REFORMING THE SAFETY NET?
The Politics of Housing in the Russian Federation

Linda J. Cook
Brown University

NCEER
The National Council for Eurasian and East European Research
910 17th Street, N.W.
Suite 300
Washington, D.C. 20006

TITLE VIII PROGRAM
Project Information

Contractor: Brown University
Principal Investigator: Linda J. Cook
Council Contract Number: 814-01g
Date: August 16, 1999

Copyright Information

Individual researchers retain the copyright on their work products derived from research funded through a contract or grant from the National Council for Eurasian and East European Research (NCEEER). However, the NCEEER and the United States Government have the right to duplicate and disseminate, in written and electronic form, reports submitted to NCEEER to fulfill Contract or Grant Agreements either (a) for NCEEER's own internal use, or (b) for use by the United States Government, and as follows: (1) for further dissemination to domestic, international, and foreign governments, entities and/or individuals to serve official United States Government purposes or (2) for dissemination in accordance with the Freedom of Information Act or other law or policy of the United States Government granting the public access to documents held by the United States Government. Neither NCEEER nor the United States Government nor any recipient of this Report may use it for commercial sale.

The work leading to this report was supported in part by contract or grant funds provided by the National Council for Eurasian and East European Research, funds which were made available by the U.S. Department of State under Title VIII (The Soviet-East European Research and Training Act of 1983, as amended). The analysis and interpretations contained herein are those of the author.
Executive Summary

In 1993 the Russian government set out to transform the structure of ownership and financing of its housing sector. The reform was designed to solve numerous problems of equity and efficiency in the inherited system. It would take away benefits from large sectors of Russian society, and redistribute both rights and financial burdens among institutions. The present paper examines the outcomes of reform efforts to early 1999, and analyzes the political and institutional forces—the Russian Federation government, municipalities, the legislature, enterprises, veterans’ organizations, households, and international organizations—that produced those outcomes. It also assesses the reform’s implications for social welfare. The research draws on a range of published sources as well as a series of fifteen current interviews with policy makers, practitioners, and academics, both Russian and American, involved in Russian housing policy.
Introduction

In 1993 the Russian government set out to transform the structure of ownership and financing of its inherited housing sector following World Bank guidelines. It proposed to privatize most housing, transfer costs to residents, eliminate subsidies, and provide means-tested benefits to defer costs for the poorest. The reform was designed to solve deep problems of equity and efficiency, in the process taking away benefits from large sectors of Russian society and redistributing both rights and financial burdens among institutions. The present paper examines the outcomes to early 1999, and analyzes the political and institutional forces—the federal government, municipalities, the legislature, enterprises, veterans' organizations, residents, and international organizations—that produced those outcomes. It also assesses the reform's implications for social welfare. The research draws on a broad range of published sources as well as a series of fifteen interviews with policy makers, practitioners, and academics involved in Russian housing policy.

Russia's Housing Inheritance

In 1991 most of Russia's housing was owned by the state. Though there was some private housing in smaller cities and rural areas and a tiny cooperative sector, 67% of the total housing stock, 79% of urban stock, and 90% of that in the largest cities was controlled by either municipalities or state enterprises, divided about evenly between the two. Municipalities and enterprises in turn allocated the housing and subsidized its maintenance and operations. Citizens obtained housing from waiting lists. Waits were long and shortages endemic, but once residents got apartments they enjoyed very strong tenancy rights including lifetime occupancy, rights to inherit and lease, and the near-impossibility of eviction. Payments for housing were nominal: maintenance charges, at a flat rate per square meter.

1 Raymond J. Struyk, Restructuring Russia’s Housing Sector, 1991-1997 (Washington, 1997)
had not been raised since 1928, and while utility charges had increased somewhat, both remained far below real costs.

This system presented numerous problems of equity and efficiency. Subsidies were regressive, providing greater benefits to those with more or better housing, and this became increasingly problematic as economic stratification grew. The near-absence of a housing market limited movement, life-cycle changes in housing use, and, especially, labor mobility in an economy with rising unemployment. In addition, the broader project of economic reform called for both government and enterprises to get out of the business of administering most housing and other social assets, turning them over to individuals and the market.

But by far the largest factor driving reform was the burgeoning subsidy burden borne by municipalities and enterprises in the wake of the January 1992 price liberalization. At that point maintenance prices increased dramatically and energy prices soared, while housing payment exempted from liberalization and remained frozen at their previous levels. As a result, the percent of housing costs covered by residents fell from an estimated 18% at the beginning of 1991 to 3.1% in 1994. Over the same period the federal government passed on additional repair and renovation responsibilities to the localities. Housing became by far the largest item in municipal budgets, an unsustainable burden accounting on average for about 30% of total outlays, crowding out spending in other areas such as education and health care. Housing also became a serious obstacle for enterprises seeking greater profitability and efficiency. Enterprises spent on average 14% of their total wage bill on social services, with housing as the largest component; industrial enterprises spent 20%.

(Commander et al., 1995, p. 53) Finally, housing expenditures became concentrated on utility subsidies, especially rising energy costs. Appropriations for maintenance and repair fell, according to Gosstroi's estimates, from 60-70% of needs in 1990 to 25-30% in 1993, leading to massive deferred

---

maintenance and deterioration of housing stock. (World Bank 1995a) The need for reform was urgent, and late in 1992, while still ignoring most other areas of social policy, the government set out a concept and passed legislation that remains the basis for housing reform efforts in 1999.

The Reform Program

The reform program had four major components:

1) Enterprises were to divest all their housing - about 40% of Russia's total urban housing - to municipalities. In 1993, privatizing Russian enterprises were legally prohibited from owning housing and related facilities. Within six months of privatizing, housing assets were to be removed from their balance sheets and transferred to local governments, which were required to accept them. Residents would remain in place. Divestiture and municipalization of enterprise housing were expected to achieve several objectives: First, enterprises would be relieved of housing's financial and administrative burden, allowing managers to concentrate on production and profits. Second, financial resources would be freed so that subsidies could be turned into higher wages, allowing workers to pay for rent increases and other services. Third, the link between housing and employment that favored workers at larger enterprises and formed an obstacle to labor mobility would be broken. Divestiture would impose a huge additional financial burden on municipalities receiving the housing, and in the short term the federal government promised additional budget transfers. Divestiture agreements could also provide that enterprises remain involved in financing and managing housing jointly with municipalities for a transitional period.

Housing reform involved several other, less central components not covered here, including measures to introduce competitive bidding for housing maintenance contracts, to break up local utility monopolies, to develop mortgage lending and housing purchase subsidies, as well as special programs to provide housing for retired military officers and those resettling from the North.


2) Municipalities would privatize most housing to residents. Though some modest privatization had taken place earlier, new legislation in December 1992 simplified procedures and allowed for essentially free distribution of housing to tenants. Most Russians could apply to privatize their housing for a nominal fee regardless of living space. The process was voluntary and not subject to time constraints. Numerous benefits were expected from privatization. Owners would be able to buy and sell units, creating a housing market. The overhoused, such as single elderly people, could sell to underhoused families, easing shortages. Large numbers of households would gain a tangible asset that could be used as collateral to raise money for small businesses and other uses. Broadly-distributed property ownership would aid development of a middle class and generate political support for reform.

As a large majority of urban Russians live in multi-unit apartment houses, reformers anticipated that after privatization residents would form condominiums to manage and maintain their buildings, and that these would become the dominant form of housing organization. World Bank analysts advised that non-privatizers eventually be encouraged to move into separate buildings in a residual public sector, to allow for fully private ownership and management of the majority of buildings (World Bank 1995a). But for a transitional period, as buildings were privatized unit by unit, new owners would normally bear no additional costs except a small property tax. In order to avoid creating financial disincentives to privatization, municipalities would continue to subsidize maintenance and utilities for privatized units at the same level as non-privatized units.

3) Rent Reform: housing maintenance and utility charges would be raised gradually to achieve full cost recovery from residents. Framework legislation in December 1992, provided for increased housing payments and a September 1993 government resolution set out the parameters: payments would begin to rise in 1994 and would increase in 20% annual increments over a 5-year period to cover full operating costs in 1998. Municipalities implementing the policy could use any

---

A combination of maintenance and utility increases to reach the annual 20%. Legislation provided that tenants who fell six months behind in payments could be evicted to dormitory-type housing. This was the linchpin of reform, both for municipalities and from a social welfare perspective. Payments by residents would replace the present regressive and burdensome universal subsidies. The government would also try to remove the myriad “privileged” housing subsidies inherited from Soviet days. Costs to residents would rise, but reformers argued that the increases would be tolerable: though wages and incomes had fallen by more than one-third in 1992-93 the rent freeze had let households paying so little for housing - estimates were at less than 1% of household income - that most could afford to pay more. Housing payments would increase gradually, in sync with the anticipated growth of incomes.

4) A system of targeted housing allowances would accompany rent reform and replace the existing universal subsidies. Federal legislation provided that no household would pay more than 15-20% of its income for the “social norm” of housing, and that eligible households could apply and receive an allowance from the municipality to make up the difference. The allowance would be paid directly to service and utility providers. Enterprises were required to pay allowances for eligible households in buildings they still administered. Households would have to pay 100% of charges for space above the norm, creating incentives for the poor to move to smaller units; municipalities were required to help them find suitable housing. Reformers argued that the payment cap on housing charges combined with allowances should allow virtually all households to keep up payments, after some reallocation of housing space. The policy was designed to blunt political opposition to reform on equity grounds and to avoid the deepening of poverty as a consequence of rent increases. Housing allowances became the first means-tested poverty relief program to be implemented broadly in Russia.

Puzanov and Koutakova, “Privatizing.”
World Bank, Russia
The Politics of Housing Reform

The Russian government, working mainly through its Economics and Construction Ministries, MinFin and Gosstroi, developed the housing reform program in 1992. A comprehensive piece of framework legislation, the Law on Fundamentals of Federal Housing Policy, was passed by the Supreme Soviet in December with little debate or even comprehension. More specific measures were put into place by governmental and presidential decrees in 1993 and 1994. The reform is a textbook case of World Bank promoted-policy. From the coherence and “fit” of its various provisions, to its insistence on nearly full privatization, to its reliance on means-testing and targeting, to the percent of income that poor families are expected to devote to housing costs, the reform follows closely Bank prescriptions and what it defines as “best case” Western practice. Though it is difficult at this point to re-trace the policy process, the influence of international actors in the initial formulation of housing reform policy is striking.

As the reform began to create costs and benefits, though, various constituencies and institutions within Russia reacted, often selectively supporting and opposing various elements. After the December 1995 elections, the Duma was dominated by a Communist-led left that claimed commitment to housing as a “public good” and blocked progress in several areas. Veterans’ and pensioners’ organizations mobilized to defend their housing subsidies, even as pensioners took the lead in privatizing their apartments. Municipalities raised rents but resisted the transfer of enterprise housing. The increasingly severe financial constraints faced by all actors strongly influenced their calculations and behavior. The result was progress in some aspects of reform, obstacles, lock-up, and failure in

---

11 Interview, conducted by author, with Raymond Struyk, Senior Fellow, Urban Institute, April 21, 1999. Struyk noted that this legislation was pushed through by a small group of deputies and that most probably did not understand it. At the time the Supreme Soviet was preoccupied with higher politics, specifically the effort to remove Gaidar, and most groups that would be affected by housing reform were not mobilized.

12 The influence of the World Bank’s prescriptions should be obvious to anyone who reads through its publications on Russia’s housing policy that are listed in these notes.

others. The following sections will focus on the interplay among these institutional and political forces in shaping the reform's outcome.

**Enterprise Divestiture: The Lock-Up Effect**

In the first few years divestiture of enterprise housing proceeded at a steady pace. The cumulative total of 1991 stock divested grew from 2.9% in 1992 to 26.9% in 1995; after that, however, the rate of transfer slowed to about 1% per year, reaching a total of 31% in early 1999 (see Table 1). Enterprise directors were initially reluctant to give up housing that they saw as an important draw for skilled labor; the financial savings from early divestiture proved to be modest; taxes increased, and employees did have somewhat more difficulty finding housing. But enterprises that divested substantial housing found real gain in the reallocation of senior managers' time and cuts in the maintenance workforce. As maintenance costs and especially energy prices continued to rise, their incentives to divest grew. Recent survey evidence indicates that a large majority—some 70%—of managers now favor the complete transfer of housing to their municipal government. Nevertheless, divestiture has virtually stopped.

**Table 1**

**Enterprise Housing Divestiture and Municipal Housing Privatization in the Russian Federation, 1992-1998**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cumulative Enterprise Housing Divested</td>
<td>2.9%</td>
<td>26.9%</td>
<td>31%</td>
</tr>
<tr>
<td>as % of total departmental* stock</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cumulative Municipal Housing Privatized</td>
<td>8.2%</td>
<td>35.9%</td>
<td>40%</td>
</tr>
<tr>
<td>as % of total municipal stock</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: Data for 1992 and 1995 are from O'Leary et al., "Enterprise Housing Divestiture," p. 96; for 1998, from Struyk interview.

*Departmental housing includes some farm housing and housing controlled by federal ministries and agencies; only housing of privatized enterprises has been divested.

14 O'Leary et al., "Enterprise Housing Divestiture.
15 Vinogradova, "Provision of Social Benefits."
The reason is that municipal governments have become unwilling or unable to take over the costs of additional housing. In 1991 enterprises actually administered a slightly higher percentage of urban housing than municipalities. During the early years of divestiture, the total housing stock of many cities increased by 50% or more. Privatization and rent reform had moved forward as envisioned in the legislation; these costs would have been manageable, but they did not. In addition, much of the transitional federal aid that had been promised to cities for divested housing was not forthcoming, so federal budget transfers covered only a fraction of the actual costs. As a result, municipalities simply began to refuse housing stock. At present, divestiture remains in a situation of "lock-up" - enterprises have no legal right to keep housing and for the most part do not want it, but municipalities refuse to accept it.

Where municipalities do agree to divestiture, they often negotiate a cost-sharing or joint-management agreement that specifies a continuing role for the enterprise in its funding and management. According to one knowledgeable observer, "administrative divestiture is part of a complex political deal between the enterprise and municipality involving taxes, services, etc." Municipalities have every incentive to drive a hard bargain, and the enterprises' only recourse is to take the city to court if negotiations break down. Such deals, typical of the informal barter relations that have become so prominent in the Russian economy, contribute to the non-transparency of the divestiture process, making it difficult to evaluate how much "divested" housing is really divorced from its enterprise. It also obscures the actual transfer of funds between enterprises and municipalities, complicating the creation of an effective, rational taxing system that might actually allow cities to finance housing.

The politics of divestiture has been largely played out between enterprises and municipalities. The federal government has passed resolutions promoting the process, but failed to provide most of the money that would actually facilitate it. The World Bank has provided effective incentives - mainly

---

16 Vinogradova, "Provision of Social Benefits."
energy-saving technologies to those who meet goals - in a few selected cities. The legislature has not taken much interest, and people living in the housing see few direct effects. Overall, enterprises continue to bear substantial financial and administrative responsibilities for housing, reluctantly continuing to provide social welfare to their employees and others.

But the outcome is not simply the status quo ante. Rather, having been denied the legal right to own housing and related infrastructure, enterprise managers will no longer maintain these assets. Survey evidence indicates that managers assume housing will eventually be transferred, and won’t invest scarce resources in assets they can’t keep. Much housing is thus left in limbo, drastically underfinanced or totally abandoned. The research leader for a recent enterprise survey, sponsored by Technical Assistance to the Commonwealth of Independent States, concludes that the present legislative framework gives managers perverse incentives to let housing and other social assets deteriorate while divestiture remains stalled. She proposes that the government abandon the goal of full divestiture and give enterprises ownership rights to the housing and related infrastructure they are willing to support before most deteriorates beyond repair.

Privatization: “Failing to Get to the End”

Privatization followed a trajectory similar to that of divestiture. The cumulative total of 1991 municipal housing units privatized grew from 8.2% in 1992 to 35.0% in 1995, then the rate decreased to about 1% per year, reaching a total of some 40% in 1999 (see Table 1). Privatizers displayed distinct demographic and socio-economic patterns. Pensioners had the highest rates, followed by those of high occupational status and white-collar workers. (The data in Table 2, though based on surveys in Moscow, is fairly representative of the overall picture.) Survey data on motivations explain these

---

17 Interview, conducted by author, with Mari Kuraishi, Corporate Strategy Group, Strategy and Resource Management, World Bank, April 13, 1999
18 Kuraishi interview.
20 Vinogradova, “Provision of Social Benefits.”
patterns. Pensioners privatized mainly in order to will their apartments to non-resident relatives. Those with higher occupational status did so because they tended to have better, more valuable units. The overall results seem impressive: in 1999, privatized housing, combined with the roughly 20% of Russian housing that was already private or cooperative, equalled 60% of the entire housing stock.

By 1995, however, the potential for privatization seemed to be exhausted while a huge public sector remained. There were major obstacles to further progress. On the one hand, unless residents wanted to sell the apartment or will it to a non-resident, privatization provided no advantages over their existing strong tenancy rights. On the other, since privatizers were promised continued subsidies only for a "transitional" period, most residents believed they would eventually have to pay the costs of maintenance and utilities for privatized apartments. With wages and incomes dropping sharply again in 1995, few were willing to risk the additional costs. And since the right to privatize was open-ended, they could always do it later if conditions changed.

Municipalities also had little interest in continuing to promote the process, since in the short term it gave them no relief from the subsidy burden. Even the federal government, which initiated the policy, seemed desultory in its pursuit; the goals that it set for housing privatization were vague and

---

largely ignored, and it discussed but never acted on proposals from World Bank officials to set a deadline for free privatization that would pressure households to act. Privatization has not faced legislative opposition, since the Communists recognized that it was popular among their large constituency of pensioners. But neither does anyone have a strong vested interest in pushing it further.

The 40% of housing that has been privatized consists mainly of individual apartments in large apartment blocks, producing fragmented ownership patterns within buildings. The intent of reform was that privatized buildings would be converted into self-managing condominiums that would take over the cost of operations and contract with service and utility providers. Even with partial privatization, condominiums could be formed including municipal governments as part-owners. In fact the process almost never moves to this final stage: in 1997 among cities with the "best results" in condominium formation were St. Petersburg with 70 associations and Nizhny Novgorod with 66. Most condos are in newly-constructed rather than privatized buildings.

Here the Duma did block the necessary legislation for more than three years, and when the Law on Condominiums was finally passed in 1996 it produced little response. According to experts, most people are not interested in managing their buildings, which are filled with households of disparate income levels and attitudes, and have no idea how to assess the likely costs because of the continued non-transparency of housing finance. In sum, Russia has undergone a limited type of housing privatization: privatizers have taken legal ownership, but funding and management remain largely in the public sector. In the words of one Russian official, privatization has "failed to get to the end."

---

23 Interview, conducted by Elena Vinogradova, with Tatiana Belkina, Department Head, Institute of National Economic Forecasting, Russian Academy of Sciences, November 17, 1998.
26 Interview, conducted by author, with Igor V. Bychkovskii, Director, Institute on the Economics of the Housing-Communal Sector, Gosstroy, February 2, 1999.
Privatization has contributed to the creation of an active housing market in Russia. Current rates of housing turnover in at least some Russian cities are higher than U.S. levels. This is all the more remarkable since a chaotic banking system and astronomical interest rates have made mortgage lending virtually impossible. Most transactions reportedly involve a string of multiple simultaneous exchanges of housing units and money brokered by inventive real estate agents. This market facilitates job changing and life-cycle adjustments in housing use, and has begun to replace the old system of administrative allocation through municipal lists. Though there remain obstacles to residential mobility in Russia, including a registration (propiska) system in some regions, this is one very significant and intended accomplishment of reform.

Rent Reform: Assessing Cost Recovery

The transfer of housing maintenance and utility charges to households has been the most important and contentious aspect of Russia’s housing reform. It holds the greatest potential benefits for federal and municipal budgets, threatens to impose the greatest costs on the population, has been the object of the largest legislative battles and the most extensive efforts by Western organizations to aid and shape policy implementation. It has also been the most dynamic aspect of housing reform. After divestiture and privatization lost momentum, both federal and municipal governments turned renewed attention to rent reform and it remains the key restructuring effort in the housing sector in early 1999.

Table 3

Schedule for Share of Housing Costs to be Covered by Tenant Payments, planned, 1993 and 1996

<table>
<thead>
<tr>
<th>Year</th>
<th>1993 Schedule</th>
<th>1996 Schedule*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>15-20</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>20-40</td>
<td></td>
</tr>
</tbody>
</table>

---

Interview, conducted by author, with Olga Kaganova, Research Associate, International Activities Center, Urban Institute, April 13, 1999.
<table>
<thead>
<tr>
<th>Year</th>
<th>Range</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>60-80</td>
<td>*These sets of figures are not strictly comparable, as the 1993 schedule included operating costs only and the 1996 schedule included some longer-term maintenance costs. The original schedule for housing payment increases remained in effect through 1995 (see Table 3), and the share of costs paid by households increased from a few percent to 20-30%. In January 1996, as soon as the left had gained a dominant position in the Duma, it attacked and weakened the reform with three key provisions: 1) it reduced the pace of rent increases, extending the period of full cost recovery from 5 to 10 years, until 2003; 2) it placed a ceiling on the rent that could be charged to low-income households; 3) it made the annual percentage goals optional for municipalities, though they were still supposed to reach full recovery by the target date. The legislation not only slowed cost recovery - a development that reformers recognized as inevitable in the wake of the sharp decline in average incomes during 1995 - but gave local authorities increased discretion over when and how much to raise various housing charges. A mosaic of practices emerged, with payment patterns highly variable and often patently unfair.</td>
</tr>
<tr>
<td>1998</td>
<td>100</td>
<td>In the spring of 1997 Yeltsin appointed a new reformist team with Boris Nemtsov in charge of the housing sector. Nemtsov focused on rent reform as a key factor in overcoming budget deficits, and worked with World Bank officials to develop a set of federal standards for rent and utility charges.</td>
</tr>
<tr>
<td>1999</td>
<td>60</td>
<td>Astapovich et al., Obzor ekonomicheskoi politiki.</td>
</tr>
<tr>
<td>2002</td>
<td>90</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>
payments as well as mechanisms for stimulating reform. Municipalities were threatened with the loss
of federal housing funds if they failed to follow the guidelines or meet annual goals for cost recovery.

The federal standards initially failed to take account of cost differences within regions but did bring
regional costs and household payments closer to federal standards and step up pressures for rent
increases.

Most sources agree that the majority of Russian households are paying their housing and utility
charges and that rent reform has led to significant cost recovery for municipalities. Igor Bychkovskii
of Gosstro's Institute on Economics of the Housing-Communal Sector reports that 90-95% of
households pay where local authorities are organized and persistent about collections. Experts from
the World Bank and the Urban Institute who have reviewed the accounts of selected cities confirm that
households' payments are sufficient to allow a reduction of municipal expenditures. Cost recovery
has reportedly risen to about 50% at present, while only 2-3% of households have arrears
as of 6 months. Clearly rent reform has had some success, but there are several reasons to believe that it
is more modest than at first appears:

1) **Widespread receipt of housing privileges (l'goty) by Russian households.** Such
privileges, for veterans, various categories of civil servants and others, usually provided as an
exemption from a percent of charges, were entrenched in Soviet-era legislation. When housing
payments began to rise, these groups pressed to protect and extend their privileges. Veterans
organizations were especially effective, lobbying Duma committees almost daily on this and other
issues. The Duma cooperated, passing the Law on Veterans, which doubled the share of families

---

31 *Ekonomika i zhizn*, No. 15 (March, 1997), p. 27
32 Astapovich et al., *Obzor ekonomicheskoi politiki*
33 Interview, conducted by author, with Sergei N. Smirnov, Deputy Research Director, Moscow Higher
School of Economics, February 1, 1999
34 Bychkovskii interview
35 Struyk and Kuraishi interviews.
36 Belkina interview.
37 Interview, conducted by author, with Alexei S. Avtonomov, Director of Legal Department, Foundation
for the Development of Parliamentarism in Russia, February 1, 1999
receiving housing privileges.38 In the spring and again in the fall of 1997 it also rejected government proposals that would have reduced the housing privileges of state employees and veterans’ families and heirs.39

Local governments have also reportedly added privileges. It is difficult to judge their cumulative size, but one scholar credibly estimates that privileges cover roughly 50% of rent and utility payments for 50% of all Russian households while an even higher percent receive at least some privileges.40 Even the best-informed Western expert admits that he is uncertain whether privileges - mostly unfunded federal mandates - are credited as housing payments in municipal accounts.41 Widespread privileges obscure the actual extent of municipal receipts and sustain a system of untargeted subsidies that the reform is intended to eliminate.

2) Deferral of rent and utility payments for households experiencing wage and other arrears. In at least some municipalities, such households can delay payments without penalty. By 1995 wage, pension, and unemployment benefit arrears had become large and persistent. While many affected households may not defer payments because they have multiple sources of income, a 1998 VTsIOM survey found that most workers with wage arrears did have debts, including housing debts.42

3) The near-absence of eviction as a sanction for non-payment. Eviction has been legalized and there are reported instances, but these remain few. One recent Russian study reports, “As regards the legal possibility of eviction to dormitory housing for rent arrears of more than six months, local authorities avoid its use in every possible way.”43 Households that have privatized their apartments are apparently exempt, and though their utilities can be shut off, the absence of individual

---

38 Astapovich et al., Obzor ekonomicheskoi politiki
40 Interview, conducted by author, with Alexander S. Puzanov, Project Manager and Board Member, Institute for Urban Economics, February 5, 1999.
41 Struyk interview.
42 Interview, conducted by author, Marina Krassilnikova, Head, Department of Living Standards, Russian Center for the Study of Public Opinion, February 3, 1999.
43 Astapovich et al., Obzor ekonomicheskoi politiki.
metering and controls makes this difficult and dangerous. More to the point, residual housing rights remain strong.

It is difficult to determine the overall effects of these factors on payment levels. While federal authorities claim yearly increases, one of the best-informed Russian housing experts has calculated that municipal housing income did not increase in 1996 because of expanded social privileges and growing wage arrears, and that from 1994-96 municipal budget subsidies did not decline much because of rapid energy and other cost increases.44

The picture was no doubt better for some cities and regions, and would have been worse everywhere without rent reform. Still, on average, Russian municipalities spend about 40% of their budgets on housing, in some cases more than 50%.45 In the aftermath of the August, 1998, economic crisis, however, Russian government officials recognized that the existing schedule for cost recovery could not be met and proposed extending the deadline to 2008. Goss proposed, arguing that the state also had no money for maintenance and that too much housing would collapse in the interim.46

Even if municipalities could reach full cost recovery, they would have far too few resources to maintain housing and, especially, the utilities infrastructure. The initial 1993 rent reform schedule included only operating costs. In the Duma's attenuated 1996 schedule the government managed to add some longer-term renovation costs, but all aspects of housing maintenance remain heavily under-invested. One authoritative source concludes that utility enterprises are now paying only about 40% of their technically-necessary expenses - meaning that households are paying about 20% of true costs - while all engineering networks are undergoing serious degradation.47

---

44 Puzanov and Koutakova, "Privatizing Housing."
45 Astapovich et al., Obzor ekonomicheskoi politiki
46 Belkina interview
47 Belkina interview
Housing Allowances: Targeting Benefits

Beginning in 1994, most Russian cities also introduced federally-mandated housing allowances for all families that had to spend more than 15-20% of their income on housing as rents increased. There were initial fears that a means-tested program would not work in Russia - that many households with informal and unrecorded incomes would apply and authorities would be unable to assess their eligibility. (Deacon) In fact, most with informal incomes prefer not to risk scrutiny, especially as benefits at this stage are quite modest, and the larger problem has been informing the truly eligible. Application rates have remained below expectations, with 6-10% of households receiving benefits in most cities and roughly twice as many eligible. A USAID-funded project that worked with cities to set up administrative procedures, develop selective verification methods, etc., has become self-supporting by contracting its services to many interested cities, demonstrating the genuine interest of municipalities in the program. Advocates claim that with housing allowances all households can afford to meet their payments without deepening poverty.

The main anticipated limitation of the program is that more and more households will become eligible as rents increase, until allowances absorb most of the increased receipts. But there are other problems with the logic of the program in the current Russian economy. With 15% of the Russian population now unemployed and receiving benefits equivalent to less than 20% of the subsistence level, and most pensions now paid at a level that is also below subsistence, a substantial minority of households cannot afford even modest housing payments and their arrears are likely to mount.48

More seriously, the overall programs of rent reform and housing allowances have moved a very short way toward targeted aid: six years into the reform all households, regardless of income, still receive at least 50% of their housing costs as government subsidies. There is a compelling case for change in both the rent reform and housing allowance policies that could improve both equity and cost recovery.
Tatyana Belkina, a Russian scholar deeply knowledgeable about housing reform, argues that the current effort to raise housing costs uniformly across all income groups in Russia’s increasingly stratified society is mistaken. She proposes instead that charges be correlated to income, with households at different income levels paying different proportions immediately, ending subsidies entirely for the well-off and exempting the poor. Her calculations for selected cities indicate that such a formula would allow municipalities to improve cost recovery.

Belkina’s proposal would introduce difficult and perhaps overwhelming administrative problems, requiring municipalities to accurately assess households’ incomes and greatly increasing incentives for underreporting. Nor does it address the vexed problems of privileges and sporadic wage and benefit payments. But it does credibly suggest that a more interventionist and redistributive governmental role than that of the liberal welfare state might work better in Russia.

Conclusion

On the face of it, Russian housing reform has achieved a significant level of success. More than one-third of enterprise housing has been divested, more than half of all housing is privately owned, and a real estate market has emerged. Most households reportedly pay 50% of their housing costs and most municipalities provide means-tested housing allowances, replacing regressive universal subsidies with aid targeted to the poor. Reform has gone further here than in other areas of social policy, in part because framework legislation was passed before losing constituencies had mobilized, and in part because federal and municipal governments have been strongly committed to cost recovery.

But these changes do not, for the most part, constitute the kinds of deep structural transformations and re-allocations of financial responsibility that were intended. Divestiture typically involves brokered deals with municipalities in which enterprises retain partial responsibility for housing

48 Interview, conducted by author, with Hjalte Sederlof, Program Team Leader, Social and Human Development Programs, Europe and Central Asia Region. World Bank, April 19, 1999.
49 Belkina interview.
finance and administration. Privatizing residents gain rights, but municipalities continue to subsidize and manage most buildings. Both divestiture and privatization are stalled because key parties - municipalities and households respectively - won't participate.

Myriad privileges and deferrals make it difficult to calculate the extent of actual cost recovery from residents. Experts agree that municipalities presently commit about 40% of their expenditures to housing, though they would spend even more in the absence of rent reform. Much more continues to be spent on general subsidies than on targeted housing allowances. The rational, coherent reform designed by the government and promoted by the World Bank and the Urban Institute was fundamentally altered and many of its intents frustrated by the interests, constituencies, and economic realities it confronted in Russia.

The implications for social welfare are mixed. Despite the collapse of GDP, productivity and incomes, most Russians remain housed largely as they were before reform, whether or not they can pay. The “safety net” has become a hodgepodge, comprised of residual tenancy rights, housing allowances, privileges, deferrals, continuing deep subsidies by government and enterprises, and a general disinclination by authorities to evict. Housing remains virtually an entitlement; even officially, the poor are guaranteed the “social norm” of housing at a modest percent of income. Access to housing cushions the impact of the ongoing economic decline on the population.

But the current situation is not sustainable in the longer term. Sources agree that deferred maintenance has reached critical dimensions, that housing has deteriorated and utility networks have become degraded, often to dangerous levels. In a critical sense, no matter how ownership and payment are structured, Russia cannot afford to maintain the housing and utilities infrastructure it has inherited.