

**NOVGOROD REGIONAL
INVESTMENT INITIATIVE**

**LAND AND REAL ESTATE
REFORM SECTOR**

FINAL REPORT

Prepared for

Housing Sector Reform Project II
Project 110-0008
U.S. Agency for International Development, USAID/Moscow



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September 1998
UI Project 06612-004

FINAL REPORT
Novgorod Regional Investment Initiative
Land Reform Sector
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EXECUTIVE SUMMARY

In 1997, the Novgorod Regional Investment Initiative was organized to more effectively accelerate economic transition at the local level, foster U.S.-Russian economic and community-based linkages, and spur increased trade and investment. Five broad themes formed the pillars of the RII in Novgorod; four of these (accelerate development of a land market, improve institutional capabilities in real estate, market Novgorod opportunities for investment, and foster U.S. trade) were supported through activities of the “Land and Real Estate Reform” sector.

Development of land as an efficient means of production is a key component to long-term economic reform and growth. Transferring control, preferably in ownership, of land from public to private possession is an obvious step to make land more productive and useful. Several activities were undertaken in 1997-98, including: (1) helping find ways to convey land from local government into private ownership in which title to and use of land is transparent, stable, and assured; (2) educating officials in a basic understanding of simplified property tax system principles which will ultimately replace the present three-part structure; (3) helping organize institutions which can ethically administer a system of property title registration; and (4) assisting local governments in “packaging” land so that it can better be disposed of in favor of private investment toward economic development.

The land reform project was organized after taking into account the stated preferences of local officials. These interests resulted in a clearcut division of activity between the oblast and the city.

Work in Novgorod Oblast

In the Oblast, three task areas were undertaken by the Urban Institute, NERA and PADCO.

- improve the tax structure for investment;
- establish a legal and regulatory framework for rights and use of land
- help stimulate a real estate market to which property title is reliable and rights of use are transparent and assured

Work on a “Market Value Based Real Property Tax Reform” project was structured toward successful local administration of an equitable, yet revenue-enhancing, databank for property taxation. U.S. and Russian experts trained local officials in records design and management so that discrete properties could be identified and individually assessed for future revenue administration. In addition, a “Roll Out

Manual” was prepared to provide guidance to other Russian cities which will be implementing their own revenue administration programs.

“Strengthening the legal framework” focussed on the existing agenda of the local administrations and improving their legislative products, rather than constructing an elaborate blueprint for comprehensive new laws. In one important instance, the legislative and regulatory agenda grew out of the immediate needs which arose through other land reform objectives, specifically clarifying the nature and extent of “municipal land ownership” as a prerequisite to efforts at undertaking “pro-active land privatization.” Program support toward “ownership” clarification involved assistance in establishing official contacts, requirements for documentation, technical support in discussions with federal authorities, and detailed recommendations for oblast legislative actions. Of potentially broader legal framework significance is the work begun by oblast officials toward re-codification of the land laws. A group which was impaneled during the land reform project is completing its final draft of a re-structured land code.

“Stimulating land markets” embraced two activities: first, helping to organize local institutions and procedures for registering property ownership titles; and second, deepening local capabilities to transfer land into the possession of the private sector, especially potential investors. Aid in establishing simple land title registration systems involved: developing sample procedures; presenting these at a 2-day seminar; assisting the Justice Institution and local agencies to implement these techniques in “pilot” locations; preparing “working rules” to guide office routines; developing terms of reference for a “navigational database” to facilitate management of the files; and conducting a second seminar to discuss the lessons learned from the pilot *raions* in implementing the sample procedures. The enthusiasm and dedication demonstrated toward the rapid and systematic implementation of property registration were very encouraging.

The second “market stimulation” component was intended to demonstrate to selected smaller cities how they might inventory their land resources potentially available for sale or lease and prepare the information required by investors who might have an interest in these properties. Specifically the work included: developing a standardized inventory of urban land and real estate properties suitable for privatization through either long term lease or sale of ownership rights; working with the designated officials to prepare a central listing of these properties; preparing a “highest and best use” analysis of at least 10 of these properties; assisting in the development of information packages and procedures to organize an auction or sealed tender event; instructing the governments in ways to publicize and market the subject properties; and producing a detailed procedures manual to assist Russian city officials continue this process elsewhere. Key personnel in six different oblast municipalities now have

a better understanding of the scope and accuracy of information that investors look for. Implementation of “pro-active land privatization” is being pursued through identification of “municipal land ownership” in all six places. Both Velikii Novgorod and oblast communities have announced their intention to cooperate in organizing competitive marketing events as a means to privatize land in the future. Packaging land parcels into “special investment areas” is under active consideration by three raion-municipalities (Borovichi, Chudovo, and Valdai). Finally, local administrators are overcoming utility monopoly resistance to making charges for development costs more transparent.

Until this year, Novgorod Oblast engaged in little activity toward instituting land use and development controls. However, the progressiveness demonstrated by Novgorod City in adopting a “zoning ordinance” has now found a receptive audience in the oblast. With the encouragement of the city administration, Novgorod Oblast is undertaking a study of land use characteristics around the perimeter of Novgorod City. The objective of this effort is to establish a land use regulation regime within strategic neighborhoods surrounding the city. Land reform experts helped to define the scope and nature of a land use regulatory regime in the unincorporated environs outside Novgorod. This effort represents the first known “zoning” program outside Russian city boundaries.

Work in Velikii Novgorod

In contrast with oblast activities, the Land and Real Estate Reform sector’s activities within Velikii Novgorod were more narrow, reflecting the progress already made by years of assistance and advisory services. Within the city, the effort sought to:

- Continue to improve the legal and regulatory framework for rights and use of land;
- Undertake innovative urban development strategies designed to attract private investment toward job-creating employment opportunities and improve the condition of urban infrastructure;

While preparing for its prospective land auction to be held in June, 1998, Velikii Novgorod remained convinced that it did not possess sufficient legal authorization to proceed with directly marketing the “right to own” vacant land. As a result, the rights which it offered at the land auction—to construct buildings as a condition of land ownership eligibility—were only “partial” rights. Vital advisory assistance in the direction of “municipal ownership” clarification included establishing necessary official contacts, preparation of documentary support, technical support in discussions with federal authorities, and recommendations for oblast legislative actions. As a result, the city’s future property offerings will be based on the “right to own” vacant land. In addition, a comprehensive package of regulations on delineation and

allocation of land to multifamily buildings has been prepared for the city of Novgorod and awaits consideration by the *duma*.

In the area of market stimulation, the city administration is actively utilizing the tools and techniques developed as part of its June land auction preparations to sustain its continuing program of economic development. Improved, concise “Information Packets,” (including the “Infrastructure Plan”) and “Technical Passports,” are now used to assist in marketing and direct negotiations with private investors. In addition, the administration has identified a “special district for economic development,” and an “infrastructure plan” of utility systems within this area. These improved tools will also be utilized to support future auction preparations.

This report also includes a summary of “Performance Indicators” which illustrates successes and shortfalls of the program

FINAL REPORT
NOVGOROD REGIONAL INVESTMENT INITIATIVE
LAND AND REAL ESTATE REFORM SECTOR IN NOVGOROD
I. Introduction

The U. S. aid community harnessed its technical advisory efforts into the Regional Investment Initiative (RII) in 1997 as a successor the “Partnership for Freedom.” Intended to reflect the transition the the U.S.-Russia relationship from advice to one of partnership, the RII brings together the concept of “assistance” with a parallel effort to promote U.S. business opportunities, especially emphasizing investment to stimulate Russia’s economic growth. The RII arrangement coordinates external advisory efforts to both governmental and non-governmental structures of the Novgorod region (the “oblast”) and Novgorod Velikii (the city).

Novgorod’s progressive political and economic environment justified its designation as the site for Russia’s initial RII undertaking. The city and the oblast were the first Russian jurisdictions to encourage the development of land and real estate markets. Work on cadastral systems to locate and identify forest resources, minerals, water, and ecological monitoring were inaugurated here before any other part of the Russian Federation. Active privatization programs have accomplished non-state ownership in: 100% of the wholesale trade and chemical industries; 99% of forest products; 98% of light industry; 76% of industrial construction; and 45% of transport. Business privatizations in turn have been translated into land ownership with the encouragement of positive official policies. The city of Novgorod Velikii is installing the first locally-effective property titling reform system in the country; it shares with Tver the status of being the first Russian municipal proving ground for real estate property tax administration.

Within the newly-inaugurated RII, the Land and Real Estate Reform project built on the work of preceding USAID programs which worked with municipal and oblast administrations to reform their local economic and political structures in the administration of land. The dual goals of land reform in this region are:

- to foster economic development in Novgorod, on as short term a term as possible, and
- to spread the advances in reform attained by the City of Novgorod to the lesser developed smaller cities and rural areas of the surrounding oblast.

A. Land and Real Estate Reform within the Regional Investment Initiative

The specific objectives of the Novgorod RII are to demonstrate how to effectively accelerate economic transition at the local level, foster U.S.-Russian economic and community-based linkages, and spur increased trade and investment. Five broad themes of activity form the pillars of the RII in Novgorod. The relevance of the Land and Real Estate Reform Program (“land reform”) are listed in the right hand column in the table below.

RII Objective	How Land Reform supported the RII (Specific program activities <i>in italics</i>)
Accelerate the development of the land market as a key asset for mobilizing capital	Helped develop a transparent private land market through “pro-active land privatization” and demonstrate principles of value-based local property tax systems <i>Component A. Tasks 1, 2, and 3; Component B. Task 1</i>
Mobilizing capital for small enterprises	No direct support
Improve institutional capabilities to educate and train human resources in business, finance, law, and real estate	Provided materials to local universities and professionals to further their skills in real estate practices <i>Priority Sub-task (“University Partnership”)</i>
Package and market Novgorod for investment , trade, tourism, and leveraging project finance	Provided land and real estate marketing advice to Novgorod Velikii and secondary cities in the surrounding oblast <i>Component A, Task 3, and Priority Sub-tasks</i>
Foster U.S. trade and investment opportunities and make information on Novgorod available and accessible	Provided marketing advice to Novgorod Velikii and secondary cities in the surrounding oblast—especially targeting U.S. commercial resources <i>Component A, Task 3, and Priority Sub-tasks</i>

Development of land as an efficient means of production is a key component to long-term economic reform and growth. Transferring control, preferably in ownership, of land from public to private possession is an obvious step to make land more productive and useful. Several strategies were undertaken in 1997-98, including: (1) help find ways to convey land from local government into private ownership in which title to and use of land is transparent, stable, and assured; (2) educate officials in a basic understanding of simplified property tax system principles which will ultimately replace the present three-part structure; (3) help organize institutions which can ethically administer a system of property title registration; and (4) assist local governments in “packaging” land so that it can better be disposed of in favor of private investment toward economic development.

The program was designed to build on the groundwork laid in the last four years by USAID in the City of Novgorod. Specifically, the Land and Real Estate Sector program integrated then-current USAID-sponsored programs, (such as “Deepening Urban Real

Estate Reform,” Market Value-Based Real Property Taxation, Land Use and Zoning Regulation Practices, Commercial Real Estate Lending, and Real Estate Information and Registration Systems, into several “Tasks” (described in more detail in the report to follow):

The land reform project was organized after taking into account the stated preferences of local officials in each jurisdiction. These officials urged a clearcut division in work effort between the oblast and the city which would reflect the different level of progress and local capabilities. Accordingly, in Novgorod Oblast, all three of these task areas were undertaken by the Urban Institute, PADCO, and NERA.

- improve the tax structure for investment;
- establish a legal and regulatory framework for rights and use of land
- help develop a real estate market to which property title is reliable and rights of use are transparent and assured

In contrast, the program’s activities within Novgorod Velikii were more narrow, to reflect the progress already made by years of assistance and advisory services. Within the city, the Work Plan was designed to:

- Continue to improve the legal and regulatory framework for rights and use of land;
- Undertake innovative urban development strategies designed to attract private investment toward job-creating employment opportunities and improve the condition of urban infrastructure; and;
- Establish a partnership between Russian and U.S. educational institutions focussing on development of a real estate curriculum at a university in order to promote its role in local/oblast governmental policy-making and land market investment

Strategies employed have been assessed in terms of their ability to: be quick-starting, show visible results within twelve months of their initiation, have the support of the local administration, be responsive to the needs of the US business community, enhance US-Russian partnerships and linkages, and promote community involvement in economic growth.

B. Project Organization

The Urban Institute, as the prime contractor, recruited a Chief-of-Party who combined real estate development experience with previous service in states of The Former Soviet Union. To carry out specialized tasks, the team was enriched by resources and skilled persons from National Economic Research Associates and PADCO, each of which had extensive experience on land and real estate issues in Russia generally and Novgorod Velikii in particular. Additionally, Steve Butler, a lawyer with extraordinary experience on real estate issues in Russia was retained to extend his previous contribution in the field of land legislation.. Each organization and Mr. Butler were allocated specific responsibilities, which are summarized in Table I-1.

**Table I-1
Distribution of Responsibilities for the Land
and Real Estate Component of RII in Novgorod**

task	lead responsibility
Project direction, coordination with the Regional Investment Initiative, and responsibility for "priority sub-tasks" to promote economic development in the City of Novgorod and oblast municipalities	Urban Institute Chief-Of-Party (COP) Martin Richard (Dick) Miller
Improve the tax structure for investment: Introduce principles of property taxation in the oblast)	National Economic Research Associates Joe Eckert
Strengthen the legal and regulatory framework in the oblast and the city of Novgorod	Urban Institute Steve Butler
Promote land reform and stimulate land markets in the designated oblast municipalities	PADCO Steve Dixon;
Universities partnership coordination (Not implemented due to budgetary issues)	Urban Institute Washington

C. Recommendations on Program Continuation

Despite significant exceptions (notably the failure of the city's June land auction), many of the objectives of the Land & Real Estate Reform program were met during the life of the task order. At a "close-out conference" conducted on 15 September in the City of Novgorod, the local officials confirmed that full-scale contract extensions or renewals are not justified; indeed, these local officials are beginning to show signs of "advisory weariness." However, some important work in support of the RII is still in progress and, depending on availability of resources, justifies continued monitoring and/or small-scale work activities, as illustrated in the following table:

**Table I-2
Program Continuation:
Regional Investment Initiative and Changes in 1999**

task	recommended responsibility
Project coordination	Until the end of its term in December, the office of Regional Investment Initiative should continue to perform as liaison between the localities and USAID. Each "client" local government has been provided with the names and contact numbers of RII personnel. These personnel have been briefed on the status of continuing land reform activities, and have been provided with the names and numbers of Moscow-based USAID personnel in each of the following three "task areas."
Introduce principles of property taxation in oblast cities	Name of Contact:: Dep. Heads of Administration make specific request to USAID Contact
Strengthen the legal and regulatory framework in the oblast and the city of Novgorod Continue to provide advice and technical support for land privatization, focussing on assistance toward legislation to clarify "ownership of municipal land"	Name of Contact:: Dep. Heads of Administration/Land Committee make specific request to USAID Contact
Promote land reform and stimulate land markets in the designated oblast municipalities Provide advice and assistance toward "packaging" efforts and "pro-active land privatization" by cities	Name of Contact:: Dep. Heads of Administration, Land Committee Chairman, or Head of Juridical Registration Chamber made specific request to USAID Contact:

Following the demise of the RII office, USAID will lack an "on-site" presence to observe the long term progress (or lack of it) in the city and the oblast. If resources are available, it is recommended that a "task order hotline" arrangement be organized between the individual local offices, USAID, and experts which may be available through concurrent contracts. This "hotline" should enable quick, directed responses to specific, small-scale targeted activities which would justify short term expertise. Examples of specific monitoring and response activities include:

- develop a module for a possible property registration procedures manual that addresses "financial sustainability" for juridical agency offices
- monitor local mapping and textual documentation of land parcels or areas for registration of "municipal ownership"
- prepare "roll-out manual" to instruct other Russian city officials on procedures for identifying and substantiating "municipal ownership"
- monitor local progress in "packaging" municipal land into "special investment areas" in smaller cities and "special districts for economic development" within Novgorod Velikii
- prepare "roll-out manual" to instruct other Russian city officials on techniques for creating special investment area packages
- monitor local implementation of condominium land privatization programs
- review local preparations for future land sales events

MAP OF NOVGOROD OBLAST, SHOWING LOCATION OF NOVGOROD VELIKII

II. Novgorod Oblast

A. Task 1: Improve the Tax Structure for Investment

Introduction: Objectives of the Project

In October of 1995 a team of property tax experts began working on the development of a new system of property taxation in the Russian Federation. The cities selected for the pilot project included Tver and Novgorod. In these cities the following progress toward establishing a working Property Tax Administration Management System (PTAMS) has been realized to date: Federal legislation has been developed and adopted to allow the pilot cities to experiment with the use of the market value based property tax system; local legislation is being developed for the market value based property tax system; legal and fiscal cadastres have been developed for these cities for use in a market value based property tax system as well as tax impact analysis has been performed.

Property identified within the fiscal cadastre was valued using an innovative iterative mass appraisal approach that gradually developed the valuation model over a two year period as new market evidence became available. The valuation model confirms that real estate markets are evolving in Tver and Novgorod and that this development conforms to rational expectations about how markets should operate based on international experience.

Work in Novgorod Oblast on the "Market Value Based Real Property Tax Reform Project" was designed to extend this experience to smaller cities of the region in order for their administrations to prepare to assume the successful implementation of an equitable revenue enhancing program of property taxation. The scheme was based on training local officials in records design and administration so that discrete properties could be identified and individually assessed for revenue administration.

ACTIVITIES AND EVENTS

1. Needs Assessment

A "needs assessment" meeting was conducted on October 21, 1997. Its purpose was to gauge the interest of individual jurisdictions in undertaking local real property tax reform. It was attended by eleven individuals. The outcome of this meeting was to acquaint the project team with the responsible raion officials and obtain expressions of interest. Five jurisdictions (Borovichi, Krestchi, Malaya Vishera, Staraya Russa and Valdai) extended invitations for site visits. These site visits took place on October 22-27. As a result of these visits, further contact was justified with all localities except Krestchi. Following the team's site visit, the latter declined further involvement.

2. Introductory Workshop

An introductory workshop, conducted on December 3, 1997, was attended by 21 individuals representing the raion administrations of Borovichi, Malaya Vishera, Staraya Russa and Valdai. Each of the attending localities had been visited during the team's needs assessment phase in October.

During the introductory workshop, presentations were made on:

- Principles of Property Taxation
- Legal and Administrative Framework
- Preparing for a Property Tax System: Project Components
- Fiscal Cadastre Planning and Budgeting

The invited participants from the raions expressed great interest in participating in the project. The team members were invited to visit four raions to discuss and eventually sign the "Project Implementation Agreement."

3. Project Implementation Agreement

A "Project Implementation Agreement" was prepared and discussed during the site visits in December 1997 with Borovichi, Valdai, Malaia Vishera and Staraya Russa raions. As a result of these visits, project implementation agreements were signed with Borovichi and Staraya Russa raions. The purpose of this agreement was to outline the responsibilities of NERA, CREA and the raions and facilitate the undertaking property tax reform.

4. Property Tax Seminars

- a. "Mini-seminars" were conducted on March 26 and 27, 1998, in Borovichi and Staraya Russa on fiscal cadastre construction. The purpose of these seminars was to provide "hands-on" experience to some of the technical staff from the raions working on the establishment of a database for property taxation.
- b. A seminar entitled "Development of a Market Value Based Property Tax System" was conducted on April 23 and 24, 1998, in Novgorod and attended by 17 individuals representing the raion administrations of Borovichi, Malaia Vishera, Staraya Russa and Valdai. In addition to providing a demonstration of PTIMS for small cities, this seminar addressed the following Fiscal cadastre construction issues:
 - Market research,
 - Property characteristics,
 - Tax base specification and estimation,
 - Property characteristics finalization
 - Tax base specification and estimation
 - Data entry via forms vs. automated conversion
 - Quality control
 - Public relations
 - Rights registration, including the interrelationships among the various juridical and fiscal cadastres
 - Tax base estimation results to date
 - Market valuation modeling
 - Requirements for local ordinances
 - Non-fiscal benefits of property tax reform
 - Taxpayer education and public relations

ISSUES ENCOUNTERED

1. The jurisdictions were unable to complete their reform efforts during the course of the project. In the absence of federal authorizing legislation to permit them to implement the tax, of course, there was no urgency for them to do so. Furthermore, they were aware that the pilot cities had not completed their own reforms and had begun to suspect that the tax levies expected of them were too high for their tax bases to support. Thus although they were interested in proceeding due to stories they had heard from pilot cities on the value of the improved records and database management system that accompanied the development of the fiscal cadastre and the installation of PTIMS, they were in no rush to beat the pilot cities. Given the magnitude of the effort required, it was unrealistic to expect them to complete their reforms within the timeframe of the project.

2. In both raions (indeed, in all four which participated, including those without the "Agreement"), there was interest only in undertaking the tax reform effort in the urbanized area, not in the raion as a whole. This stemmed in part from a lack of readily available information on potentially taxable properties outside the city limits. It also stemmed from reservations about the lack of a legal basis to do so and the political risks of being seen to be adventurous in this regard. The result for the experiment, however, was that project personnel were unable to learn anything new about the problems and pitfalls of applying the tax reform effort to new property types, such as agricultural and forested land, as we had originally envisioned. Attempted to carve the city out of the raion in order to apply the tax there but not to the balance of the raion also introduces legal difficulties. The authorizing legislation calls for the automatic suspension of the old taxes in any jurisdiction implementing the new tax. Since the definition of "local self-governments" (which are the bodies authorized to implement it) seems to encompass the raion rather than the city, application of the new tax in only the "city of the raion" would appear to be problematic.

3. The level of market activity in the raions appeared to be much less than was found in the first pilot cities of Novgorod and Tver. In the oblast raions we relied on personnel from the local administrations rather than project personnel to research this issue so it is impossible to say for sure whether the issue is one of competence or markets but it appears that the process of developing market value estimates for the properties constituting the tax base will be more challenging. It also seems likely that some jurisdictions may find it difficult or impossible to sustain their current (planned) tax yields from the new tax base. Preliminary tax base estimates suggested that this may be a problem in the raions participating in the project. More generally, it is easy to construct an artificial example involving taxpayers with much personal property but very little real property (warehouses and service, for example) where this would inevitably be the case. Thus the prerequisites for the implementation of the tax reform should be reconsidered.

RESULTS

1. Fiscal cadastre construction has begun in Borovichi. Both Borovichi and Staraya Russa expressed reservations about their ability to implement and administer an Oracle based PTIMS-ST system, even one scaled down to Personal Oracle. The issue is less one of initial expense than of procuring and retaining the expertise required to maintain and support it. Accordingly, both have begun their fiscal cadastre construction efforts using alternative software not supported by the project. Part of the resistance may be because the two communities were provided FoxPro by another

project and had begun construction of a real estate database designed to support titling. The issue of "learning curve" is probably the real issue causing the resistance. The PC version of PTIMS is expected to be complete when installed, it is not expected that specialized personnel will be needed to run it. New small communities that have nothing invested in software should have no resistance to the Oracle based system.

2. Interest in property tax reform at the raion level remains high as evidenced by the continued attentive participation of essentially all the relevant local officials at a series of seminars spanning most of the duration of the project. All of these are involved in the production and distribution of a variety of explanatory materials. More importantly, each of the project raions (Borovichi and Staraya Russa) have benefited from several on-site consultations with the project staff.

3. During the periods between each of the envisioned seminars, representatives from the cities returned home to begin implementing the lessons they had learned and returned for the next seminar when they had made sufficient progress to enter a new phase of operation. There was also an opportunity during each interim for cities to consult remotely with project experts using telecommunications and computer based support mechanisms.

4. A "Roll Out Manual" was prepared to provide guidance to raions interested in implementing the market value based property tax reform, taking advantage of the experiences gained from the pilot cities, Novgorod and Tver. For the purposes of Novgorod Oblast's "Market Value Based Property Tax Reform Project," the manual was designed to address the needs of smaller cities. The methodological lessons of the pilot project in Novgorod and Tver were better codified and the software required to support the implementation of the new property tax was scaled down. The Roll Out Manual also provides guidance to raions and cities interested in implementing the market value based property tax reform. The manual will support the strategy envisioned for further property tax reform in the Russian Federation. This strategy calls for a series of phased, focused seminars in other parts of Russia.

MAP two OF NOVGOROD REGION, SHOWING LOCATIONS OF BOROVICHI, MALAIA
VISHERA, STARAYA RUSSA, AND VALDAI

B. Task 2. Establish the Legal and Regulatory Framework

OBJECTIVES

In Novgorod Velikii a significant effort at legal and regulatory reform had been in progress for several years. While generally supportive of the city initiatives, the oblast undertook less activity, reflecting the existence of many diverse small towns and rural districts. A different approach was therefore considered in the oblast, involving enactment of equivalent legislation where the city laws are not appropriate to the needs of smaller towns and rural districts. The leadership of the Novgorod Oblast took a relatively conservative position with respect to the prerogatives of regional governments in land legislation. While generally progressive, the oblast administration was more willing to let the federal government take the first steps in land legislation than were some other regions which decided during this period to take the initiative themselves. A second factor affecting the legal and regulatory component of the project was a pronounced skepticism among local officials about legal and regulatory “reform” projects. There appears to be a general disenchantment with abstract notions of reform that do not take into consideration the economic realities of the region. The upshot of these factors for the legal and regulatory reform component of the project was an emphasis on the existing, limited legislative agenda of the oblast and city administrations. Project advisors focused primarily on the existing agenda of the local administrations and improving their legislative products, rather than constructing an elaborate blueprint for comprehensive legal reform. In several cases the legislative and regulatory agenda grew out of the immediate needs of other project tasks, primarily the land auction demonstration.

ACTIVITIES AND EVENTS

The initial project work plan for legal and regulatory reform focused on land issues and was comprised of 5 main tasks, as follows:

1. Review of Relevant Legislation.

Discussions were held with oblast officials and local policy documents were reviewed to confirm conclusions on the current status of the legislation and to identify legislative priorities. Among the more important documents around which discussion focused was the policy statement prepared by the regional administration and entitled “Concept of Real Estate Management in the Novgorod Oblast.”

A comprehensive review of the relevant federal and oblast legislation was completed as a first step. In addition, legislation prepared by the oblast and city administrations and awaiting enactment was reviewed and discussed. The legislative initiatives on the oblast agenda consisted of the following laws:

- a) Draft, Novgorod City Duma, “On Land Use System and Normative Price of Land in the City of Novgorod.”
- b) Draft, Novgorod City Duma, “On Transfer of Land Plots to Citizens In Ownership for Purposes of Construction and Maintenance of Residential Buildings.”

- c) Draft, Novgorod City Duma, "On Approval of 1998 Basic Rates of Land Rents in the City of Novgorod."
- d) Draft, Novgorod Region Duma, "On Introducing Amendments and Additions into Novgorod Region Law On Procedures of Land Plots Allocation and Withdrawal."

The first three of these items were city initiatives which, upon approval by the duma of Novgorod Velikii, were referred to the oblast for adoption. These laws are piecemeal attempts to deal with the most pressing inadequacies of the federal and local land legislation. The most significant among them was item 4, which was initially a relatively comprehensive modification of the key local land law, the Novgorod Oblast Law On Procedures of Land Plot Allocation and Withdrawal. In a somewhat reduced form, that law remains on the agenda for enactment in late summer, 1998.

2. Summary of Findings and Identification of Legislative Priorities.

Based on discussions and a review of the relevant documentation a set of tentative areas for project work were identified. Main priorities included the pending set of legislative initiatives which had been prepared by the oblast and city administrations, identified above, as well as consideration of the feasibility of a comprehensive local land code. In addition, as the project progressed it became clear that the success of the land marketing demonstration might depend upon a resolution of the issue of municipal land ownership between the local and federal government.

3. Review of Findings and Proposals with Officials.

Discussions revealed several areas which were high on the local agenda. A key event in the process was the roundtable discussion held on April 16, 1998 on issues of local land reform, which was highly instrumental in identifying local perceptions and priorities in land reform.

4. Preparation of Final Action Plan.

In addition to providing commentary on the legislative agendas of the oblast administration, proposals for legislative initiatives were presented in four key areas as follows:

- a) *Land inventory and registration.* Having identified the issues of land inventory and registration as high on the local agenda, an analysis of the current laws of inventory and registration was prepared, which included an action program for legislative development and implementation of local laws of inventory and registration of land and real estate. Serious consideration of the proposed program was deferred largely due to the more pressing issues of establishing the agencies for registration mandated by the federal law "On Registration of Real Estate Rights and Transactions" and other regulations on related matters emanating from Moscow.
- b) *Action plan on municipal land ownership.* An action program was provided to the oblast and municipal administrations for a strategy to resolve the issue of municipal land ownership as a necessary condition to proceeding with auction sales of land ownership.

- c) *Preparation of comprehensive regional land law.* The rationale for preparation of a comprehensive regional land law was prepared and provided to the regional administration. The April 16 roundtable on land law issues produced a tentative agenda on how to address the absence of comprehensive land legislation at the federal level. The conclusion of the roundtable was that a working group under the direction of the head of the regional Land Committee would produce one or more legislative initiatives dealing comprehensively with regional land issues.

5. *Work With Local Officials to Refine Action Plan and Commence Implementation.*

ISSUES ENCOUNTERED

As work progressed two main impediments were encountered. First, there was throughout the duration of the project a great deal of uncertainty in the federal legislative agenda. The long awaited federal land code always seemed on the verge of enactment. At one point the land code was actually enacted, but declared by the President to be invalid on the grounds of a technicality of legislative process. At various times throughout the project it seemed that compromise between the President and the State Duma on land issues was imminent. The President and Duma announced a joint working group which would define the legislative agenda in land reform through the year 2000. That group actually began work and announced an ambitious legislative agenda that appeared to address most of the outstanding issues in land reform; the work of the joint group continues today. Given this environment, local officials were understandably reluctant to forge ahead with regional and local land legislation until the provisions of the federal land code and other federal land laws were set.

Regional experience was a second factor. Local officials argue convincingly that the reason there is not more privatization of enterprise land is that all of the solvent enterprises have already privatized and there are no sound economic reasons for others to do so at this time. Similarly, they argue that reform of agricultural land laws will have little or no effect on the fact that there are enormous amounts of agricultural land in the region that can't even be given away because of the general collapse of the agricultural sector and the lack of credit for agricultural enterprises. Based on these perceptions - which are most often valid observations - there is today a decided preference for limited, precisely targeted legislative initiatives and emphasis on developing practical management programs and procedures within the current laws.

RESULTS

1. *Review and revision of local land law.* The oblast working group has produced a comprehensive draft of a regional land law entitled "Novgorod Oblast Ordinance On Regulation of Land Relations Within the Territory of Novgorod Oblast." The law is designed to anticipate the federal land code and to establish policies which are expected to be delegated to local governments under the land code. The project has produced a comprehensive critique of the draft, together with an alternative draft. These are found in Appendix II. The future prospects of this work will depend

upon actions taken in Moscow on the federal and code and other laws proposed by the joint Presidential/State Duma working group "Land Reform 2000." Any action on such local legislation is unlikely before late Fall, 1998.

2. *Municipal land ownership.* The project has provided advice and guidance to the oblast on implementing a strategy to resolve issues of municipal land ownership with federal authorities. Assistance included establishing necessary contacts, preparation of documentary support, technical support in discussions with federal authorities, and recommendations for oblast legislative actions.

3. *Reports describing and analyzing the existing legislative framework for real property markets in the selected areas of inquiry*

a) Review of the Real Estate Legislation of Novgorod Oblast and City. This is a comprehensive review and analysis of the legislation in the region.

b) Comments On Pending Legislation On Immovable Property Relations in the Oblast and City of Novgorod. This is an analysis of the major laws prepared by the city and oblast and awaiting legislative action at the start of the project, including recommendations for additions and modifications to the drafts. (*Materials on this activity are found in Appendix II.*)

c) Comments on Draft entitled "Concept of Real Estate Management in the Novgorod Oblast. The "Concept" is a document prepared by the oblast administration which sets out a comprehensive approach to real estate reform and management, including a legislative agenda. Commentary was provided on the general approach taken by the paper and the legislative priorities identified in it.

4. *Seminar presentation on conclusions and recommendations, including appropriate seminar materials.* A roundtable presentation of views of the project team and local officials on land reform issues was held in Novgorod on April 16, 1998. The seminar was well attended by officials of the oblast and municipal administrations. The major current issues of and reform were discussed and an action program outlined. Materials produced by the project team for the seminar included a review and analysis of the pending federal land code and its implications for local legislation, and an analysis of the legal and regulatory issues connected with land inventory and registration entitled "Formation, Inventory and Registration of Real Estate Objects and Rights."

5. *Specific legislative or regulatory drafts in the priority areas designated by the oblast based upon the investigation and seminars*

a) Review and analysis of the Draft Novgorod Oblast Ordinance On Regulation of Land Relations Within the Territory of Novgorod Oblast. This work includes an alternative draft of the proposed local land code (already discussed).

b) Proposals for amendments to the proposed oblast law "On Introducing Amendments and Additions into Novgorod Region Law On Procedures of Land Plots Allocation and Withdrawal."

Task 3. Land Reform and Market Stimulation

OBJECTIVES

Prior to implementation of the Land & Real Estate Reform program, USAID provided the City of Novgorod Velikii with considerable assistance in the land and real estate sector over the past four years. Among the more successful programs have been the development of the auction process for the sale of land in the World Bank-financed housing estates, development and adoption of the land use regulatory system (zoning), the development of a pilot ad valorem property tax system, and the sale of 57 land parcels under the Enterprise Land Sales (ELS) Program. With the exception of the ELS Program, these programs have principally benefited the City. At the same time the Oblast has moved to enact tax incentives and regulatory reforms to stimulate economic development which has resulted in several multi-national companies investing in major facilities in the Oblast. A portion of these investments have naturally taken the form of real estate: land, infrastructure and buildings. The Oblast has also undertaken an aggressive domestic and international promotional campaign which has had a considerable impact on the perception of the City and the Oblast as being at the forefront of reform.

While considerable progress had been made toward a “market economy”, most city and raion administrations continue to act as if they alone should establish and dictate local real estate market conditions. First, in order for a real estate market to emerge, there needs to be renewed economic activity that leads to demand. Second, the supply of land and improved land, the majority of which is controlled by the local administrations, must be made readily available to meet the market demand. Despite Federal enabling legislation on further methods of land privatization, the successful land auction under the World Bank program and the land sales under the ELS Program, limited progress has been made toward land privatization and a fully functioning land market.

Another constraint to the development of land and real estate markets and the attraction of investment into real estate is the lack of a land title and real estate rights registration system. Immediately prior to the start of this Program, the Federation passed legislation mandating that all local authorities establish a real estate registration system. Work on this component, while a priority, was contingent upon promulgation of the necessary Federal implementing policies and procedures. When these were issued in March 1998, work commenced immediately, as described below.

Sub-Task a: Land Title Registration Program

The objective of this component was to assist in the establishment of simple land title registration systems outside of the City of Novgorod. Registration of title and protection of private rights in real estate is considered an essential component of a functioning real estate market. The Scope of Work was amended twice, first after the RF regulations on “Registration of Real Estate Rights and Transactions” were issued and again, to reflect the latest priorities of the Novgorod Oblast Registration Justice Institution. Its final Scope of Work included the following tasks:

1. Develop sample procedures to cover those issues left by the RF legislation to the discretion of the subjects of the RF. These procedures should define the agency responsibilities and interrelationships.
2. Present these sample procedures during a 2-day seminar attended by Oblast and Raion officials that are to be involved in registration and seek 2-3 raions as volunteers to test these proposed procedures.
3. Assist the Registration Justice Institution and the local agencies in 2-3 pilot raions in implementing these sample procedures.
4. Prepare “working rules” or a business operational plan to guide respective registration office operations.
5. Develop a terms of reference for a “navigational database” to facilitate management of the registration files.
6. Conduct a second seminar to discuss the lessons learned from the pilot raions in implementing the sample procedures and prepare a report for the Ministry of Justice on progress in the Novgorodsky Oblast.

Sub-task b: Pro-Active Land Marketing Program

This component of the Program was intended to demonstrate to pilot cities and raions in the Novgorodsky Oblast how they might inventory their land resources and prepare the information required by investors who might have an interest in these properties. A parallel program component was undertaken in the City of Novgorod by UI. Specifically the scope of work included the following:

1. Develop a standardized inventory of urban land and real estate properties suitable for privatization through either long term lease or sale of ownership rights;
2. Work with the designated Oblast and Raion officials in developing a central listing of these properties;
3. Prepare a “highest and best use” analysis of at least 10 of the most marketable of these properties;
4. Assist in the development of information packages for these properties and develop techniques for an auction or sealed tender event;
5. Assist the Oblast/City/Raion governments in advertising the auction or tender event and marketing the subject properties; and
6. Develop a detailed procedures manual for local officials to assist them in continuing this process.

ACTIVITIES AND EVENTS

1. *Sub-Task a: Land Title Registration Systems*

a. Evaluation of Rules and Procedures

The initial product produced under this sub-task was "Sample" Procedures for implementing the RF- promulgated Rules and Procedures. The RF legislation left significant latitude to the implementing agencies to establish their own internal procedures to meet the requirements. An evaluation of the RF legislation was carried out first and then the "Sample" Procedures prepared. In the course of the project PADCO analyzed the agencies that are involved in the title registration, organize it or are interested in it; to accomplish this the agencies were subdivided into three groups:

1. Agencies that manage real estate.
2. Agencies responsible for state recording and property description.
3. Agencies authorized to exercise state title registration.

PADCO made efforts to organize interaction among the Judicial Agency (and its branches), Land Committees and BTI (Bureau of Technical Inventory). These three agencies are directly involved in the process of property description, state recording of real estate information and title registration. The cadastral number is the key element in the process that unites the activity of the above agencies and information maintained in the land cadastre and the Unified State Title Register. As a result, the decision has been taken that Land Committees and BTI shall designate a cadastral number to each land parcel or building (premises) whose owners intend to register ownership rights.

b. Seminar on "Sample" Rules and Procedures

A two-day Seminar was held in Novgorod on June 18-19, 1998. It was attended by 70 Oblast and Raion officials under the auspices of the Novgorod Oblast Registration Justice Institution. The Agenda for the Seminar is included as Attachment B in Appendix III, Part A. A model document was reviewed by the agencies concerned at the first seminar that took place in Veliky Novgorod on June 18, 1998. Based on this model, a comprehensive model law, "Provisions for Interaction Among Agencies Involved in the Development of the Unified System of State Title Registration in Novgorodskaya Oblast" was proposed to the oblast administration. Its draft provisions regulate division of authority among agencies of the second and third group in compliance with the approach. A second outcome of this seminar was the commitment of local agencies to volunteer as test areas to apply "Sample" Procedures and report back in September at a second seminar. The pilot Raions selected from 11 volunteers were Borovichi, Valdai and Novgorodskii.

"Sample" Procedures are included in Appendix III, as Attachment A.

c. Business Plan for Justice Institution

Three documents were developed to facilitate the work of real estate registrars and specialists from real estate record agencies. These are:

1. Regulations for the Judicial Agency for State Title Registration (a draft).

2. A registrar's real estate reference book (articles of federal laws compiled in groups corresponding to respective sections of the Unified State Title Register).
3. Real estate registration manual (step-by-step guidelines for a registrar of real estate rights). The consultants were also asked to produce a "business Plan" for the Justice Institution rather than the originally proposed analysis of the financial sustainability of the registration offices. These business procedures were demonstrated at the local branches of the Judicial Agency selected by T.A.Fabrichnaya in Soletsky, Starorussky and Khvoyninsky rayons. The procedures were later amended to become a "Guide for Normative Operations of a Registration Office."

This guide is included as Attachment C.

d. Data Base Navigational System

It was deemed important to design a data base management system that would incorporate all data related to property registration and permit the user to "navigate" within the database. A seminar was held entitled "Issues of Registration Systems Creation and their Maintenance. "

The Judicial Agency started keeping the Unified State Title Register in paper form, which complicates quick access to information contained therein even when state officials require such information and prohibits organization of effective business procedures. To eliminate the above obstacles the working group developed and presented the following documents to the Judicial Agency as part of the project work:

1. A chart demonstrating relations among the properties, rightsholders and rights in the Unified State Title Register.
2. A real estate classifier for the information and registration system.
3. A system of navigation in the Unified State Title Register (draft of the data base and software applications).

Land Committees were recommended to supply BTIs with a list of cadastral blocks (including land parcels, if possible) for the rayon, stating their cadastral numbers and mail addresses. The working group, in cooperation with the head of the Department of Processing and Storage of Documents V.S. Dolinova, developed approaches for the creation of information and registration systems with the view of prospective exchange of information between the Judicial Agency and its branches. A decision was taken to develop a program with a simple structure and few functions that will partially service basic needs of the Judicial Agency at the first stage. In the second stage the head of the Judicial Agency will make a final decision regarding the necessity of purchase or development of the information system of *industrial class*. At present computer experts of the Judicial Agency are developing the software for the first stage.

e. Seminar on Results of Pilot Implementation

This seminar was held on September 3rd and the agenda has been included as Attachment D. The head of the Land Committee from Staraya Russa put forward the following suggestions to improve cooperation among agencies:

- In order to register a land parcel whose market value is low, it makes sense to accept maps created on the basis of old maps or drawn without application of survey equipment;
- A certificate of the normative price of land appears to be a redundant document, though an applicant has to pay for it;

- Boundaries of some types of buildings (e.g. garages) may be drawn by the land surveyor who makes a map of land boundaries.

These suggestions were included into the adjusted draft of the Regulations.

2. *Sub-Task c: Pro-Active Land Marketing*

This Task was closely coordinated with the UI Chief-of-Party who was responsible for the City of Novgorod component of this program. Work started in September 1997, with initial meetings held with Oblast officials. Pilot City/Raion selection followed. The Chairman of the Oblast Property Committee, Mr. Vladimir Alfimov, was appointed by the governor to coordinate this component of the RII Program. Early recommendations were made to Mr. Alfimov to establish a working group comprised of City, Raion and Oblast officials.

a. Pilot City/Raion Selection

The selection of cities for pro-active land marketing was closely coordinated with the selection of cities for other land related tasks. The Oblast expressed a desire to focus on secondary cities that had not seen significant economic development thereby eliminating Chudova and Novgorodski Raions. The cities eventually selected for inclusion in the Program were Staraya Russa, Valdai, Boravichi, and Malaya Viscera. *(These same cities were the locations of concentrated training in the Property Tax project described in Task 1.)*

b. Major Meetings

While a number of meetings were held between the consultants, including the UI coordinator, and Mr. Alfimov, no formal working group was appointed as requested by the consultants. Nevertheless, the prospective members of an Oblast working group, namely the Deputy Heads of Administration and KUGI Chairmen in each of the selected cities/Raions, attended 2 key meetings chaired by Oblast KUGI Chairman V. G. Alfimov, at critical stages in the program. The subjects of these meetings were:

- a) March 17: Issue of Auction Coordination between the City and the Oblast; and
- b) April 20: Decision to proceed or not to proceed with the auction, given the lack of marketing funds and the lack of Oblast support for sale of ownership rights.

c. HBU Analysis/Property Reports

The inventory and selection of properties for sale or lease to investors was initially carried out by the Cities/Raions based on advice from the consultants regarding the type of properties investors might prefer. Informational check lists were provided to each City to assist them in gathering and documenting the necessary information about each property. This information check list is included as Attachment E. Since the role of the consultants was to advise and train the City officials in this process, the progress of each city was monitored by telephone and periodic visits over several months during which time some sites were deleted from the preferred list and new sites were added. Clarification of actual ownership and information on utilities proved most difficult and time consuming for the cities to assemble.

When performing the highest and best use analysis for each of the 8 city/Raion land parcels to determine their market "land value," it became clear in five cases that the

impact of disproportionately high “participation fees” (payments demanded by the utility companies for providing infrastructure services to the sites) had the effect of creating a negative land value. In other words, the market value of the land was less than what the utilities were charging for “participation fees” to develop it. To further exacerbate the problem, if the developer were to enter into a long term lease for the property rather than purchase the ownership rights, he/she would never be able to recoup the investment in the “participation fees”, e.g., the cost of the utilities.

The completed documentation for each selected site was submitted to the consultants by each city so that the “Highest and Best Use “ analysis could be carried out and the property reports prepared for the proposed auction. While 14 land parcels were selected as suitable for investors, continuing due diligence on the part of the cities uncovered ownership issues or other encumbrances that ultimately reduced this number to 8. Eight final property reports were produced, including highest and best use analyses, to determine market value. The results of this analysis showed that of the 8 properties, only three had a positive market land value given the potential use and the high cost of utility infrastructure. The list of these reports is included in Appendix III, Part A, Attachment F. The reports themselves are included in the “Roll-out Manual” titled “Guide for Development of a Land Market.”

d. Land Auction(s)

The Program called for preparations for a land auction or tender process in an effort to sell or lease these properties. This event was to be coordinated with the City program. An auction date was proposed and preparations begun. However, the oblast cities suspended their auction preparations after a meeting was held on April 20th to decide on auction preparations and strategy. There were two reasons for the cities’ non-participation: first, they were informed that the Oblast administration would not support them in seeking RF approval to sell “ownership” rights and second, the cities and the Oblast could not fund even a scaled-down budget for advertising and marketing of the properties. The RF Law “On General Principles of Local Self-Government Organization in the Russian Federation” that provided the subjects of the RF the rights to manage and sell land rights, contained a small caveat that, until revealed by the consultants, was apparently overlooked or ignored by the Oblast. While the RF transferred these obligations and rights to the subjects of the Federation, they have not transferred the assets: those parcels of State land that are not to be retained by the RF (i.e., other than historic monuments, etc.). Ownership by the RF of all land meant that the cities/raions did not have the right to sell vacant land without first having its ownership transferred to their jurisdiction or by obtaining the approval of the RF to act on their behalf in selling RF land. Presented with these obstacles by Chairman Alfimov, the raion-municipalities cancelled their participation in the auction.

e. Seminar on “Development of a Land Market”

A seminar on “Developing a Land Market” was planned from the outset to “roll out” the experiences of the pilot Raions to the other Raions in the Oblast. The Oblast Administration invited all 22 Raions to the seminar and 4-5 representatives from 17 Raions attended plus representatives from the Oblast Administration. The content of the seminar was taken from the first draft of the manual, “Guidelines for Development of a Land Market.” A copy of the seminar agenda is included as Attachment G.

f. Roll-Out Manual: “Guide for Development of a Land Market”

The most useful deliverable from this project was the “Roll-out Manual” titled “Guide for Development of a Land Market.” The final version is being distributed throughout the Oblast and should be useful for broader distribution in the Federation. The table of contents of the Guide is included as Attachment H.

ISSUES ENCOUNTERED

1. *Sub-Task a: Land Title Registration*

a. Promulgation of RF Procedures Implementing the Property Registration Law. The start up of this sub-task was dependent upon the promulgation of the implementing rules and procedures for the Property Registration Law and would not have been undertaken at all if these procedures were not issued or were issued later than they ultimately were in March 1998. This decision to defer any technical assistance effort until the procedural guidelines were in place was a wise choice as the experience with the USAID REIS program demonstrated. As soon as these procedures were available the consultants began work on developing the more detailed operational procedures to be installed at the local level, the sample procedures. The technical assistance was thus provided in a timely and effective manner and was well received by the clientele.

b. Decision to Delete Financial Sustainability Analysis. The Oblast Registration Justice Institution decided at the start of the work that they would prefer the consultants not provide an analysis of the financial viability of the registration offices based on various fee generating scenarios. This issue may have had some political sensitivity which the consultants were unaware of. In any event, given the importance of property registration and the need to ensure that the system is self-sustaining, this analysis would have been very useful and the decision to avoid the issue, perhaps short sighted.

c. Multiple Amendments to the Scope of Work

The principal client, the Oblast Registration Justice Institution, requested several moderate changes in scope, i.e., requesting assistance be provided to several additional raions in addition to the pilot raions. The consultants were responsive and these requests were accommodated within the limited resources available. While the end results are not available at this juncture, it would appear that the greater coverage and roll-out of procedural guidelines should be more effective in operationalizing an Oblast-wide registration system.

2. *Sub-Task c: Pro-Active Land Marketing*

a. Project Organization:

(1) Formation of Working Groups. The consultants, supported by the UI resident advisor, recommended that a formal Working Group be established. As mentioned earlier, no such Group was established. Although the objectives of this Delivery Order have been fully met, the lack of a working group among representatives of the client cities made the project more difficult to implement, especially delivering technical assistance to each city/raion and discussing key issues that effected each client city. The dissemination of information and ideas as well as opportunities to discuss common problems, as occurred during the seminar, would have been facilitated by a working group. The impact of the program and its "roll out" would have been greatly enhanced if several working meetings could have been held. As a lesson learned, for discussion of key issues and dissemination of

information, formats other than a formal working group should have been explored.

- (2) Decision to Separate the City from Oblast. The decision of the City of Novgorod not to avail of the technical assistance available through the program was understandable due to the availability of real estate information and their experience in marketing real estate through prior auctions. Nevertheless, for reasons similar to those for having a working group, the Oblast cities would have benefited from exchanging views with the City on some of the key issues that emerged, especially the sale of ownership rights. At the same time, the City might have benefited from a discussion with the Oblast cities on site selection and documentation for investors. Regardless of whether the City formally participated, a joint working group would have proven very beneficial to the success of the Program.
- (3) Selection of Cities/Raions in Oblast. The city selection process was influenced by an attempt to “spread the wealth”, eliminating cities like Chudova that had had some success in attracting investment. Lessons could have been learned from Chudova. Also, investment is difficult to direct without appropriate policies and incentives. When an effort is being made to create a land and real estate market in a region, the best sites in the most attractive locations (cities/raions) should be selected first. Novgrodkaya Raion would have been an excellent example. Valdai and Staraya Russa are good examples and Boravichi and Malaya Vischera are poor examples.
- (4) Auctions. The intent of the Program was to culminate the process of land inventories and site selection and documentation with a land auction, preferably a joint auction with the City of Novgorod. For reasons mentioned earlier, the Oblast cities decided not to proceed with their auction. The City of Novgorod decided to hold their auction but had to cancel it when no bidders appeared.

b. Advertising and Marketing Budget. Advertising and marketing is essential in any sales campaign, including the sale of land and real estate. At the outset of the Program it was assumed that these costs would be covered by the clients, preferably in a jointly funded program with the City. In the event, efforts to obtain Oblast funding or City/Raion funding proved impossible and consultant proposals to reallocate USAID contract resources were rejected by USAID on policy grounds. The lesson learned was similar to the one learned during the World Bank housing site auctions: obtain prior budget commitments from local governments before undertaking these programs. Otherwise the USAID investment alone may not achieve the desired results.

c. Restrictions on Sale of Ownership Rights

- (1) “Municipal ownership.” One of the most important issues to emerge from this Program was the identification of a major omission in the RF land privatization legislation. While the RF law, “On General Principles of Local Self-Government Organization in the Russian Federation”, dated August 28, 1995 states that subjects of the Federation may privatize land, including the sale of ownership rights,

all the non-private land within the jurisdiction of the local administrations remains under the ownership of the Federation. In other words, the RF never transferred ownership of this land to the subject of the RF. Without such ownership, the local administrations have no right to sell and must apply to the RF for the property in question to be transferred into their ownership. They were convinced that offering the traditional right to construct and a future long term lease was not sufficiently attractive to investors. In March, 1998, the oblast cities sought the assistance of the Oblast Administration in applying to the RF, but their request was rejected. Consequently these cities decided to withdraw from the auction.

- (2) “Normative” Land Prices. Presidential Ukase #1263 specifies that “normative” prices for the sale of privatized land by local administrations must not be less than 5 times the local tax rate. The multiplier can be set by the local administration. Novgorodski Oblast, despite having signed a memorandum of understanding with USAID to accelerate land privatization as part of the RII Program, passed a regulation, Oblast Ordinance #2, in April 6, 1998, raising the normative price to 100 times the tax rate for urban land occupied by commercial and industrial uses and 200 times for enterprises located in rural areas. [This regulation was uncovered by officials from Valdai while pursuing documentation from the Oblast that would authorize them to sell ownership rights. This information was not disclosed to the project by the Oblast officials, who expressed surprise when this regulation was revealed to them in the midst of the consultants’ efforts to determine land pricing based on highest and best use.] PADCO was able to demonstrate to the Oblast that the normative prices actually exceeded the estimated market values for the land parcels under consideration. In other words, the effect of this regulation would be to halt all vacant land privatization in the Oblast. The lesson learned here is that not only is there limited knowledge of real estate market values but also there is still strong opposition in Russia to land privatization, particularly rural but also urban, even in one of the most progressive regions.
- (3) Impact of Utility Company charges. “Participation fees” are charges to not only cover the cost of providing a service to a particular site, but also to cover the cost of “renewing”, “rehabilitating”, completing the construction of or building new off- site works that often serve a large area. The utility companies, due to a variety of causes, have no alternative but to extract their capital budget, and sometimes their operating and maintenance budgets, from would-be developers. The effect of these practices is the same as that of “normative price” distortions—to impede land privatization and development.

RESULTS AND ACCOMPLISHMENTS

1. *Titling and registration pilot experience.* The enthusiasm and dedication demonstrated by the Oblast and Raion officials in Novgorod toward the rapid and systematic implementation of property registration was very encouraging. The mandate from the RF and the targeted assistance provided through this Delivery Order were key supporting factors. The nature of the assistance, especially the production of standard procedural guidelines for local offices, the piloting of implementation at the local and Oblast levels and the standard operating procedures at the Oblast level are suitable for application virtually anywhere in the Russian Federation outside of Moscow and St. Petersburg. The products of this work should probably be packaged into a guide or manual for distribution to other jurisdictions.

2. *“Pro-active land marketing” results.* A principal objective of this component was to demonstrate to the Oblast pilot cities/raions and later to the other raions in the Oblast, how to identify and prepare municipal land parcels for privatization. Key personnel in six different municipalities now have an understanding of the scope and accuracy of information that investors look for and how this information can be assembled. The proposed process for organizing an auction is found as Appendix III, Part B.

3 *Understanding the restrictive effects of State (RF) Land Ownership* The RF Law “On General Principles of Local Self-Government Organization in the Russian Federation” failed to clarify the right of localities to sell vacant land. The lesson learned is that there are still imperfections in Russian land legislation which will severely impede the development of a land market.

4. *Understanding the Impact of Utility Company charges.* “Participation Fees” payable to utility companies by real estate developers and investors are common in Russia. The lesson learned here is the important inter-relationship between land and infrastructure, especially the negative effect of under-investment in infrastructure has on land values. Local officials now better understand the critical need for reforming and restructuring all utility companies so they can be recapitalized and possibly contract debt to undertake their necessary capital improvement programs.

5. *Production of Roll-Out Manual: “Guide for Development of a Land Market.”* The most useful deliverable from this project was the “Roll-out Manual” titled “Guide for Development of a Land Market.” Its purpose is to document the legal basis for land privatization, acquaint the public sector reader with investor requirements and describe the process of preparing and marketing property for investment. The final version is being distributed throughout the Oblast and should be useful for broader distribution in the Federation. The table of contents of the Guide is included as Appendix III, Part A Attachment H.

III. Component B. Novgorod City

A. Task 1: Establish the Legal and Regulatory Framework

OBJECTIVES

In Novgorod city a significant effort at legal and regulatory reform has long been in progress. Further reform may reduce transaction costs and legal risks and create greater financial incentives, thereby increasing the range of feasible real estate transactions. Project advisors focused primarily on the existing agenda of the local administrations and improving their legislative products, rather than constructing an elaborate blueprint for comprehensive legal reform. In several cases the legislative and regulatory agenda grew out of the immediate needs of other project tasks, primarily the land auction demonstration.

ACTIVITIES AND EVENTS

The project work in legal and regulatory reform, presented in the forma of the original project tasks, included the following:

1. Review of Relevant Legislation.

A comprehensive review of the relevant federal and oblast legislation was completed as a first step. In addition, legislation prepared by the oblast and city administrations and awaiting enactment was reviewed and discussed. The major legislative initiatives on the local agenda consisted of the following laws:

- a) Draft, Novgorod City Duma, On Land Use System and Normative Price of Land in the City of Novgorod.
- b) Draft, Novgorod City Duma, On Transfer of Land Plots to Citizens In Ownership for Purposes of Construction and Maintenance of Residential Buildings.
- c) Draft, Novgorod City Duma, On Approval of 1998 Basic Rates of Land Rents in the City of Novgorod.

2. Preparation of Final Action Plan.

In addition to providing commentary on the legislative agendas of the oblast and regional administrations, proposals for legislative initiatives were presented in these key areas:

- a) *Land inventory and registration.* Having identified the issues of land inventory and registration as high on the local agenda, an analysis of the current laws of inventory and registration was prepared, which included an action program for legislative development and implementation of local laws of inventory and registration of land and real estate. Serious consideration of the proposed program was deferred largely due to the more pressing issues of establishing the agencies for registration mandated by the federal

law On Registration of Real Estate Rights and Transactions and other regulations on related matters emanating from Moscow.

- b) *Preparation of local strategy on condominium land.* A strategy for privatization of land connected with multifamily residential buildings was developed in conjunction with the city of Novgorod, based on federal guidelines and regulations.
- c) *Action plan on municipal land ownership.* An action program was provided to the oblast and municipal administrations for a strategy to resolve the issue of municipal land ownership as a necessary condition to proceeding with auction sales of land ownership.
- d) *Action Plan for Conversion of Residential Land Rights.* This proposal set out an action program for conversion of Soviet-era land rights of inheritable possession and use to the modern land tenure of ownership. The proposal was developed in response to the draft local legislative initiative on conversion of residential land rights.
- e) *Proposal On Formation, Inventory and Registration of Land and Real Estate Objects.* This proposal set out the legal basis and necessary steps to undertake a proactive local program of formation, inventory and registration of land rights

RESULTS

Implementation activity included:

1. *Municipal land ownership.* The project has provided advice and guidance to the oblast on implementing a strategy to resolve issues of municipal land ownership with federal authorities. Assistance included establishing necessary contacts, preparation of documentary support, and technical support in discussions with federal authorities.
2. *Condominium land.* A comprehensive package of regulations on delineation and allocation of land to multifamily buildings has been prepared for the city of Novgorod and awaits consideration. Progress on this legislation may depend upon the outcome of present deliberations at the federal level on new federal regulations pertaining to allocation of condominium land rights.
3. Drafts of legislation or legislative provisions produced by the project include:
 - a) Review and analysis of the Draft Novgorod Oblast Ordinance On Regulation of Land Relations Within the Territory of Novgorod Oblast. This work includes an alternative draft of the proposed local land code.
 - b) Regulations On Delineation and Allocation of Condominium Land in the City of Novgorod.

Task 2: Land Use Regulation Activities

OBJECTIVES

In 1997, Novgorod Velikii became the first Russian city to adopt a system of land use regulation based on “zoning” of territories for permitted and prohibited uses. This tool has been instrumental in clarifying the objectives of the city administration to encourage forms of industrial investment in designated areas. Conversely, it has been cited by prospective investors as a major factor in their perception of the city as a progressive place in which to do business. As experience throughout the developed world has demonstrated, land use planning requires continuous review and updating, and Novgorod Velikii’s administration found this experience to apply in the city. Large areas of the northernmost section, surrounding the economically-vital “AKRON” chemical complex, were found to be under-utilized in their “conservation” land use classification. Acknowledging soundness of the principle of creating “buffers” around major sources of air quality emissions (like the “AKRON” plant), the city administration realized that modern real estate development practices could produce compatible, business-supporting “technopark” environments near the facility without compromising the public health and safety. Accordingly, the city administration initiated a re-evaluation of the zoning plan. It arranged to undertake this within the context of studying a larger geographic area, including extensive territories outside the municipal boundaries, in areas under the jurisdiction of, respectively, Novgorod Oblast and Novgorodskii Raion. This activity was made possible by the suspension of project work in the “university partnership.” The circumstances of that suspension are explained in a later section of this Final Report.

Novgorod Oblast has engaged in little activity toward instituting land use and development controls. However, the progressiveness demonstrated by Novgorod City in adopting a “zoning ordinance” has now found a receptive audience in the oblast. With the encouragement of the city administration, Novgorod Oblast is undertaking a study into land use characteristics around the perimeter of Novgorod City. The objective of this effort is to establish a land use regulation regime within strategic neighborhoods surrounding the city. The oblast administration has organized a “working group,” drawing membership from Novgorod Velikii, Novgorodskii Raion, and oblast officials, to oversee and coordinate the study.

Land use regulations within certain areas of Novgorodskii Raion has two primary justifications: south of the city, near Ilmen Lake, coherent **development controls** are necessary to protect historic and environmentally sensitive areas. Conversely, to the north and northeast, it is desirable to identify and **positively encourage certain areas as suitable industrial and economic development** “belts.” A key issue on which the governments seek guidance is a framework for decision-making between local and regional structures of Russian government.

This is a high priority land reform measure of interest to both the city and the oblast, and presents a tailor-made opportunity to reconsider the unused LOE within the “University Partnership” component of the Land Reform Sector’s Work Plan. An essential pre-condition of likely project success is support of Novgorodskii Raion. Raion representatives are evidencing their cooperation in this effort through their constructive participation as members of the oblast “working group.”

ACTIVITIES AND EVENTS

The work of the Urban Institute was organized as follows:

1. Formulating a conceptual development plan for the portion of Novgorodskii Raion adjacent to Novgorod Velikii. This resulted in a memorandum to the working group and a map illustrating this plan.
2. Preparing a preliminary zoning district structure for the same area, including zones for siting economic activities and areas for conservation and protection of environmental resources and historic/culturally sensitive areas. Once the “positive” development opportunities are identified, they can serve as the basis for “development package” opportunities in the form of “special investment areas” by Novgorodskii Raion land reformers. This work resulted in a memorandum to the working group suggesting a district structure and zoning implementation procedures and a draft zoning map.
3. Reviewing the oblast and federal regulations concerning the “lake water protection zone” and the “sanitary protection zone for the AKRON plant.” This work resulted in a short memorandum to the working group suggesting adjustments to the city zoning and concerns with the oblast lake area protection zone.
4. Understanding potential development impacts from the raion development plan and zoning, and recommending inter-jurisdictional mechanisms for equitable mitigation. This work resulted in a short memorandum and discussion with working group.

These tasks were performed in coordination with city, raion, and oblast officials plus their designated consultants.

RESULTS

Appendix II, Part C contains the report which was produced in fulfillment of these four sub-tasks. These resource materials are being utilized to guide the on-going activities of the “working group” whose mission will be completed in early 1999.

IV. Component C. Coordination and Priority Sub-tasks

A. Coordination and Priority Sub-Tasks in Novgorod Oblast

In addition to his paramount function as a coordinator, UI-COP Miller initiated several special activities aimed at identifying unique development opportunities in Novgorod city and “secondary cities” in the surrounding oblast territory.

OBJECTIVES

Harnessing real estate development as a mechanism for economic growth can take several forms. The Land & Real Estate Reform Program sought to find innovative ways to apply western development practices and lessons to Novgorod’s progressive economic environment. Potentially useful techniques were summarized in the October, 1997, “Work Program” for the Land Reform Sector. These techniques were:

- Public Infrastructure Development
- Pro-active Land Privatization
- “Public-private Partnerships”
- Economic Development Agency

Introducing these useful practices to oblast and city administrations was divided into tasks, as summarized below.

Sub-Task 2/a. Public Infrastructure Development Strategies are undertaken by governments to obtain useful benefits (in the form of money or capital projects) from private investors who are committed to new development projects. These strategies may take several forms: “Build-Operate-Transfer” (BOT) projects;; regulatory “exactions” (in the form of development fees, donations, or charges); special assessment districts (administered as adjuncts to the tax regime); or others. In Novgorod, infrastructure development strategies were combined with land privatization to structure “development packages” in which special efforts are to be made toward attracting economic investment. **Sub-Task 2/b** Pro-active Land Privatization seeks maximum community rewards from disposition of governmental or enterprise-owned land. It is at the heart of the objective described in this report to “accelerate the private ownership of land and real estate.” During 1997-1998, progress in this sub-task was linked to accomplishments already described in Component A, Sub-Task 3, “Land Reform and Market Stimulation.” **Sub-Task 2/c.** Land Development Arrangements (“public-private partnerships”) activity is intended to acquaint localities with special development mechanisms that can help generate regional economic development and possibly enhance the revenue streams of local governments. Such arrangements include: joint development projects; creating and marketing “planned industrial parks” (PIPs) under the private “master developer” model; marketing existing PIPs through private brokers; and sponsoring transit-oriented “joint development projects” to be leased for private development purposes. **Sub-Task 2/d.** Economic Development Agency arrangements have often been constructive tools to attract beneficial investment by focussing local efforts to attract new businesses and retain existing ones, often within “industrial estate” developments.

ACTIVITIES AND EVENTS

Sub-Task 2/a. Public Infrastructure Development Strategies In Russia, public infrastructure improvements are commonly financed through “exactions” (“Technical Conditions”). These charges are levied on new construction projects through reference to an arcane set of calculations normally known and understood only by the affected utility monopoly. Reform of this practice was identified as an objective during the earliest stages of the Novgorod land reform project. While the principle of exactions is widely known and accepted throughout the developing world, it is most equitably administered where there is “transparency” about the basis for the calculations so that these are understandable by the affected parties. The Novgorod program’s objective was to instill some principles of equity and transparency in the administration of “Technical Conditions.”

A basic principle of transparency is that the type and cost of the sponsored infrastructure project needs to be known. To understand the type and cost, the local government should portray and locate existing and proposed projects, preferably in the form of a comprehensive “Infrastructure Plan” which covers the area encompassing the new development. Two things are required: (1) a distinct geographic area needs to be identified; and (2) an “Infrastructure Plan” needs to be prepared for the area. Combining these into “development packages” helps to establish a geographic “frame of reference” for both the beneficiaries (the utilities) and the project sponsors (the developers). As a result of land reform advisory activities, some oblast raion-municipalities now recognize the usefulness of “development packages” as the planning basis for new infrastructure construction and for priority in “land privatization” activities. The term “special investment areas” has been given to Novgorod’s efforts toward these twin objectives.

Local planning for “special investment area” arrangements is as follows:

1. An area is prescribed by the administration.
2. The existing infrastructure facilities and roads within the area are mapped on an “Infrastructure Plan.”
3. Proposed projects for new facilities are denoted on the infrastructure plan. They are added when they are justified as a result of development requirements and/or to maintain adequate levels of local utility service.
4. The costs of these new projects are calculated. An apportioned project cost which reflects the demand and impact posed by the new development is negotiated between the utility, the administration, and the development sponsor.
5. The construction of the new project is financed once its budget package has been organized by the city, in concert with the responsible utility monopoly.
6. The city’s priority activities toward “Pro-active land privatization” (see next sub-task) efforts are focussed within “special investment areas”

The first oblast community to assemble existing utility and highway information into an “Infrastructure Plan” was Valdai, which began to reference its infrastructure

requirements for a special investment area located on Highway M-10 in April, 1998. Efforts to organize geographic areas of Borovichi and Chudovo as “special investment areas” were begun during contacts with raion officials in July and August. Currently, four administrations are preparing to referencing “special investment areas” as the zones of activity in which to focus land use policies to foster economic development. In addition to forming the territories of “infrastructure planning,” land within these areas will receive priority attention toward clarifying the extent of “municipal’ land ownership for future disposition through “pro-active land privatization” (see below). Consequently, “Special investment areas” in these raion-cities are poised to serve as focal points of future land privatization activity (especially that which contributes to economic investment in the form of new factories or tourist facilities) and supportive infrastructure capital investment.

Sub-Task 2/b During 1997-1998, progress toward “pro-active land privatization” in Novgorod Oblast was linked to accomplishments described previously in Component A, specifically the “Land Reform and Market Stimulation” sub-task. Especially relevant were PADCO’s efforts in working with four raion-municipalities to develop inventories of land parcels suitable for marketing. PADCO helped four localities identify twelve properties for “pro-active privatization” through sale at a land auction scheduled to be held jointly with Velikii Novgorod in June. As discussed, none of these land parcels were eventually offered at the auction competition because none of the municipalities felt they were authorized to sell the right to own,” as they preferred to do at that time. Rather, these localities believed that in order to sell the “right to own,” they needed to first clarify their status as “owners” of the land parcels being marketed.

Shortly after Novgorod Velikii’s unsuccessful June Land Auction, the project team, augmented by personnel from the Institute for Urban Economics (IUE), undertook to assist the oblast and the interested raions to accomplish this. After deliberating alternative strategies, it was decided that the best course was to draft oblast legislation which would clarify the extent of municipal property. Simultaneously, the oblast would coordinate the authorization by Russian Federation Ministries to issue complementary regulations defining the properties as “municipal.” At this writing, the oblast legislation awaits adoption by the Duma. The text of the proposed legislation and of supporting materials can be found in Appendix II, Parts B and E.

Once these steps are accomplished, the participating raions (plus Velikii Novgorod) will be armed with adequate documentation for titling of “municipal land rights.” These rights will be registered with the newly-created juridical Administration for Registration of Rights of Property. Armed with this enhanced form of title, the local governments will proceed to market the “right to own” vacant land within their territories in the future.

Sub-Task 2/c. Land Development Arrangements (“public-private partnerships”) Success in creating public-private partnerships depends on attracting motivated entrepreneurs and matching these entrepreneurs with suitable property assets. Local investigations revealed that land development partnerships have already begun in Novgorod Velikii; the “BISNISPARK” project has transformed partially-finished buildings into smaller spaces suitable for “incubator’ industries. Extending the format to the smaller oblast cities is not presently feasible due to unsatisfactory market conditions.

BISNISPARK is itself on shaky financial grounds stemming from lack of demand for its space offerings. Since the smaller communities have even less mature real estate markets, public-private partnerships were deemed unfeasible, and this category was dropped as an activity.

Sub-Task 2/d. The opportunity to strengthen an existing Economic Development Agency followed an oblast reorganization of existing bureaucracies and personnel. A marketing/promotional agency, the “Noncommercial Partnership Novgorod Investment Promotion Agency,” was created in September, 1997. However, its first executive director resigned in December, and the organization was relatively inactive for the ensuing five months. In May, 1998, a reorganization of the Novgorod Oblast administrative structure resulted in the assumption of the vacant director’s post by Valeryii Trofimov, formerly Dep. Governor for Foreign Economic Investment. Upon his accession, new energy was invested into the agency’s work. Credit for this innovative arrangement goes to the oblast and the individuals involved, not the land reform program. Nevertheless, once the agency was rejuvenated, a high level of cooperation was maintained with the land reform project through meetings and event planning arrangements.

Specific Events

- In July, a Seminar in Valdai was held to explain Public Infrastructure Development Strategies and “pro-active land privatization,” especially techniques to clarify the rights and extent of “municipal” land. Development packaging was addressed by discussing “Special investment area” arrangements; and the usefulness of preparing “infrastructure plans” to help guide negotiations with investors and prepare future construction programs.

Issues Encountered in Implementing Sub-tasks

- The oblast raion-cities felt that they did not possess sufficient legal authorization to proceed with “pro-active marketing” as they preferred—e.g., they lacked a clear definition of “municipal” land and therefore lacked an unequivocal authorization to directly market the “right to own” vacant land. This factor, complicated by the lack of advertising “seed money,” resulted in their not participating in Novgorod’s June land auction.
- Even if the smaller cities had undertaken to market their properties in the June land auction, they lacked funding to pay for property marketing. “Pro-active marketing” was hindered in the oblast by this lack of advertising “seed money.”
- Some utility monopolies resisted developing a transparent system of sharing project cost information with prospective investors. This attitude hindered reforms aimed at the inequitable administration of “Technical Conditions.”
- One of the original “sub-tasks” (2/d) was found to be unnecessary and efforts toward a second (2/c) were judged to be unfeasible.

Results and Accomplishments

- Under the leadership of the Oblast Administration, and with the technical assistance of land reform team members, implementation of “pro-active land

privatization” is being pursued through an activity to identify “municipal land ownership” in five localities. All have announced their intention to cooperate in sponsoring competitive marketing events as a means to privatize land in the future.

- Identification of development packages called “special investment areas” is practiced or is under active consideration by three raion-municipalities (Borovichi, Chudovo, and Valdai).
- Efforts of local administrators have overcome utility monopoly resistance to making “Technical Conditions” more transparent. The city administration of Valdai has prepared an “infrastructure plan” which comprehensively portrays existing facilities. It is using this as a tool in property marketing and negotiations with prospective industrial investors.

Table IV-1
“PRIORITY SUB-TASK OBJECTIVES”
in Support of the RII in Novgorod Oblast

Sub-task and Description of Activities	Results in Oblast municipality
<p>2/a Public infrastructure development strategies <i>The Urban Institute team conducted a seminar to guide local personnel in understanding data inputs and presentation requirements for “Infrastructure Plans” and “Special Investment Areas”</i></p>	<p><i>Three raion-cities attended the July seminar. Valdai and perhaps Borovichi are drafting “infrastructure plans” to help define infrastructure needs to be used as the basis for negotiations with investors as well as guide future infrastructure construction..</i></p>
<p>2/b Pro-active land privatization <i>The team instructed Land Committee and other City Administration personnel on all aspects of “pro-active land privatization” land sales events. It also organized local efforts to support oblast legislation aimed at clarifying “municipal land ownership” and the documentation to lawfully register land title with “ownership” status.</i></p>	<p><i>Thirteen raion-cities attended the June seminar and three raions attended the follow-up July seminar. Six small city administrations are actively supporting legislation by the Oblast дума and pursuing projects to define areas within their jurisdiction as “municipal” property. Once this has been legalized and recorded, these cities will market the property with the “right to own.”</i></p>
<p>2/c Land development arrangements (public-private partnerships) <i>The team conducted a seminar to explain these techniques</i></p>	<p><i>No direct results. Sub-task was dropped due to unfeasibility</i></p>
<p>2/d Economic development agency</p>	<p><i>No activity necessary. Oblast reorganization resulted in strengthening of previously-existing agency</i></p>

B. Priority Sub-Tasks in Velikii Novgorod (Municipality)

OBJECTIVES, ACTIVITIES AND EVENTS

The UI-COP initiated similar activities to deepen local capabilities in capturing development opportunities within Novgorod city. These closely paralleled counterpart activity in the oblast, although there was more intensive work in the city.

Sub-Task 3/a. Public Infrastructure Development Strategies . During the initial stages of land auction preparation (see “Sub-task 3/b” below), it became clear that the majority of auction property candidates were best suited for industrial sites. It was also clear that attracting property investment and development within these areas would be enhanced by if the city pursued creative administrative mechanisms to restore the “quality” of the industrial environment. Papers explaining and justifying “development packages” in the form of “special districts” were prepared for use by the City Administration, led by Dep. Mayor V. P. Antifeev. These papers are found in Appendix IV, Part A.

Implementation of many of these ideas required money, and the administration agreed to commit proceeds from the land auction to pay for “special district” activities. Unfortunately, no revenues were realized because no properties were sold. The city’s implementation of infrastructure development within “special districts” must await future budgeting decisions. However, the city is now utilizing its “infrastructure plan” as a tool to conduct negotiations with investors. Ultimately, this practice will lead to more equitable and “transparent” land disposition arrangements between the city and the investors.

Events:

- The Chief-of-Party conducted a seminar in February to explain “special district” arrangements and the usefulness of preparing “infrastructure plans” to help guide negotiations with investors and prepare future city facility construction programs.

Map of special district

Sub-Task 3/b. Pro-active Land Privatization in Velikii Novgorod first concentrated on the organization of a land auction, which the city administration scheduled for June, 1998. The procedural steps to undertake this event were drafted by the City Land Committee (designated “Organizer” of the auction) in December, approved by the administration in February, and authorized by a city *duma* vote in March. The approved process schedule is shown in Appendix IV, Part C; a comparison is encouraged between this process and that developed for the oblast raions, which is shown in Appendix III, Part B. Problems in meeting the time schedule were encountered early. For instance, the necessary *duma* authorization which was to take place in February was not completed until late March. Similar slippage occurred throughout the process, but the most critical factors were: (1) final selection of auction sites not completed until early May; meaning that (2) publicity and advertising were not inaugurated until the same time; and (3) preparation of descriptive information packets was delayed for the same reason.

The land reform program’s technical advice focussed on two aspects of land marketing: **supply** (by helping to identify high quality sites which were likely to be sold successfully to investors) and **demand** (by helping to broaden the likely buyer pool). Site selection became the most critical supply-side step in the city’s auction preparation. It was made difficult for two reasons: (1) the number of eligible sites was reduced by the unwillingness of several occupying enterprises to voluntarily vacate their allocation rights; and (2) many superior sites were removed from the auction by the city in order that they could be negotiated directly with seriously interested industrial investors. The consequence of these factors was to shrink both the number and quality of sites offered.

Demand factors focussed on two aspects of marketing: (1) organization and financing of a well-targeted advertising and publicity campaign; and (2) preparation of descriptive informational materials that would convey meaningful information about real estate and the community. Marketing assistance took the form of recommending media campaigns (including electronic media “web-sites”), developing investor contact lists, organizing press conferences, information briefings, and site visitations; and support for the administration’s making direct contact with U.S. investors through the Department of Commerce Foreign Trade offices. (See *Appendix IV, Part B*). Nevertheless, the combination of few and inferior sites and the short, under-funded advertising campaign (under \$300 was spent by the city administration) produced an inadequate market response. The consequence was that no registrants appeared for the auction, and on the eve of its scheduling, it was cancelled by the administration. An evaluation of the city’s auction preparations is included as Appendix IV, Part C.

Events:

- Professionally-organized “pre-auction” events were held to help maximize publicity about the June land auction. Press conferences, pre-auction information meetings, and site visits were organized in May and June to disseminate auction information

Following the unsuccessful experience of the land auction, the land reform program put renewed energy into two initiatives: first, it re-evaluated the role of land reform as part

of an effective program for marketing sites for economic development; and, second, it worked with city officials to seek a clarification of the city's vacant land area as "municipal" property in order that the city administration could in the future market the "right to own."

Pursuing the first initiative involved a critical re-examination of the usefulness of auctions as the best technique to sell property. The failed auction clearly taught that the economic development interests of the city would not be subordinated to the simple merits of privatizing land through open, competitive sales. (Once the most attractive parcels were identified--using the COP's advice during the auction's "site selection" stage--most of these "prime sites" were withdrawn from the auction package and made the subjects of direct negotiations between the city administration and prospective (mainly foreign) investors.) Meaningful negotiations for prime industrial sites usually take months, because the investors are engaged in a complex evaluation of economic and political circumstances. Obviously, this lengthy process is incompatible with the one-time, single-event, "roll-the-dice" atmosphere of a land auction. Recognizing this makes it clear that "pro-active marketing" by Novgorod city should take one of two forms: (1) marketing-cum-direct negotiations for "key" economic development sites; and (2) auctions for secondary industrial sites, residential parcels, and other non-economic base. Appendix IV, Part B contains materials explaining this two-fold land privatization strategy.

The second initiative, clarification of the city's "municipal" land area, was pursued in harmony with parallel work in Novgorod Oblast (see earlier discussion). The chief difference was the city's approach in defining the territorial extent of the properties. Since Velikii Novgorod had benefited from numerous advisory missions to help prepare its "land inventory," it possessed abundant data to support the designation of large swaths—in contrast to individual parcels—to qualify for "municipal" ownership status. [The basic test is a determination that vacant urban land "cannot legally be sold" or that it lies inside the facilities or rights-of-way areas of Russian Federation (RF) agencies, enterprises, or national utilities.] This data facilitated the city's designation of "municipal" in the form of a "blanket" designation embracing several hundred hectares of eligible property. With the assistance of land reform team experts, the city administration prepared maps and tables and these documents are in now the process of being registered as "municipal." Once this step has been accomplished, the properties can be marketed by offering a high quality of land title to potential buyer-investors.

Sub-Task 3/c. Land Development Arrangements ("public-private partnerships")

The city administration preferred not to disclose its negotiating strategies or broaden participation by outsiders in conducting its negotiations with potential investors. Therefore, the team's contribution was limited to making indirect contributions to city skills in negotiating with investors for economic development sites ("industrial" in character). No direct results could be identified in terms of "deal-making."

ISSUES ENCOUNTERED

- Velikii Novgorod remained convinced that did not possess sufficient legal authorization to proceed with directly marketing the “right to own” vacant land. As a result, the rights which it offered at the land auction—to construct buildings as a condition of land ownership eligibility—were only “partial” rights. When matched against the competition posed by the city’s direct investment promotion program and negotiation of such rights to interested investors, the auction package was doomed to fall short of its marketing objective.
- Lack of funding hindered the advertising and publicity campaign undertaken by the city during May and June of 1998.
- As a result of the unsuccessful auction, no revenue funding source was available to pay for even the modest expenditures proposed to undertake “special district for economic development” arrangements. Despite the administration’s commitment to use auction proceeds to establish “special district accounts,” the lack of auction sales yielded no revenues. This funding shortfall meant that no substantive steps toward district establishment could be taken.
- Some utility monopolies continue to resist developing a transparent system of sharing project cost information with prospective investors.
- The administration holds its property negotiation information closely and discourages participation by non-city personnel in its negotiations for property rights at key industrial sites.

RESULTS AND ACCOMPLISHMENTS

- Concurrent with oblast activity (see previous discussion), Novgorod Velikii has completed its documentation as part of “pro-active land privatization” to define ‘municipal ownership.’ Once the extent and location of its ownership has been legislated by the Oblast Duma and authorized by the RF’s *Minzemprom*, the city will proceed to market this municipal property through competitive sales events.
- Velikii Novgorod has identified a “special district for economic development,” and an “infrastructure plan” of all city utility systems within this area has been assembled.
- The city administration is actively utilizing the tools and techniques developed as part of its land auction preparations to assist in its continuing program of economic development. Improved, concise “Information Packets,” (including the “Infrastructure Plan”) and “Technical Passports,” are now used to assist in marketing and direct negotiations with private investors. These improved tools will also be utilized as part of future auction preparations.

Table IV-2
“PRIORITY SUB-TASK OBJECTIVES”
in Velikii Novgorod

Sub-task and Activities	Results in Novgorod Velikii
<p>3/a. Public infrastructure benefit strategies <i>The COP instructed Land Committee staff and utility service personnel in data inputs and presentation formats for “Special Economic Districts” indicating “Infrastructure Plan” components.</i></p>	<p><i>The administration drafted its first “Infrastructure Plan” and used it as a reference for property negotiations for industrial properties. The city administration also endorsed the “special district” arrangement and identified a candidate area in which to guide future investment into employment-generating industrial users. It assigned responsibility for administering the functions to organize the district to personnel of the Land Committee.</i></p>
<p>3/b Pro-active land privatization <i>The COP instructed Land Committee and other City Administration personnel on all aspects of “pro-active land marketing” to prepare for the June 20th and future land auctions. Following this, the program team supported city administration activities to clarify the extent of Novgorod’s “municipal” land.</i></p>	<p><i>No registrants signed up for the June auction properties. However, the city announced that it will regularly hold auctions and tender competitions in the future. In addition, the city administration is actively engaged in identifying “municipal” land within its territorial jurisdiction. Once this has been properly documented and registered, this land will be marketed by the city offering the “right to own.”</i></p>
<p>3/c Land development arrangements (public-private partnerships)</p>	<p><i>No activity</i></p>

C. Coordination of the Real Estate University Partnership

USAID operates the University Development Linkages Project (UDLP) through a number of US universities. The broad objective of the program is to strengthen the university receiving assistance in its ability to provide high quality, sustainable educational opportunities to its students. To date, there have been no such partnerships in the Russian Federation and USAID in 1997 saw promise in a partnership between a US and Russian university to develop and offer a quality real estate curriculum. Novgorod University was one of four to be investigated as a potential partner in curricula for land economics, real estate, and property administration.

The “*Performance Indicator*” for this sub-task -- a partner university identified to work in a partnership with a Novgorod institution—was not realized. Funding sources were based in a related U.S. aid program and these were distributed to other countries during the Novgorod RII operations. Accordingly, the Land & Real Estate Reform project reallocated unused “Level of Effort” amounting to 20 days to support a land reform program of high priority to both the city and the oblast. This project, “Extending Land Use Regulation into Novgorodskii Raion,” took the form of a study and development of land use regulatory measures into the jurisdiction of Novgorodskii

Raion which surrounds the city of Novgorod on all sides. The substituted project is described under Component B, Sub-task 2.

V. Satisfaction of Performance Indicators

The table on the next page summarizes in brief form the results of the Land & Real Estate Reform program for 1997-98. The table provides a comparison between what was targeted at the outset of the program (excerpted from the initial "Work Plan" approved in October, 1997) and actual results.

Most of the program objectives were met, or nearly so. Most of the successes were tasks over which the program had direct control, e.g., conducting seminars and training sessions. The major shortfalls were in activities over which there was less control, e.g., consummating land transaction sales. There were political-institutional, as well as economic reasons for these shortfalls. For instance, the oblast cities chose not to participate in the June land auction, and this meant that in these jurisdictions no property sales could be traced to land reform program activities. The city of Novgorod Velikii chose to reserve its "prime" property sites for conventional negotiations, and this decision, accompanied by its meager advertising effort, doomed the auction-based activities to fall short of their objectives. In the "university partnership" effort, the project undertook activities to "set the table" for implementation of a well-grounded college curriculum, but U.S. budget reallocations rendered impossible any concrete results in this sub-task.

Table V-1

Task	Results or Accomplishments
<p>A/1 Improvement in Tax Structure for Investment</p> <p><i>All objectives met</i></p>	<p>Seminars are conducted in 3-5 oblast-designated places Seminars were conducted in March and April in Novgorod. Officials from four municipalities received training in PTIMS principles.</p> <p>“Roll Out” Model and manual produced and successfully distributed. The manual was produced in September</p> <p>At least one Oblast jurisdiction commits to implementing modern property tax system. Borovichi announced its intention to install a “PTIM” fiscal cadastral system by December, 1998</p>
<p>A/2 Legal & Regulatory Framework</p> <p><i>Stated objectives met</i></p>	<p>At least four draft or revised laws or regulations prepared or major comments provided on drafts developed by the Oblast on high priority legislative topics.</p> <p>Comments were submitted to Novgorod Oblast officials on four legislative items, including three from Novgorod Velikii</p>
<p>A/3 Land Reform & Market Stimulation</p> <p><i>Objectives met</i></p> <p><i>Local capabilities deepened, but sales objectives were not met</i></p> <p><i>Objectives not met</i></p>	<p>Titling and registration conducted in at least three places designated by the oblast. A two-day seminar was conducted in June. It was attended by approximately 70 officials from the oblast juridical agency and municipalities. This seminar was utilized to expose the attendees to a “model” registration system. Ten area offices were set up by the new registration agency; the land reform project assisted in two of these.</p> <p>At least 20 properties were identified for "pro-active" disposition and their “highest and best use” was determined. Eight sites were identified to be sold by four different raion-municipalities as part of a proposed land auction to be held concurrently with Novgorod City. However, this concurrent sales event did not occur because the raions were never empowered to sell the “right to own” as they preferred to do.</p> <p>At least 3 properties are marketed using techniques advanced by the project. No properties were marketed for the reason cited above</p>
<p>B/1 Legal & Regulatory Framework</p> <p><i>One piece of legislation is still in progress</i></p>	<p>At least two draft or revised laws or regulations prepared on drafts developed by the city on high priority legislative topics. A law on privatization of land occupied by condominium owners was drafted and under consideration by the city дума and administration. Three other laws were reviewed and analyzed before their adoption by the city дума.</p>
<p>C/2 Coordination & Priority Sub-Tasks—Oblast</p> <p><i>Objectives met</i></p>	<p>Implementation begun on at least two of the four "priority tasks" by oblast or a secondary city. Borovichi, Chudovo, and Valdai are all analyzing areas as “special investment zones” and Valdai had utilized “infrastructure plan” information as a planning and marketing tool</p>
<p>C/3 Coordination & Priority Sub-Tasks—City</p> <p><i>Objectives met</i></p> <p><i>Objective not met</i></p>	<p>Seminars conducted on all four “priority task” strategies in the city and/or oblast. Training and materials were discussed and distributed on “special district” techniques, the usefulness of preparing “infrastructure plans,” and economic development through “pro-active land privatization”</p> <p>At least 3 properties marketed using “Pro-active” techniques advanced by the project. The city’s June land auction failed to attract any bidders for the properties offered.</p>
<p>C/4 University Partnership</p> <p><i>Objective met</i></p> <p><i>Objective not met</i></p>	<p>2 or 3 model curricula developed. Model curricula were developed for training in business principles of the real estate professions.</p> <p>Partner university identified. Lack of a funding source resulted in a shift of Urban Institute resources out of this sub-task. As a substitute, a land use regulatory expert worked with oblast and city officials in preparation of a land use policy plan for areas of Novgorodskii Raion.</p>

INDEX OF MATERIALS

Task 1: Improve the Tax Structure for Investment

Item/Title	Contained in “Roll-Out Manual”?	Contained in Final Report Appendix?
Analysis of questionnaire results Author: CREA Date: November, 1997	No	No
Information on Property Rights In Property Taxation System Author: PADCO Date: April, 1998	No	Yes, Appendix I, Part B
Legal and Administrative Framework for Market Value-Based Taxation of Real Property	Yes	No
Process charts for Property Tax Admin. & Information. Systems Author: NERA/CREA Date: December, 1997	No	No
Preparing for a Property Tax System Author: NERA Date: December, 1997	No	
Questions and Answers About the Property Tax Experiment in the Russian Federation Author: NERA Date: December, 1997	No	Yes, Appendix I, Part C
Requirements for the Automated Management System for managing real estate taxation (AMSRE) Author: NERA Date: November, 1997	No	Yes, Appendix I, Section C

Task 2: Establish the Legal and Regulatory Framework

Item/Title	Contained in "Roll-Out Manual"?	Contained in Final Report Appendix?
Comments on Draft Novgorod Oblast Ordinance "ON Regulation of Land Relationships Within the Territory of the Novgorod Oblast" Authors: Urban Institute (S. Butler) and The Rural Development Institute September, 1998	No	Yes, Appendix II,
COMMENTS ON PENDING LEGISLATION ON IMMOVABLE PROPERTY RELATIONS IN THE OBLAST AND CITY OF NOVGOROD Authors: Urban Institute (Butler and Smith) Date: 17 November, 1997	No	No
Memorandum: Structure of Land Use Regulations for Novgorodskii Raion Author: Urban Institute (Hart) Date: 1 September 1998	No	Yes
"Legal Basis of Land Acquisition for Development Purposes in Russia" Author: PADCO April, 1998	No	No
"NOVGOROD; SPECIAL DISTRICT" Author: Urban Institute (Butler) Date: January 19, 1998	No	No
Outline of work to be performed by Urban Institute in support of Novgorod Oblast Land Regulation project Author: Urban Institute (Miller) Date: July, 1998	No	No
Program: " <i>RULES FOR LAND USE AND DEVELOPMENT IN TERRITORY ADJACENT TO THE CITY VELIKII NOVGOROD'S BOUNDARIES</i> " Author: Novgorod Oblast Working Group Date: April, 1998	No	No
Proposal for Work Program Regarding Novgorod Land Legislation Author: Urban Institute (S. Butler) Date: February, 1998	No	No
Proposed Revisions to Draft Novgorod Oblast Ordinance "On Regulation of Land Relations Within The Territory of the Novgorod Oblast" Authors: URBAN INSTITUTE (S. Butler) and The Rural Development Institute Date: September, 1998	No	Yes, Appendix II, Part D
Review of the Real Estate Legislation of Novgorod Region and City, Author: Urban Institute (S. Butler) Date: August 1, 1997	No	No

Task 3. Land Reform and Market Stimulation

Item/Title	Contained in “Roll-Out Manual”?	Contained in Final Report Appendix?
Draft “DECISION Certifying that previously completed buildings have been put into operation” Author: PADCO Date: March, 1998	Yes	No
Draft “DECISION On the Approval of Vested Real Estate Rights; Author: PADCO Date: March, 1998	Yes	No
Information on Property Rights in Property Taxation System Author: PADCO Date: April, 1998	No	Yes, Appendix I, Part B
MODEL PROVISIONS for Interaction among Oblast Judicial Agency for Title Registration and Other Rayon-Based Agencies Author: PADCO Date: June, 1998	No	Yes, Appendix II, Part A
Registration Office Operational Procedures Author: PADCO Date: August, 1998	No	Yes, Appendix II, Part A
RESOLUTION of February 18, 1998, No 219 On Approval of the Rules on Keeping a Unified State Register of Rights to Real Estate and Transactions with it Author: RUSSIAN FEDERATION GOVERNMENT	No	No
Unified State Title Register and Exchange of Information on the Raion Level Author: PADCO Date: May, 1998	No	No

IV. Component C. Coordination and Priority Sub-tasks

Item/Title	Contained in “Roll-Out Manual”?	Contained in Final Report Appendix?
“Analysis and Recommendations on Auction” Author: Urban Institute (Miller) Date: June, 1998	No	Yes, Part IV, Section C
“NOVGOROD; SPECIAL DISTRICT,” Paper Author: S. Butler DATE: JANUARY 19, 1998		
Oblast auction preparation steps Author: PADCO Date: March, 1998	Yes	Yes, Part III, Section B
“Pro-active city process” Author: City of Novgorod Land Committee Date: December, 1997	No	Yes, Part IV, Section A
“Pro-active Marketing—Economic Development; Land Auctions” Author: Urban Institute (Miller) Date: July, 1998	No	Yes, Part IV, Section D
“Pro-active Marketing—Enterprise” Author: Urban Institute (Miller) Date: December, 1997	No	No
“Special District”-City Author: Urban Institute (Miller) Date: February, 1998	No	Yes, Part IV, Section E
“Special Investment Areas”-Oblast Author: Urban Institute (Miller) Date: June, 1998	No	Yes, Part IV, Section E
“Special Investment Areas/Districts”-Outline Author: Urban Insitute (Miller) Date: July, 1998	No	Yes, Part IV, Section E, Sub-section3

