILDINGS**

When reviewing the proposed models for financing capital repairs, three mechanisms of the state support to borrowers were identified:

- Provisions of budget subsidies (grants) for paying a part of the cost of an investment project for capital repairs or upgrading of buildings.
- Subsidizing of loan interest rate.
- Inclusion of homeowners’ expenditures for capital repairs into the housing allowance program to support low-income families.

Let us consider approaches to identifying measures of state support.
Provision of budget grants under projects for energy efficient upgrading

Allocation of the budget funds for partial co-financing of projects for apartment buildings upgrading is a key factor for success of the restructured Fund for the Promotion of the Housing and Utility Sector Reform at the first stage of its operation.

Subsidies shall be provided on the most transparent terms with the criteria of selecting apartment buildings being clearly defined. In so doing, of paramount importance is that a budget subsidy shall be provided only if a homeowners partnership or management organization receives a loan for building upgrading. For this reason it is important that the criteria for evaluating the size of budget support will differ from the criteria used by a lender for assessing borrower’s creditworthiness. Therefore, the fact and period of establishing a homeowners partnership, the financial discipline of residents for paying rent and utility services should not be considered as a criterion for evaluating the size of budget support.

The criteria specifying the comprehensiveness of building upgrading as well as indicators of energy efficiency enhancement after upgrading are recommended to be the key criteria for determination of the amount of budget support. In addition, it is expedient to provide state support to older buildings to a greater degree.

It is recommended to provide for part of these budget subsidies to be spent on energy audits of buildings and preparation of project documentation for upgrading. Consequently, a budget subsidy should be divided into two parts. The first part should be spent at the start of project implementation, prior to obtaining a loan, on energy audit and preparation of project documentation. The second part should be used to make the last payment for completion of building thermal upgrading, in case the established energy efficiency criteria are met.

It is suggested that at the first stage such subsidies be granted at the regional level. Starting from the second phase of activity of the reorganized Fund it is advisable to provide such subsidies from the federal budget based on co-financing from lower-level budgets. Such an approach will create clear conditions for lending throughout the country and will boost the demand for lending.

Subsidizing of loan interest rate

This measure is not indisputable from the economic point of view (the alternative is to increase budget grants by the same amount) but it is very attractive from the political point of view.

It is recommended to fund this from regional budgets at the stage of pilot projects. Interest rates on loans for pilot projects with an allowance for subsidization are estimated to be 6-7%. At the first stage, it does not seem appropriate to differentiate the final rate for various borrowers.

At the beginning of the second phase of activity this problem should be discussed again with due consideration for the actual lending rates in the market sector at that point in time.

Housing Allowance Program

It makes sense to include homeowners’ mandatory payments to the fund for capital repairs of an apartment building into expenditures considered when evaluating the housing allowance amount. Noteworthy is that this should be done on the federal level in order to set equal terms for low-income families’ participation in the programs for upgrading of apartment buildings.

The decision to include mandatory payments to the fund for capital repairs of buildings into the housing allowance program will not require any marked changes in the approaches to the provision of housing allowances, as mandatory payment will be introduced by adopting normative acts and its size will be normalized. In the event that owners of premises in an apartment building take a decision on payments, which amount exceeds a minimum mandatory size, the housing allowance should cover, in this case, only expenditures within the limit of mandatory payment. A possibility of enhancing a maximum share in household’s income
expended for rent and utility payments, if this share includes mandatory payments for capital repairs, should be discussed. This is a regional level issue.

**II.3.5. DISTRIBUTION OF RESPONSIBILITIES FOR IMPLEMENTING THE OPTIMAL MODEL OF FINANCING CAPITAL REPAIRS OF APARTMENT BUILDINGS**

The proposed in this report model for financing of capital repairs in apartment buildings includes the following participants:

- Federal authorities;
- Regional authorities of the Russian Federation subjects;
- Local governments;
- Homeowners;
- Homeowners partnerships (HOAs);
- Management companies

Distribution of responsibilities between the aforesaid participants is given in Table 8.

**Table 8. Distribution of responsibilities for implementing the optimal model of financing capital repairs of apartment buildings**

<table>
<thead>
<tr>
<th>Model implementation participants</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Federal authorities</strong></td>
<td>1. Enhance the regulatory framework</td>
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<tr>
<td></td>
<td>2. Establish a federal guarantee agency through restructuring the Fund for the Promotion of the Housing and Utility Sector Reform</td>
</tr>
<tr>
<td></td>
<td>3. Allocate budget subsidies to Russian Federation subjects for capital repairs of apartment buildings</td>
</tr>
<tr>
<td><strong>Regional authorities of the Russian Federation subjects</strong></td>
<td>1. Fix a size of mandatory payments to the fund for capital repairs of an apartment building</td>
</tr>
<tr>
<td></td>
<td>2. Ensure operation of the housing inspectorate – supervising authorities responsible to monitor apartment buildings condition</td>
</tr>
<tr>
<td></td>
<td>3. Participate in establishing a federal guarantee agency or create a regional guarantee agency</td>
</tr>
<tr>
<td></td>
<td>4. Allocate budget subsidies to local governments for capital repairs of apartment buildings</td>
</tr>
<tr>
<td></td>
<td>5. Provide housing allowances to low-income families with mandatory payments for capital repairs of an apartment building being included therein</td>
</tr>
<tr>
<td>Local governments</td>
<td>1. Provide subsidies to legal entities (HOAs or management companies) for capital repairs of apartment buildings</td>
</tr>
<tr>
<td></td>
<td>2. Provide subsidies to banks with the view of reducing an interest rate under loans for capital repairs of apartment buildings</td>
</tr>
<tr>
<td>Homeowners</td>
<td>1. Take decisions at the general meeting on the amount of payments to the fund for building repairs if they are larger than a minimum mandatory payment</td>
</tr>
<tr>
<td></td>
<td>2. Effect payments to the fund for capital repairs of building</td>
</tr>
<tr>
<td></td>
<td>3. Take decisions at the general meeting as regards:</td>
</tr>
<tr>
<td></td>
<td>• Capital repairs of apartment building,</td>
</tr>
<tr>
<td></td>
<td>• Cost of capital repairs;</td>
</tr>
<tr>
<td></td>
<td>• Mobilizing credit resources, approval of lending terms, the amount of loan payments</td>
</tr>
<tr>
<td>Homeowners partnership</td>
<td>1. Establish a fund for capital repairs of apartment building</td>
</tr>
<tr>
<td></td>
<td>2. Obtain a loan for capital repairs</td>
</tr>
<tr>
<td></td>
<td>3. Place an order for capital repairs of building</td>
</tr>
<tr>
<td></td>
<td>4. Handle non-payers</td>
</tr>
<tr>
<td>Management company</td>
<td>In the event that no HOA is established in an apartment building or HOA members at the general meeting decided to delegate the following responsibilities to a management company:</td>
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**Possible measures to enhance financial reliability of homeowners associations**

Let’s define and evaluate three possible legislative actions by which the financial reliability of homeowners associations, viewed as a possible loan security, can be enhanced:

- strengthening the measures taken against non-payers to the fund of capital repairs of an apartment building;
- securing the legal status of homeowners associations;
- introduction of a mandatory registration of title in common property in an apartment building.

**Strengthening the measures against non-payers**

In recent years the annual collection rate of utility payments, made by those users who live in apartment buildings, has shown slight changes across the nation while remaining within the
range from 93% to 95%. In depressive territories the collection rate has declined drastically. Regional centers and major cities demonstrate, generally, a far higher rate at above 95%. The figure is, admittedly, quite acceptable. For all that, the measures for enhancing the discipline of payments should be, anyway, included on a list of pressing issues.

The Russian law takes a number of measures against non-payers. The seizure of property is among those measures. Although there is an exception according to which the one and only housing cannot be taken from its owner. The optimal model should envisage the removal of that legal exception. This would, apparently, lead to better payment discipline on the part of citizens, which means gaining better access to loans for capital repairs in apartment buildings.

According to the Consultant, such legislative step could be taken in parallel with the decision entailing the introduction of mandatory payments for capital repairs in an apartment building.

Securing the legal status of homeowners associations

Under the Russian law, the owners of premises in apartment buildings (ABs) are supposed to join a HOA on a voluntary basis. Consequently, the owners of premises in ABs may have various legal statuses. But if the members of a HOA consist of owners who have less than 50% of common property in their apartment building, the HOA must be dissolved. This provision adds to instability of HOAs and increases the risks of lending to them.

To change this legal provision is not an easy task to do since it has been adopted in 1997 pursuant to the decision by the Constitutional Court of the RF on a voluntary membership of citizens in public organizations. On more than one occasion it has been pointed out that the provision runs contrary to the practice of law in the overwhelming majority of countries. And, it appears that, in view of the significance of that issue in the context of enhancing the financial reliability of an association of owners of premises in ABs, a legal solution can be found. To this effect, the terminology relating to membership should be replaced by a provision under which the owner of a newly purchased housing unit in an apartment building at once becomes the participant of an association of owners – or a HOA. And there is a freedom of choice in this, since everyone makes his / her decision about whether purchase or not a housing unit in an apartment building (even on the condition of free-of-charge privatization).

The situation can be rectified, primarily, through making political decisions. In fact, some time will be needed in order to comprehend the need of making such decisions. This can be expected to take place as soon as practical activities with regard to capital repairs of apartment buildings are gaining their ground.

Introduction of a mandatory registration of title in common property in an apartment building

Model 4 and Model 5 imply the use of some elements of the common property in an apartment building (for instance, a land plot or an allocated part of it) as a pledge to secure a loan. Yet, that provision has not been included into the optimal model. The reasons for that are outlined below.

The Russian law does not provide for title registration of common property in an AB. The law prescribes these features to the common property in ABs:

1) belongs, on the basis of a right of joint shared ownership, to every owner (without any exception) of specified residential and non-residential premises in an AB, in which at least two specified premises are owned by different owners;
2) is not a part of a housing unit. This feature implies that the elements of a housing unit and those of common property in an AB are, legally, divided and cannot be the same;
3) is intended for servicing more than one premise in an AB. The presence of that feature means that every specified element of common property within an AB must be used to serve several (at least two) specified premises within the given AB. The third feature is a main mandatory (qualifying) feature of common property in an AB.

The Russian housing law has established a proprietary regime of common property which entails as follows:

A share of ownership rights for common property cannot be apportioned and alienated separately from specified premises.

The ownership right for a share of common property appears concurrently with the ownership right for specified residential and non-residential premises in ABs.

A share of ownership rights for common property follows the same fortune as the alienated common property.

The law allows for transfer of the elements of common property in apartment buildings for their further use on a repayable or non-repayable basis. For instance, the law entitles the owners of premises in an AB to make decision, at a general meeting, about the use of their common property in an AB by other persons / entities, including on the basis of contracts for installation and operation of advertising structures in the event that their installation and operation requires the use of common property of owners of premises in an AB.

But the elements of common property in apartment buildings are not transferable ones. The fact means that an element of common property in an AB cannot be alienated. According to Part 3 of Article 36 of the Housing Code of the Russian Federation, the size of common property in apartment buildings can be reduced via its renovation only by consent of all the owners of premises in a concrete AB. Federal law prescribes no other ways as to diminishing the size (or composition) of common property in ABs.

For this reason, the elements of common property in ABs cannot be used as a pledge to secure loan obligations relating to capital repairs of ABs.

According to Part 2, Article 23 of Federal Law 122-FZ (dated July 21 of 1997) “Registration of rights to real estate and transactions therewith” state registration of appearance, devolution, limitation (encumbrances) or termination of rights for residential or non-residential premises in apartment buildings is, at the same time, state registration of - inseparably associated with them - rights of joint shared ownership of common property. In other words, current legislation does not require any special state registration of rights of joint shared ownership of common property.

At present the debates are held to determine whether the title registration of common property in ABs is necessary. But irrespective of what solution is arrived at, eventually, this, by no means, would affect the financial reliability of HOAs.

Priorities of regional and municipal programmes of capital repairs in apartment buildings

Complying with an optimal concept which underlies regional and municipal programmes of capital repairs in ABs, these shall, primarily, define the procedures by which budget subsidies are provided to legal entities (HOAs and MOs) for financing capital repairs. Yet, it is advisable that the procedures should correspond to one another. That means that regional subsidies should be transferred to municipal budgets to form a single source of financing within every municipal entity, while a regional programme of capital repairs of ABs should embrace all municipal programs of that region.

In best international practices the reliance on budget subsidies (grants) for renovation of apartment buildings goes hand in hand with raising loan funds to that effect. This can be accounted for by the fact that the owners of housing units do not need loans to finance
Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support

renovation because they have sufficient own funds (this approach is possible for stand-alone capital repair activities rather than for a set of such activities). Subsidizing is heavily needed once the owners of housing units have decided to carry out a comprehensive renovation. In this case, subsidies reduce the financial burden imposed on the owners of housing units. At the same time the opportunity of obtaining a subsidy is encouraging for comprehensive renovation as well as for raising loans funds. From a bank’s point of view the subsidy received by a loan borrower mitigates the risk of lending. Hence, the programme of subsidizing facilitates the development of a system of lending for the purposes of housing renovation, making loans and subsidies the main sources of financing the housing renovation.

A subsidy is an effective mechanism for attaining the state’s goal of enhanced energy efficiency in housing sector. In this context, the amount of a subsidy should be proportional to the achieved energy saving, which is essential when formulating the eligibility criteria for subsidies.

These criteria may, for example, look as follows:

- Indicators of reduced energy consumption; correlation between the amount of grant and the level of energy efficiency.
- Correlation between the amount of grant and the initial conditions of a building (or the time of its construction / capital repairs) and, mainly, the building’s thermal and physical characteristics.

It is recommended that the amount of a budget subsidy should be calculated as a share of the cost of an investment project on energy efficient renovation of an apartment building.

- The reference value of a share of the budget subsidy, within the cost of renovation, makes up 20%; but it must not exceed the marginal cost of renovation per a square meter of a housing unit (for example, $150 or RUR 4,500 per one square meter)
- In the event that energy efficiency of a building has been enhanced by more than 15%, a coefficient 1.1 should be applied to the reference value, if it has been increased by over 30%, then a coefficient 1.2 should be used;
- For buildings constructed before 1990 the coefficient will be 1.1.; for those made before 1980 – it should be 1.2.

Policy of engaging third parties in energy saving activities

Activities associated with energy efficiency enhancement of an apartment building may yield additional profit to housing companies due to reduction of energy costs; Apart from this, it may open a new field of activity for such entities and facilitate their competitive growth.

To develop energy saving business in the housing sector the model of energy service contracts that include target indicators of energy performance activities (for which reason they are also called as “performance contracts”) seems to be the optimum. Organizations that enter into such energy service contracts are usually called energy service companies (ESCO).

Types of energy service contracts

Two types of contracts should be distinguished from a variety of energy service contracts. They are distinguished by the structure of contractual relationship among owners of a building (or their representative), ESCO, and a resource supplier.

A classic energy performance contract of the 1st type envisages that owners of a building (or their representative) sign an agreement with ESCO for achieving certain indicators of the enhancement of energy performance of a building through implementing energy saving activities. Such agreement is signed on the condition that these works are paid from the
difference between the cost of a specifically defined certain amount of utility resources, fixed for the date of the contract signing, and the cost of actually consumed utility resources. In so doing, ESCO bears no responsibility for the condition of the whole building and contract with a resource supplier (for instance, heat supplier) should be signed by owners of the building (or their representative).

Another type of performance contracts that are called “contracts for full management of buildings” in international practices, envisages that ESCO signs an agreement with owners of a building (or their representative) for ensuring a certain level of comfort inside the building through implementing certain energy saving activities. In so doing, owners of the building (or their representative) enter into a contract with ESCO, whereas ESCO, in its turn, acts as a management company, and concludes contracts with a resource suppliers and may contracts other firms for maintenance. Payment under the first contract (with owners of a building) is made on the basis of the cost of the amount of utility resources fixed in a certain manner for the date of the contract signing. Payment under the contracts with resource suppliers is made on the basis of the cost of actually consumed utility resources. The difference between these values constitutes ESCO’s revenue, which the company allocates for the implementation of energy saving activities, return of invested funds, and forming of its own profit.

A contract of the second type is a contract for real property management which includes special target indicators related to energy efficiency enhancement of a building.

It wouldn't be out of place to note that performance contracts would not provide for implementation of the entire package of energy-saving measures for upgrading of apartment buildings, because the payback period of comprehensive upgrading by means of mere reduction in consumption of energy resources is too long. Therefore, with respect to apartment buildings, performance contracts are applicable for particular energy-saving measures.

Depending on the management method selected by owners of premises in an apartment building, it is possible to sign a contract of either the first or the second type.

In the event that owners select the hands-on management method or establish a HOA, an energy service company (ESCO) may offer them to sign a classic energy performance contract providing for a guaranteed level of energy saving. As a rule, similar contracts are signed for the delivery and maintenance of the equipment, which makes is possible to regulate and measure heat consumption in a building with maximum consideration of weather conditions (individual heat supply units). Figure 13 shows contractual relationship under performance contract of the 1st type.
Figure 13. Scheme of contractual relationships for performance contracts with guaranteed level of saving

- **BANK**
  - Loan
  - Loan repayment

- **ESCO**
  - Energy performance contract
  - Payments to ESCO from the money saved from reduced energy consumption

- **Energy resources suppliers**
  - Contracts for supply of resources
  - Payments for resources

- **HOA or MC**
  - Payments for utility services

Implementation of energy saving measures
If owners of premises in an apartment building select the method of building management by a managing organization, the latter itself may act as ESCO and propose to the owners to conclude a performance contract for full management of the building, i.e. performance contract of the second type. In the context of the enhancement of energy performance, such a contract provides more opportunities than a contract of the first type, since in this case the managing company is responsible for the maintenance of the common property in the building and may carry out, upon owners’ approval, a number of energy saving activities. However, contracts for apartment buildings management are regulated by the housing legislation. This implies that such contracts have serious limitations as regards managing companies’ investment activities. According to the RF Housing Code, such contracts may be concluded for a period not exceeding five (5) years and may be terminated unilaterally by owners in case of the managing company’s failure to fulfill its contractual obligations. It is obvious that in such situation, the payback period of energy saving activities shall be limited to the contract validity term minus the time required for implementation of a certain energy saving activity. Figure 14 gives the scheme of contractual relationships under performance contract of the 2nd type.
Figure 14. Scheme of contractual relationships under a performance contract for full management of buildings

- **BANK**
- **Energy resources suppliers**
- **Management contract**
- **Fixed payments under contract**
- **H.O.A.**
- **Contractors** (service providers, maintenance company)
- **Contracts** for supply of resources
- **Payments for resources**
- **Management, maintenance, implementation of energy saving measures**

**Description:**
- The diagram illustrates the contractual relationships involved in a performance contract for full management of buildings.
- A bank provides a loan for a management company (ESCO), which then manages the buildings.
- Energy resources suppliers are involved in the process.
- Contractors (service providers, maintenance company) are part of the management contract.
- Payments are made for resources and services provided.
- Fixed payments under contract are a key component of the management agreement.

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Figure 14. Scheme of contractual relationships under a performance contract for full management of buildings
Special attention should be paid to legal opportunities for concluding performance contracts for full management, as the Russian legislation provides that owners of premises shall pay for utility services based on their actual consumption. This serves as a basis for the viewpoint that lower consumption of utility resources cannot become a “source” of additional revenues for a managing organization. However, we deem this viewpoint to be completely wrong.

The point is that the cost of utility payments is included in the total value of a management contract. This is a contractual value which is agreed upon during the negotiations between the managing organization and owners and has to be approved by the owners of an apartment building at their general meeting. This value consists of two components: the cost of utility services provided and the cost of works on maintenance and servicing of the building.

As said above, in conformity with the existing laws the cost of utility services should be estimated on the basis of their actual consumption. In this connection, it cannot be said that from the legal viewpoint the managing company will pay energy performance activities from savings on utility payments. It is a common Russian practice that the cost of works on maintenance and servicing of an apartment building is fixed in the contract and the total value of such management contract includes two components, the aforesaid fixed value and the variable cost of actually consumed utility resources. In this case, indeed, lower consumption of utility resources curtails managing organization’s revenues, that discourages this organization from enhancing energy performance.

However, in case of a performance contract for management with specification of target energy saving indicators, the contract value may and shall be formed differently. In this case, generally the value of a management contract is fixed or determined using some formula that takes into account, for instance, adjustment of tariffs on utility services. In so doing, the amount of payment for utility services is estimated with consideration of their actual consumption as set forth in the existing laws. However, the amount of payment for works on maintenance and servicing a building, including payment for work on the energy performance enhancement, is a variable value which is to be determined as a difference between the management contract value and the cost of utility services.

Again, it should be emphasized that the Russian legislation allows concluding contracts for managing apartment buildings in the form of performance contracts.

Noteworthy also is that in the case where a performance contract of the second type is concluded, a managing company is allowed to conclude a performance contract of the first type for work with a special purpose ESCO and transfer all or a part of risks under such performance contract to the contractor.

**Issues on lending to ESCO under energy service contracts**

Any performance contract implies that ESCO should first invest either its own or borrowed funds to implement energy saving activities and then during the contract period return the invested funds at a certain profitability thanks to the energy performance enhancement, which is usually expressed as a lower consumption of energy resources.

Possibility to get a bank loan for implementing such contracts is an essential condition of their feasibility.

In this connection general terms and conditions of lending should be considered.

The first issue to be discussed is whether to consider lending as a project financing and provide a loan under every performance contract separately or to lend an organization which has a variety of similar contracts.

Obviously, there is no unequivocal answer to this question.

Since a new credit product is at issue now, it seems advisable to use specific performance contracts at the initial phases of its introduction and lend ESCO under every contract gone through the underwriting procedure. However, it should be remembered that since a performance contract
stipulates rendering of services and performance of work in a single building only, the value of such contract will be relatively small. Consequently, the amount of loans will be small as well, provided that expenses on the project underwriting are expected to be considerable.

As credit history of a specific ESCO is being formed, it seems expedient to switch over to providing a loan against a portfolio of similar contracts. Here it should be emphasized that housing management organizations that will apply for loans should have practical experience in concluding management contracts specifically in the form of performance contracts.

The second issue to be discussed is performance contracts of what type (1st or 2nd) are less risky and what contracts will serve as a benchmark for lending.

As noted above, contracts of the second type (contracts for managing apartment buildings) feature additional legal limitations as regards their validity period and possibility of being terminated by owners of residential premises. At the initial phase of implementing lending projects contracts of the first type to be concluded between HOA and ESCO may be preferable from the viewpoint of credit risk minimization. At the same time, within the framework of the 2nd type contracts, efforts to increase energy efficiency might produce a greater effect, and in the long run, housing organizations’ activity should be geared to such contracts.
Russian Urban Housing Energy Efficiency Programme – Model Development

Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support

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Draft

FEDERAL LAW

About changes in the Housing code of Russian Federation and several legislation acts of Russian Federation

37 Developed by the FHUS and the Ministry for Regional Development of the Russian Federation

The Institute for Urban Economics (IUE)
Center for Energy Efficiency (CENEf)
Housing Initiative for Eastern Europe (IWO)
Institute Byvania (The Institute of Housing)
Article 1

To make the following changes and additions in the Housing Code of Russian Federation (Assembly of legislation of Russian Federation, 2005, № 1, article 14; 2007, № 1, article 13; № 43, article 5084; 2008, № 30, article 3616):

1) to add the next edition to article 12 items 1b², 1b³:

16²) to define the foundation, procedure and methodological base for determining the necessity of the capital repair of common property in an apartment building including the key requirements to details and schedule of the apartment owners general meeting decisions regarding apartment building capital repair as well as establishing the inspection procedure for the execution of mentioned requirements by the authorized federal bodies of the executive power;

16³) to determine the procedure of the amount of mandatory capital repair payments for the apartment building common property, as well as the inspection procedure for the execution of mentioned requirements by the authorized federal body of the executive power;

2) to add to article 13

a) items 8² – 8⁴ in the following edition:

«8²) to determine the amount of capital repair mandatory payments for the apartment building common property in accordance with the legislation;

8³) to ensure the control over the proper use of capital repair mandatory payments in an apartment building;

8⁴) based on a tender to choose a credit institution for servicing the accounts related to the apartment building capital repair from a list of credit institutions according to the current Code requirements. The constituent entity of the Russian Federation has the right to delegate the power of choosing the credit institution for servicing the transactions of apartment buildings capital repair accounts to the local authorities located at the territory of the given municipality;»;

3) to add subsections 9.2 - 9.5. to part 1 of article 14 in the next edition:

9.2. to approve the apartment buildings capital repair programs in accordance with the Rules of apartment buildings capital repair approved by the Government of Russian Federation;

9.3. based on a tender to choose a credit institution for servicing the accounts related to the apartment building capital repair from a list of credit institutions according to the current Code requirements;

9.4. based on a tender to choose a credit institution for servicing the accounts related to the apartment building capital repair in case apartment building owners did not collect sufficient funds for capital repair;

9.5. in cases described in the current Code to make mandatory decisions for apartment building owners about capital repair.

4) to add part 3.1 to article 39 in the following edition:
3.1. The criteria for schedule, works priorities and their types for apartment building capital repair are determined by the Rules of apartment buildings capital repair approved by the Government of Russian Federation;

4) to add article 391 in the following edition:

«Article 391. The carrying out of apartment owners capital repair of the common property in the apartment building

1. Apartment owners in an apartment building should carry out the apartment building capital repair.

In order to ensure safe living standards in apartment buildings capital repair includes the replacement and (or) restoration of building structures or elements of these structures excluding the bearing building structures, replacement and (or) restoration of engineering and technical systems and engineering and technical network of capital repair as well as replacement of some bearing building structures for similar ones or others that improve its performance and (or) replacement of such elements.

2. Apartment building capital repair financing is made by apartment building capital repair payments from apartment owners and owners of non-residential facilities in cases described in the current Code as well as other sources including credits and loans in accordance with the current Code.

3. The decision about apartment building capital repair is made at the apartment owners general meeting taking into account the proposals of the managing company, managing bodies of home owners association, housing cooperatives or other specialized consumers' cooperative by the procedure established in the current Code and in accordance with the schedule determined by the apartment building capital repair approved by local authorized bodies.

The decision about apartment owners capital repair should include voting results of apartment owners in apartment building and their approved decisions on the issues of:

a) capital repair carrying out;

b) approval of capital repair budget estimate;

c) capital repair procedure and schedule including a list of contractors and suppliers as well as key terms of agreements with them;

d) decisions about signing credit or loans agreements when the monetary funds are insufficient for making a capital repair as well as decisions about substantial terms of this agreement.

The mentioned agreement of behalf of owners is signed by:

- managing company including the case, mentioned in part 1.1 of article 164 of the current Code;

- managing bodies of home owners associations or housing cooperative or other specialized consumers cooperative
- persons authorized by apartment owners in this building in accordance with part 3 of article 164 of the current Code in case the number of apartments in the apartment building is less than twelve.

4. If the apartment buildings owners do not make a decision about apartment building capital repair in accordance with the current Code and within the period defined by the apartment buildings capital repair program approved by local authorized bodies, the local authorized bodies should make a decision in regards to an apartment building capital repair.

Such decision should include items mentioned in part 2 of the current article excluding the items in section g) of part 2 of the current article.

While the apartment building owners funds in the apartment building are insufficient to make a capital repair then local authorized body holds a tender to choose a credit company for capital repair financing of such buildings.

Persons mentioned in subsection “g” of article 2 of the current article should sign an agreement about using the loan resources with the winner of the competition. In order to ensure that such agreement will be executed local authorized bodies are required to provide municipal guarantees to credit organizations.

Municipal bodies are allowed to provide support to apartment owners in apartment building while apartment building capital repair financing by subsidizing the interest rate.

5) part 2 of article 154 should be updated in the next edition:

«2. The apartment fees and utilities payment of apartment building owner include:

1) payment for maintenance and repair of residential space including the payment for services and works for apartment building managing, maintenance, current repair of common property in apartment building;

2) payment for capital repair of common property in apartment building including mandatory payments for capital repair financing of common property in apartment building and (or) accumulation of necessary funds of apartment owners in the apartment building to finance such expenses in the future (hereinafter, capital repair mandatory payment).

3) utility bills payment»;

6) to add article 156 with part 81 in the next edition:

«81. Capital repair mandatory payment is made by apartment owners on a monthly basis in the amount determined by the apartment owners general meeting in an apartment building and in case such amount is not determined at the apartment owners general meeting – in the amount determined by the authorized local bodies.

The amount of capital repair mandatory payments determined at the apartment owners general meeting in an apartment building can not be less than the amount of capital repair mandatory payment determined by the authorized local body;
7) to update article 158 in the next edition:

«Article 158. Apartment building expenses in an apartment building

1. Apartment owner of the apartment building should bear the expenses for maintaining its own apartment including capital repair expenses of common property in the apartment building in proportion to its share in the common property.

2. All apartment owners are liable to pay for apartment building capital repair from the moment of obtaining ownership rights for premises in this building. When the apartment ownership right is transferred to a new owner the apartment building liability for capital repair payment of the previous owner is transferred to the new owner.

3. The capital repair mandatory payment should be made into the banking accounts opened separately for funds to finance capital repair of each apartment building (hereinafter, separate banking accounts). Separate banking accounts are opened and serviced in the Russian credit organizations whose stocks (shares in chartered capital) belong to the Russian Federation or the Bank of Russia in the amount sufficient to make decisions of these credit organizations in regards to the questions of competence of the general meeting of participants. The procedure to choose credit organization authorized to maintain banking accounts for apartment building capital repair funds is determined by the Government of Russian Federation.

31. Apartment owners in the apartment building that created the home owners association or housing cooperative of other consumers’ cooperative make capital repair mandatory payments into a separate banking account opened by the mentioned home owners association or housing cooperative or other specialized consumers’ cooperative.

32. Apartment owners in the apartment building where there is no home owners association or housing cooperative or any other specialized consumers’ cooperative and that is managed by managing company as well as apartment owners that directly manages the apartment buildings and have the number more than 12, make the mandatory capital repair payment into the separate banking account opened by the managing company.

33. Apartment owners in the apartment building that directly manage the building that has less than 12 apartments make capital repair mandatory payment into the separate banking account opened by the person authorized by apartment owners in this building in accordance with part 3 of article 164 of the current Code.

34 Claims for obligations of managing company, home owners association or housing cooperative or other specialized consumers’ cooperative can not be submitted on the funds contributed by apartment owners in the apartment building as capital repair mandatory payments.

4. In cases when persons mentioned in parts 31, 32 and 33 of the current article have not opened separate banking accounts by the designated date as well as in other cases in accordance with the current Code apartment owners in the apartment building make capital repair mandatory payments into the separate banking account opened by the local authorized body.

Accumulation of payments from apartment owners in different apartment buildings at the same banking account is not allowed.
Managing companies, home owners association, housing cooperatives or other specialized consumers cooperatives carry out the record keeping of capital repair mandatory payments paid by apartment owners in an apartment building separately for each premise.

5. Funds accumulated from apartment owners capital repair mandatory payments in the apartment building held at a separate banking account can be used to pay for capital repair works and services in accordance with the Code of the common property in the apartment building, pay offs the loans (credits) obtained to pay for such works and services, interest rates payments for using these loans (credits).

6. Persons responsible to open separate banking accounts within a designated period open separate banking accounts mentioned in part 3 of the current article and notify the local authorized body about opening corresponding accounts.

In case the local authorized body will not receive a notification about opening the separate banking account, local authorized body opens separate account for apartment owners capital repair mandatory payments in such apartment building.

7. The owner of the separate banking account can use the monetary funds at this account in accordance with the current Code.

Credit organization is responsible to accept and deposit monetary funds received at the separate banking accounts as capital repair mandatory payments from the account owner and third parties. Credit organization is responsible for executing the requests of the account owner about transfers in the account and other transactions if these requests and transactions are approved by the Government of Russian Federation in accordance with its procedure.

8. Social support measures for utility bills payments to a certain group of people determined by federal laws do not cover apartment owners in the apartment building in regards to capital repair mandatory payment.

10. Upon making the decision at the apartment building owners general meeting in the apartment building about capital repair the funds accumulated at a separate banking account are transferred as a payment for capital repair works and services in accordance with the general meeting decision of the apartment owners in the apartment building following the procedure stipulated in the current Code within the period determined by the corresponding agreements for the mentioned works and providing services.

11. In case the apartment building will be recognized as unsafe for living and should be demolished or renovated, the funds of apartment owners in the apartment building accumulated at the separate banking account as capital repair mandatory payments minus the funds used for those goals should be returned to apartment owners in such building.

6) article 165 should be in the following edition:

«Article 165. Creation of conditions for managing apartment buildings

1. In order to create conditions to manage apartment buildings the local authorities:

1) ensure equal conditions for managing companies regardless of their organizational and legal forms;
2) to promote the increase in professional level of persons responsible for managing apartment buildings and organization of training for persons that have intentions to be involved in such activity.

2. Local authorized bodies and managing companies are responsible to provide information by the citizens request about prices and rates for services and works in regards to the maintenance and repair of apartment buildings and their residential areas, about amounts of payments in accordance with these prices and rates, about the scale, list and quality of providing services and works as well as about the prices and rates for utility services and amount of payments for these services.

3. The constituent entities of Russian Federation and local authorized bodies can provide the budget funds for apartment buildings capital repair to managing companies, home owners associations or housing cooperative or other specialized consumers cooperatives.

7) to add article 166 in the following edition:

«Article 166. To create conditions for capital repair of the common property of apartment owners in the apartment building

1. In order to create conditions for capital repair local authorized bodies establish the programs of apartment buildings capital repair for the period not less than 10 years and notify the apartment owners in the apartment building to make a necessary decision about capital repair within the period determined by the program.

Article 2

To make the following changes in the Federal law dated October 6 of 2003 № 131-FL «About general principles of organization of local government in Russian Federation» (The assembly of laws of Russian Federation, 2003, № 40, art. 3822; 2005, № 1, art. 12, 17, 25; 2006, № 1, art. 10; № 23, art. 2380; № 30, art. 3296; № 31, art. 3452; № 43, art. 4412; № 50, ст. 5279; 2007, № 1, art. 21; № 21, art. 2455; № 25, art. 2977; № 43, art. 5084; № 46, art. 5553; 2008, № 48, art. 5517; № 52, art. 6236; 2009, № 52, art. 6441; 2010, № 15, art. 1736; № 49, art. 6409; 2011, № 17, art. 2310):

1) To add subsection 4.1 to article 14 of part 1 with the following edition:

«4.1. organization of events for timely capital repair of the common property of apartment owners premises in the apartment buildings;»

Article 3

To make the following changes in the Code of Russian Federation about administrative violations (The Assembly of laws of Russian Federation, 2002, № 1, artr. 1; № 30, art. 3029; № 44, art. 4295; 2003, № 27, art. 2700, 2708, 2717; № 46, art. 4434; № 50, art. 4847, 4855; № 52, art. 5037; 2004, № 31, art. 3229; № 34, art. 3529, 3533; № 44, art. 4266; 2005, № 1, art. 4, 9, 13, 40, 45; № 10, art. 763; № 13, art. 1077; № 19, art. 1752; № 27, art. 2719, 2721;
1) to have article 7.22 in the following edition:

«Article 7.22. Violations of apartment buildings maintenance, rules of maintenance of the common property in the apartment buildings.

1. Violations of rules in regards to maintenance of premises and rules of maintenance of the common property in the apartment buildings by the owners of residential houses and apartment owners and owners of non residential areas in the apartment building (hereinafter, in this article – premises),

result in a warning or administrative fine for the persons in the amount from 2 thousand up to four thousand rubles, for legal entities – from forty thousand up the fifty thousand rubles.

Note. Administrative responsibility determined in item 1 of the current article do not apply to apartment owners in the apartment building that did not attend the general meeting of apartment owners in the apartment building due to non proper notification, illness that is proved by a written document, business trip, other reasonable excuse or voted for the decision that was directed to ensure the proper maintenance of the common property in the apartment building but this decision did not accumulate the required number of votes or voted against the decision that resulted in violation of maintenance rules of the common property in the apartment building. The administrative responsibility established in item 1 of the current article do not apply to apartment owners in the apartment building if in accordance with their decision at the general meeting the works related to proper maintenance of the common property in the apartment building should be made within one year from the date of making such decision.

2. Violations of the maintenance rules of the common property in an apartment building by persons responsible for works or providing maintenance services in an apartment building excluding the cases described in articles  6.4, 7.13, 9.5 and 9.11 of the current Code,

Results in administrative fine on authorized persons in the amount from seven thousand up to ten thousand rubles; on persons that involve in the business activity without formation of the legal entity, - from one thousand up to two thousand rubles, on legal entities – from thirty thousand up to seventy thousand rubles.

Note. Administrative responsibility determined in item 2 of the current article apply to managing and other organizations as well as persons that involve in business activity without forming the legal entity, those who are responsible for maintenance and repair of the common property in the apartment building as well as to authorized persons in case they are authorized by the agreement with apartment owners in the apartment buildings or home owners association or housing or any other specialized consumers cooperative to bear responsibilities that being executed non properly and resulted in violations of rules of maintenance the common property in the apartment building. The administrative
responsibility determined in item 2 of the current article do not apply to home owners associations or housing cooperative or other specialized consumers’ cooperative and authorized persons of these organizations.

3. Violation of the procedure and rules of: conducting the tender to choose a managing company for managing the apartment building; recognizing that the apartment building is unsafe for living and should be demolished or renovated; acknowledging that the residential premises are unsuitable for living; transfer of residential area into non residential or non residential area into a residential; agreement in reconstruction and (or) re-layout of residential or non residential area - will result in administrative fine for authorized persons in the amount from four thousand up to five thousand rubles; for legal entities – from forty thousand up to fifty thousand rubles.

Note. Residential premises in accordance with the housing legislation of the Russian Federation mean a family house, part of a family house, an apartment, a part of apartment, a room.»

Article 4


2) «Meanwhile the previous landlord is responsible for capital repair works required at the moment of the first privatization of the residential area in such building in accordance with the norms of maintenance, usage and repair of the housing stock.»

Article 5

Home owners associations, housing cooperatives, other specialized cooperatives, managing companies are responsible by July 1st 2012 to open separate banking accounts for the funds for the capital repair of the common property of the apartment building as well as transfer the apartment owners funds received before the current Law enters into force and in regards to capital repair of the common property in apartment building and those that were not used for this purpose until «___»____________________ 2011.

Article 6

1. Apartment owners in apartment building should make a decision about determining the amount for capital repair until January 1, 2012.

Article 7
1. The current Federal law enters into force from the date of its official publication.

President of
Russian Federation
ANNEX 2. MODEL 2 «TRUST MANAGEMENT». DRAFT FEDERAL LAW CONCERNING AMENDMENTS TO THE HOUSING CODE OF THE RUSSIAN FEDERATION AND SELECTED LEGISLATIVE ACTS OF THE RUSSIAN FEDERATION RELATED TO CAPITAL REPAIRS OF APARTMENT BUILDINGS

Draft

FEDERAL LAW
Concerning Amendments to the Housing Code of the Russian Federation and selected legislative acts of the Russian Federation related to capital repairs of apartment buildings

Article 1


1) Article 12 shall be supplemented by Paragraphs 1 b2 — 1 b5 read as follows: <<162) approval of regulations for establishing charges for capital repairs of apartment buildings including regulations for establishing the minimum amount of funds required for capital repairs;

163) approval of regulations for fiduciary management of funds designated for financing capital repairs of apartment buildings and approval of a standard form contract for fiduciary management of funds designated for financing capital repairs of apartment buildings;

164) exercise of control over regulations of fiduciary management of funds designated for financing capital repairs of apartment buildings;

165) exercise of control over meeting of deadlines for approval of regional programs for financing of capital repairs of apartment buildings and monitoring of implementation of the said programs."

2) Article 13 shall be supplemented by Paragraphs 82 - 87 read as follows:

«82) determination of minimum and maximum amounts of charges for capital repairs of apartment buildings as well as determination of the maximum amount of funds required for capital repairs;

83) competitive selection of entities authorized to carry out fiduciary management of funds designated for financing of capital repairs of apartment buildings;

84) in instances stipulated by this Code, making decisions on carrying out capital repairs mandatory for residential property owners in an apartment building;

85) exercise of control over the procedure for collection of charges for capital repairs of apartment buildings, over meeting of deadlines for decisions on carrying out capital repairs of apartment buildings and over the order of capital repair works;

8 ) institution of fiduciary management of funds designated for financing of capital repairs of apartment buildings in instances and in a manner stipulated by this Code;

87) approval and exercise of control over implementation of regional programs for financing capital repairs in apartment buildings."
3) Part 3 of Article 39 shall be supplemented by the following wording: "and include, particularly but not exclusively, the regulations for determination of periods for carrying out capital repairs of apartment buildings; the procedure for decision-making on capital repairs as well as requirements to capital repair works."

4) Part 2 of Article 154 shall be amended to read as follows:

"2. The payment of a residential property owner in an apartment building for a residential unit and utility services shall include:

3) a charge for maintenance and repair of residential property including a fee for services and activities associated with the management of an apartment building and with the maintenance and running repairs of the common property in an apartment building;

4) a charge for capital repairs of the common property in an apartment building;

5) a fee for utility services.";

5) in Article 158:

a) Part 1 shall be supplemented by the following wording: "and a charge for capital repairs of the common property in an apartment building."

6) Part 2 shall be excluded;

b) shall be supplemented by Section IX read as follows:

"Section IX. Organisat1on of capital repairs of apartment buildings

Article 166. Conducting engineering surveys and planning of capital repairs in apartment buildings

1. Apartment buildings are subject to engineering survey once every 5 years. An engineering survey shall be conducted to evaluate the necessity of capital repairs of an apartment building in order to secure its safety. An engineering survey of an apartment building shall be conducted to establish its compliance with mandatory safety requirements stipulated by technical regulations.

An engineering survey of an apartment building shall be conducted by an entity which is not a management company, a Homeowners’ Association or a housing cooperative or a special-purpose consumers’ cooperative carrying out management of apartment buildings.

The decision to conduct an engineering survey of an apartment building including selection of an entity to be contracted for conducting an engineering survey is made by the general meeting of residential property owners in an apartment building. Costs associated with the engineering survey of an apartment building shall be included in the payment for maintenance and repairs of residential property.

2. Based on the results of the engineering survey of an apartment building the surveyor shall issue a survey report in which the following data are to be included:

time periods of the engineering survey of an apartment building (date of commencement and date of completion);
verification of compliance of an apartment building with mandatory safety requirements established by technical regulations;

list of capital repair works in an apartment building to be executed to bring an apartment building to conformity with mandatory safety requirements established by technical regulations as well as the proposed time schedule for such works;

estimated costs of capital repair works as of the date of engineering survey;

an estimate of payment for capital repairs to finance capital repair works, including in instances where the amount of funds required for capital repairs exceeds the amount established by public authorities of a constituent entity of the Russian Federation;

other information as required by the Government of the Russian Federation.

3. Within one month from the date of completion of the engineering survey the surveyor of an apartment building is obliged to forward a copy of the engineering survey report to each owner of residential and non-residential property in such an apartment building. A copy of the engineering survey report shall be sent by mail.

At the same time, if based on the results of the engineering survey it is identified that an apartment building failed to meet mandatory safety requirements, a copy of the engineering survey report shall be forwarded to public authorities of a constituent entity of the Russian Federation which are vested with the powers to exercise government control over utilization and safety of the housing stock.

4. Within two months of the date of completion of the engineering survey the residential property owners in an apartment building are obliged to hold the general meeting of residential property owners in an apartment building at which the report on engineering survey of the apartment building shall be reviewed and a decision on carrying out capital repairs of the common property of residential property owners in an apartment building shall be made. A decision on carrying out capital repairs shall be made pursuant to Article 169 of this Code.

5. Guidelines for conducting an engineering survey and issuing of an engineering survey report are established in the regulations for common property maintenance in an apartment building approved by the Government of the Russian Federation.

Article 167. Payment for capital repairs of the common property in an apartment building

1. The minimum amount of the payment for capital repairs shall be established by a competent public authority of the respective constituent entity of the Russian Federation per unit of area in an apartment building occupied by a residential property owner in an apartment building. The said payment may be differentiated by municipalities with due account for types and years of apartment buildings construction in compliance with the regulations for establishing the amount of payment for capital repairs of apartment buildings approved by the Government of the Russian Federation. Executive authorities of constituent entities of the Russian Federation shall also establish the maximum amount of funds accumulated by means of payments for capital repairs of an apartment building and not spent for capital repairs upon reaching of which amount the charges for capital repairs are not collected.
2. The amount of payment for capital repairs of an apartment building established by a competent public authority of a constituent entity of the Russian Federation may be increased by decision of the general meeting of residential property owners of an apartment building.

**Article 168. Fiduciary management of funds designated for financing of capital repairs of apartment buildings**

1. Funds contributed by residential property owners and tenants in an apartment building as payments for capital repairs are transferred, on behalf of the said owners by management companies, Homeowners’ Associations, housing cooperatives and other special-purpose consumers’ cooperatives and other persons responsible for common property maintenance in an apartment building (under direct management of an apartment building), in trust to organizations to be selected on a competitive basis by public authorities of constituent entities of the Russian Federation in compliance with the regulations for fiduciary management of funds designated for financing of capital repairs of apartment buildings approved by the Government of the Russian Federation (hereinafter referred to as Trustee).

2. Lending institutions and other institutions meeting the respective requirements established by the Government of the Russian Federation and selected by competent public authorities of constituent entities of the Russian Federation on a competitive basis may act as Trustees. Management companies, Homeowners’ Associations or housing cooperatives or other special-purpose consumers’ cooperatives managing the apartment buildings may not act as a Trustee. For the management of funds designated for capital repairs of apartment buildings in the territory of a constituent entity of the Russian Federation only one Trustee is selected.

Requirements to Trustees, the procedure for competitive selection of Trustees, the standard form of a trust management agreement, restrictions with regard to methods of funds management as well as the procedure for establishing the amount of funds management fees is established by regulations for trust management of funds designated for financing of capital repairs of apartment buildings approved by the Government of the Russian Federation.

3. Trust management shall be instituted by competent authorities of constituent entities of the Russian Federation in favour of each residential property owner in an apartment building by means of conclusion of an agreement for trust management of funds for financing of capital repairs of apartment buildings with an entity selected on the basis of competitive selection of a Trustee; The notification of institution of trust management shall be forwarded by executive authorities of constituent entities of the Russian Federation by mail to residential property owners in apartment buildings, to managerial bodies of management companies, Homeowners’ Associations, housing cooperatives and other special-purpose consumers’ cooperatives within 30 days from the date of the trust management agreement with indication of the Trustee and requisites and essential conditions of the trust management agreement.

4. Transfer of funds in trust management does not entail a transfer of the right of ownership of such funds to the Trustee. The Trustee shall dispose of funds transferred in trust management on the basis the decisions on capital repairs pursuant to Article 169 of this Code and within restrictions stipulated by the trust management agreement and according to Obligations under a transaction made by the Trustee exceeding delegated powers or in
violation of established constraints are assumed by the Trustee personally and the Trustee is liable for such obligations to the extent of its property only.

5. A trust management agreement shall be made for a term not exceeding ten years and may be terminated early by the institutor of trust management by judicial means in case losses are caused by the Trustee to residential property owners in apartment buildings exceeding 3% of the amount of funds transferred to the Trustee in one constituent entity of the Russian Federation.

A Trustee which, in the course of trust management of funds, failed to take due care of the interests of residential property owners in apartment buildings shall reimburse the owners for damage caused by the loss of funds in carrying out trust management of funds.

If a Trustee failed to reimburse the owners for damages caused by the loss of funds, such damages shall be refunded to owners for account of the respective constituent entity of the Russian Federation.

In case of termination of the trust management agreement and upon expiration of such an agreement, if a new trust management agreement is not concluded with the Trustee, the funds transferred in trust management and also the revenue earned thereon less fees of the Trustee shall be transferred to the new Trustee pursuant to the procedure established in the regulations for trust management of funds designated for financing of capital repairs of apartment buildings approved by the Government of the Russian Federation.

6. Waiver of benefits under a trust management agreement and repudiation of a trust management agreement shall not be allowed.

7. Management companies, Homeowners' Associations, housing cooperatives or other special-purpose consumers' cooperatives or other persons liable for the maintenance of the common property in an apartment building (in case of direct management of an apartment building) shall, prior to the next accounting period following receipt of notification from the competent executive authority of the respective constituent entity of the Russian Federation of institution of trust management, be obliged to:

a) include the payment for capital repairs of the common property of an apartment building into rent billing documents and utility bills payable by residential property owners in an apartment building in the amount established pursuant to Article 167 of this Code;

b) transfer the collected payments for capital repairs to the Trustee at the latest on the 15th day of the month following the expired month within which the charge for capital repairs is payable;

c) transfer to the Trustee the funds for capital repairs collected from residential property owners in an apartment building as payments for capital repairs of the common property in an apartment building prior to institution of trust management pursuant to the procedure established by the Government of the Russian Federation in the regulations for maintenance of the common property in an apartment building.

In case of violation of stipulations in this Paragraph the management companies, Homeowners' Associations, housing cooperatives or other special-purpose consumers' cooperatives or other persons liable for the maintenance of common property in an apartment building (in case of direct management of an apartment building) are obliged to...
pay to the Trustee a fine on arrears in the amount of one threehundreth of the refinancing rate of the Central Bank of the Russian Federation applicable as of the date of payment for each overdue day starting from the day following the due date of transfer until the day of actual transfer inclusive.

8. The Trustee must provide for accounting of funds transferred in trust management broken down by each residential property owner in an apartment building.

In case of transfer of rights of ownership of a residential unit in an apartment building to a new owner, the rights to funds transferred by the former owner in fiduciary management and also the obligations to make deposits not fulfilled by the former owner are transferred to the new owner.

9. Funds for financing of capital repairs of an apartment building transferred in trust management are spent by the Trustee only for capital repairs of the apartment building in which persons reside who are transferring funds in trust management as well as for repayment of credits (loans) and interest thereunder raised by the Trustee for financing capital repairs of this particular building pursuant to the procedure established in this Code.

10. A Trustee shall be paid a fee from income on investment of funds transferred in trust management, including funds on deposit accounts with lending institutions and, in instances stipulated in Article 178, Part 8 of this Code, a Trustee shall be paid a fee from earnings of bonds acquired by the Trustee. Funds placed into deposit accounts are subject to insurance in compliance with the legislation on private deposits insurance.

The amount of fee of a Trustee is determined pursuant to the regulations of trust management of funds designated for financing of capital repairs approved by the Government of the Russian Federation.

11. In case an apartment building is found unfit and subject to demolition or reconstruction, the funds transferred by residential property owners in such an apartment building in trust management are to be paid back to the said owners except where other housing is provided to individuals due to eviction in accordance with the procedure established by Article 89 of this Code. In case (an)other residential unit(s) is (are) provided to individuals due to eviction in accordance with the procedure established by Article 89 of this Code, the funds transferred by residential property owners in an apartment building in trust management shall be transferred in trust for financing of capital repairs in those apartment buildings in which other residential units are provided to such owners in compliance with the procedure established by the regulations for trust management of funds designated for financing of capital repairs of apartment buildings approved by the Government of the Russian Federation.

12. The executive body authorized by the Government of the Russian Federation shall control the observance of regulations for trust management by Trustees pursuant to the procedure established by the Government of the Russian Federation.

**Article 169. Decision-making on carrying out capital repairs of an apartment building**

1. Resolutions on carrying out capital repairs of an apartment building shall be made by the general meeting of residential property owners in an apartment building unless otherwise provided by this Article in accordance with the procedure established by the Code and within
the time limits stipulated by the regulations for maintenance of the common property in an apartment building established by the Government of the Russian Federation.

2. A resolution on carrying out capital repairs of an apartment building shall include:
   a) a decision on carrying out capital repairs and a catalogue of measures associated with capital repairs, including items of works specified in a respective regional program of financing capital repairs of apartment buildings or in a resolution of the general meeting of residential property owners in an apartment building;
   b) approved capital repair cost estimates;
   c) a procedure and schedule for implementation of measures associated with capital repairs, including selected contractors as well as essential conditions of owner-contractor agreements;
   7) an instruction to the Trustee on raising of credits or loans to finance capital repairs, in the event that funds accumulated by means of charges for capital repairs are not sufficient to cover the costs of capital repairs, which instruction shall include an estimate of credit (loan) amount and the conditions for raising such a credit (loan) and - in the event that capital repairs are partially or completely financed under a regional program for financing of capital repairs of apartment buildings - an instruction on selection of contractors for capital repairs.

In case the decision is made by public authorities of constituent entities of the Russian Federation pursuant to Part 4 of this Article, the instruction to a Trustee on selection of contractors for capital repairs shall be attached to such a decision.

3. In case a copy of the engineering survey report on a given apartment building is received by public authorities of a constituent entity of the Russian Federation empowered to exercise government control over utilization and safety of the housing stock and in case of receipt of a petition from residential property owners in an apartment building, the executive authorities of a constituent entity of the Russian Federation empowered to implement the housing policy shall verify the conformity of an apartment building with mandatory safety requirements established by technical regulations within one calendar month.

If based on the results of such verification it is established that an apartment building does not comply with mandatory safety requirements established by technical regulations, the public authorities of a constituent entity of the Russian Federation empowered to exercise government control over utilization and safety of the housing stock shall notify residential property owners in an apartment building about the results of verification completed and about the necessity to carry out capital repairs. The notice shall be sent by mail within 10 working days from the date of completion of verification.

4. In case residential property owners in an apartment building failed to make a decision on carrying out capital repairs of their apartment building within six months from the date of notification of residential property owners in an apartment building as described in Part 3 of this Article, the decision on carrying out capital repairs of an apartment building as described in Part 3 of this Article within eight months from the date of completion of verification as provided by Part 3 of this Article.
Article 170. Carrying out capital repairs of an apartment building

1. Capital repairs shall be carried out by contractors selected on a competitive basis pursuant to the resolution of the general meeting of residential property owners in an apartment building or to the resolution of a competent public authority of the respective constituent entity of the Russian Federation in instances stipulated by Article 169, Part 3 of this Code.

2. A guarantee on works or a warranty on materials used by contractors for capital repairs shall be provided for a period of not less than 5 years. Deficiencies (defects) identified within the defects liability period shall be rectified by contractors in compliance with the Civil Code. In case of contractors’ failure to rectify the discovered defects within three calendar months from the date of notification of contractors of such deficiencies (defects), the deficiencies (defects) shall be eliminated at the cost of the entity which engaged the contractors.

If capital repairs of an apartment building were carried out by the decision of the competent public authority of a constituent entity of the Russian Federation, the deficiencies (defects) not rectified by entities mentioned in Paragraph one of this Article shall be rectified using budgetary funds of constituent entities of the Russian Federation.

3. Capital repair works shall include:

- repair of building utility systems, such as electricity supply, heat supply, gas supply, water supply and sanitation systems;
- repair or replacement of elevator equipment found unfit for operation, repair of elevator shafts, when necessary;
- repair of roofs;
- repair of basements pertaining to common property in apartment buildings;
- heat-insulation and repair of facades;
- repair of foundations of apartment buildings;
- other works specified in the regional program for financing of capital repairs of apartment buildings or in the resolution of the general meeting of residential property owners in an apartment building.

4. The costs of capital repairs shall also include:

- costs related to working out of design and estimate documentation;
- costs related to payment of interest on credits and loans raised for financing of capital repairs.

5. Upon completion of capital repair works by a contractor and receipt of the occupancy permit for an apartment building upon completion of capital repairs, the residential property owners in an apartment building shall be notified by mail of the necessity to hold a general meeting of residential property owners in an apartment building at which the acceptance of works accomplished by the contractor shall be considered.

In case the owners failed to hold a general meeting of residential property owners in an apartment building at which the issue of acceptance of accomplished works should have been addressed within 20 days from the date of notification of owners by the contractor, the accomplished capital repair works shall be deemed accepted.
In case of claims of particular residential property owners in an apartment building relating to the quality of works accomplished, such claims shall be reflected in the decision of owners on acceptance of capital repair works. The owners have a right to convey their claims for quality of the works accomplished to the Trustee and to public authorities of a constituent entity of the Russian Federation empowered to exercise government control over utilization and safety of the housing stock.

6. Increasing the estimated cost budget approved by the general meeting of residential property owners in an apartment building shall be possible only prior to conclusion of a contract with the contractors according to the resolution of the general meeting of residential property owners in an apartment building.

Article 171. Financing of expenditures relating to capital repairs of an apartment building

1. Capital repairs of an apartment building shall be financed by means of payments for capital repairs of an apartment building contributed by owners of residential and non-residential units in a respective apartment building in instances stipulated by this Code as well as from other sources, including loan and borrowed funds raised in accordance with the procedure established by this Code.

2. Financing of capital repairs of an apartment building shall be effected by the Trustee on the basis of a decision to carry out capital repairs of the respective apartment building made in accordance with the procedure established by Article 169 of this Code and pursuant to terms and conditions stipulated in such a decision.

3. In case funds accumulated from charges for capital repairs are insufficient for financing capital repairs, a Trustee is entitled, on behalf and on account of residential property owners, to raise credits and loans for capital repairs financing following the instructions contained in the resolution on carrying out capital repairs adopted by the general meeting of residential property owners in an apartment building or by a public authority of a constituent entity of the Russian Federation.

Repayment of credits and loans raised by the Trustee and interest payment under such loans shall be effected on the basis of charges for capital repairs. A Trustee shall inform the persons in charge of the common property maintenance in an apartment building on a monthly basis about the amounts of payments for capital repairs broken down by each owner.

Residential property owners in an apartment building are entitled to pay their respective portion of costs relating to capital repairs prior to the scheduled maturity date in proportion to their share in the common property of an apartment building upon completion of capital repairs. In such a case they are discharged from payment of interest on credits (loans) with regard to the respective portion.

4. Payment for capital repair works under owner-contractor agreements shall be effected within 30 days after obtaining an occupancy permit for an apartment building in compliance with the town-planning legislation and subject to

1) a resolution of the owners’ general meeting on acceptance of works, except in the case described in Article 170, Part 5, Paragraph 2 of this Code;
2) the lack of claims from particular property owners for quality of the accomplished works in the owners' resolution on acceptance of capital repair works except in the case described in Article 170, Part 5, Paragraph 2 of this Code;

3) the lack of claims for quality of accomplished works from public authorities of a constituent entity of the Russian Federation empowered to exercise government control over utilization and safety of the housing stock.

In case of claims against respective contractors for quality of the accomplished works from particular residential property owners or from public authorities of a constituent entity of the Russian Federation empowered to exercise government control over utilization and safety of the housing stock, the payment for works under owner-contractor agreements shall be effected within 10 days upon the owners' confirmation of elimination of deficiencies (defects).

The procedure of payment for capital repair works is established in the Regulations for Fiduciary Management of Funds designated for financing capital repairs of apartment buildings approved by the Government of the Russian Federation.

**Article 172. Regional programs for financing capital repairs of apartment buildings**

1. A regional program for financing capital repairs of apartment buildings (hereinafter referred to as Program) shall be approved by public authorities of a respective constituent entity of the Russian Federation for a term of not less than 5 and not more than 10 years.

2. Capital repairs included in the Program shall be carried out within 5 years from the commencement of the Program.

3. Provisions are made in the Program for granting of loans to the owners of residential property in apartment buildings for financing of capital repairs of apartment buildings.

The funds allocated under the program for capital repairs of apartment buildings in which residential units of owners are located shall be compensated by residential property owners within the term of the Program. The said compensation shall be made by effecting payments for capital repairs of the common property in an apartment building and by transfer of funds to be effected by a Trustee to entities which have provided a loan for capital repairs.

4. Apartment buildings shall be included in the Program provided that the following conditions are met:

   an apartment building was commissioned or the last capital repairs were accomplished prior to January 1, 1993 unless an earlier date is established in the Program;

   the residential property owners in an apartment building adopted a resolution at the general meeting on participation in the Program within the time limits established in the Program or in case executive authorities of the respective constituent entity of the Russian Federation make a decision to carry out capital repairs in instances established by this Code and to include a respective apartment building in the Program.

5. On the basis of the decisions made by residential property owners in apartment buildings or by executive authorities of a constituent entity of the Russian Federation and on the basis of submitted reports on engineering survey of apartment buildings and capital repair plans the Trustee shall work out the Program implementation plan.

The Program implementation plan shall include:
a time schedule of capital repair measures for each apartment building included in the Program;

a cost estimate for capital repairs of each building on the basis of cost estimates approved by residential property owners or by public authorities of a constituent entity of the Russian Federation;

an estimate of amounts of monthly payments for capital repairs broken down by each building with indication of buildings with regard to which decisions must be made on establishing an amount of payment exceeding the maximum level established by public authorities of a constituent entity of the Russian Federation;

an estimate of loanable funds necessary to finance capital repairs broken down by each building for the period when funds accumulated by residential property owners in respective apartment buildings are not sufficient to cover capital repair costs;

an estimate of accrued income from placement of temporarily available cash assets broken down by each building for the period when funds accumulated by residential property owners of respective apartment buildings are not called up or placed into deposit accounts or allocated in bonds;

the amount of subsidies granted from the budgets within the budget system of the Russian Federation, broken down by each building;

terms and conditions of credit (loan) agreements in case such credits (loans) are provided by the Program;

analysis of the market of respective building materials, works and services and a forecast of the impact of Program implementation on occurrence of local deficits in the said market and on the price surge in such a market.

The Program implementation plan shall provide for accounting of funds, balances and arrears in payments for capital repairs broken down by each building included in the Program.

6. The Program implementation plan shall be approved by executive authorities of a constituent entity of the Russian Federation and is subject to approval by the federal executive authority empowered to implement the government housing policy and by the federal executive authority responsible for making state policy and for regulation in the public sector. For coordinated approval of the Program implementation plan the said federal executive authorities shall verify the equilibrium of costs and financing sources.

7. If in the course of Program implementation the actual costs and funding sources vary from approved amounts, the Trustee is obliged to take measures to provide for a balanced budget of the Program, including collection of arrears in payments for capital repairs.

8. The Program implementation plan may include measures for granting subsidies from the budget of a constituent entity of the Russian Federation or loans from the regional fund for capital repairs financing to be established by a respective constituent entity of the Russian Federation to finance capital repairs of apartment buildings.

A constituent entity of the Russian Federation is authorized to issue bonds of the constituent entity of the Russian Federation using borrowed funds to provide loans to residential
property owners to carry out capital repairs of apartment buildings included in the Program and to replenish the regional fund for financing of capital repairs.

The said bonds may be redeemed by Trustees using temporarily available cash assets transferred in trust management by residential property owners in apartment buildings.

9. Public authorities of a constituent entity of the Russian Federation shall notify each residential property owner in an apartment building by mail of inclusion of the respective building into the Program and forward to such owner a copy of the approved Program implementation plan as well as information on rights and liabilities of residential property owners in an apartment building included in the Program. Within the period of Program implementation the public authorities of a constituent entity of the Russian Federation shall inform the residential property owners in an apartment building by mail about the progress of Program implementation.

A Trustee shall be notified by competent public authorities of a constituent entity of the Russian Federation of the Program implementation plan and of all changes in the Program within seven working days from the date of its approval or amendment."

Article 2

Article 26.3. of Federal Law No. 184-FZ dated October 6, 1999 "Concerning General Principles of Organization of Legislative (Representative) and Executive Public Authorities in the Constituent Entities of the Russian Federation" (Legislation Bulletin of the Russian Federation, 1999, No. 42, Art. 5005) shall be supplemented by Paragraph 70) read as follows:

"70) Exercise of authorities stipulated by the housing legislation with regard to organization of capital repairs of apartment buildings, including approval and implementation of regional programs for financing capital repairs of apartment buildings."

Article 3

1. Regional programs for financing capital repairs of apartment buildings shall be approved by public authorities of constituent entities of the Russian Federation within two years from the date of effectiveness of this Federal Law.

2. Until April 1, 2012 the Government of the Russian Federation shall adopt legislative acts specified in Article 1, Part 1) of this Federal Law.

3. The public authorities of constituent entities of the Russian Federation shall, within three months from the date of effectiveness of this Federal Law, select the Trustees and establish the amount of payment for capital repairs of apartment buildings and institute trust management of funds collected as a payment for capital repairs of the common property in apartment buildings.

Article 4

1. This Federal Law shall come into force from July 1, 2012.

President of the Russian Federation
ANNEX 3. MODEL 3 «FUND FOR BUILDING REPAIRS». STRATEGY TO SECURE ACCOMPLISHMENT AND FINANCING OF REHABILITATION (RENOVATIONS) OF APARTMENT BUILDINGS

This strategy offers a solution to the issue as to who and how should secure accomplishment and financing of rehabilitation (renovations) of apartment buildings with privately owned apartments. In this regard, rehabilitation (renovations) of an apartment building in accordance with the legislation are understood to be rehabilitation (renovations) of the common property of owners of residential units in an apartment building.

Who should bear the cost burden to implement rehabilitation of an apartment building?

The common principle established by civil legislation is that a property owner is to bear the cost burden to maintain such property unless otherwise provided by law or a contract (Civil Code of the Russian Federation, Art. 210).

A similar principle is established by the Housing Code of the Russian Federation (hereinafter referred to as HC) with regard to apartment buildings:

- Common property in an apartment building belongs to owners of residential units on the basis of joint shared property rights (HC, Art. 36, Part 1);
- The cost burden to maintain common property in an apartment building shall be born by owners of residential units (HC, Art. 39, Part 1).

In this regard, the charge for "maintenance and repair of a residential unit" for an owner of a residential unit in an apartment building includes a fee for services and works associated with management of an apartment building and with maintenance and routine repairs and rehabilitation of common property in an apartment building (HC, Art. 154, Part 2, Par. 1). The charge for maintenance and repair of a residential unit shall be established in an amount securing maintenance of the common property in an apartment building in accordance with requirements of the legislation (HC, Art. 156, Part 1).

This means that it is already established by the HC that the cost burden for maintenance of common property in an apartment building which shall be born by owners of residential units in an apartment building includes the cost portion for routine repairs and rehabilitation of common property in such a building.

An exception to the common principle of bearing the capital repair cost burden by the owners of residential units in an apartment building established by law (Law On Privatization of the Housing Stock in the Russian Federation, Art. 16) is to impose the responsibility for capital repair of an apartment building to the former renter in case such an apartment building was in want of capital repair during privatization of a given residential unit. It was the broad interpretation of this stipulation to cause groundless expectations of individuals as to the obligation of the state (a municipality) to carry out rehabilitation of all apartment buildings in Russia in consequence of which there is a lack of initiatives from owners of residential units in apartment buildings with regard to rehabilitation (renovations) of property owned by them.

39 Developed by expert community and placed on the website www.urbaneconomics.ru
To eliminate an unreasonably broad interpretation of Article 16 of the Law on Privatization an amendment should be made to this Article detailing the responsibility of the former renter to carry out (to finance) rehabilitation of an apartment building to the extent as it relates to a residential unit in respect of which it was established that at the moment of privatization the apartment building was in want of capital repair.

«At the same time the former renter is vested with the responsibility to carry out capital repair works in a building required at the moment of such privatization in accordance with the standards of maintenance, use and capital repair of the housing stock».

The wording applied in this suggestion «the former renter is vested with the responsibility to carry out ... works ...» is based on the assumption that the former renter (local government institutions) is (are) supposed to make decisions to carry out repairs and to allocate funds from the budget to finance repair works, to select a contractor, to carry out acceptance of works etc. which is inconsistent with the HC. Moreover, the process of privatization of apartments has run over twenty years, therefore some apartments in an apartment building could have likely been privatized at the moment when the building was not in want of capital repair yet and, respectively, the obligation of the former renter towards the former tenants of residential units privatized at that moment did not emerged. As a result of purchase and sale of privatized residential units, the former tenants are currently no longer owners of many such residential units. Accordingly, the former renters have no obligations towards such owners.

A different wording of Article 16 of the Law "On Housing Stock Privatization in the Russian Federation" is herewith suggested: "In this case, the obligation remains with the former renter to finance building capital repair works in compliance with requirements of legislation which works were required at the moment of such privatization to the extent as related to the former tenant in an apartment building".

Who should make the decision on rehabilitation of an apartment building?

It is clearly established in the Housing Code that decisions on repair of an apartment building or on its renovations (including improvement or adding storeys) shall pertain to the competence of the general meeting of owners of residential units in an apartment building (HC, Art. 44, Part 2, Par. 1).

A decision by the general meeting to repair or to reconstruct an apartment building shall be made by no less than two-thirds of the entire votes of owners of residential units in an apartment building (HC, Art. 46, Par.1), while common property in an apartment building may be reduced only with the consent of all owners of residential units in a given building by way of its renovations (HC, Art. 36, Par. 3).

Thus, the following common principle is established by the HC: "decisions on maintenance of property are made by property owners" (including rehabilitation and renovations).

In order to enable the owners of residential units to make necessary decisions on rehabilitation, the person (entity) in charge of management (maintenance) of an apartment building must conduct regular inspections of the common property and an evaluation of its technical condition and prepare proposals on repairs (priorities, complexity, cost estimates etc.) for the owners of residential units. Besides, in case of a management contract such a provision must be formalized in legislation. If such a person (entity) in charge fails to fulfill
this duty, then it must be primarily the owners of residential units in a given apartment building to detect such a violation.

Competent public regulatory and supervisory authorities are not expected to control actions/inaction of persons (entities) in charge of management of apartment buildings but they should control the condition of apartment buildings (i.e. the result of managerial activities) and the compliance of the condition of apartment buildings with safety requirements to buildings and structures established by Federal Law № 384-FZ dated December 30, 2009 "Technical Regulations on Safety of Buildings and Structures" and with other regulations of the Russian Federation.

There is no necessity for the state to define either items of works which should be carried out during rehabilitation of an apartment building or the duration of rehabilitation, it is just necessary and sufficient to establish a system of supervision over the condition of apartment buildings.

In this regard it is necessary to establish in the legislation that given a failure of owners of residential units in an apartment building to fulfill their duty to properly maintain their property (that is, if the condition of an apartment building does not comply with technical regulations on safety of buildings and structures), a competent authority shall address an order to the owners of residential units in an apartment building to eliminate violations within the established time limit. In case of failure of the owners to comply with the order by a competent state authority, the latter shall apply administrative measures and, if necessary, apply to court for forcing the owners to carry out necessary actions to bring the property to its proper condition.

If a building is in a condition constituting a danger to lives of its dwellers, local government authorities must make a decision to declare such a building unfit and subject to demolition or renovations (HC, Par. 4 of Art. 15 and Par. 10 of Art. 32) and issue a demolition or renovations warrant for such buildings.

Vesting the state (a constituent entity of the Russian Federation) or local government authorities with powers to establish items of capital repair works and the deadlines for rehabilitation and bringing about a solution to all other matters relating to rehabilitation of apartment buildings:

− would infringe the rights of owners of residential units to make decisions related to the maintenance of their property;
− would shift the responsibility for the condition of apartment buildings from the owners of residential units to the state (municipality);
− would bring the persons (entities) in charge of management of apartment buildings in a situation where they have to execute decisions of state authorities and local governments instead of decisions made by the owners of residential units (who pay for their activities).

The state should not assume competencies of private property owners in the housing sector.

It is not possible for the state (or a local government) to consider the whole variety of features of particular apartment buildings and their owners. Therefore, the state should confine itself
to establishing a general legal framework and a system of supervision over compliance of the condition of buildings with safety regulations.

How to ensure that the owners of residential units in an apartment building fulfill their duty to finance rehabilitation (renovations) of a building?

The state may and should legally *establish* the duty of owners of residential units *in each apartment building* to establish *a building repairs fund*. A repairs fund should be established to secure financing of general expenses relating to rehabilitation (renovations) of common property in an apartment building.

The principles for establishing a building repairs fund are as follows:

- **A building repairs fund shall be established separately for each apartment building** to segregate the funds of owners of residential units in each particular apartment building designated to finance rehabilitation from the funds of any other individuals or entities. A building repairs fund may not be established as a regional fund to reallocate monetary resources from owners of residential units in certain apartment buildings to finance rehabilitation of other apartment buildings;

- A building repairs fund *should be intended only for the following purposes* - a) financing of costs (or part of the costs) for rehabilitation or renovations of an apartment building, and b) financing of measures for prevention or response to accidents caused by the condition of common property in an apartment building, if such a remedial action is not covered by fees for maintenance and routine repairs of common property in an apartment building; c) financing of survey and preparation of a capital repair project for an apartment building;

- A building repairs fund should be established *by means of monthly payments (contributions)* of the owners of residential units in an apartment building while payments to the fund should be regarded as a *separately established component of a monthly charge*;

- The participation of an owner of residential units in establishing a building repairs fund is determined by the share in common property in such a building of the said owner;

- The amount of a mandatory monthly payment (contribution) to a building repairs fund per 1 square meter of a residential unit belonging to an owner is established by decision of the general meeting of owners by no less than 50 percent of votes of the owners of residential units in the building, taking into account the minimum amount of an apartment building repairs fund and the deadline for its formation established in a given constituent entity of the Russian Federation;

- A constituent entity of the Russian Federation may establish *a minimum amount of the apartment buildings repair fund* mandatory for the owners of residential units as a percentage (no less than 10%) of the cost standard established in this constituent entity for integrated rehabilitation of apartment buildings with average structural and design parameters and average level of
amenities differentiated by populated localities in the territory of a given constituent entity of the Russian Federation (compulsory requirements to the minimum amount of a repairs fund should not lead to economically inefficient commitment of funds; a greater amount of a repairs fund may be established by the owners of residential units in the building at their discretion subject to repair requirements and conditions for loan extension);

- A constituent entity of the Russian Federation may stipulate a deadline for establishing the apartment buildings repair fund in the established minimum amount based on an assessment of financial affordability of mandatory payments (contributions) for rehabilitation (e.g. for a period of up to five years) emerging for the owners of residential units in apartment buildings;

- The funds for building repairs are expendable both prior to the moment when the minimum established amount of a repairs fund is reached and after that. Before the minimum established amount of a repairs fund is reached, the funds may be spent only for carrying out emergency repairs, while owners of residential units in an apartment building are required to replenish the funds spent from the repairs fund with appropriate extension of the period for reaching the minimum amount of a building repairs fund. After the minimum established amount of a repairs fund is reached, the resources therefrom may be spent for the purposes of replenishing the fund to maintain the minimum amount of the repairs fund within the established deadline upon payment of all expenses related to works performed/services rendered;

- Upon termination of the right of ownership of a room in an apartment building the obligations of the former owner to make the established payments (contributions) to the building repairs fund are transferred to the new owner of such a room; the funds paid by the owner of residential units to the building repairs fund are not reimbursable upon termination of the right of ownership of a room in the building;

- The resources from the apartment buildings repair fund may be distributed between the owners of residential units in the building in proportion to their share in the joint shared property (taking into account actual participation in establishing the repairs fund) only if a decision is made to demolish an apartment building after it is found unfit and beyond repair (renovations) and if the owners of residential units come to the decision not to restore an apartment building after its destruction as a result of a natural or man-made disaster. In this case, all costs associated with demolition of an apartment building must be paid prior to distribution and payment of money from the building repairs fund to the owners of residential units.

Is administrative control over establishing and formation of a building repairs fund required?

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Center for Energy Efficiency (CENE)
Housing Initiative for Eastern Europe (IWO)
Institute Byvania (The Institute of Housing)
Do public authorities or local governments have to control performance of the duty to establish a building repairs fund by the owners of residential units and do they have to apply any sanctions to the owners in case of failure to perform such a duty?

From the economic point of view, the payment (contribution) to the building repairs fund is different from other components of a monthly mandatory payment (contribution) for maintenance of the common property in an apartment building. Prior to establishing charges (contributions) to the repairs fund the government authorities of a constituent entity of the Russian Federation and local governments have no powers to control where and in what amount mandatory payments (contributions) of the owners of residential units for maintenance of an apartment building flow. However, unlike other components of payments for a residential unit, the payment (contribution) to the repairs fund is regulated and the owners may not refuse to pay. Therefore, the legislation must establish the authority within the powers of regional housing inspections to control formation of repair funds by the premises owners. Public authorities and local governments have to ensure that apartment owners are aware of new legislative requirements introduced for the formation of a building repairs fund and persons (entities) responsible for management of apartment buildings have to take necessary steps in order to establish a building repairs fund in each apartment building.

The vast majority of owners of residential units in an apartment building will likely voluntarily make a decision to establish a building repairs fund and set the amount of payments to the repairs fund, if they are persuaded that their money would be spent only in their interest to improve the condition of their building (that is why it is important to create a mechanism to guarantee this).

Persons (entities) responsible for management (maintenance) of an apartment building (managing entities, homeowners’ partnerships, housing associations, housing cooperatives, special purpose consumers’ cooperatives) should be legally obliged to:

- open a separate bank account to collect money to the repairs fund;
- collect and record payments (contributions) from owners of residential units to the building repairs fund (as these payments (contributions) are part of mandatory monthly payments for maintenance of a building);
- apply enforcement actions against debtors to the repairs fund including exaction of a fine in accordance with the legislation;
- supply information as to whether a repairs fund exists in each apartment building managed, in case the information about own activities is disclosed to the public (in terms of "yes" or "no") and as to the amount of a repairs fund (in terms of "in conformity with applicable requirements" or "in the process of formation");
- regularly supply information on the amount of the repairs fund and its compliance with applicable requirements to the owners of residential units in a building.

Administrative sanctions for persons responsible for management of apartment buildings must be established in the legislation for dereliction of duty to form a repairs fund.

On the other hand, persons responsible for management of apartment buildings would be interested in establishing a building repairs fund because the existence of such a fund...
provides for better opportunities to fulfill the assumed obligations to secure proper condition of apartment buildings. This interest should contribute more to managerial actions of establishing the repairs fund than any eventual administrative control.

It should be noted that state authorities and local governments are in the position to apply non-administrative measures of influence to the owners of residential units. As a minimum, a requirement shall be established that budget subsidies for repair of an apartment building may only be made available if a building repairs fund exists. Furthermore, a budget subsidy may be granted, as an exception, in case repairs are required to eliminate danger to life of dwellers, even if the amount of the repairs fund had not yet reached the established mandatory minimum.

In addition, the fulfillment of the residential units owners' duty to form a repairs fund should also be secured by administrative sanctions. The right to apply administrative measures to owners of residential units and persons (entities) responsible for the management (maintenance) of an apartment building should be vested with a government supervisory agency (preferably with regional bodies of the state housing inspection).

What may the resources from a building repairs fund be spent for?

At the expense of a building repairs fund all types of costs may be covered related to rehabilitation (replacement) of items of the common property; renovations of an apartment building; inspection of the condition of structural elements of a building; energy audits; enhancement of energy efficiency of an apartment building; accident response or prevention due to the condition of common property in an apartment building which are not covered by the established fee for management, maintenance and repair of common property in an apartment building.

Such costs may particularly include funding for:

- energy and special technical inspection of an apartment building (with the exception of the annual technical inspection of common property to be carried out by an entity (person) managing the apartment building);
- elaboration of project documentation to carry out rehabilitation (renovations) of an apartment building;
- implementation of capital repair works (renovations) of an apartment building;
- technical supervision of capital repair works (renovations) of an apartment building;
- repayment of credits (loans) made available to finance rehabilitation (renovations) of an apartment building and loan servicing;
- implementation of works to prevent or eliminate accidents on elements of common property in an apartment building;
- demolition of an apartment building in the event that it is declared unfit and not subject to rehabilitation (renovations).

What is the ownership and legal status of resources in a building repairs fund?
This is one of the most complicated issues of the proposed strategy which requires a serious and substantial discussion and legal implementation.

A perfect solution seems to be a definition of the ownership of resources in a building repairs fund according to which the resources in a building repairs fund are understood to be the property of an association of owners in a particular apartment building (homeowners’ partnership) provided that such an association has a clearly defined structure without membership and may dispose of these funds strictly for specific purposes and in compliance with a special procedure. In such a case, payments (contributions) made by the premises owners in all apartment buildings could be immediately transferred to the ownership of such homeowners’ partnerships. Such an approach requires a fundamental change of Housing Code (amendment to the wording of Section VI and definition of further existence and reorganization of housing cooperatives) and may be implemented in a relatively short term.

It seems to be very risky to allow transfer of payments (contributions) made by owners of residential units in an apartment building to the property of a managing company and, in case of an apartment building consisting of twelve or less apartments, to allow a transfer to the ownership of a person (entity) rendering services relating to maintenance and/or implementation of repairs of the common property in such an apartment building directly managed by the owners of residential units.

In view of the necessity to harmonize approaches to definition of ownership of resources in a building repairs fund given different methods of management of apartment buildings two other approaches to definition of the ownership of resources in a building repairs fund are possible along with a change in the legal status of homeowners’ associations:

1) resources in a building repairs fund may be understood as joint shared property of owners of residential units in an apartment building. In this case, the amount of a share is determined by the amount of money contributed by each individual owner;

2) resources in a building repairs fund may be understood as money of the owners of residential units belonging to them on the basis of separate (personal) property.

Any approach to definition of the ownership of resources in a building repairs fund must equally secure proper application of such funds and a special procedure of decision-making on application of resources in a building repairs fund for permitted purposes. In both cases, the resources of a building repairs fund should be kept in special accounts with a special regime of disposal.

The above options for definition of ownership of resources in a building repairs fund have different implementation prospects in practice and require further discussion with civil law experts.

How to secure separation of resources in a building repairs fund?

Regardless of whether a building is directly managed by owners of residential units or a homeowners' partnership (a housing cooperative, a housing association or a special purpose consumers’ cooperative) or by a managing company, to make the owners of residential units bear the cost burden associated with financing of rehabilitation of apartment buildings the resources in a building repairs fund shall be considered as separate funds for general

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expenses to finance rehabilitation in a building (common property of owners of residential units in an apartment building); This may be achieved by establishing the vehicle of nominal bank accounts in the legislation.

A nominal bank account shall be opened by a bank for a customer (account holder) to carry out transactions with monetary funds which economically are not owned by the customer (account holder). The right of an account holder to dispose of funds in a nominal account is restricted by law and banking regulations. Claims under the obligations of an account holder may not be satisfied by use of funds in a nominal bank account.

With regard to resources in a building repairs fund, the opening of a nominal bank account means that:

− Opening of a nominal bank account is the responsibility of a person (entity) managing the apartment building or a managing company, homeowners’ partnership (a housing cooperative, a housing association or a special purpose consumers’ cooperative) or the responsibility of a person (entity) rendering services relating to maintenance and/or implementation of repairs of the common property in such an apartment building (account holder), if an apartment building is directly managed by owners of residential units and such an apartment building consists of more than twelve apartments.

− To identify a nominal bank account not only the number of such an account but also the address of the apartment building shall be applied. This, in particular, will prevent using one nominal bank account for placement of resources from different building repair funds belonging to different apartment buildings managed by one homeowners’ partnership (housing cooperative) or one managing company and will provide for an opportunity to check whether the funds are filled to a required minimum amount;

− A nominal bank account holder has the right to dispose of funds on this account only on the basis of a decision by the general meeting of owners of residential units in a given apartment building adopted by a majority of no less than two thirds of the total number of votes of owners of residential units in an apartment building, while the funds may be applied only for purposes and in the amount defined by such a decision;

− To identify the owners depositing money into a nominal bank account a holder of the nominal bank account who deposits payments and contributions to form a building repairs fund shall maintain separate accounting of fulfillment of obligations by the owners of residential units in an apartment building and must submit these accounting data to the new account holder, if methods of management of an apartment building are changed or the managing company is replaced.

− The resources in an apartment building repairs fund placed into a nominal bank account should be protected in case of bankruptcy of the bank with which this nominal account is opened, similar to funds in the bank accounts of individuals with an increase in the amount of compensation to 10 million Rubles or subject to the total area of an apartment building.
Establishing the vehicle of nominal accounts is the only possibility for the owners of residential units in an apartment building to form a building repairs fund on the "bank account of a particular building" if an apartment building is directly managed by the owners of residential units or by a managing company (as the owners of residential units do not have an independent legal entity).

If an apartment building is managed by a homeowners' partnership (a housing cooperative, a housing association or a special purpose consumers' cooperative), it might seem at first glance that there is no necessity for the owners of residential units in a building to open a nominal bank account to keep the resources of a building repairs fund. However, under the current legislation even with the existing homeowners' partnerships (housing cooperatives, housing associations or special purpose consumers' cooperatives) the economic interests of the owners of residential units will be protected, if the resources in a building repairs fund are credited to a nominal bank account opened by the said associations of owners of residential units. This is due to the following circumstances:

- due to voluntary membership of the owners of residential units in a homeowners' partnership such a legal entity may not be stable because a homeowners' partnership must be liquidated, if the owners of residential units in an apartment building, i.e. members of the partnership, have less than 50% of the total number of votes of owners of residential units in an apartment building (coping with the legislative problem of membership/ non-membership in the partnership seems unlikely in the foreseeable future);

- If payments for rehabilitation from the owners of residential units (resources in a building repairs fund) are credited to a conventional (not nominal) bank account of a partnership, they become money of the partnership as a legal entity and in case of bankruptcy flow into the bankrupt’s estate; in case of liquidation of a partnership under the procedure established by the civil law, the property of a partnership (including monetary resources in a building repairs fund) remaining after fulfillment of all obligations is distributed among the members of a given legal entity, therefore part of the owners of residential units would lose their shares in the building repairs fund (this is not going to happen, if the resources in a building repairs fund are placed on a nominal bank account of the partnership);

- It is allowed by legislation to establish a homeowners' partnership for several apartment buildings; in the past few years a great number of homeowners’ partnerships encompassing several buildings was established; if the resources of each particular building repairs fund are not placed on a partnership’s nominal bank account separate for each particular building, the owners of residential units in a particular apartment building will not be able to separate their money from the funds of owners in other apartment buildings managed by the partnership;

- The procedure for reorganization of homeowners' partnerships encompassing several buildings established by the housing legislation does not regulate distribution of funds of such homeowners' partnerships generated from payments (contributions) of the owners of residential units (members of homeowners’ partnerships) for rehabilitation between partnerships, which are formed by way of separation of a reorganized homeowners’ partnership or by way of withdrawal of new partnerships from it; respectively, problems during separation of funds for rehabilitation are inevitable, if such funds were not placed
on separate nominal accounts of each apartment building managed by a homeowners' partnership encompassing several buildings;

– Recent establishment of a considerable number of "fictitious" homeowners' partnerships has made it impossible for the owners of residential units to secure control over application of funds coming from the owners by management boards of such partnerships and has resulted in financial irregularities; placement of resources of a building repairs fund onto a nominal bank account even belonging to an "eye-wash" homeowners' partnership would protect such resources in the interest of owners.

In view of the above mentioned, **regardless of methods of management of an apartment building it is required to open a separate nominal bank account for each apartment building to form a building repairs fund.**

In case methods of management of an apartment building or the managing person (entity) are changed, the following should be established by legislation:

– the procedure for change of a holder of the nominal bank account on which resources of a building repairs fund are placed

or

– the procedure for transfer of funds from the nominal bank account of the former managing person (entity) of an apartment building to the nominal bank account opened by the new manager of an apartment building.

In addition, a procedure should be established for transfer of funds on the nominal account, in case the bank is changed.

**How to Finance Rehabilitation (Renovations) of Apartment Buildings?**

Unlike standard expenses paid by owners of premises in an apartment building for management, maintenance, sanitation, and current repairs of common property in the form of monthly fees (contributions), expenses on rehabilitation (renovations) of common property is a capital expenditure which requires a special approach to its finance.

A part of funds necessary to finance rehabilitation of an apartment building is usually accumulated due to monthly compulsory payments and contributions to the rehabilitation fund, which size shall not be less than that set by public authorities of a RF constitutional entity. Besides establishing the rehabilitation fund, owners of premises can use the following sources of financing rehabilitation works:

- Target fee (contribution) to be paid as a lump sum of by installments prior to a defined deadline so that the rehabilitation fund could quicker reach the amount sufficient to finance rehabilitation works;

- Accumulate an amount exceeding the minimum mandatory value by paying regular monthly fees for rehabilitation (renovations) of the building (payments to the rehabilitation fund);

- Combine own funds accumulated in the rehabilitation fund and funds borrowed at the financial market (loan raising);

- Use other finance options approved by owners of premises.
The mechanism of financing rehabilitation works depends on the current technical condition of an apartment building, the need for carrying out urgent (immediate) repairs of some of its parts or performing work in accordance with perspective (long-term) plans for rehabilitation (renovations) of the apartment building, financial capacity of premises owners, loan terms and affordability, as well as other factors.

In the case of a fairly long (20 years and over) maintenance of an apartment building, which is currently typical of approximately a half of apartment buildings in Russia, it seems expedient to carry out comprehensive rehabilitation (renovations) of apartment building. This will require investing approximately RUR 5-7 thousand per sq. m of the total floor space of premises in the apartment building. Such an amount cannot be mobilized only from own funds of premises owners.

The practice of implementing Federal Law № 185-FZ shows that public authorities at the federal, regional, and municipal levels are also lacking in funds necessary to provide large budget subsidies for comprehensive rehabilitation of all apartment buildings needing repairs. Therefore, the combination of own funds of premises owners and loans seems to be the most efficient mechanism of financing rehabilitation (renovations) of apartment buildings that need immediate repairs. Noteworthy that before raising a loan, own funds of premises owners must be accumulated in the rehabilitation fund for a while (preferably from 2 to 5 years) so as to grow sufficient to cover a certain share (for instance, 10-20%) in the cost of comprehensive rehabilitation (renovations) of apartment building.

In this particular case, the purpose of accumulating resources in the rehabilitation fund is not only to save up a substantial part of funds necessary for repairs but also to demonstrate the bank-lender the capacity of owners of premises in an apartment building to pay monthly fees to the rehabilitation fund from which loan repayments will be made.

When the period of apartment building maintenance is short enough (or the building was rehabilitated not long ago), owners of premises may plan specific works on rehabilitation (renovations) of the building for a certain period, which allows them to pay rehabilitation works from own funds only or, like in the case above, from own and borrowed funds. In so doing, homeowners can assess economic efficiency of long-term savings or benefits from loaning with consideration of the inflation and fluctuation of prices on the market of building materials and works.

In the case that an apartment building needs rehabilitation right now or in the near term, rehabilitation works cannot be financed from own funds of owners of premises. If rehabilitation is scheduled for some period in the future, long-term accumulation of homeowners’ funds is not economically viable.

The state cannot compel owners of premises to use economically inefficient mechanism, i.e. accumulate funds for rather a long time (so the only obligation of homeowners is to establish a rehabilitation fund which size should not be less than the minimum set value). However, the state or RF constituent entities may create conditions in which borrowings (loans) would be affordable to owners of premises in apartment buildings.

How to Ensure Affordability of Loans for Rehabilitation (Renovations) of Apartment Buildings?
According to the effectual legislation, loans can be provided to legal entities or individuals who are considered reliable by the bank and who can provide security for loan repayment (mortgage, third person’s guarantee).

If a loan is provided for rehabilitation of an apartment building, **all owners of premises in this building need borrowings in order to perform their obligations to keep common property in the apartment building in proper condition.**

Theoretically, each owner of premises can apply to the bank for a loan so as to finance his/her share in expenditures for building rehabilitation (such practice exists in some countries). In this case, the bank will consider each owner of premises as a borrower (both owners of premises and the bank bear time-consuming costs of collecting and evaluating documents respectively). In so doing, some owners of premises may be refused a loan. According to the existing legislation, the “collective of premises owners” has no legal status. As a matter of fact, the bank cannot consider the community of homeowners as a single borrower. Even if all owners of premises were co-borrowers under a single loan, formally it would mean for the bank lending each owner separately.

It seems more convenient to all (owners of premises and the bank) that a legal entity (homeowners partnership, housing cooperative, housing construction cooperative, management organization) or a contractor duly authorized by the general meeting of homeowners, in the event that the latter manage an apartment building by themselves and the number of apartments in the building does not exceed twelve (12), would act as a borrower. If this is the case, all parties involved in loaning (bank-lender, borrower, and owners of premises) should realize that actually owners of premises need a loan as it is they who enjoy the results of works on rehabilitation (renovations) of the apartment building and, consequently, it is they who shall pay monthly fees from which loan repayment will be made.

An appropriate sequence of steps looks as follows:

**Step 1.** An entity (homeowners partnership, management company) charged with managing an apartment building shall develop proposals on rehabilitation (renovations) and its (their) finance, which proposals should include the scope and type of works as well as the breakdown of expenditures for rehabilitation (renovations), reasons for borrowings, and the size of monthly fees to be paid to the rehabilitation fund;

**Step 2.** Owners of premises at the general meeting shall make decisions on:

- carrying out rehabilitation (renovations) of apartment building;
- financing the works on rehabilitation (renovations) of apartment building from the rehabilitation fund and through borrowings;
- setting a new (higher) fee to be paid to the rehabilitation fund for the loan repayment purposes (when necessary);
- give their approval for the application by homeowners partnership (management company) to the bank for a loan.

*All decisions of the general meeting of owners of premises shall be made in conformity with the housing legislation of the Russian Federation so that these decisions would be obligatory for all owners of premises in the building.*
Step 3. Acting in conformity with the decision of owners of premises and a duly executed protocol of the general meeting, a homeowners partnership (management company) shall apply to the bank for a loan.

Step 4. The bank shall evaluate the actual and the legal borrower (homeowners partnership, housing cooperative, management company, contractor) which acts on homeowners’ behalf, financial discipline of owners of premises in apartment building and the amount of monthly payments to the rehabilitation fund.

In the process of credit scoring the bank shall evaluate to what extent owners of premises are capable to ensure regular monthly payments to the rehabilitation fund (stable finance flow), i.e. assess financial discipline of owners of premises to fulfill their own obligations to homeowners partnership, cooperative, management organization or contractor, in the event that owners of premises manage themselves their apartment building in which the number of apartments should not be more than twelve (12).

Apart from that, when evaluating the borrowers, the bank must take an interest in whether they can organize the collection of payments to the rehabilitation fund, how they handle those who are in arrears with payments, as well as whether they can provide a technical support to rehabilitation (ensure the development of project documentation, select a good contractor, ensure engineering supervision over rehabilitation works).

When funds of the rehabilitation fund are kept on the bank account, the issue of good faith of homeowners partnership, cooperative, management organization or contractor, in the event that owners of premises manage themselves their apartment building in which the number of apartments should not be more than twelve (12), is not a problem as the right of the aforesaid entities to dispose of funds available in the rehabilitation fund is limited and the bank has it under control.

In fact, from the bank’s standpoint monthly inflow of payments to the rehabilitation fund as a result of financial obligations assumed by owners of premises in apartment building is the main security for loan repayment. In most cases the borrowers have no other assets. Financing under assignment of monetary demand (factoring – Chapter 43 of the Civil Code of the Russian Federation) cannot be used as loan security because, in this case, funds of bona fide owners will be spent on paying debts of the borrower, the latter in turn will not be able to adequately perform its obligations on maintenance and repairs of common property in apartment building, the bona fide owners will require reducing fees or simply refuse to pay for bad-faith neighbors. Obligations of homeowners-debtors to an entity managing the building will be performed upon introducing full property liability through the court only, with the extension on debt repayment (such practice is applied in the cases of defaults of mortgage borrowers and tenants under social tenancy agreements) and mandatory relocation of debtors’ families.

There appears the following chain of obligations: owners of premises assume obligations to the homeowners partnership or a management organization which acts on its own behalf and at its own expense but on the basis of the decision made by owners of premises at the general meeting on their approval of getting a loan by the partnership or management organization. Consequently, the homeowners partnership or management organization becomes liable to the bank for loan repayment.
Actually and legally the homeowners partnership, cooperative, management organization, contractor, in the event that owners of premises manage themselves their apartment building in which the number of apartments should not be more than twelve (12), is the borrower under the loan.

Since banks have no experience in such a kind of lending, they need additional guarantees of loan repayment. However, neither owners of premises, nor a homeowners partnership nor a management organization will be able (or will want) to provide property security. The practice existing in other countries demonstrates that the problem can be solved through *establishing guarantee agencies, special-purpose state financial development institutions*, which may provide sureties to homeowners partnerships or management organizations when they apply for a loan for rehabilitation (renovations) of apartment building. The authorized capital of guarantee agencies shall be formed from the state budget. Sureties shall be provided on a chargeable basis (1-1.5 % of a loan amount secured by the surety). Surety fees will serve as a source of financing the agency's activity.

The *guarantee agency* shall develop requirements to the borrower (both nominal and actual – owners or premises), as well as to the rehabilitation project. The guarantee is provided only after the aforesaid requirements have been met. These requirements are formed with a view of mitigating risks of the guarantee agency and, consequently, of the bank. Risks of lending the borrower (credit scoring risks) are usually shared between the guarantee agency and the bank as the former provides surety for a part of loan (for instance, 75 percent) rather than for the full loan amount.

The most essential part of the *guarantee agency’s* (and the bank’s) requirements concerns financial discipline of owners of premises and their capacity to establish a rehabilitation fund of the required size. This includes such requirements as:

- total debt of owners of premises to homeowners partnership (management organization) for compulsory fees (payments) shall not exceed 10% of the amount of average monthly bills payable for the last six (6) months (or for the preceding year);
- amount of funds available in the rehabilitation fund prior to application for a loan or surety shall be not less than 10% of the rehabilitation costs (apart from that, the bank may additionally require that the minimum balance in the rehabilitation fund should not be less than the amount of three (3) monthly payments on a loan);
- amount paid by owners of premises to the rehabilitation fund shall exceed regular monthly payments on a loan by at least 15% (this requirement must be fulfilled no later than as of the month when a loan agreement is signed).

The practice of other countries, in which guarantee agencies have been established, shows that provision of sureties helps to launch programs for lending by commercial banks of rehabilitation (renovations) of apartment buildings. Fast enough the banks gain experience in evaluating borrowers’ creditworthiness and require sureties only if owners of premises in apartment building did not establish an appropriate legal entity (homeowners partnership) and the building is managed by a management organization. Besides, the bank may put forward a requirement saying that an agreement with this management organization for managing the apartment building may be terminated only upon notifying the bank appropriately and assigning obligations under a loan. In Russia, due to a possibility that homeowners partnership may be liquidated, it is necessary to stipulate a provision

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forbidding such a liquidation until the loan is paid off or obligations under a loan agreement are assigned.

What Are Measures to Ensure Fulfillment of Obligations by Owners of Premises?

Homeowners partnership or management organization can be the borrower under a loan. In order they could fulfill their obligations on loan repayment, it is required that owners of premises should pay in good faith their fees to the rehabilitation fund, from which loan repayments are made, and that homeowners partnership or management company should be given powers to collect debts from those who are in arrears with or do not pay compulsory fees (contributions).

The factors below can ensure the full collectibility of compulsory payments:

- statutory sanctions that can be applied to owners of premises for untimely or partial payments:
  - default interest for untimely payments;
  - creditor's (homeowners partnership or management organization's) right to register a pledge of owner's premises in the real estate register (EGRP – Unified State Register of Rights to Immovable Property and Transactions Therewith) (in which result, the premises cannot be sold until the outstanding debt is paid off);
  - possibility of enforced collection of owner's premises, even if this is the only place of his/her residence;
- immediate judicial proceedings for consideration of claims on collection of compulsory fees;
- contentious judicial proceedings for enforced sale of premises of the owner-debtor in order to pay the debt.

Since the Russian laws do not provide for a possibility of enforced collection of premises (apartment) of the owner-debtor, it creates higher risks of lending rehabilitation (renovations) of apartment building.

What types of budget support to owners of premises are expedient for rehabilitation (renovations) of apartment building?

Budget support (subsidies) to owners of premises in apartment building when their carrying a burden of financing (from their own and borrowed funds) rehabilitation works shall be provided on the basis of the following principles:

- support of homeowners' initiatives (subsidy is provided only if owners of premises independently took a decision on carrying out rehabilitation and financing thereof from own and borrowed funds);
- support of comprehensive rehabilitation aimed to enhance energy performance of apartment building or renovations of the building (comprehensive repairs, building renovations require substantial investments and, consequently, subsidies will further fundraising);
– **subsidy amount** shall depend on the *achieved outcome* of energy efficiency improvement;
– support of competition on the market (contractors and service providers shall be selected by homeowners partnerships and management organizations on a competitive basis).

Decision to provide a budget subsidy shall be made prior to rehabilitation (conclusion of a loan agreement) whereas the subsidy itself will be provided to make the last payment to the contractor (when the actual expenditure is known) but not exceeding the amount defined in the resolution on subsidy provision.

The subsidy amount shall be substantial enough for owners of premises (to serve as an incentive) but not exceed homeowners’ share in financing rehabilitation works (20 – 40% differentially depending on the outcome achieved).

It is necessary to *extend the housing allowance program* and put rehabilitation payments, including loan repayments, in subsidized expenses of apartment owners.
1.1. Enhancement of responsibility for failure to conduct capital repairs

Administrative responsibility for failure to take actions for organizing capital repairs should be secured in the law with regard to entities/persons responsible for the maintenance of common property in apartment buildings (such actions include inspecting the building and submitting its results to residents; making proposals on the scope and cost of capital repair works; arranging a general meeting of owners of premises). Relevant obligations of persons responsible for the maintenance of the common property in the building should also be legalized.

1.2. Restoration of trust in management companies

For apartment buildings to have efficient and bona fide legal entities (management organizations, or homeowners associations) – potential borrowers of loans, it is necessary to do quite a lot, and not only in enhancing the legislation. As regards the latter, the following should be done primarily:

- develop mechanisms for selection of management companies to eliminate the possibility of fraudulent operations in this particular market;
- design mechanisms for performance evaluation of management companies, which would enable residents to identify inefficient companies and replace them;
- create guarantees for bona fide management companies for long-term work in buildings, so as nobody could replace them on a whim at any time, if they committed no violations;
- restrict the “direct management” option by buildings with a small number of apartments;
- develop mechanisms for finding out corrupt practices in HOAs, streamline the responsibility of the management bodies of HOAs, etc.

Once the relevant amendments are made to the legislation, it will be possible to state that a framework for restoration of residents’ trust in “intermediaries” operating in the housing and utility sector and, accordingly, for emergence of a competent borrower for the purposes of financing capital repairs in apartment buildings.

1.3 Identification of a legal entity representing an apartment building for the purposes of capital repairs

A homeowners association, if it is created in an apartment building (AB), is a legal entity with all appurtenant rights and obligations.

A management organization (MO), if hired by an apartment building, shall act as a legal entity, but its rights and obligations should be expanded compared to the current practice in the following ways:

- MO should be authorized by housing owners to take a loan for capital repairs and to collect regular payments made by owners (for capital repairs – so as to repay the loan and provide for the contribution towards capital repairs), included in their payment for housing services;
- a long-term management agreement should be signed with a MO (minimum for the loan repayment term, otherwise the MO is unable to take this loan);

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40 Developed by ZAO “System Energy Efficient Solutions and Investments (EESI) together with GreenMax Capital Advisors
- MO should be given a mandate for exacting arrears in current payments and in payments for capital repairs from housing owners.

A HOA should be created, or a management organization hired for the implementation of capital repairs in the AB that has opted for “direct” management (minimum for providing housing services and implementation of capital repairs).

1.4. **Introduction of limitations for the term needed to make decisions on organizing and financing capital repairs and energy efficiency enhancement**

To step up the approval of all required decisions it is necessary to:

- develop standards (model forms) for delivery of the information to owners enabling them to make a decision on implementation of capital repairs, the scope and timeline of the activities required, costs involved, methods of financing capital repairs, possible subsidies and benefits, expected effects from the repairs;

- secure in the law the reduction of the number of votes required for making a decision on conducting and financing capital repairs to the level of simple majority. At the same time, the time required for contesting the decision on capital repairs should be cut down to two months.

1.5. **Financing initial expenditures for repairs**

The initial expenditures include:

- expenditures on technical audit,

- expenditures on development and approval of the project on capital repair activities,

- down payment for obtaining a loan (at least 15-20% of the cost of capital repairs).

For the purposes of making initial savings for capital repairs, based on the decision of a general meeting of owners, payments shall be collected from all owners and calculated per one square meter of floor space. These savings shall be remitted to a special account opened by a MO (HOA) for capital repairs as ordered by the residents. The money on this account shall be owned by citizens, until it is remitted towards payment for capital repair works or loan repayment. A HOA (MO) can use this account only pursuant to decisions of the general meeting.

In case that residential premises in AB were earlier privatized in accordance with the Law of the RF “On privatization of housing stock in the Russian Federation”, and no capital repairs were conducted afterwards, a HOA or MO shall apply to a municipality for financing in compliance with the obligations of the former landlord to conduct capital repairs in accordance with Art.16 of the foregoing Law. The money shall be remitted to a special account of a MO (HOA) for capital repair purposes.

As the necessary sum of money is being accumulated, a technical audit is conducted first of all, and it is followed by the development and approval of a capital repairs project.

Afterwards, the money for down payment for capital repairs shall be accumulated.

Special state or municipal grants for HOAs (MOs) can be an important incentive for those of them that managed to save a part of the necessary funds (see section 4.3.8), and a HOA (MO) can apply to authorized bodies for such grants.
1.6. Development of an efficient mechanism for owners’ debt repayment in case of non-payments for capital repairs

The following consecutive measures are proposed:

If non-payments exceed 5-6 months:
- cutting electricity and gas supply;
- subject to an application from a HOA or MO, subsidies for housing and utility payments can be transferred directly to the account of a HOA or MO;
- based on a court ruling – foreclosure on the wages and other income of the debtor.

In order to make the responsibility of owners for non-payments a reality, it is necessary to develop mechanisms that make it possible to do the following:

- if we are talking about a HOA – to pledge an apartment (mortgage), and further on – to hold tenders so as to sell the property (sales of an apartment without providing the debtor with other housing premises, allowing him to reside in the apartment but depriving him of the right to it);
- for pensioners – to sign a reverse mortgage agreement with a bank.

To make it possible for HOAs to take the property in pledge (mortgage) and, further on, to hold tenders by agreement, special contracting and tendering procedures need to be prescribed by the civil law, as well as the conditions of residing in apartments sold at a tender need to be legislatively fixed in the housing law.

Of utmost importance, in the context of implementing these mechanisms, will be the development of a reasonably priced rental municipal housing for those owners who find the maintenance of their own housing to be a costly one. To that end, the Civil Code of the Russian Federation should envisage a possibility of foreclosing on the one and only housing of a debtor provided that there is a specialized municipal housing within the territory of a relevant municipality which can be given to debtors under a lease agreement.

1.7. Development of a mechanism of commercial loans origination for capital repairs

Among the crucial elements ensuring the promotion of commercial loans origination for capital repairs are as follows:

- development of a banking lending product for future money flows of a HOA or MO,
- creation of a system of partial paid-for (commercial) guarantees for loans for financing capital repairs (issued against the pledge of common property (premises), against receivables derived from housing payments),
- establishment of a state system of granting guarantees to commercial banks for a specified list of capital repair activities and / or highly energy efficient measures with a long pay-off period,
- dispensing commercial banks with the necessity of reserving for unsecured loans for financing capital repairs,
- removing the necessity of 100% voting with regard to energy performance contracting in housing sector, and legislatively prescribing the principal conditions of energy performance contracting in housing sector.

In this respect, the legislative changes should be introduced into:

- the law on energy saving,
- the RF government decree on procedures regulating the provision of state guarantees as they relate to the introduction of special conditions for granting guarantees for loans for capital repairs,
- the RF Central Bank’s provision on compulsory reserves of lending institutions.

1.8. Establishment of a system of state incentives for large-scale capital repairs implementation

Such a system must operate within a limited period of time, being applied only to a specified group of buildings, and envisage:

- grants for those HOAs and MOs which have taken loans for capital repairs earlier than any other has done (for instance, in the amount of 15-20% from the cost of capital repairs, to cover the owners’ initial costs), as well as (within a limited period of time) for implementation of highly energy efficient measures with a long pay-off period,
- subsidizing interest rates on loans for capital repairs,
- the possibility of refinancing the loans originated by commercial banks for capital repairs via the issuance of bonds by a joint stock company, jointly with the state and which are guaranteed by the state (in much the same manner as the system established for mortgage lending),
- exempting from taxation the funds spent by owners for capital repairs.

1.9. Establishment of a system of state support to low income households for financing capital repairs

It is essential that state support measures envisage keeping the costs of capital repairs within the housing payments subsidized by the state. Additionally, it is advisable that ongoing measures, as listed below, be introduced to ensure a larger scale implementation of capital repairs:

- provision (upon the request of a HOA or a MO) of subsidies to pensioners, young families, families with many children to pay down payment for a loan originated for capital repairs,
- provision (upon the request of a HOA or a MO) of grants to pensioners, young families, families with many children to install apartment water meters, water saving taps, new windows, replace heating equipment, and also to cover a portion of payments for capital repairs of apartment buildings.

1.10. Technical assistance and information support to HOAs and MOs

Among the most efficient tools are these ones:
- development of standards for MOs and HOAs along every aspect of arranging and carrying out the capital repairs, templates and models of submitted and approved documents, contracts, model calculations of cost efficiency, including for obtaining the bank loans;
- mass teaching to managers and representatives of HOAs.

1.11. Broad public awareness campaigns on opportunities and efficiency of capital repairs

The templates of materials should be prepared and handed over for dissemination among every apartment building. These materials should invitingly and briefly demonstrate the effects brought about by capital repairs, possible forms of financing and methods of financial support for capital repairs, including those earmarked for low-income households.

It is necessary that educational programmes be prepared and repeatedly demonstrated at a prime time by central TV channels.

Special subjects should be introduced in schools aiming to explain to children as to what opportunities the energy saving and environmental protection bring about, why relevant measures are needed, and why children should be responsible for these.

The experience gained domestically, by Russian organizations, and that accumulated by the countries of Central and Eastern Europe can be used to prepare the materials.

1.12. Stages of transition to the described model for financing capital repairs

A rather substantial state support of capital repairs will be required at the first stage.

The next stage necessitates the scope of state support being reduced gradually so that to ensure the transition to the third stage at which state support will be provided only to low-income groups of population.
ANNEX 5. MODEL 5 «DEPRECIATION CHARGES». ORGANIZING FINANCE OF CAPITAL REPAIRS AND UPGRADING OF RESIDENTIAL HOUSING

The financing of capital repairs and upgrading of residential housing is a complicated issue primarily because the amount of funds needed for Russia's housing stock exceeds RUB 10 trillion as per expert estimates. The financing from budgets of all levels is impossible now, although twenty years ago Article 16 of the law “On Privatization of the Housing Stock in the Russian Federation” stipulated that “the former landlord retains its obligation to conduct capital repairs of the building in accordance with housing maintenance, operating and repair standards”.

Law makers want public authorities to be involved in tackling this problem, but the state corporation “The Fund for the Promotion of the Housing and Utility Sector Reform”, set up for this purpose, will cease its operations in 2013 to be further liquidated or restructured.

Moreover, as for the apartment buildings where capital repairs have been done and public authorities have no further commitments to finance their maintenance, capital repairs or upgrading, financing rules, procedures and sources are not clearly defined, while private owners are not always capable of sharing the burden of housing maintenance costs.

The problem is mainly caused by the drawbacks in the law “On Privatization of the Housing Stock” and the RF Housing Code, in particular, by the fact that apartment buildings are formally not real estate objects, they do not have their separate cadastre value, their common property having no value and not entered to the balance sheet of any legal entity is not registered yet. Therefore, there are currently no depreciation charges to be directed to complete restoration of the technical condition of apartment buildings, while pursuant to RF Government Resolution No. 1 dated 01/01/2002, endorsing the classification of depreciation groups, apartment buildings and residential buildings are not included into any of such groups. As a result, depreciation is not accrued for any form of apartment building management.

The currently discussed options of apartment building capital repairs contain both interesting ideas and considerable faults. One of the options is to increase the involvement and responsibility of public authorities in the housing sector, though major part of this property is already private. This option fails to take into consideration market relations existing in the housing sector; it introduces the instrument of saving premises owners’ payments for expected capital repairs without efficient protection of such savings from inflation. Public authorities may set the level of such repair payments without proper consideration of actual condition of each apartment building.

There is another option to establish a special fund that will issue guarantees for targeted loans given to organizations managing apartment buildings, homeowner partnerships or cooperatives. However, it is planned to use budgets of various levels as sources of such funding, which is very unlikely in near-term.

The RF Chamber of Commerce and Industry proposes for discussion the option that combines all merits of other options and exclude their faults. The main point of this option that may have clear-cut economic and financial justifications is to recognize through the law that apartment buildings are real estate objects and to commence the depreciation of common property of premises owners in apartment buildings.

As a result, the replacement value of each apartment building, i.e., the amount to be paid in the event of purchase of this or similar assets, will be set. The setting of the housing cadastre value for the taxation purposes provided for by a respective draft law will be the auspicious

41 Developed by the Chamber of Commerce and Industry of the Russian Federation
moment for that. The cadastre value should apparently be equal to the **depreciated replacement value of general property** in apartment buildings, i.e. replacement value minus **depreciation**. In such a case the replacement value will become a fair economic indicator for each apartment building.

If cadastre assessment procedures enacted by the law or other legislative regulations are implemented, it becomes feasible to fix the liabilities of public authorities to pay for **capital repairs of apartment buildings that have not been done** (for instance, in the form of **debt corporatization**). These will be documented **liabilities** of public authorities (as the former owner of residential property) to participate in maintenance and restoration of common property specific for each apartment building before and after required repairs. In this case the **current restriction** not to incorporate the common property of apartment buildings into the classification of depreciation groups should be removed.

If respective decisions are taken, then the **charge for maintenance** of apartment buildings will include depreciation charges for restoration of the common property instead of current charges for routine and capital repairs. The task of legislative and executive powers is to introduce depreciation charges that should be different for buildings of **different years of construction**. These charges shall be **mandatory paid** by owners of apartment buildings but with consideration of housing allowances for low-income households, which calculation **shall be also adjusted**.

**All depreciation charges** received from owners of premises in apartment buildings by homeowners partnerships, cooperatives, management organizations that have the common property in apartment buildings on their books – shall be directed to purchase securities issued by the **Fund for supporting owners of housing property**. This is the fund that should be appeared as a result of restructuring of the Fund for the Promotion of the Housing and Utility Sector Reform. The said securities may be sold when necessary or they may become the pledge for receiving a bank loan for required repairs of common property or its energy efficient upgrading.

The proposed solution of financing the repairs and restoration of common property in apartment buildings requires the development and adoption of a number of bills and legislative acts in 2011-2012 that will, first of all, envisage:

- **rules of securities issue** by a new financial institution (established possibly within the Savings Bank structure), their turnover and return on invested capital, responsibility of public authorities;

- **participation of budgets of all levels** in the new fund capital and financing (for example, by using revenues gained from residential property taxes).

It may be similar to operations of the Agency for Housing Mortgage Lending. It is necessary to define the procedure of setting rates of a new financial institution for issuing guarantees and sureties **for loans** to be used for repairs and restoration of common property in apartment buildings and to review its funding in foreign banks. The **rules for custody** and **circulation/pledge** of new securities (for instance, custody - in homeowner partnerships, sales - only for repairs and restoration of apartment buildings and energy efficient upgrading of common property in apartment buildings) should be developed.
It is also necessary to develop and enact by the law the procedure and terms of restructuring public authorities’ liabilities in restoration of the technical condition of common property in apartment buildings (with consideration of the time of housing ownership by private owners after privatization). Such procedure will enable to “sell” debt, and, consequently, attract non-budget funds to the residential property maintenance sector.

The law shall define the process and forms of participation of various public authorities and respective budgets both in restoration of common property in apartment buildings and in maintenance of the premises in apartment buildings that are still owned by public authorities. Norms of supervision of common property maintenance by independent organizations will be also required.

It will be also necessary to foresee the compensation of common property maintenance costs to prevent considerable increase in budget expenditures for housing allowances and to reduce the number of “poor apartment owners”. If the area of owner's premises exceeds current norms for housing allowances, but the owner has no sufficient income to keep his/her property (including his/her share in the common property of an apartment building), the procedure of alienation of this property obviously retaining the citizen's right to housing granted by the RF Constitution shall be introduced (for instance, by introducing the lifetime rent).

It is also needed to introduce the mandatory insurance of common property in apartment buildings and the compensation of such insurance for recipients of housing allowances. Without it local self-governments will have to continue incurring costs to repair the damaged common property in apartment buildings (fires, natural disasters, and even elevator breakdowns), which are not allocated in their budgets.

Obviously, the proposed solution for financing repairs and restoration of common property in apartment buildings and its energy efficient upgrading is rather complicated and requires considerable legislative efforts. But such work will allow them to address comprehensively the common property maintenance challenges that have become the barrier for restoration of its technical properties and required energy efficiency actions. Owners of premises in apartment buildings will gain the limited but legislatively fixed involvement of public authorities and respective budgets in maintenance of apartment buildings.

In principle, it is possible to rely on relative cheap funding by Russian banks and attraction of non-budget funds to the housing sector against the pledge of newly issued securities and guarantees or sureties of the financial institution to be established, and liabilities of the associations of apartment building management companies. The proposed solution creates prerequisites for gradual, stage-by-stage liquidation of the institute of “poor owners” incapable to keep their common property in apartment buildings. It will be a necessary step for the society to realize that the ownership of housing property has ceased to be the “cheap benefit” provided by public authorities at the expense of taxpayers. Now the real estate ownership is a relatively expensive “pleasure”, and it requires the further development of “social housing” or housing for lease of all forms of ownership that will be affordable for low-income households, provided that the rent there is restricted by the lease agreements as regards its terms and timeline of payments with its partial or complete compensation from budgets of various levels.
The given description of the principles of possible solution of the problem of financing the repairs and upgrading of common property in apartment buildings is only the sketch requiring further development and discussions by the public and all levels of public authorities. However, the RF Chamber of Commerce and Industry unites a great number of highly professional economists, financial experts, insurers who are already ready to participate in the drafting of required laws and other regulations.
## Table 1. Law-based regulation of the decision making procedure pertaining to capital repairs in Russia

<table>
<thead>
<tr>
<th>Issues regulated by law</th>
<th>Homeowners partnership (HP) has been established in building (or the building is managed by housing cooperative)</th>
<th>No homeowners partnership (HP) has been established in building, the latter is managed by</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>General meeting of owners of premises in apartment building (RF Housing Code, Article 44, Part 2, Clause 1)</td>
<td>Management organization</td>
</tr>
<tr>
<td>Who takes a decision to carry out capital repairs, upgrade of apartment building.</td>
<td>At least 2/3 votes of the total number of votes of owners of premises in apartment building (RF Housing Code, Article 46, Part 1)</td>
<td>Should the capital repairs or upgrade cause reducing the size of common property, the consent of all owners of premises in a given building will be required (RF Housing Code, Article 36, Part 1)</td>
</tr>
</tbody>
</table>
| How many votes are sufficient to take a decision on carrying out capital repairs, upgrade of apartment building. | • For HP members – general meeting of HP members (RF Housing Code, Article 145, Part 2, Clause 1)  
• For owners who are not HP members – HP management bodies pursuant to HP Charter (general meeting or management board) (RF Housing Code, Article 137, Part 1, Clause 3)  
• If the building is managed by a management organization (RF Housing Code, Article 142, Part 2) | General meeting of owners of premises in apartment building (with consideration of proposals put forward by management organization) (RF Housing Code, Article 158, Part 2) |
<p>| Exception: | In the event that owners of premises in an apartment building fail to decide on the rate of payment for maintenance and repairs of residential units (common property in the apartment building), such a decision shall be made by a body of local self-governance (a relevant public authority – in the cities of Moscow and Saint Petersburg) (RF Housing Code, Article 158, Part 4) |</p>
<table>
<thead>
<tr>
<th>Issues regulated by law</th>
<th>Homeowners partnership (HP) has been established in building (or the building is managed by housing cooperative)</th>
<th>No homeowners partnership (HP) has been established in building, the latter is managed by</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>by a housing cooperative – the decision on the rate of payment shall be made by the cooperative management bodies (management board or general meeting of members of the cooperative) pursuant to the Charter (RF Housing Code, Article 156, Part 8)</td>
<td>Management organization</td>
</tr>
</tbody>
</table>

How many votes are sufficient to take a decision on the rate of payment for capital repairs, upgrade of apartment building.

- Majority of the total number of votes of HP members or their authorized representatives participating in the general meeting (at least 25% +1 of all votes of HP members. (RF Housing Code, Article 146, Part 4)
- If the building is managed by a housing cooperative – the decision on the rate of payment shall be made by the cooperative management bodies (management board or general meeting of members of the cooperative) pursuant to the Charter (RF Housing Code, Article 156, Part 8)

This statement may be interpreted in two ways:
Option 1: Majority of the total number of votes of the owners of premises in an apartment building participating in the meeting (at least 25% +1 of all votes of the owners of premises) (RF Housing Code, Article 146, Part 4)
Option 2: At least two thirds (2/3) of the total number of votes of the owners of premises in an apartment building (if setting the rate of payment for capital repairs is considered to be part and parcel of the decision-making on carrying out capital repairs) (RF Housing Code, Article 46, Part 1)
Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support

ANNEX 7. INTERNATIONAL PRACTICE OF REGULATING ISSUES OF CAPITAL REPAIRS OF APARTMENT BUILDINGS

Table 1. Law-based regulation of the decision-making procedure pertaining to capital repairs in Central and East European countries

<table>
<thead>
<tr>
<th>Issues regulated by law</th>
<th>ESTONIA</th>
<th>LATVIA</th>
<th>LITHUANIA</th>
<th>SLOVAKIA</th>
<th>HUNGARY</th>
<th>POLAND</th>
<th>GERMANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>The owners of premises in apartment building are required by law to</td>
<td>No</td>
<td>No</td>
<td>No</td>
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<td>No</td>
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<td>The law requires that the owners of premises</td>
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<td>The law requires that the owners of premises</td>
<td>The law requires that the owners of premises</td>
<td>The law requires that the owners of premises</td>
</tr>
<tr>
<td>Issues regulated by law</td>
<td>ESTONIA</td>
<td>LATVIA</td>
<td>LITHUANIA</td>
<td>SLOVAKIA</td>
<td>HUNGARY</td>
<td>POLAND</td>
<td>GERMANY</td>
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<tr>
<td>------------------------</td>
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<td>----------</td>
<td>---------</td>
<td>--------</td>
<td>---------</td>
</tr>
<tr>
<td>carry out capital repairs.</td>
<td>should maintain the common property in apartment building; there is no specific requirement to carry out capital repairs.</td>
<td>should maintain the common property in apartment building; there is no specific requirement to carry out capital repairs.</td>
<td>should maintain the common property in apartment building; there is no specific requirement to carry out capital repairs.</td>
<td>should maintain the common property in apartment building; there is no specific requirement to carry out capital repairs.</td>
<td>should maintain the common property in apartment building; there is no specific requirement to carry out capital repairs.</td>
<td>should maintain the common property in apartment building; there is no specific requirement to carry out capital repairs.</td>
<td>should maintain the common property in apartment building; there is no specific requirement to carry out capital repairs.</td>
</tr>
</tbody>
</table>

| Who takes a decision to carry out capital repairs, upgrade of apartment building. | General meeting of the owners of premises in apartment building, at the proposal of the house manager or HP. | General meeting of the owners of premises in apartment building, at the proposal of the house manager or HP. | General meeting of the owners of premises in apartment building, at the proposal of the house manager or HP. | General meeting of the owners of premises in apartment building, at the proposal of the house manager or HP. | General meeting of the owners of premises in apartment building, at the proposal of the house manager or HP. | General meeting of the owners of premises in apartment building. House manager (management organization) is competent to decide what repairs, including |
## Russian Urban Housing Energy Efficiency Programme – Model Development

Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support

<table>
<thead>
<tr>
<th>Issues regulated by law</th>
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<th>HUNGARY</th>
<th>POLAND</th>
<th>GERMANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>How many votes are sufficient to take a decision on carrying out capital repairs, upgrade of apartment building.</td>
<td>Majority of votes (51%), in extraordinary cases the agreement between the owners is required.</td>
<td>Simple majority of votes (more than 50%)</td>
<td>Simple majority of votes (more than 50%)</td>
<td>Simple majority of votes (more than 50%)</td>
<td>Simple majority of votes of the owners (more than 50%)</td>
<td>Simple majority of votes of the owners (more than 50%)</td>
<td>Simple majority of votes (in some cases – 3/4 of votes).</td>
</tr>
<tr>
<td>In the event that technical condition of the building is recognized inappropriate, public authority</td>
<td>No, pursuant to the law, the municipality is not responsible for maintenance of apartment</td>
<td>The state or municipality may step in the decision-making on capital repairs of only those</td>
<td>The state or municipality may step in the decision-making on capital repairs of only those</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No, Pursuant to the law, the house manager is obliged to make appropriate</td>
</tr>
</tbody>
</table>

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**Center for Energy Efficiency (CENEF)**

**Housing Initiative for Eastern Europe (IWO)**

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<th>POLAND</th>
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</tr>
</thead>
<tbody>
<tr>
<td>or municipality is authorized to decide on capital repairs for the apartment owners, whereas the latter have nothing to do with the decision-making.</td>
<td>buildings with privately owned apartments.</td>
<td>buildings where some premises remain unprivatized.</td>
<td>buildings where some premises remain unprivatized.</td>
<td>order to demolish a building due to poor technical condition.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The law contains a provision saying that the owners of premises are required to make mandatory payments for capital repairs of the apartment building.</td>
<td>Yes, The law says that the house manager is authorized to set the amount of mandatory charges to be paid to the repairs fund, which amount shall be approved at the general</td>
<td>No</td>
<td>No</td>
<td>Yes, The law defines the responsibility to establish a repairs fund; the owners determine the amount of repairs payment depending on the needs for</td>
<td>No</td>
<td>No</td>
<td>House manager is authorized to set the rate of payments sufficient to perform repairs required by law.</td>
</tr>
</tbody>
</table>
### Russian Urban Housing Energy Efficiency Programme – Model Development

Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>The law contains a provision on the rate of monthly charges to be paid by the owner of premises (apartment) for capital repairs purposes.</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>meeting.</td>
<td>repairs.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Prepayment is a must for activities specified in business plan; the owners define the rate of payment.</td>
</tr>
</tbody>
</table>

| Who takes a decision on the rate of payment for capital repairs, upgrade of apartment | General meeting of the owners of premises in apartment building | General meeting of the owners of premises in apartment building | General meeting of the owners of premises in apartment building | General meeting of the owners of premises in apartment building; the general meeting of the owners of premises in apartment building at the | General meeting of the owners of premises in apartment building | General meeting of the owners of premises in apartment building | General meeting of the owners of premises in apartment building |
|-------------------------------------------------|--------------------------------------------------|--------------------------------------------------|--------------------------------------------------|--------------------------------------------------|--------------------------------------------------|--------------------------------------------------|

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</tr>
</thead>
<tbody>
<tr>
<td>building.</td>
<td>(general meeting of HP members).</td>
<td>(general meeting of HP members).</td>
<td>building.</td>
<td>rate of payment is defined by the owners depending on the needs for repairs.</td>
<td>proposal of the house manager or HP Management Board.</td>
<td>building.</td>
<td>accordance with the business plan.</td>
</tr>
<tr>
<td>How many votes are sufficient to take a decision on the rate of payment for capital repairs, upgrade of apartment building.</td>
<td>Simple majority of votes (more than 50%). The owners may agree on the qualified majority of votes sufficient to decide on the use of certain financial mechanisms.</td>
<td>Simple majority of votes (more than 50%).</td>
<td>Simple majority of votes (more than 50%).</td>
<td>Simple majority of votes (more than 50%). When lending, banks require unanimous consent to decisions on the building upgrade from small HPs, which include 7 apartments at most; banks consider such HPs more</td>
<td>Simple majority of votes (more than 50%).</td>
<td>Simple majority of votes (more than 50%).</td>
<td>Simple majority of votes (in some cases – 3/4 of votes).</td>
</tr>
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</table>
Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support.

<table>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>risky.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Russian Urban Housing Energy Efficiency Programme – Model Development

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Table 2. Legislative regulation of issues relating to the ownership and disposal of funds for capital repairs in the countries of Central and Eastern Europe

<table>
<thead>
<tr>
<th>Issues</th>
<th>ESTONIA</th>
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<th>GERMANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the law specify to which financial institution (bank, dedicated fund) the mandatory payments made by owners of premises towards capital repairs should go?</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No, The law only stipulates an obligation to accumulate all payments in a bank account</td>
<td>No</td>
<td>No</td>
<td>No, There is only a general requirement that a separate bank account should be maintained for the funds in trust management, separately from the property of the manager</td>
</tr>
<tr>
<td>Can owners of premises in an apartment building (HOA, MO) independently</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

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Center for Energy Efficiency (CENEf)  
Housing Initiative for Eastern Europe (IWO)  
Institute Byvania (The Institute of Housing)
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<th>HUNGARY</th>
<th>POLAND</th>
<th>GERMANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>select a financial institution for accumulating funds towards capital repairs?</td>
<td>On a separate bank account opened by a HOA or MO for accumulation of payments made by owners for the maintenance of the building. The money accumulated for capital repairs can be placed on a separate deposit account</td>
<td>On a separate bank account opened by a HOA or MO for accumulation of payments made by owners for the maintenance of the building. The money accumulated for capital repairs can be placed on a separate deposit account</td>
<td>On a separate bank account opened by a HOA or MO for accumulation of payments made by owners for the maintenance of the building. The money accumulated for capital repairs can be placed on a separate deposit account</td>
<td>On a separate bank account opened by a HOA or MO for accumulation of payments made by owners for the maintenance of the building. The money accumulated for capital repairs can be placed on a separate deposit account</td>
<td>On a separate bank account opened by a HOA or MO for accumulation of payments made by owners for the maintenance of the building. The money accumulated for capital repairs can be placed on a separate deposit account</td>
<td>On a separate bank account opened by a HOA or MO for accumulation of payments made by owners for the maintenance of the building. The money accumulated for capital repairs can be placed on a separate deposit account or on a savings account</td>
<td>On a separate bank account opened by a HOA or MO for accumulation of payments made by owners for the maintenance of the building. The money accumulated for capital repairs can be placed on a separate deposit account or on a savings account</td>
</tr>
</tbody>
</table>

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<th>GERMANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is there a mandatory requirement to open a separate bank account for each apartment building for purposes of accumulating funds towards capital repairs?</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>However, the law provides for the obligation of the manager to keep the property of owners separately from other property. The Manager shall open a separate bank account for each building, where any payments made by owners will go.</td>
<td>No</td>
<td>The law provides for the obligation of the manager to open a separate bank account where all payments made by owners of premises will go.</td>
<td>No</td>
<td>The law stipulates that each building should have a separate account opened by the manager or the chairman of the management board of HOA, and all payments made by owners of premises will go.</td>
<td>No</td>
<td>The law provides for the obligation of the manager to open a separate bank account where all payments made by owners of premises will go.</td>
</tr>
<tr>
<td>Who owns the funds</td>
<td>Apartment owners</td>
<td>Apartment owners</td>
<td>HOA (if a homeowner)</td>
<td>Apartment owners</td>
<td>Apartment owners</td>
<td>Apartment owners</td>
<td>HOA</td>
</tr>
</tbody>
</table>

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### Issues

<table>
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<tr>
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<th>ESTONIA</th>
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<th>POLAND</th>
<th>GERMANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>accumulated towards capital repairs through regular payments made by owners?</td>
<td>MO, HOA</td>
<td>Manager, HOA</td>
<td>MO, HOA</td>
<td>Chairman of the management board of HOA and the manager are entitled to only dispose of funds</td>
<td>MO, HOA</td>
<td>Manager, HOA, Housing construction cooperative</td>
<td>Manager/ MO</td>
</tr>
<tr>
<td>Who manages the funds accumulated through mandatory payments made by owners towards capital repairs?</td>
<td>No, HOA</td>
<td>No</td>
<td>No</td>
<td>Restrictions with regard to the sum of money, which the chairman of the management board of HOA or the manager can dispose of, are defined in</td>
<td>No</td>
<td>No</td>
<td>No, restrictions are established by owners</td>
</tr>
<tr>
<td>Are there any legislative restrictions with regard to managing or disposing of the funds accumulated towards capital repairs through mandatory</td>
<td>No, According to the law, restrictions may be established by decision of owners</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>
Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support

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<th>POLAND</th>
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</tr>
</thead>
<tbody>
<tr>
<td>payments?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>How the safety of funds accumulated towards capital repairs is ensured?</td>
<td>According to the law, if the general meeting of owners rules so, the right to dispose of the funds may depend directly on apartment owners or third parties.</td>
<td>The right to expend the funds may depend on the approval by the third parties</td>
<td>The assets on the bank savings account of HOA are protected in accordance with a special law on protection of citizens' deposits</td>
<td>The right to expend the funds may depend on the approval by the third parties</td>
<td>The right to expend the funds may depend on the approval by the third parties</td>
<td>Mandatory submission of information by the manager on the expending of money, the right to dispose of the funds can depend to the agreement of third parties thereto</td>
<td></td>
</tr>
<tr>
<td>Issues</td>
<td>ESTONIA</td>
<td>LATVIA</td>
<td>LITHUANIA</td>
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</tr>
<tr>
<td>-----------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
</tr>
<tr>
<td>How the accumulated savings are protected against inflation?</td>
<td>Placement of available assets on deposit accounts</td>
<td>Placement of available assets on deposit accounts</td>
<td>Placement of available assets on deposit accounts, Interest on the deposit shall be the property of the Fund for Repairs</td>
<td>Placement of available assets on deposit accounts</td>
<td>Placement of available assets on deposit accounts</td>
<td>Placement of available assets on deposit accounts</td>
<td>Protected by interest bearing investments in the bank. Protected by consistent stabilization policy exercised by the National Bank</td>
</tr>
<tr>
<td>What happens to the savings accumulated for the building repairs in the event of replacement of the management organization (MO)?</td>
<td>The former manager shall transfer the money to the account opened by a new manager in the bank</td>
<td>The former manager shall transfer the money to the account opened by a new manager in the bank</td>
<td>The savings are retained by HOA</td>
<td>The former manager shall transfer the money to the account opened by a new manager in the bank</td>
<td>The former manager shall transfer the money to the account opened by a new manager in the bank</td>
<td>The common property is retained by the association (see above). Placement of HOA under receivership is not possible, the only exception is</td>
<td></td>
</tr>
</tbody>
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Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support

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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>use the assets of the fund only for the purposes envisaged by the law, and may transfer the money to the manager appointed by the general meeting of owners.</td>
<td></td>
<td></td>
<td></td>
<td>the case when the building was pulled down never to be restored.</td>
</tr>
</tbody>
</table>

Table 3. Loan services for projects of capital repairs and energy efficiency enhancement of apartment buildings in the countries of Central Europe and the Baltic States

<table>
<thead>
<tr>
<th>Who makes decisions on raising a loan?</th>
<th>ESTONIA</th>
<th>LATVIA</th>
<th>LITHUANIA</th>
<th>SLOVAKIA</th>
<th>HUNGARY</th>
<th>POLAND</th>
<th>GERMANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential property owners</td>
<td></td>
<td></td>
<td></td>
<td>Residential property owners</td>
<td>Residential property owners</td>
<td>Residential property owners</td>
<td>Residential property owners</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Who is the recipient of a loan (borrower)?</th>
<th>ESTONIA</th>
<th>LATVIA</th>
<th>LITHUANIA</th>
<th>SLOVAKIA</th>
<th>HUNGARY</th>
<th>POLAND</th>
<th>GERMANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>An association of owners or a manager on the property</td>
<td>An association of owners</td>
<td>An association of owners</td>
<td>An association of owners</td>
<td>An association of owners</td>
<td>An association of owners</td>
<td>A housing association (a residential property owner)</td>
<td></td>
</tr>
<tr>
<td>Are there any special requirements to a borrower?</td>
<td>basis of a letter of attorney in a simple written form (housing associations, housing cooperatives, community of apartment owners)</td>
<td>1. A Homeowners’ Partnership must be established at least 6 months prior to loan application. 2. At least 15% must be covered by equity funds when applying for a renovation loan (may be covered by a parallel bank loan). 3. When issuing a property owner)</td>
<td>1. A Homeowners’ Partnership must be established and function at least 6 months prior to loan application. 2. At least 80% of inhabitants must pay common expenses in due time. 3. The building must be insured.</td>
<td>1. At least 20% of the repair costs must be contributed by the borrower. 2. Transfer of the joint account to the lending bank. 3. Stability of the owners’ entity. 4. Sustainability of contributions.</td>
<td>1. Preliminary accumulation of funds for repairs by a Homeowners’ Partnership or a block-house condominium within the period of 4 years. 2. Resolution of the owners’ meeting on increase of total expenses by an amount covering annual utility payment.</td>
<td>1. The association must be established and function at least 6 months prior to the moment of loan application. 2. At least 80% of inhabitants must settle their bills in due time. 3. Lack of utility payment.</td>
<td>n/a</td>
</tr>
</tbody>
</table>
Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support.

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| Are there any special requirements to a project? | An energy audit of a residential building must be carried out with definition of main items of repair works. A loan must be provided for works which necessity was revealed in the course of energy audit. Energy savings of at least 20% for apartment buildings having a floor space up to 2,000 square meters and at least 30% for apartment buildings having a floor space over 2,000 square meters must be. | A package of energy-saving measures must be implemented. | Energy saving must be achieved. | 1. Project description
2. A resolution must be adopted on approval of a particular investment project by two thirds of owners' votes.
3. At least 20% of energy savings must be achieved. | Energy efficiency must be enhanced and renewable energy sources must be used. | n/a | Energy and heat consumption as well as emission of contaminants (depending on the achieved standard of energy efficiency) must be reduced. |
| Is a security for a loan required? | Real estate mortgage is not required. A guarantee by the specialized KredEx agency, existing sustainable and sufficient monthly loan repayments into the repairs fund or assignment of receivables of members of a housing cooperative (legally established pledge) are required. | Real estate mortgage is not required. A guarantee by the Latvian Mortgage Bank (LHZB). | Real estate mortgage is not required. A guarantee by HLI is required. | Real estate mortgage is not required. Guarantees by IFC in some cases are required. Legal mortgage (possibility to register a charge over the apartment of a debtor-owner) is required. A loan may be extended in the absence of government or municipal grants. | Real estate mortgage is not required. In one of the facilities a Homeowners' Partnership must increase monthly payments from occupants up to a level at which aggregate loan service costs are covered. These payments are subsequently transferred to the lender. | Mortgage of owners’ real estate, including the share in the land parcel is required. Guarantees by special-purpose banks of federal states are required, for example Investment Bank of Berlin (IBB), partially by the State Development Bank (KfW) and Federal Budget (50% of countersureties). |

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<table>
<thead>
<tr>
<th>What is the average interest rate?</th>
<th>3.8% (interest rates are fixed for 10 years)</th>
<th>On average the interest rate amounts to 4.5% to 6%.</th>
<th>3% in the framework of JESSICA program.</th>
<th>On average the interest rate amounts to 2.7%</th>
<th>6-10% p.a. 3-4% subsidized interest rate</th>
<th>n/a</th>
<th>Depending on the term of loan and level of energy efficiency of measures implemented The interest rates is ranging from 4% to 10%.</th>
</tr>
</thead>
<tbody>
<tr>
<td>What is the average term of loan?</td>
<td>up to 20 years</td>
<td>8-12 years</td>
<td>up to 20 years</td>
<td>up to 15 years</td>
<td>n/a</td>
<td>n/a</td>
<td>up to 30 years given a fixed interest rate for 10 years.</td>
</tr>
<tr>
<td>Measures applied to</td>
<td>The</td>
<td>n/a</td>
<td>Arrears in Residential</td>
<td>n/a</td>
<td>An association</td>
<td>n/a</td>
<td></td>
</tr>
<tr>
<td>defaults on a loan for capital repairs and energy efficiency enhancement</td>
<td>administrator of a partnership gathers payments from apartment owners and also lodges claims for default in payment against owners if it becomes necessary. Registration of pledges on property of apartment owners by partnerships is applied. The apartment of a debtor may be sold at auction by a court decision.</td>
<td>payment are settled between a Homeowners' Partnership and tenants in accordance with the Civil Code. Property owners are liable for their loan commitments only within the limits of their property value assessed by independent experts. Registration of pledges on property of apartment owners by partnerships is applied. In case of a lasting non-payment of an amount exceeding a certain limit within an established period of time may not grant a security interest over the property of an owner who stops paying charges. Payments may be enforced only by judicial means. An owner may be obliged by a court decision to resume payments or may be excluded from a Homeowners' Partnership whereat his property will be sold at an open auction.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Are there any measures of government support designed to mitigate the risks of banks (entities lodging guarantees/sureties)?</td>
<td>Yes, Special-purpose KredEx agency</td>
<td>Yes, Latvian Mortgage Bank (LHZB Bank)</td>
<td>Yes, HLI</td>
<td>Yes, Slovak Guarantee and Development Bank</td>
<td>Yes, Guarantees by IFC</td>
<td>Yes, Bank Gospodarstwa Krajowego (BGK Bank)</td>
<td>Special-purpose banks of federal states, for example Investment Bank of Berlin (IBB), partially the State Development Bank (KfW) and Federal Budget (50% of countersureties).</td>
</tr>
</tbody>
</table>
Table 4. Types of state support for capital repairs and energy efficient upgrading of apartment buildings in various countries

A. SUBSIDIES

<table>
<thead>
<tr>
<th></th>
<th>ESTONIA</th>
<th>LATVIA</th>
<th>LITHUANIA</th>
<th>SLOVAKIA</th>
<th>HUNGARY</th>
<th>POLAND</th>
<th>GERMANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are subsidies provided for capital repairs/upgrading of apartment buildings?</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>For what purposes are subsidies provided (repairs and/or energy saving measures)?</td>
<td>1) Allowance for renovation of an apartment building</td>
<td>Subsidy for heat insulation improvement in residential ABs/renovations of ABs – provided that energy saving attained is not less than 20%</td>
<td>Subsidies for the upgrading of ABs (Programme for 2004-2020)</td>
<td>1) Subsidy for rectification of typical defects in prefabricated panel buildings 2) Special subsidy for use of alternative energy sources in buildings (solar and biomass energy)</td>
<td>1) Grants are provided for renovations of residential buildings constructed with the help of industrial technologies. Subsidy can be provided for: 1) heat insulation; 2) repairs of infrastructure systems (with 1) Subsidies for energy saving activities 2) Subsidies for renovations (for ABs built before 1961)/source for partial repayment of loan</td>
<td>Subsidies for energy saving rehabilitation (a set of comprehensive activities)</td>
<td></td>
</tr>
<tr>
<td>Who is the recipient of a subsidy?</td>
<td>Association of apartments, apartment cooperative, association of HOA, cooperative, association of apartment owners.</td>
<td>HOA, management company</td>
<td>HOA or owners via a management company</td>
<td>HOA</td>
<td>HOA, municipality, for-profit companies, private individuals, structures of local All investors, associations of owners, individual owners and</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2) Energy efficient upgrading of apartments, reduction of internal energy consumption and of expenditures for electric power.

3) Upgrading and repairs of the building envelope.

4) Introduction of individual adjustments for heat energy consumption.

Energy saving;
<table>
<thead>
<tr>
<th><strong>Who provides a subsidy?</strong></th>
<th><strong>apartment owners</strong></th>
<th><strong>State budget + municipal budget (by Ministry of the Environment of the Republic of Lithuania - up to 50%)</strong></th>
<th><strong>authorities</strong></th>
<th><strong>tenants</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Dedicated agency KredEx, through using the state budget funds. Allowance is financed through the sale to Luxemburg of unused units of the Assigned Amount Units (AAU) according to the scheme of Target Environmental Investments of the Kyoto Protocol.</td>
<td>Latvian Agency for Investment and Development (using the assets of the European structural fund and state budget funds). Target Environmental Investments.</td>
<td>1) State fund for housing development, through using the funds of the state budget, 2) Ministry of Transport, Construction and Regional Development</td>
<td>1) State budget 2) Municipality</td>
<td>State Development Bank (KFW), using the state budget funds</td>
</tr>
</tbody>
</table>

| **What is the subsidy size?** | **15%, 25% or 35%, depending on the comprehensive approach to the AB renovations and attained energy efficiency** | **50% of total expenditures for renovations; however, if 10% of apartment energy saving** | **Before 2010: between 15% and 50%, depending on the level of attained energy saving.** | **1) Loan for maximum 15 years, with interest rate of 0%, covering up to 100% of the cost of repairs, 2) subsidy can be 1/3 of the total value of investments, but maximum 4,300 euro per each apartment 1) 1/3 of the total value of investments, but maximum 4,300 euro per each apartment 2) subsidy can be 25% of the loan value, but not more than 16% of total expenditures, provided that energy saving is at 25%** | **Subsidy for loan repayment in the amount of 12.5% of construction costs; in case** |

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<table>
<thead>
<tr>
<th>Additional subsidies and allowances, if</th>
<th>Allowance for energy audit, technical check-up</th>
<th>For implementation of energy</th>
<th>Subsidy for preparing technical data</th>
<th>1) Subsidizing the savings put aside for data unavailable</th>
<th>2) 20% of the loan value, but not more than 15% of total expenditures of comprehensive rehabilitation - up to 13,000 euro per one apartment, and in case of individual activities – up to 2,500 euro per apartment</th>
</tr>
</thead>
<tbody>
<tr>
<td>owners have a status of low-income individuals, the size of subsidies raises to 60%</td>
<td>After 2011 – 15% of expenditures, and for 2012-2014 it is planned to increase it to 30%</td>
<td>but not more than 50 euro/м² of the heat-insulated area - for a detached house, or 80 euro/м² of the heat-insulated area – for AB</td>
<td>account for maximum 1/3 of investments value, but cannot exceed 1,100 euro – if the renovations pursue only one goal, or it cannot exceed 1,500 euro – if renovations pursue several goals в случае</td>
<td>2) 50% of expenditures, but not more than 19 euro/м² of the floor space of an apartment, – shall be originated every year until resources are exhausted</td>
<td>No subsidies</td>
</tr>
</tbody>
</table>
Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support

<table>
<thead>
<tr>
<th>The Institute for Urban Economics (IUE)</th>
<th>Center for Energy Efficiency (CENEF)</th>
<th>Housing Initiative for Eastern Europe (IWO)</th>
<th>Institute Byvania (The Institute of Housing)</th>
</tr>
</thead>
</table>

| up, certification (Tallinn municipality), and for developing project documentation (50% of the cost, but not more than 700 EUR), and 4,000 EUR for the development of renovations project. The legislation defines requirements to organizations conducting energy audits. Estonian technical supervision authority is entitled to control the quality of energy audits and energy certificates of buildings | audits, development of technical documentation; some municipalities provide subsidies for implementation of individual repair works, up to 10% of their cost | construction purposes: a form of annual award to the saver | 2) Subidizing the interest rate on mortgage loans: annually adjusted subsidies depending on the situation in the financial market (fluctuations in the range of 6% to 0%) |
### B. MEASURES TO SUPPORT SOFT AND LONG-TERM LOANS

<table>
<thead>
<tr>
<th></th>
<th>ESTONIA</th>
<th>LATVIA</th>
<th>LITHUANIA</th>
<th>SLOVAKIA</th>
<th>HUNGARY</th>
<th>POLAND</th>
<th>GERMANY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Is a soft loan</strong></td>
<td>YES</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
<td>YES,</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td><strong>provided for the</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>interest rate is subsidized</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>purposes of</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>upgrading AB?</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Is the requirement</strong></td>
<td>Implementatio n of energy audit of a residential building with listing major repair works. Loan is originated for the works that are deemed necessary</td>
<td>Attainment of energy saving (relevant energy standards)</td>
<td>Attainment of minimum 20% of energy saving</td>
<td>Improvement of energy efficiency and use of renewable energy resources</td>
<td>data unavailable</td>
<td>Reduction of energy and heat consumption, decline in hazardous emissions (depending on the attained energy efficiency standard)</td>
<td></td>
</tr>
</tbody>
</table>
Based on the energy audit results.
Attainment of minimum 20% energy saving in ABs with total floor space up to 2,000 m², and minimum 30% - in ABs with total floor space more than 2,000 m².

<table>
<thead>
<tr>
<th>Who is the debtor under a loan?</th>
<th>Association of apartments, apartment cooperative, сообщество association of apartment owners</th>
<th>Association, management company (as an intermediary)</th>
<th>Association, management company (as an intermediary)</th>
<th>HOA</th>
<th>data unavailable</th>
<th>Associations of apartment owners and individual owners</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Size of loan</strong></td>
<td>Maximum loan amount within 127 EUR/ sq.m</td>
<td>Subsidy within 282 EUR per</td>
<td>Average loan amount per one apartment is</td>
<td>Up to 100% of the cost of repairs, but not</td>
<td>data unavailable</td>
<td>Since the reunification of Germany the</td>
</tr>
</tbody>
</table>
**Russian Urban Housing Energy Efficiency Programme – Model Development**

Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support

<table>
<thead>
<tr>
<th>Term of loan</th>
<th>8-15 years, or possibly, up to 20 years.</th>
<th>Up to 20 years</th>
<th>Up to 30 years</th>
<th>data unavailable</th>
<th>data unavailable</th>
<th>Up to 30 years if interest rate is fixed for 10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is there a requirement</td>
<td>Allowances provided by NO</td>
<td>10% of the project cost</td>
<td>20% of the project cost</td>
<td>data unavailable</td>
<td>data unavailable</td>
<td>Actually NO, but quite frequently</td>
</tr>
</tbody>
</table>

- Building for conducting audit complemented by a bank loan. Out of this amount, 20% - is a subsidy from the state budget, and it is paid directly to the bank to reduce the overall loan amount (Law on Energy Indicators).
- Average expenditures per one square meter of heated area: 107 EUR, average investment for renovations of one AB: 290,000 EUR.
- Up to 85% of the total project cost.
- More than 50 euro/m² of heat-insulated area in detached buildings, and 80 euro/m² of heat-insulated area in AB.
- Terms have changed several times. At present, up to 75,000 euro per one apartment when energy saving rehabilitation is conducted, and up to 50,000 euro per apartment, if individual measures are taken.

- Loan term: Up to 20 years.
- Allowances provided by NO.
- Up to 85% of the total project cost.
- More than 50 euro/m² of heat-insulated area in detached buildings, and 80 euro/m² of heat-insulated area in AB.
<table>
<thead>
<tr>
<th>That the borrower should have his own savings?</th>
<th>KredEx can be complemented by own savings</th>
<th></th>
<th></th>
<th></th>
<th>- 20% of the project cost</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual interest rate on the loan</strong></td>
<td>3.8% (interest is fixed for 10 years)</td>
<td>Average interest rate between 4.5% and 6%</td>
<td>3% under JESSICA programme, fixed interest rate for the whole loan term</td>
<td>Lower than the basic interest rate of the National Bank of the Republic of Slovakia</td>
<td>Annual interest rate at 6-10%; Subsidized interest rate 3-4% Interest rate in forints is at 4% during the first five years, and 10% during the subsequent five years.</td>
</tr>
<tr>
<td><strong>Organization originating a soft loan</strong></td>
<td>Banks-partners of SWEDBANK (Swedbank Eesti AS), SEB (Skandinaviska Enskilda Banken AB Group)</td>
<td>Commercial banks supported by the Ministry of Economy/Latvian Agency for Investment and</td>
<td>3 commercial banks - SWEDBANK, SEB, банк Siauliai, which signed an agreement with the European Investment Bank (EIB)</td>
<td>State Housing Development Fund with the help of selected four banks</td>
<td>Commercial banks</td>
</tr>
</tbody>
</table>
## Loan security

| Development, out of the assets of the ERDF (European Regional Development Fund) | State sureties | Mandatory pledge of fund for repairs (legitimate right of pledge with regard to those who fail to pay) or a guarantee issued by the Slovak Bank of Guarantees and Development, or mortgage of common areas in the building or individual | Pledge under the law (possibility to register the pledge of an apartment of the owner-debtor) | Loan can be originated if no state or municipal grants are available. | Pledge of owners’ realty, including a portion of the land plot |

- Pledge of material claims against members of an apartment association (pledge under the law), or surety of KredEx
- Data unavailable
- Data unavailable
Loan up to 40,000 euro can be unsecured and issued only on the basis of cash flows projections.

Notes:

| Notes | Municipalities of Tallin, Paide, Rakvere offer subsidies for loans originated to housing construction cooperatives. Soft loan at 2.85% for five years, or at 3.8% for ten years. | | Soft loan can be used along with a subsidy under an energy saving programme. |
**Table: Russian Urban Housing Energy Efficiency Programme – Model Development**

**Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support**

<table>
<thead>
<tr>
<th>Are guarantees provided on the loans originated for upgrading ABs?</th>
<th>ESTONIA</th>
<th>LATVIA</th>
<th>LITHUANIA</th>
<th>SLOVAKIA</th>
<th>HUNGARY</th>
<th>POLAND</th>
<th>GERMANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>YES</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Who provides a guarantee?</th>
<th>Dedicated Agency KredEx</th>
<th>data unavailable</th>
<th>HLI</th>
<th>Slovak Bank of Guarantees and Development</th>
<th>IFC guarantees</th>
<th>Bank Gospodarstwa Krajowego (BGK Bank) – Bank of State Economy</th>
<th>Target banks of federal lands, for example, Investment Bank of Berlin (IBB), partially, State Development Bank (KfW) and federal budget (50% of reversed sureties)</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Size of the guarantee</th>
<th>Does not exceed 75% of the loan</th>
<th>data unavailable</th>
<th>100%</th>
<th>100%, but not more than</th>
<th>data unavailable</th>
<th>Guarantee under a loan</th>
<th>Guaranteed amount of loan</th>
</tr>
</thead>
</table>

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<table>
<thead>
<tr>
<th>provided</th>
<th>amount</th>
<th>7,300 euro per one apartment. Validity term depends on the size of the loan issued, maximum 20 years.</th>
<th>worth up to 500,000 euro issued for 5 years, and a loan amounting to 65,000 euro issued for ten years</th>
<th>security frequently accounts for up to 80% of all expenditures. Guarantee is required for 50% of the market price of realty, or 100% state guarantee for big loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of guarantee</td>
<td>1.2% - 1.7% of the balance guaranteed amount per year</td>
<td>5.18% - 6.84%, depending on the number of votes in favor of loan taking</td>
<td>1-2%, depending on the duration of guarantee and the size of loan</td>
<td>data unavailable</td>
</tr>
<tr>
<td>Cost of guarantee</td>
<td>data unavailable</td>
<td>1-2%</td>
<td>data unavailable</td>
<td>For the first year – 1%, For the second-fifth year – 2%</td>
</tr>
<tr>
<td>Cost of guarantee</td>
<td>data unavailable</td>
<td>1-2%</td>
<td>data unavailable</td>
<td>One-off payment in the amount of 2%</td>
</tr>
</tbody>
</table>
### D. SUPPORT MEASURES FOR LOW-INCOME POPULATION GROUPS

<table>
<thead>
<tr>
<th>Are low-income population groups supported with the housing upgrading in mind?</th>
<th>ESTONIA</th>
<th>LATVIA</th>
<th>LITHUANIA</th>
<th>SLOVAKIA</th>
<th>HUNGARY</th>
<th>POLAND</th>
<th>GERMANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are no subsidies, instead there is social support of households unable to cover their housing expenses</td>
<td>YES, According to the law on social support</td>
<td>YES</td>
<td>YES</td>
<td>YES, Program “GNEZDO” (a mortgage programme for young families)</td>
<td>YES</td>
<td>YES</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>What type of support is provided?</th>
<th>ESTONIA</th>
<th>LATVIA</th>
<th>LITHUANIA</th>
<th>SLOVAKIA</th>
<th>HUNGARY</th>
<th>POLAND</th>
<th>GERMANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>«Voluntary» social assistance to cover housing expenditures, depending on the capacity of municipal budget</td>
<td>data unavailable</td>
<td>data unavailable</td>
<td>Favorable lending conditions: the state covers annual interest payments up to 6% during half life of the loan (up to 10 years)</td>
<td>Non-repayable subsidies for purchase of apartment/house, renovations of apartment/house</td>
<td>State guarantees</td>
<td>Subsidy to cover expenditures for apartment</td>
<td>Social welfare, unemployment benefits, housing allowance</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Amount of provided support</th>
<th>ESTONIA</th>
<th>LATVIA</th>
<th>LITHUANIA</th>
<th>SLOVAKIA</th>
<th>HUNGARY</th>
<th>POLAND</th>
<th>GERMANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>data unavailable</td>
<td>data unavailable</td>
<td>50% - subsidies for insurance payments and 50% - subsidies to HOAs for</td>
<td>50% of the necessary amount</td>
<td>Advance payment accounting for 10% and state guarantee</td>
<td>50% of the necessary amount, depending on the income of</td>
<td>Social allowances and unemployment benefits fully compensate for</td>
<td></td>
</tr>
</tbody>
</table>
Russian Urban Housing Energy Efficiency Programme – Model Development

Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support

<table>
<thead>
<tr>
<th>Other forms of support</th>
<th>Implementation of energy efficiency improvement projects financed with the help of loans backed by state guarantees</th>
<th>Accounting for up to 40% of loan amount</th>
<th>Recipients of subsidies</th>
<th>Minimum necessary expenditures for housing.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Subsidy to cover expenses on heating and water supply of low-income households</td>
<td>Allowance to cover expenditures on apartment provided to socially vulnerable households</td>
<td>Data unavailable</td>
<td>Housing allowances partially compensate for housing expenditures that exceed the permissible burden of costs by 25-30%</td>
</tr>
</tbody>
</table>

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ANNEX 8. COMPARATIVE ANALYSIS OF VARIOUS MODELS OF FINANCING CAPITAL REPAIRS AND MODERNIZATION OF APARTMENT BUILDINGS

Table 1. Comparative analysis of various models of financing capital repairs based on mechanisms proposed for establishment of mandatory regular payments by owners of premises in apartment buildings

<table>
<thead>
<tr>
<th>Issues being regulated</th>
<th>Model “Mutual Financing”</th>
<th>Model “Regional Trust Manager”</th>
<th>Model «Fund for Building Repairs »</th>
<th>Model «Voluntary payments»</th>
<th>Model «Depreciation Charges»</th>
<th>Best international practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Goal of introducing mandatory payments towards capital repairs</td>
<td>Accumulation of funds</td>
<td>Accumulation of funds</td>
<td>Establishment of a reserve for prompt response to emergency situations, and demonstration of an ability to ensure a certain financial flow so as to obtain a loan</td>
<td>The law does not provide for mandatory payments for capital repairs; the decision on making payments is made by the general meeting of owners</td>
<td>Accumulation of funds</td>
<td>- The law does not provide for mandatory payments for capital repairs</td>
</tr>
<tr>
<td>Issues being regulated</td>
<td>Model “Mutual Financing”</td>
<td>Model “Regional Trust Manager”</td>
<td>Model «Fund for Building Repairs »</td>
<td>Model «Voluntary payments»</td>
<td>Model «Depreciation Charges»</td>
<td>Best international practices</td>
</tr>
<tr>
<td>------------------------</td>
<td>--------------------------</td>
<td>---------------------------------</td>
<td>-----------------------------------</td>
<td>---------------------------</td>
<td>-----------------------------</td>
<td>-----------------------------</td>
</tr>
</tbody>
</table>
| Obligation provided for in the law | Model 1a
Funds are accumulated on a special bank account of MO (HOA) | Make mandatory monthly payments as long as it takes to accumulate funds required for repairs | Establish a fund for the building repairs in the amount equal to the minimum set in the law using mandatory payments | None | The law does not provide for mandatory payments for capital repairs; the decision on making payments is made by the general meeting of owners | Some countries’ laws provide for the obligation to establish a fund for repairs in each AB (Slovakia, Estonia) |
| Who establishes the amount of mandatory payments | Local self-governance body (in the range between the minimum and maximum size of payments) | A subject of the RF establishes the minimum amount | A subject of the RF establishes a size of payments | No mandatory size of payments | The amount of payments is calculated | General meeting of owners of |

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<table>
<thead>
<tr>
<th>Issues regulated</th>
<th>being financed</th>
<th>Model “Mutual Financing”</th>
<th>Model “Regional Trust Manager”</th>
<th>Model «Fund for Building Repairs»</th>
<th>Model «Voluntary payments»</th>
<th>Model «Depreciation Charges»</th>
<th>Best international practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>payments</td>
<td>Model 1a Funds are accumulated on a special bank account of MO (HOA)</td>
<td>Model 1 b Funds are transferred into management by the Regional Fund</td>
<td>of payment (according to the rules approved by the Government of the Russian Federation)</td>
<td>mandatory minimum size of the fund for the building repairs which is formed of mandatory payments of fixed minimum amount to be made during a fixed term. A general meeting of</td>
<td>payments is envisaged; the decision is made by the general meeting of owners of premises</td>
<td>on the basis of the capital repairs cost of the building determined by the books they show up on</td>
<td>premises in an AB, based on the schedule of repairs proposed by the manager or HOA</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Issues regulated</th>
<th>being regulated</th>
<th>Model “Mutual Financing”</th>
<th>Model “Regional Trust Manager”</th>
<th>Model «Fund for Building Repairs »</th>
<th>Model «Voluntary payments»</th>
<th>Model «Depreciation Charges»</th>
<th>Best international practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds are accumulated on a special bank account of MO (HOA)</td>
<td>Funds are transferred into management by the Regional Fund</td>
<td>owners of premises is entitled to establish a larger amount of payments towards repairs (for reasons, including the requirements set for obtaining a subsidy and/or a loan)</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

For how long: On permanent basis during the | For as long as it | Until after the | The law does | On | The law |

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Institute Byvania (The Institute of Housing)
<table>
<thead>
<tr>
<th>Issues being regulated</th>
<th>Model “Mutual Financing”</th>
<th>Model “Regional Trust Manager”</th>
<th>Model «Fund for Building Repairs »</th>
<th>Model «Voluntary payments»</th>
<th>Model «Depreciation Charges»</th>
<th>Best international practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>owners will be obliged to make mandatory payments towards capital repairs?</td>
<td>whole term of the building operation</td>
<td>takes to accumulate the amount of funds not spent on capital repairs, which is established by a subject of the RF in accordance with the rules approved by bodies of state power of the Russian Federation</td>
<td>accumulation of a mandatory minimum size of the fund for the building repairs (in the event that the building repairs will be done in the long run only) Until after the accumulation of assets in this fund</td>
<td>not obligate them to do this; the period for accumulation of savings is established by the general meeting of owners</td>
<td>permanent basis during the whole term of the building operation</td>
<td>does not regulate this issue; the amount and duration of payments towards capital repairs is established by the owners</td>
</tr>
<tr>
<td>Issues regulated</td>
<td>being</td>
<td>Model “Mutual Financing”</td>
<td>Model “Regional Trust Manager”</td>
<td>Model «Fund for Building Repairs »</td>
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</tr>
<tr>
<td>Model 1a</td>
<td>Funds are accumulated on a special bank account of MO (HOA)</td>
<td>Funds are transferred into management by the Regional Fund</td>
<td>required for obtaining a loan, and subsequently - until after the full repayment of the loan and accumulation of required minimum assets in the fund for the building repairs</td>
<td></td>
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</tr>
</tbody>
</table>
Table 2. Comparative analysis of various models of financing capital repairs in the context of the ownership right to the savings accumulated for capital repairs and the right to dispose of these savings

<table>
<thead>
<tr>
<th>Issues being regulated</th>
<th>Model “Mutual Financing”</th>
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<th>Model “Fund for Building Repairs”</th>
<th>Model «Voluntary payments»</th>
<th>Model «Depreciation Charges»</th>
<th>Best international practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Where are the savings (generated by mandatory payments) being accumulated?</td>
<td>On a separate bank account for each AB, opened by the management organization (HOA) (a special regime for using the account has not been established yet.)</td>
<td>The savings are transferred into the management by an organization authorized by the subject of the RF - the Regional Fund - for the purpose of financing capital repairs of other ABs on the territory of one and the same municipality.</td>
<td>By the Regional Trust Manager – a credit or another organization (that complies with the requirements set by the Government of the RF), selected on competitive basis by the subject of the RF for the purpose of trust management of the money earmarked for</td>
<td>On a bank account separate for each AB with a special legal regime (&quot;nominal account&quot;) opened by the management organization (HOA)</td>
<td>On a bank account separate for each AB with a special regime, opened by the management organization (HOA)</td>
<td>By the entity that maintains the building in full economic management (a HOA or MO), in the form of securities issued by the Fund supporting the owners of residential realty</td>
</tr>
<tr>
<td>Issues being regulated</td>
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<td>Model 2</td>
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</tr>
<tr>
<td></td>
<td>Funds accumulated on a special bank account of MO (HOA)</td>
<td>Funds transferred into management by the Regional Fund</td>
<td>financing capital repairs of ABs on the subject of the RF</td>
<td></td>
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</tr>
<tr>
<td>Who owns the money contributed by owners of premises for the building capital repairs?</td>
<td>Funds accumulated through mandatory payments – common equity ownership of owners of premises in this particular AB. Comment: If no</td>
<td>Funds accumulated through mandatory payments – common equity ownership of owners of premises in this particular AB.</td>
<td>Payments made towards capital repairs belong to the owner of premises in the AB. If the ownership right to premises in the AB is transferred to a new owner, all</td>
<td>The assets of the Fund for the building repairs are the belong to the owner of premises in the AB.</td>
<td>Not yet resolved, but, according to a general rule, the funds are owned by the holder of the account, to which they are remitted (account of a</td>
<td>The assets of the Fund for repairs are the funds of the owners of premises in the AB.</td>
</tr>
</tbody>
</table>

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<tbody>
<tr>
<td>1</td>
<td>Model 1a Funds are accumulated on a special bank account of MO (HOA)</td>
<td>special legal regime has been established for the bank account, then, according to the law, the funds sitting on the bank account of a legal entity (MO or HOA) belong to this legal entity</td>
<td>rights to the funds, which had been transferred by the previous owner in trust management, as well as the obligations with regard to making payments, which had not been met by the previous owner, shall be transferred to the new owner.</td>
<td>AB is transferred, the obligations of the former owner with regard to making fixed payments to the Fund for the building repairs shall be transferred to the new owner; the money contributed by the former owner to the HOA or MO)</td>
<td></td>
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</tr>
<tr>
<td>2</td>
<td>Model 1b Funds are transferred into management by the Regional Fund</td>
<td>special legal regime has been established for the bank account, then, according to the law, the funds sitting on the bank account of a legal entity (MO or HOA) belong to this legal entity</td>
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#### Model “Mutual Financing”

- Model 1a: Funds are accumulated on a special bank account of MO (HOA)
- Model 1b: Funds are transferred into management by the Regional Fund

#### Model “Regional Trust Management”

#### Model «Fund for Building Repairs»

#### Model «Voluntary payments»

#### Model «Depreciation Charges»

#### Best international practices

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**Fund for the building repairs shall not be refunded when the right of ownership to premises in the building terminates.**

The assets of the Fund for the building repairs are distributed among owners of premises proportional to...
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|                        | Model 1a  
Funds are accumulated on a special bank account of MO (HOA) | Model 1b  
Funds are transferred into management by the Regional Fund |                                  |                           |                             |                             |
| 1                      | 2                        | 3                                  | 4                                | 5                         | 6                         | 7                           | 8                           |

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Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support

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<tr>
<td></td>
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<td></td>
<td>and also in the event that owners of premises passed a decision that the AB should not be restored after it had been destroyed as a result of natural or production induced calamity. All expenses incurred as a result of demolition of the</td>
<td></td>
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</tr>
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</tr>
<tr>
<td>1</td>
<td>Funds are accumulated on a special bank account of MO (HOA)</td>
<td>Funds are transferred into management by the Regional Fund</td>
<td>Building should be paid for prior to the distribution of the assets of the Fund for the building repairs and to the reimbursement of the owners from these assets.</td>
<td></td>
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</tbody>
</table>

Can the savings accumulated through mandatory

| Can the savings accumulated through mandatory | No | Yes | No | No | No | No | No | No |

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</tr>
<tr>
<td>payments made by owners of premises in apartment buildings be expended for repairs of other buildings?</td>
<td></td>
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</tr>
<tr>
<td>Who is entitled to dispose of the savings for capital repairs (to use the savings)?</td>
<td>A HOA or a management organization may use the savings towards reimbursement for the types of work and</td>
<td>The Regional Fund shall use the funds transferred into management towards financing capital repairs of other ABs on the</td>
<td>The Regional Trust Manager shall dispose of the money on the basis of and within the limits set forth in the agreement on</td>
<td>A HOA or a MO may dispose of the money from the Fund for the building repairs only pursuant to the decision passed by the</td>
<td>A HOA or a MO may dispose of the money from the Fund for the building repairs only pursuant to the decision passed</td>
<td>A HOA or a MO – the entity that maintains the building in full economic management</td>
</tr>
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<tr>
<td>services relating to capital repairs of AB established by an authorized federal body of state power, repayment of loans (credits) obtained for these types of works</td>
<td>territory of the municipality</td>
<td>trust management of financial resources signed by the authorized body of state power of the RF, and in accordance with resolutions on implementation of capital repairs adopted by the general meeting of owners of premises in the AB or by the</td>
<td>general meeting of owners of premises.</td>
<td>by the general meeting of owners of premises.</td>
<td>pursuant to the decision passed by the general meeting of owners of premises.</td>
<td></td>
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</tr>
</tbody>
</table>

### Models

<table>
<thead>
<tr>
<th>Model 1a</th>
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<td>Funds are accumulated on a special bank account of MO (HOA)</td>
<td>Funds are transferred into management by the Regional Fund</td>
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### Models

- **Model “Mutual Financing”**
  - Model 1a: Funds are accumulated on a special bank account of MO (HOA)
  - Model 1b: Funds are transferred into management by the Regional Fund

- **Model “Regional Trust Management”**

- **Model «Fund for Building Repairs»**

- **Model «Voluntary payments»**

- **Model «Depreciation Charges»**

### Best international practices
Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support

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<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Can the accumulated funds be easily accessed pursuant to a relevant decision by the owners?</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Possibility of making gains on</td>
<td>No</td>
<td>No</td>
<td>Yes, the Trust</td>
<td>No</td>
<td>No</td>
<td>Yes, the funds</td>
</tr>
</tbody>
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**Issues being regulated**

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</tr>
<tr>
<td>the funds accumulated</td>
<td></td>
<td>Manager may place the available funds transferred in his trust management on deposit accounts opened in credit institutions, or to purchase bonds</td>
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**Models**

1. **Model 1a**
   - Funds are accumulated on a special bank account of MO (HOA)
2. **Model 1b**
   - Funds are transferred into management by the Regional Fund
3. **Model 2**
   - Managers may place the available funds transferred in trust management on deposit accounts opened in credit institutions, or to purchase bonds
4. **Model 3**
   - Funds should be used for purchasing securities issued by the Fund supporting owners of residential realty
5. **Model 4**
   - Form of interest on the deposit opened in a bank

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Table 3. Comparative analysis of various models for financing of capital repairs with regard to loan services for projects of capital repairs and energy-efficient upgrading of apartment buildings

<table>
<thead>
<tr>
<th>Regulated issues</th>
<th>Model 1 &quot;Mutual Financing&quot;</th>
<th>Model 2 &quot;Trust Management&quot;</th>
<th>Model 3 &quot;Building repairs fund&quot;</th>
<th>Model 4 &quot;Voluntary payments&quot;</th>
<th>Model 5 &quot;Depreciation charges&quot;</th>
<th>Best international practices</th>
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</thead>
<tbody>
<tr>
<td>1 Who makes decisions on raising a loan?</td>
<td>No proposals</td>
<td>Residential property owners</td>
<td>Residential property owners</td>
<td>Residential property owners</td>
<td>No proposals</td>
<td>Residential property owners</td>
</tr>
<tr>
<td>2 Who is the borrower?</td>
<td>- Regional fund; - a Homeowners' Partnership/management company</td>
<td>Trustee</td>
<td>- a Homeowners' Partnership/management company</td>
<td>- a Homeowners' Partnership/management company</td>
<td>No proposals</td>
<td>- a Homeowners' Partnership/management company</td>
</tr>
<tr>
<td>3 Security for a loan</td>
<td>No proposals</td>
<td>No proposals</td>
<td>- No real estate mortgage; - Payment discipline and opening of a current account with the lending bank serves as a confirmation for the ability of owners to repay the loan; - sureties by a</td>
<td>- No real estate mortgage; - lending against future cash flows of Homeowners' Partnerships (management companies); - partial fee-based (commercial) guarantees on</td>
<td>Securities issued by the Fund for the support of residential real estate owners</td>
<td>- No real estate mortgage; - Payment discipline and opening of a current account with the lending bank serves as a confirmation for the ability of owners to repay</td>
</tr>
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Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support

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<td></td>
<td></td>
<td>special-purpose agency as eventual security</td>
<td>loans for capital repairs (secured on common property or against the right to claim utility payments); - government guarantees for commercial banks for a particular catalogue of capital repair measures and (or) particular groups of buildings and (or) for implementation of very efficient</td>
<td>the loan; - guarantees (sureties) by special-purpose agencies</td>
<td></td>
</tr>
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<td>Regulated issues</td>
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<tr>
<td>Requirements to the borrower</td>
<td>No proposals</td>
<td>No proposals</td>
<td>A guarantee agency must work out requirements to a borrower, including: - The aggregate debt of residential property owners to the Homeowners' Partnership (management company) on mandatory contributions (payments) must not exceed 10% of the aggregate debt of residential property owners to the Homeowners' Partnership (management company). - Accumulation of an initial amount for capital repairs by resolution of the general meeting by means of collection of payments from all owners with crediting a special-purpose account to be opened by a management company (a Homeowners' Partnership) on mandatory contributions (payments).</td>
<td>No proposals</td>
<td>1. Operational experience of an owners' association of no less than 6 months prior to loan application is required. 2. Payment discipline: Arrears should not exceed 15-20% of a monthly payment for the last 6 months.</td>
<td></td>
</tr>
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<tr>
<td>The amount of monthly average accounts payable for the last 6 months (or for the past year); - The amount of funds in a building repairs fund prior to application for a loan or a guarantee must be not less than 10% of capital repair costs; - eventual additional requirements as to a non-expendable balance in the building repairs Partnership) for capital repairs on behalf of the residents shall be required.</td>
<td>months. 3. Opening an account with the lending bank.</td>
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<th>Regulated issues</th>
<th>Model 1 &quot;Mutual Financing&quot;</th>
<th>Model 2 &quot;Trust Management&quot;</th>
<th>Model 3 &quot;Building repairs fund&quot;</th>
<th>Model 4 &quot;Voluntary payments&quot;</th>
<th>Model 5 &quot;Depreciation charges&quot;</th>
<th>Best international practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Equity funds of a borrower</td>
<td>No proposals</td>
<td>No proposals</td>
<td>Not less than 10-20% of capital</td>
<td>Not less than 15-20% of capital</td>
<td>No proposals</td>
<td>0-30% of capital repair costs</td>
</tr>
</tbody>
</table>

- The amount which is paid by residential property owners into the building repairs fund shall exceed monthly loan payment by no less than 15% (as of the month of concluding the credit facility agreement, by latest).
<table>
<thead>
<tr>
<th>Regulated issues</th>
<th>Model 1 &quot;Mutual Financing&quot;</th>
<th>Model 2 &quot;Trust Management&quot;</th>
<th>Model 3 &quot;Building repairs fund&quot;</th>
<th>Model 4 &quot;Voluntary payments&quot;</th>
<th>Model 5 &quot;Depreciation charges&quot;</th>
<th>5</th>
<th>Best international practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Requirements for the project</td>
<td>No proposals</td>
<td>No proposals</td>
<td>The Guarantee agency is obliged to work out requirements for capital repair projects to furnish a guarantee.</td>
<td>No proposals</td>
<td>No proposals</td>
<td>No proposals</td>
<td>Reaching an established level of energy saving</td>
</tr>
<tr>
<td>Measures applied to defaulters</td>
<td>No proposals</td>
<td>No proposals</td>
<td>The right of a creditor (Homeowners’ Partnership, management company) shall be legislatively established to register a mortgage on the owner's property of a debtor; - right to register mortgages on property of a debtor; - upon a court decision, to sell residential property of a debtor adjudging sales proceeds in</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support

<table>
<thead>
<tr>
<th>Regulated issues</th>
<th>Model 1 &quot;Mutual Financing&quot;</th>
<th>Model 2 &quot;Trust Management&quot;</th>
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<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>residential property in the registry of immovable property (Uniform State Register of Immovable Property Rights and Transactions) (as a result, sale of this property without settlement of debts will not be possible) and to levy execution, due to debts, upon owner's residential property even if such property is the single place of residence of a Homeowners' Partnership or a management company; subsidies for utility payments shall be directly transferred into the account of a Homeowners' Partnership or a management company;</td>
<td>- Execution shall be levied upon the salary and other incomes of a debtor by a court order;</td>
<td>the amount of debt to the lender;</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support.

<table>
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<th>Regulated issues</th>
<th>Model 1 &quot;Mutual Financing&quot;</th>
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<td>1</td>
<td></td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
</tbody>
</table>

1. Owner's residence.

2. Mechanisms shall be established allowing:
   - in case of a Homeowners' Partnership to accept an apartment as a collateral (mortgage) and subsequently to hold auctions to sell property (sale of an apartment without provision of housing and with deprivation of rights to the

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### Russian Urban Housing Energy Efficiency Programme – Model Development

**Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support.**

<table>
<thead>
<tr>
<th>Regulated issues</th>
<th>Model 1 &quot;Mutual Financing&quot;</th>
<th>Model 2 &quot;Trust Management&quot;</th>
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<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Measures to mitigate the risks of banks</td>
<td>No proposals</td>
<td>No proposals</td>
<td>- Sureties by a regional guarantee agency; - A guarantee agency shall work out requirements to a borrower with the intent to minimize the lending risks.</td>
<td>- Guarantees on capital repair loans; - Government guarantees for private banks for the implementation of a certain catalogue of capital repair</td>
<td>Guarantees by the Fund for Support of Residential Property Owners</td>
<td>- Guarantees (sureties) by special-purpose agencies; - Underwriting guidelines worked out by guarantee agencies</td>
</tr>
</tbody>
</table>

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Institute Byvania (The Institute of Housing)
<table>
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<th>Best international practices</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td></td>
<td>2</td>
<td>3</td>
<td>4</td>
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</tr>
<tr>
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<td></td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
</tbody>
</table>

- Possibilities to refinance loans provided by commercial banks for capital repairs by means of issuing government-guaranteed debenture bonds of joint stock companies with items and (or) energy-saving measures with a long payback period and (or) for certain groups of buildings;
- Possibilities to refinance loans provided by commercial banks for capital repairs by means of issuing government-guaranteed debenture bonds of joint stock companies with items and (or) energy-saving measures with a long payback period and (or) for certain groups of buildings;
- Possibilities to refinance loans provided by commercial banks for capital repairs by means of issuing government-guaranteed debenture bonds of joint stock companies with items and (or) energy-saving measures with a long payback period and (or) for certain groups of buildings;
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<th>Model 5 &quot;Depreciation charges&quot;</th>
<th>5 Best international practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>state participation (similar to a system established in the sector of mortgage lending).</td>
</tr>
</tbody>
</table>

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Table 4. Comparative analysis of various models for financing capital repairs by approaches to the budget support of capital repairs and energy efficient upgrading of apartment buildings

<table>
<thead>
<tr>
<th>Regulated issues</th>
<th>Model 1 «Mutual Financing»</th>
<th>Model 2 «Trust Management»</th>
<th>Model 3 «Fund for building repairs»</th>
<th>Model 4 «Voluntary payments»</th>
<th>Model 5 «Depreciation charges»</th>
<th>Best international practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>What goals are pursued by the state support?</td>
<td>According to the Housing Code: «for the purposes of creating conditions for managing apartment buildings»</td>
<td>There are no proposals</td>
<td>- Support of housing owners' initiatives; - Support of comprehensive repairs; - Support of energy performance improvement by apartment buildings; - Encouragement of owners’ financial participation; - Encouragement of competition in the</td>
<td>- Establishment of a system of state incentives for large-scale capital repairs; - Establishment of a system of state support of low-income groups of population when financing capital repairs</td>
<td>Repayment of outstanding state debts to owners for incomplete/inadequate repairs of housing stock</td>
<td></td>
</tr>
<tr>
<td>Regulated issues</td>
<td>Model 1 «Mutual Financing»</td>
<td>Model 2 «Trust Management»</td>
<td>Model 3 «Fund for building repairs»</td>
<td>Model 4 «Voluntary payments»</td>
<td>Model 5 «Depreciation charges»</td>
<td>Best international practices</td>
</tr>
<tr>
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<td>---------------------------</td>
<td>-----------------------------</td>
<td>------------------------------------</td>
<td>-----------------------------</td>
<td>-----------------------------</td>
<td>-----------------------------</td>
</tr>
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<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Regulated issues</td>
<td>Subsidies to legal entities</td>
<td>Subsidies to citizens</td>
<td>- Subsidies to legal entities</td>
<td>- Subsidies to legal entities</td>
<td>- Subsidies to legal entities</td>
<td>- Subsidies to legal entities</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Subsidizing interest rate on loans (subsidies to banks)</td>
<td>- Subsidizing interest rate on loans (subsidies to banks)</td>
<td>- Subsidizing interest rate on loans (subsidies to banks)</td>
<td>- Subsidizing interest rate on loans (subsidies to banks)</td>
</tr>
<tr>
<td>Who receives the support?</td>
<td>HOAs, management organizations</td>
<td>Owners of premises</td>
<td>- Legal entities: • HOAs, management organizations; • Credit institutions</td>
<td>- Legal entities: • HOAs, management organizations; • Credit institutions</td>
<td>Owners of premises (low-income households)</td>
<td>- Legal entities: • Associations of housing owners, management organizations;</td>
</tr>
</tbody>
</table>

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*Institute Byvania (The Institute of Housing)*
<table>
<thead>
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<th>Regulated issues</th>
<th>Model 1 «Mutual Financing»</th>
<th>Model 2 «Trust Management»</th>
<th>Model 3 «Fund for building repairs»</th>
<th>Model 4 «Voluntary payments»</th>
<th>Model 5 «Depreciation charges»</th>
<th>Best international practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are there measures of state support of low-income households?</td>
<td>NO</td>
<td>NO</td>
<td>YES (subsidies to pay for residential premises)</td>
<td>YES (subsidies to pay for residential premises)</td>
<td>YES (subsidies to pay for residential premises)</td>
<td>YES (subsidies to pay for residential premises)</td>
</tr>
<tr>
<td>Is the state support an incentive for</td>
<td>NO</td>
<td>NO</td>
<td>YES, it envisages the necessity of reconciling the provision of state support (grants)</td>
<td>NO</td>
<td>Budget support amount is correlated with</td>
<td></td>
</tr>
</tbody>
</table>

- Low-income owners of premises
- Citizens:
  - Low-income owners of premises
  - Pensioners, young families, families with many children
- Credit institutions (banks)
- Low-income households
<table>
<thead>
<tr>
<th>Regulated issues</th>
<th>Model 1 «Mutual Financing»</th>
<th>Model 2 «Trust Management»</th>
<th>Model 3 «Fund for building repairs»</th>
<th>Model 4 «Voluntary payments»</th>
<th>Model 5 «Depreciation charges»</th>
<th>Best international practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>improving the energy efficiency?</td>
<td></td>
<td></td>
<td>amount of support provided in the form of subsidies to HOAs and MOs with the planned outputs of projects on energy efficiency improvement in ABs</td>
<td>for implementation of energy efficiency improvement measures with a long cost recovery period</td>
<td>the planned outputs with regard to improvement of energy efficiency of AB</td>
<td></td>
</tr>
<tr>
<td>Does the state support encourage the development of competition in the housing sector?</td>
<td>NO</td>
<td>NO</td>
<td>YES, it envisages provision of subsidies to HOAs and MOs in the event that the executor of capital repair works is selected on competitive basis</td>
<td>YES, it envisages provision of subsidies for capital repairs of ABs where owners of premises independently made a decision on conducting</td>
<td>NO</td>
<td></td>
</tr>
</tbody>
</table>

Russian Urban Housing Energy Efficiency Programme – Model Development

Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support

Regulated issues:
- Improving the energy efficiency?

Best international practices:
- The planned outputs with regard to improvement of energy efficiency of AB

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Regulated issues | Model 1 «Mutual Financing» | Model 2 «Trust Management» | Model 3 «Fund for building repairs» | Model 4 «Voluntary payments» | Model 5 «Depreciation charges» | Best international practices
--- | --- | --- | --- | --- | --- | ---
1 | 2 | 3 | 4 | 5 | 6 | 7

capital repairs and are ready to organize repairs, arrange for its quality control and ensure the attainment of expected outputs

ANNEX 9. SENSITIVITY ANALYSIS of models for apartment buildings capital repair financing

Table 1. Evaluation of models of financing capital repairs and energy saving in apartment buildings (by all criteria)

<table>
<thead>
<tr>
<th>criteria</th>
<th>Criteria of Financing</th>
<th>Criteria of State Policies</th>
<th>General Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simplicity of decision</td>
<td>Protection of owners</td>
<td>Securing safety of Access to financing</td>
<td>Measures of engagement of the Enhancement of energy</td>
</tr>
</tbody>
</table>

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Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support

<table>
<thead>
<tr>
<th>making</th>
<th>capital</th>
<th>building</th>
<th>banking sector</th>
<th>efficiency</th>
<th>competition</th>
<th>engagement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Score</td>
<td>Rate</td>
<td>adjusted for weight</td>
<td>Score</td>
<td>Rate</td>
<td>adjusted for weight</td>
<td>Score</td>
</tr>
<tr>
<td>2</td>
<td>0.126</td>
<td>1</td>
<td>0.063</td>
<td>2</td>
<td>0.126</td>
<td>1</td>
</tr>
<tr>
<td>3</td>
<td>0.189</td>
<td>4</td>
<td>0.252</td>
<td>5</td>
<td>0.315</td>
<td>2</td>
</tr>
<tr>
<td>4</td>
<td>0.252</td>
<td>4</td>
<td>0.252</td>
<td>4</td>
<td>0.252</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>0.315</td>
<td>3</td>
<td>0.189</td>
<td>2</td>
<td>0.126</td>
<td>5</td>
</tr>
<tr>
<td>1</td>
<td>0.063</td>
<td>1</td>
<td>0.063</td>
<td>2</td>
<td>0.25</td>
<td>2</td>
</tr>
</tbody>
</table>
Table 2. Changes of Total Rate and Models ratings distribution after elimination of Criterion “Owner engagement”

<table>
<thead>
<tr>
<th>Models</th>
<th>Owner engagement (Institutional Criterion)</th>
<th>Total Rate Basic</th>
<th>Total Rate Revised</th>
<th>Deviation, %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Score</td>
<td>Rate adjusted for weight</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Model 1</td>
<td>0</td>
<td>0</td>
<td>1,854</td>
<td>1,844</td>
</tr>
<tr>
<td>Model 2</td>
<td>0</td>
<td>0</td>
<td>2,481</td>
<td>2,581</td>
</tr>
<tr>
<td>Model 3</td>
<td>0</td>
<td>0</td>
<td>3,876</td>
<td>3,868</td>
</tr>
<tr>
<td>Model 4</td>
<td>0</td>
<td>0</td>
<td>3,938</td>
<td>3,867</td>
</tr>
<tr>
<td>Model 5</td>
<td>0</td>
<td>0</td>
<td>1,645</td>
<td>1,621</td>
</tr>
</tbody>
</table>

Average: 1.70

Table 3. Changes of Total Rate and Models ratings distribution after elimination of Criterion “Simplicity of decision making”

<table>
<thead>
<tr>
<th>Models</th>
<th>Simplicity of decision making (Institutional Criterion)</th>
<th>Total Rate Basic</th>
<th>Total Rate Revised</th>
<th>Deviation, %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Score</td>
<td>Rate adjusted for weight</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Model 1</td>
<td>0</td>
<td>0</td>
<td>1,854</td>
<td>1,844</td>
</tr>
<tr>
<td>Model 2</td>
<td>0</td>
<td>0</td>
<td>2,481</td>
<td>2,446</td>
</tr>
<tr>
<td>Model 3</td>
<td>0</td>
<td>0</td>
<td>3,876</td>
<td>3,868</td>
</tr>
<tr>
<td>Model 4</td>
<td>0</td>
<td>0</td>
<td>3,938</td>
<td>3,867</td>
</tr>
<tr>
<td>Model 5</td>
<td>0</td>
<td>0</td>
<td>1,645</td>
<td>1,688</td>
</tr>
</tbody>
</table>

Average: 1.40

Table 4. Changes of Total Rate and Models ratings distribution after elimination of Criterion “Protection of owners’ capital”
Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support.

<table>
<thead>
<tr>
<th>Models</th>
<th>Protection of owners (Institutional Criterion)</th>
<th>Total Rate</th>
<th>Total Rate Revised</th>
<th>Deviation, %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Score</td>
<td>Rate adjusted for weight</td>
<td>Basic</td>
<td>Revised</td>
</tr>
<tr>
<td>Model 1</td>
<td>0</td>
<td>0</td>
<td>1,854</td>
<td>1,911</td>
</tr>
<tr>
<td>Model 2</td>
<td>0</td>
<td>0</td>
<td>2,481</td>
<td>2,379</td>
</tr>
<tr>
<td>Model 3</td>
<td>0</td>
<td>0</td>
<td>3,876</td>
<td>3,868</td>
</tr>
<tr>
<td>Model 4</td>
<td>0</td>
<td>0</td>
<td>3,938</td>
<td>4,001</td>
</tr>
<tr>
<td>Model 5</td>
<td>0</td>
<td>0</td>
<td>1,645</td>
<td>1,688</td>
</tr>
</tbody>
</table>

Average: 2.42

Table 5. Changes of Total Rate and Models ratings distribution after elimination of Criterion “Securing safety of building”

<table>
<thead>
<tr>
<th>Models</th>
<th>Securing safety of building (Institutional Criterion)</th>
<th>Total Rate</th>
<th>Total Rate Revised</th>
<th>Deviation, %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Score</td>
<td>Rate adjusted for weight</td>
<td>Basic</td>
<td>Revised</td>
</tr>
<tr>
<td>Model 1</td>
<td>0</td>
<td>0</td>
<td>1,854</td>
<td>1,844</td>
</tr>
<tr>
<td>Model 2</td>
<td>0</td>
<td>0</td>
<td>2,481</td>
<td>2,312</td>
</tr>
<tr>
<td>Model 3</td>
<td>0</td>
<td>0</td>
<td>3,876</td>
<td>3,868</td>
</tr>
<tr>
<td>Model 4</td>
<td>0</td>
<td>0</td>
<td>3,938</td>
<td>4,068</td>
</tr>
<tr>
<td>Model 5</td>
<td>0</td>
<td>0</td>
<td>1,645</td>
<td>1,688</td>
</tr>
</tbody>
</table>

Average: 2.78
Table 6. Changes of Total Rate and Models ratings distribution after elimination of Criterion “Access to financing”

<table>
<thead>
<tr>
<th>Models</th>
<th>Access to financing (Financing Criterion)</th>
<th>Total Basic</th>
<th>Rate adjusted for weight</th>
<th>Total Revised</th>
<th>Deviation, %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Score</td>
<td>Rate adjusted for weight</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Model 1</td>
<td>0</td>
<td>0</td>
<td>1,854</td>
<td>1,833</td>
<td>-1,12%</td>
</tr>
<tr>
<td>Model 2</td>
<td>0</td>
<td>0</td>
<td>2,481</td>
<td>2,550</td>
<td>2,77%</td>
</tr>
<tr>
<td>Model 3</td>
<td>0</td>
<td>0</td>
<td>3,876</td>
<td>3,858</td>
<td>-0,97%</td>
</tr>
<tr>
<td>Model 4</td>
<td>0</td>
<td>0</td>
<td>3,938</td>
<td>3,786</td>
<td>-3,85%</td>
</tr>
<tr>
<td>Model 5</td>
<td>0</td>
<td>0</td>
<td>1,645</td>
<td>1,594</td>
<td>-3,08%</td>
</tr>
<tr>
<td>Average:</td>
<td></td>
<td></td>
<td></td>
<td>2.38</td>
<td></td>
</tr>
</tbody>
</table>

Table 7. Changes of Total Rate and Models ratings distribution after elimination of Criterion “Measures of engagement of the banking sector”

<table>
<thead>
<tr>
<th>Models</th>
<th>Measures of engagement of the banking sector (Financing Criterion)</th>
<th>Total Basic</th>
<th>Rate adjusted for weight</th>
<th>Total Revised</th>
<th>Deviation, %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Score</td>
<td>Rate adjusted for weight</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Model 1</td>
<td>0</td>
<td>0</td>
<td>1,854</td>
<td>1,833</td>
<td>-0,011</td>
</tr>
<tr>
<td>Model 2</td>
<td>0</td>
<td>0</td>
<td>2,481</td>
<td>2,550</td>
<td>0,028</td>
</tr>
<tr>
<td>Model 3</td>
<td>0</td>
<td>0</td>
<td>3,876</td>
<td>3,715</td>
<td>-0,046</td>
</tr>
<tr>
<td>Model 4</td>
<td>0</td>
<td>0</td>
<td>3,938</td>
<td>3,786</td>
<td>-0,039</td>
</tr>
<tr>
<td>Model 5</td>
<td>0</td>
<td>0</td>
<td>1,645</td>
<td>1,594</td>
<td>-0,031</td>
</tr>
<tr>
<td>Average:</td>
<td></td>
<td></td>
<td></td>
<td>3.10</td>
<td></td>
</tr>
</tbody>
</table>
**Table 8. Changes of Total Rate and Models ratings distribution after elimination of Financial Criteria**

<table>
<thead>
<tr>
<th>Models</th>
<th>Financing Criteria</th>
<th>Measures of engagement of the banking sector</th>
<th>Total Rate Basic</th>
<th>Total Rate Revised</th>
<th>Deviation, %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Access to financing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Score</td>
<td>Rate adjusted for weight</td>
<td>Score</td>
<td>Rate adjusted for weight</td>
<td></td>
</tr>
<tr>
<td>Model 1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.854</td>
</tr>
<tr>
<td>Model 2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2.481</td>
</tr>
<tr>
<td>Model 3</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>3.876</td>
</tr>
<tr>
<td>Model 4</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>3.938</td>
</tr>
<tr>
<td>Model 5</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.645</td>
</tr>
</tbody>
</table>

Average: 6.22

**Table 9. Changes of Total Rate and Models ratings distribution after elimination of Criterion “Enhancement of energy efficiency”**

<table>
<thead>
<tr>
<th>Models</th>
<th>Enhancement efficiency Criterion (Policies)</th>
<th>Total Rate Basic</th>
<th>Total Rate Revised</th>
<th>Deviation, %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Score</td>
<td>Rate adjusted for weight</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Model 1</td>
<td>0</td>
<td>0</td>
<td>1.854</td>
<td>1.841</td>
</tr>
<tr>
<td>Model 2</td>
<td>0</td>
<td>0</td>
<td>2.481</td>
<td>2.615</td>
</tr>
<tr>
<td>Model 3</td>
<td>0</td>
<td>0</td>
<td>3.876</td>
<td>3.955</td>
</tr>
<tr>
<td>Model 4</td>
<td>0</td>
<td>0</td>
<td>3.938</td>
<td>4.023</td>
</tr>
</tbody>
</table>
Table 10. Changes of Total Rate and Models ratings distribution after elimination of Criterion “Enhancement of competition”

<table>
<thead>
<tr>
<th>Models</th>
<th>Enhancement of competition (Policies Criterion)</th>
<th>Total Rate</th>
<th>Rate</th>
<th>Revised</th>
<th>Deviation, %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Score</td>
<td>Rate adjusted for weight</td>
<td>Basic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Model 1</td>
<td>0</td>
<td>0</td>
<td>1,854</td>
<td>1,931</td>
<td>4,17%</td>
</tr>
<tr>
<td>Model 2</td>
<td>0</td>
<td>0</td>
<td>2,481</td>
<td>2,525</td>
<td>1,75%</td>
</tr>
<tr>
<td>Model 3</td>
<td>0</td>
<td>0</td>
<td>3,876</td>
<td>3,955</td>
<td>1,52%</td>
</tr>
<tr>
<td>Model 4</td>
<td>0</td>
<td>0</td>
<td>3,938</td>
<td>4,113</td>
<td>4,45%</td>
</tr>
<tr>
<td>Model 5</td>
<td>0</td>
<td>0</td>
<td>1,645</td>
<td>1,703</td>
<td>3,55%</td>
</tr>
<tr>
<td>Average:</td>
<td></td>
<td></td>
<td>3.10</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 11. Changes of Total Rate and Models ratings distribution after elimination of Criterion “Low-income household engagement”

<table>
<thead>
<tr>
<th>Models</th>
<th>Low-income household engagement (Policies Criterion)</th>
<th>Total Rate</th>
<th>Rate</th>
<th>Revised</th>
<th>Deviation, %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Score</td>
<td>Rate adjusted for weight</td>
<td>Basic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Model 1</td>
<td>0</td>
<td>0</td>
<td>1,854</td>
<td>1,931</td>
<td>4,17%</td>
</tr>
<tr>
<td>Model 2</td>
<td>0</td>
<td>0</td>
<td>2,481</td>
<td>2,615</td>
<td>5,40%</td>
</tr>
<tr>
<td>Model 3</td>
<td>0</td>
<td>0</td>
<td>3,876</td>
<td>3,955</td>
<td>1,52%</td>
</tr>
</tbody>
</table>

The Institute for Urban Economics (IUE)
Center for Energy Efficiency (CENEf)
Housing Initiative for Eastern Europe (IWO)
Institute Byvania (The Institute of Housing)
Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support.

Table 12. Changes of Total Rate and Models ratings distribution after elimination of Criterion “Sustainability”

<table>
<thead>
<tr>
<th>Models</th>
<th>Sustainability (General Criterion)</th>
<th>Total Rate</th>
<th>Rate adjusted for weight</th>
<th>Total Revised</th>
<th>Deviation, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model 1</td>
<td>0</td>
<td>1,854</td>
<td>1,931</td>
<td>4,17%</td>
<td></td>
</tr>
<tr>
<td>Model 2</td>
<td>0</td>
<td>2,481</td>
<td>2,344</td>
<td>-5,54%</td>
<td></td>
</tr>
<tr>
<td>Model 3</td>
<td>0</td>
<td>3,876</td>
<td>3,774</td>
<td>-3,12%</td>
<td></td>
</tr>
<tr>
<td>Model 4</td>
<td>0</td>
<td>3,938</td>
<td>3,842</td>
<td>-2,44%</td>
<td></td>
</tr>
<tr>
<td>Model 5</td>
<td>0</td>
<td>1,645</td>
<td>1,613</td>
<td>-1,95%</td>
<td></td>
</tr>
</tbody>
</table>

Average: 3.44

Table 13. Changes of Total Rate and Models ratings distribution after elimination of Criterion “Flexibility”

<table>
<thead>
<tr>
<th>Models</th>
<th>Flexibility (General Criterion)</th>
<th>Total Rate</th>
<th>Rate adjusted for weight</th>
<th>Total Revised</th>
<th>Deviation, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model 1</td>
<td>0</td>
<td>1,854</td>
<td>1,841</td>
<td>-0,71%</td>
<td></td>
</tr>
<tr>
<td>Model 2</td>
<td>0</td>
<td>2,481</td>
<td>2,434</td>
<td>-1,89%</td>
<td></td>
</tr>
<tr>
<td>Model 3</td>
<td>0</td>
<td>3,876</td>
<td>3,774</td>
<td>-3,12%</td>
<td></td>
</tr>
<tr>
<td>Model 4</td>
<td>0</td>
<td>3,938</td>
<td>3,842</td>
<td>-2,44%</td>
<td></td>
</tr>
</tbody>
</table>
Table 14. Changes of Total Rate and Models ratings distribution after elimination of Criterion “Feasibility”

<table>
<thead>
<tr>
<th>Models</th>
<th>Feasibility (General Criterion)</th>
<th>Total Rate</th>
<th>Rate adjusted for weight</th>
<th>Total Rate</th>
<th>Deviation, %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Score</td>
<td>Basic</td>
<td>Revised</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Model 1</td>
<td>0</td>
<td>1,854</td>
<td>1,660</td>
<td>-10.48%</td>
<td></td>
</tr>
<tr>
<td>Model 2</td>
<td>0</td>
<td>2,481</td>
<td>2,434</td>
<td>-1.89%</td>
<td></td>
</tr>
<tr>
<td>Model 3</td>
<td>0</td>
<td>3,876</td>
<td>4,046</td>
<td>3.85%</td>
<td></td>
</tr>
<tr>
<td>Model 4</td>
<td>0</td>
<td>3,938</td>
<td>4,113</td>
<td>4.45%</td>
<td></td>
</tr>
<tr>
<td>Model 5</td>
<td>0</td>
<td>1,645</td>
<td>1,703</td>
<td>3.55%</td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td>4.84</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 1. Amendments to the Russian Federation legislation necessary to implement the proposed model of financing capital repairs of apartment buildings

<table>
<thead>
<tr>
<th>Necessary amendment</th>
<th>Regulatory document to be amended</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Introduction of the mechanism of mandatory payments to be made by owners of</td>
<td>Housing Code of the Russian Federation</td>
</tr>
<tr>
<td>premises to form a fund for capital repairs of an apartment building</td>
<td></td>
</tr>
<tr>
<td>Define the goals of creation and designation as well as the procedure of using the</td>
<td></td>
</tr>
<tr>
<td>fund for capital repairs of an apartment building</td>
<td></td>
</tr>
<tr>
<td>Define that the assets of the fund for capital repairs of an apartment building</td>
<td>Housing Code of the Russian Federation</td>
</tr>
<tr>
<td>belong to owners of premises in this apartment building and are accumulated on a</td>
<td></td>
</tr>
<tr>
<td>bank account separate for each apartment building (nominal account) open by an entity</td>
<td></td>
</tr>
<tr>
<td>managing the apartment building (homeowners partnership, management organization)</td>
<td></td>
</tr>
<tr>
<td>Authorize the RF Government to establish the rules of defining the standard cost of</td>
<td>Housing Code of the Russian Federation</td>
</tr>
<tr>
<td>comprehensive capital repairs (renovation) of an apartment building, the minimum</td>
<td></td>
</tr>
<tr>
<td>mandatory size of the fund for capital repairs of an apartment building and the</td>
<td></td>
</tr>
<tr>
<td>minimum mandatory payment by owners of premises for capital repairs of an apartment</td>
<td></td>
</tr>
<tr>
<td>building</td>
<td></td>
</tr>
<tr>
<td>Authorize RF subjects to establish the standard cost of comprehensive capital repairs</td>
<td>Housing Code of the Russian Federation</td>
</tr>
<tr>
<td>(renovation) of an apartment building, the minimum mandatory size of the fund for</td>
<td></td>
</tr>
<tr>
<td>capital repairs of an apartment building and the minimum mandatory payment by owners</td>
<td></td>
</tr>
<tr>
<td>of premises for capital repairs of an apartment building</td>
<td></td>
</tr>
<tr>
<td>Define the obligation of owners of premises in every apartment building to create a</td>
<td>Housing Code of the Russian Federation</td>
</tr>
<tr>
<td>fund for capital repairs of the apartment building, which amount shall not be less</td>
<td></td>
</tr>
<tr>
<td>than the minimum mandatory size of the fund for capital repairs established by a RF</td>
<td></td>
</tr>
<tr>
<td>subject, and entitle the general meeting to establish a larger size of the fund for</td>
<td></td>
</tr>
<tr>
<td>building repairs and (or) a larger amount of payment for capital repairs than those</td>
<td></td>
</tr>
<tr>
<td>established by a RF subject</td>
<td></td>
</tr>
<tr>
<td>Define that, regardless of the method of management of an AB, the setting a larger</td>
<td>Housing Code of the Russian Federation</td>
</tr>
<tr>
<td>size of the fund for repairs of an apartment building and (or) a larger amount of</td>
<td></td>
</tr>
<tr>
<td>payment for capital repairs than those established by a RF subject is within the</td>
<td></td>
</tr>
<tr>
<td>competence of the general meeting of owners of premises in this apartment building,</td>
<td></td>
</tr>
<tr>
<td>provided that a homeowners partnership is established in this building</td>
<td></td>
</tr>
<tr>
<td>Define that entities managing apartment buildings (homeowners</td>
<td>Housing Code of the Russian Federation</td>
</tr>
</tbody>
</table>
partnerships, management organizations) are obliged to:

- Collect a minimum mandatory payment for capital repairs of a building until the fund for capital repairs of the building reaches the minimum mandatory size established by a RF entity or by the general meeting of owners of premises in the building;

- Open a bank account separate for each building (nominal account) for accumulating the assets of the fund for capital repairs of the building formed due to homeowners' contributions to the fund and remit the collected payments for capital repairs to this account;

- Take legally defined administrative measures against the owners of premises who failed to fulfill their obligations to make mandatory payments for capital repairs and for other purposes;

- Regularly inform owners of premises in an apartment building about the status of the fund for building repairs, and the compliance of its amount with the requirements provided by law (and the decision passed by owners of premises);

- In the event that the management of the building is assigned to another entity (when the method of management changes or a management organization is replaced) remit the assets from the fund for building repairs to a separate bank account (nominal account) open by a new manager and submit to the new manager the information about the fulfillment of obligations by owners of premises in the apartment building with regard to making payments for capital repairs.

Define the powers of a regional housing supervising agency to:

- Control the creation of the fund for capital repairs in apartment buildings;

- Take actions secured in the law against entities managing apartment buildings which fail to carry out measures to form the fund for building repairs;

- File a claim to the court on using the assets of the fund for apartment building repairs to finance capital repairs works necessary to eliminate safety risk of living in this apartment building in the event that owners of premises in this building failed to make a decision required for carrying out capital repairs.
Define that entities managing apartment buildings are responsible for:

- Failure to take measures to create the fund for building repairs;
- Failure to fulfill obligations to remit the assets from the fund for building repairs to a bank account open by a new manager when assigning the management of the building to another entity (when the method of management changes or a management organization is replaced).

Supplement the laws on the housing stock privatization with a provision defining more clearly the obligation of the former lessors of residential premises in the state and municipal housing stock to carry out capital repairs of apartment buildings.

2. **Introduction of the institute of nominal bank account to guarantee the right of owners of premises in an apartment building to the assets of the fund for apartment building repairs**

Introduce into the legislation the term of “nominal bank account” for the events when the assets available on the bank account do not belong to the account holder.

Define the provisions that the assets available on a nominal bank account opened by an entity managing an apartment building are intended for accumulating in the fund for capital repairs of the apartment building as common assets of owners of premises in the apartment building.

Define that the disposal of the assets of the fund for apartment building repairs shall be effected by:

- Decision of the general meeting of owners of premises in a given apartment building;
- Decision of the court on a claim filed by a regional housing authority.
Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Define the procedure for opening and keeping nominal bank accounts on which the monetary assets of the fund for apartment building repairs will be placed and the provisions on conducting operations with the monetary assets of the repairs fund available on the nominal bank accounts (including the remittance of the assets from a nominal bank account of the former managing organization to another nominal bank account of a new managing organization)</td>
<td>Define measures to protect the assets of the fund for capital repairs of an apartment building (in the amount of minimum mandatory size of the repairs fund established by a RF subject) available on a nominal bank account from a possible bankruptcy of the bank similar to measures for safety of citizens’ deposits</td>
<td>Federal Law No.395-I “On Banks and Banking” as of 2 December, 1990</td>
</tr>
</tbody>
</table>

3. Decision-making on conducting and financing capital repairs (renovation) of apartment buildings

<table>
<thead>
<tr>
<th>Supplement the existing legislation with the provisions defining the following responsibilities of entities managing apartment buildings:</th>
<th>Housing Code of the Russian Federation</th>
<th>Rules for common property maintenance in apartment buildings (approved by RF Government Resolution No.491 as of 13.08.2006)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Carry out regular inspections of common property in order to assess its technical condition and compliance with mandatory safety requirements (including compliance with the requirements to energy efficiency);</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Inform owners of premises in apartment buildings about the technical condition of the common property and compliance with the mandatory safety requirements (including compliance with the requirements to energy efficiency);</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Develop proposals for carrying out capital repairs (renovation) of apartment buildings (urgency, prioritization, and complex of works, cost, timeline for execution of works, expected effects from repairs, methods of financing, possible measures of budget support, etc.) so that owners of premises could pass a decision on carrying out capital repairs</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Supplement the legislation with a provision on reducing the number of votes of owners of premises in an apartment building sufficient to make a decision on carrying out and financing capital repairs down to the level of simple majority

Define the administrative responsibility of:

- Entities managing apartment buildings for their failure to
<table>
<thead>
<tr>
<th>Fulfill obligations for carrying out regular inspections of the common property in order to assess its technical condition and compliance with the mandatory safety requirements, and (or) informing owners or premises about the condition of the common property, and (or) developing proposals to carry out capital repairs (renovations) of apartment buildings;</th>
<th>RF Code of Administrative Offences</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Owners of premises in an apartment building for their failure to make a decision on carrying out and (or) financing works on capital repairs necessary to eliminate safety risks of living in the building</td>
<td></td>
</tr>
<tr>
<td>Supplement of the powers of the regional state supervising authority with regard to applying administrative measures against:</td>
<td>Housing Code of the Russian Federation</td>
</tr>
<tr>
<td>• Entities managing apartment buildings for their failure to organize the process of making a decision on carrying out capital repairs of an apartment building;</td>
<td></td>
</tr>
<tr>
<td>• Owners of premises in an apartment building in the event that the owners of premises in a given building failed to make a required decision on carrying out and financing capital repairs</td>
<td></td>
</tr>
<tr>
<td>Define the procedure for issuing orders on eliminating identified violations of the laws on maintenance and capital repairs of apartment buildings and for taking administrative actions depending on the current obligations and degree of guilt</td>
<td>RF Code of Administrative Offences</td>
</tr>
<tr>
<td>Procedure for conducting of the state housing supervision established by the superior executive authority of a RF subject (being developed)</td>
<td></td>
</tr>
<tr>
<td>4. Fulfillment of obligations by owners of premises to make payments for capital repairs of an apartment building</td>
<td>Civil Code of the Russian Federation</td>
</tr>
<tr>
<td>Supplement the legislation with the provisions extending the scope of sanctions that can be imposed on an owner of premises being in arrears with mandatory payments, including the payment for capital repairs of an apartment building (owners of premises if the building is managed by them directly:</td>
<td>Housing Code of the Russian Federation</td>
</tr>
<tr>
<td>• Register the pledge of the owner's premises in the Unified State Register of Rights to Real Estate and Transactions</td>
<td>RF Code of Civil Procedure</td>
</tr>
<tr>
<td>Herewith</td>
<td></td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------</td>
</tr>
<tr>
<td>- Based on the court ruling, to foreclose on the delinquent owner's premises</td>
<td></td>
</tr>
</tbody>
</table>

| Define the procedure for accelerated prosecution by the courts of claims filed by entities managing apartment buildings on collecting arrears in payments for maintenance and repairs of an apartment building and for utility services | RF Code of Civil Procedure                                     |

| Define the procedure for foreclosure on the only place of residence of the owner | Housing Code of the Russian Federation RF Code of Civil Procedure |

## 5. Create fundraising opportunities to finance capital repairs of apartment buildings

<table>
<thead>
<tr>
<th>Supplement the existing legislation with the provisions defining that in any apartment building management scenario:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>- Decision to raise a loan for capital repairs (renovations) of an apartment building and entrust an entity managing the building with applying to a credit organization for a loan, which repayment will be effected out of payments by owners of premises, is within the competence of the general meeting of owners of premises in this building;</td>
<td>Housing Code of the Russian Federation</td>
</tr>
<tr>
<td>- Decision to raise a loan for capital repairs (renovations) of an apartment building shall be made by a majority of votes of owners of premises;</td>
<td></td>
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<tr>
<td>- All owners of premises in an apartment building become obliged to make regular payments to repay a loan for capital repairs of this building raised by an entity managing the apartment building in compliance with a decision passed by the general meeting of owners of premises.</td>
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<thead>
<tr>
<th>Supplement the legislation with a provision defining that during the period of repaying a loan raised for capital repairs (renovations) of an apartment building by a decision of the general meeting of owners of premises, the latter shall:</th>
<th></th>
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<tr>
<td>- In advance notify the bank about the intention to change the method of managing the apartment building or replace a management organization in order to agree on the procedure for assigning obligations under a loan agreement to a new manager;</td>
<td>Housing Code of the Russian Federation</td>
</tr>
</tbody>
</table>
- Properly carry out the assignment to a new manager of obligations on repayment of a loan for capital repairs of the apartment building and submit required documents to the bank.

**Make amendments to the legislation providing for the change in the status of a HOA:**
- To define that a HOA is an association of owners of premises in an AB, which is established on principles other than membership;
- To restrict the possibility of liquidating a HOA during the loan repayment period.

Legally define the goals, objectives, as well as the procedure for creation and the lines of activities of the Federal Guarantee Agency to be established with the state participation to develop lending of capital repairs of apartment buildings by granting sureties to homeowners partnerships and management organizations.

### 6. Measures of the state support to homeowners when conducting capital repairs of apartment buildings

**Supplement the legislation with a provision on providing targeted measures of social support to low-income citizens – housing allowances to pay rent and utility services – by including a mandatory payment for capital repairs of an apartment building into subsidized expenditures of apartment owners.**

**Define the requirements to the evaluation of conditions and criteria of providing subsidies to homeowners partnerships and management organizations for capital repairs (renovations) of apartment buildings from the regional and municipal budgets.**

**Define a possibility of deprivatization by owners’ request (transfer into the municipal ownership) of residential premises after the expiry of the Law “On Privatization of the Housing Stock in the Russian Federation” as well as irrespective of the method of acquiring the residential premises into their ownership (privatization, purchase, sale, transfer by gift, inheritance, etc.).**

**Define a possibility of “reverse mortgage”.**
Develop mechanisms for the funding of capital repairs and energy efficiency improvements in apartment buildings and mechanisms of state support.