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# Central and Eastern Europe Local Government and Housing Privatization

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**FEASIBILITY STUDY:  
A HOUSING ALLOWANCE PROGRAM FOR THE  
CITY OF BLAGOEVGRAD, BULGARIA**

**DECEMBER 1992**

Prepared for  
The Office of Housing and Urban Programs  
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## EXECUTIVE SUMMARY

This report was designed to explore the feasibility of a housing allowance program for the City of Blagoevgrad, Bulgaria. The purpose of a housing allowance system is to replace production and project subsidies for low-income households with consumer subsidies and to simultaneously strengthen the private rental market by increasing competition. The latter includes raising rents in municipal housing to market levels.

Based on data from a recent random survey of households in Blagoevgrad, the report concludes that at present, the rental market is small and the private rental market not only smaller, but of poor quality. Nonetheless, the report concludes that this will change in the future and that an allowance program will help stimulate such change.

This is followed by a description of the twelve housing allowance simulations that performed, and then the report offers the following conclusions based on those simulations:

***Eligibility Rates are High:*** The percentage of renters who are eligible to participate is high and is very sensitive to program parameters. The number of eligible households doubles when the share of household income required to be devoted to rent is decreased slightly.

***Subsidy Payments are Focussed on Low-income Groups:*** Subsidy payments are distributed among participants in way that shows strong targeting by need. Under the different scenarios 72 to 100 percent of the subsidies go to households in the lower half of the income distribution. In addition, those participating in the housing allowance program are substantially protected from having to pay an excessive share of their incomes for housing.

***Subsidy Payments are Focussed on Underhoused Families:*** More than half of the potential program participants are underhoused, i.e. living in units that are smaller than the program standard. These households would receive the means and have the incentive to obtain more adequate shelter.

***The Allowance Program is Self-Financing:*** The direct costs of the housing allowance program are relatively small and in most of the alternatives they are overshadowed by the increase in rents from municipal units. Under program designs most likely to be adopted, housing allowances remain self-financing.

The report concludes that a housing allowance program would provide considerable benefits to Blagoevgrad's citizens. The final section outlines program design, legal, and administrative issues which need to be resolved in order to implement the scheme.

## **PREFACE & ACKNOWLEDGEMENTS**

This report is part of a program to explore the possibility of introducing a Housing Allowance System in Bulgaria. Given the fluid economic situation in the country as well as the lack of sound data about household incomes and the housing sector in general, it was thought that the most fruitful way of approaching the problem was by undertaking a demonstration or pilot project in one city. At the request of the Mayor of Blagoevgrad it was decided to proceed in that city.\* As a first step, an extensive household survey was conducted in Blagoevgrad - July, 1992 -- and this report is based on that data. Subsequent steps will be to further explore the administrative and implementation issues which are raised in this report and then seek approval from the national government and the City of Blagoevgrad to proceed with the program. Finally, after a period of program monitoring, and when national household data becomes available, a program will be proposed for the country as a whole.

The authors would like to thank the citizens of Blagoevgrad for their cooperation and interest. In addition, the officials and staff of the municipality have provided extensive cooperation and assistance. In particular, The Mayor, Eliana Maseva, the Secretary of the City Council, Ilian Popov, and the city's Legal Counsel, Milana Krivatchka have all provided extraordinary support and help. Many other officials have also provided invaluable information and advice.

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\* See Annex A for a brief description of the City of Blagoevgrad.

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## 1. THE HOUSING ALLOWANCE CONCEPT<sup>1</sup>

Housing allowances are payments provided directly to households to assist them in paying for their housing. Because participation in the program is conditioned upon low household income, allowances provide protection to those households hurt most by rising rents during the transition to a market based housing sector. The allowance is a tenant- or consumer-based, not production- or project-based, subsidy; the subsidy moves with the household.

In addition, the housing allowance approach aims at integrating the public and private rental sectors through allowing rents in public housing, to rise to market levels and thus strengthens the private rental market through increased supply (more available flats) and increased demand (more households who can afford decent private rentals).

Housing allowances are used to subsidize low-income households in Western Europe, Canada, and the United States, and are currently being considered for adoption in other Eastern European countries and Russia.

### **Program Objectives**

Overall, a housing allowance program seeks to develop and strengthen the private rental market by removing economic distortions while protecting low-income households. More specifically the program should achieve the following objectives:

- Provide "safety-net" protection for low-income households;
- Integrate the municipal and private rental sectors into a single market by raising rents in public housing to market levels, thus expanding the private market and making it more competitive;
- Reduce over-housing (tenants who consume more space than they need because the price is kept artificially low);
- Reduce rental sector subsidies and more efficiently and equitably distribute remaining subsidies;

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<sup>1</sup> This section draws upon prior Urban Institute studies on housing allowances in Eastern Europe especially Telgarsky, Kingsley & Tatian (1992) and Hegedus, Struyk & Tosics (1991).

- Improve housing quality through improved maintenance financed by higher rents rather than state subsidies.
- Avoid social segregation of low-income families by permitting them to rent housing throughout the sector.

### **Program Description & Issues**

In designing a housing allowance program a number of decisions must be made involving both political and technical issues:

**Participation & Coverage:** The program could be limited to either renters in public housing, all renters, or even all renters and owners. In addition, it could include assistance in paying rent, or rent and utilities, or mortgages. In making these determinations one needs to bear in mind considerations of equity, program cost and administrative practicality. Obviously, as the group of potential participants expands, program costs increase, in particular adding owners to the program would entail a major increase. However, these questions are decided, eligibility would then be determined by the household's income. The program would be an "entitlement" program; any household in the selected group who meets the program income limits could apply for and receive assistance.

**Subsidy Calculation:** We suggest that the formula for computing housing allowance payment be of the "housing gap" type where subsidy payments are designed to fill the gap between what a household can reasonably pay and the cost of an adequate unit. The formula used is simple allowing participants to clearly see the program's incentives.

The housing allowance payment, A, is calculated as follows:

$$A = MSR - (t * Y).$$

"t" is the maximum share of a household's income which would be devoted to housing and "Y" is total household income. Based on the experience of other countries, values of 15 to 30 percent (the later including utilities) for t are typical for middle income households. Y should include all sources of income (first and second economy earnings, as well as transfers from the state). Incomes are typically verified

and then recertified annually, leading to an annual adjustment of the allowance payment. However, dramatic decreases in income during the year (for example, due to unemployment) can be taken into account by recertification of income at the household's request.

MSR is the "Maximum Social Rent", the rent sufficient to rent an adequate unit in the market. The adequate unit quality must conform to some minimum set of quality conditions and be of a suitable size for the participant household (based on the demographic composition of the household). MSRs usually vary between different urban locations, but it is usually too difficult to set different MSRs within an urban center. The MSR could also include other housing-related costs, such as building services and utilities.

MSRs are normally based on data about the actual distribution of rents in each housing market. In a free-market setting, the MSR must be set high enough so most participants have a good chance of renting a unit for no more than the MSR. Participants are permitted to rent units with rents higher than the applicable MSR; if they do, they pay all rent above the MSR.

Subsidy payments equal the MSR when the households has no income, and subsidies decline as income rise. The benefit reduction rate for additional income is low and should not be a strong disincentive to reporting additional income or to incremental work effort. The allowance is completely phased out when  $Y$  equals  $MSR/t$  (when  $A$  equals zero). No subsidies are paid at higher income levels.

The housing gap formula described above includes four clear incentives to participants:

- By forcing households that occupy too-large units to pay the full cost of rents above the MSR, over-housed participants will have a strong incentive to move to more smaller units;
- Participants will have a strong incentive to shop for the best rental price: adequate units with rents below the MSR leave the households with extra cash (remember that the allowance is determined independently of rent actually paid);

- Underhoused participants (those with accommodations inadequate for their family needs) are likely to increase their housing consumption because total income (regular income plus housing allowance) rises;
- Program applicants may understate their incomes and overstate their households size in order to increase their allowance.

While the first three of these incentives are positive, the final one is a potential problem discussed in greater detail below.

***Measuring Household Incomes & Assets:*** A key program parameter is the income of the applicant household. The reported household income determines both eligibility and, if eligible, the size of the household's allowances payment. Thus, program procedures must encourage full reporting of applicant incomes. Types of information typically used to verify incomes include income tax reports, income reports from employers, or social insurance payment records. Households applying for allowances would give their consent for the appropriate office to obtain the necessary data. Still, there remains concerns about measuring other sources of income and changes in household earnings. This issue needs detailed attention as implementation of the program proceeds.

Another area requiring attention is household wealth or assets. There are low-income households which will have substantial assets (particularly among the elderly), such as savings or property. One approach to solving this problem is to calculate the imputed income from these assets using the rate of interest available on savings accounts at commercial banks. In implementing the housing allowance program, it must be determined if eligibility tests need to take wealth as well as income into account.

Penalties should be assessed against participants who misreport their incomes or other facts. Participants should be informed early of such penalties which could include: repayment of overpayment with interest; ineligibility for the program; and, fines or other penalties. As the revised tax system comes into use, households will become more familiar with reporting income and fewer problems will occur. Overall, under-reporting can be minimized through careful checking, strong penalties, and well trained case workers and administrators.

***Household Size:*** Applicants have incentives to overstate the number of persons in their household to claim a higher MSR unit size and receive a higher allowance payment. Under the present administration of state rentals, where record-keeping and monitoring of unit occupancy has been lax, it would be easy to cheat in this area. Again procedures must be devised to discourage misreporting.

***Setting the MSR:*** Program administrators will initially have to set a MSR for units of different sizes in relation to household size. One approach to using market rents to set the MSR is as follows. The MSR is set for each housing type at a specific reference point in the rent distribution of units, such as the median rent level, which meet the program's minimum housing quality standard. Choosing the reference point depends on many factors. In general, a higher reference point (and higher MSR) is chosen if a large share of households qualify and program participation rates are high or if a program aim is to move households in low-quality units to higher-quality units. Because reducing benefits is difficult once participants have begun receiving them, a wise policy is to set the MSR initially toward the lower end of the range thought to be reasonable; after some experience with the program is developed, the MSR can be adjusted upward if necessary.

To establish the MSR based on market rents, an annual or bi-annual market survey will be needed to collect data on rents, utility payments, dwelling quality, size, and other attributes.<sup>2</sup>

***Financing Housing Allowances:*** Research in Hungary (Hegedus, Struyk & Tosics, 1991) and elsewhere as well as the results presented below for Blagoevgrad show that allowances can be "self financing", meaning that the increase in public rental revenues exceeds the cost of the allowances payments. In the longer term, however, the allowances may not pay for themselves because of growing numbers low-income households renting units from private landlords will become participants while rents in the state will not increase as fast as it is assumed the quantity of state stock will not grow.

#### ***Protecting Tenants from Payment Shock***

When rents in municipal flats are raised to market levels some tenants will be facing a large increase in their monthly rental cost. Many of these tenants will receive

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<sup>2</sup> The July, 1992 Household Survey in Blagoevgrad provides a model and a starting point. It is hoped that it will be repeated there as well as nationally.

allowance payments, but given the current high level of subsidization in municipal accommodations the actual increase may still be large even though the end result (income plus allowance) only requires the tenant to pay a reasonable income share for rent. Ascertaining how many tenants fall into this category and what the shock would be, is part of the analysis presented in the following sections. And obviously, the government will need to decide how quickly to raise rents.

In addition, the procedures for the initiation of the program can offer the tenant some further protection. For example, each tenant can be given a period, for example 2 months, to declare that he cannot pay the higher rent. He is then given a period, for example 6 months, to find a more suitable unit. The local government could also provide assistance in finding an adequate substitute unit. If at the end of this grace period, the tenant has not moved, eviction procedures would be initiated by the local government. To be a workable solution, the local government must act quickly to help the households find new housing and carry out eviction when necessary. Failure to do so will quickly lead to increasing numbers of non-paying tenants and growing financial costs.

***Relationship to Other Social Benefit Programs:*** In most countries where housing allowances have been implemented the issue has arisen about the relationship of allowances to other benefit programs. At a simple level, household income from other programs needs to be included in the allowance calculation. In Bulgaria, there also exists a benefit program which includes limited housing assistance and thus, the need for coordination is even more acute. For the pilot project it may be appropriate to substitute the allowance benefits for the right to collect housing benefits under the prior program. In the long run, the government should consider replacing the benefits in the existing program with an allowance scheme.<sup>3</sup>

***Legal Questions:*** In order to implement both the pilot and subsequently any national program several matters need to be resolved. These include: 1) the legal right of the municipality to raise rents in its housing stock to market levels; 2) the right of the municipality to retain all the rental revenue and distribute it as part of its allowance program; 3) the right of the municipality to evict households who refuse to pay the new rents or otherwise breach rental agreements; and, 4) the right of the municipality to verify income, assets, and family size, and apply penalties for falsification. None of these issues are insoluble, and in terms of property rights Bulgaria's law on rental

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<sup>3</sup> See Annex C which describes Bulgaria's social assistance system.

contracts is sounder than that in many former socialist countries. Nonetheless, the issues needed to be analyzed and resolved before a program can begin.

## 2. HOUSING MARKET CHARACTERISTICS

The discussion in section one points out the need to select values for basic housing parameters (rent, floor space, rent to income ratios) in order to design a housing allowance system and determine its cost. Here, beginning with an overview of the structure of Blagoevgrad's housing market, we present data on these questions.<sup>4</sup>

### Market Structure

Three factors stand out when we review the structure of the housing sector in Blagoevgrad (table 1). First, over 95 percent of the units are privately owned and 87 percent are occupied by their owners. Second, and correspondingly, the rental sector is small and its size is further diminished by a significant group of free-occupiers (households who are living in a dwelling they do not own and who are not paying rent). Thus, only 1.5 percent of all households are private renters.

Table 1.  
Household Tenure & Ownership

Ownership	Tenure	Percent of Households	Pct. of Rentals
<b>PRIVATE</b>			
	Owner Occupancy	87.1%	
	Free Occupancy	6.6%	
	Rental	1.5%	23.8%
Subtotal		95.2%	
<b>PUBLIC</b>			
Municipal	Rental	3.0%	48.4%
SOE	Rental	1.7%	27.8%
Subtotal		4.7%	
<b>TOTAL</b>		<b>100.0%</b>	<b>100.0%</b>

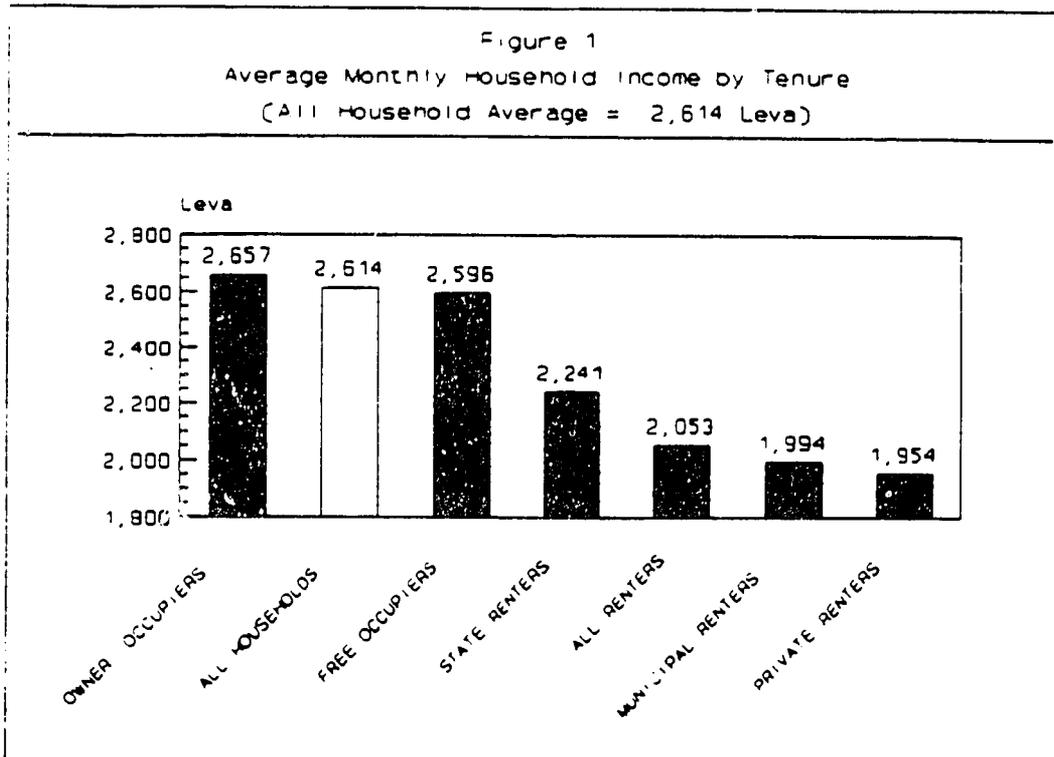
Notes:

Third, the number of renters of public units is also small, less than 5 percent, and the rental market as a whole is just over 6 percent of all households.

<sup>4</sup> These data were obtained from a household survey conducted in Blagoevgrad in July of 1992. Information on the survey can be found in Annex B.

### Rent to Income Ratios

Figure 1 compares the incomes of various tenure groups to the average income for all households in Blagoevgrad, 2,614 leva per month.<sup>5</sup> Owner occupiers have the highest income, slightly above the city-wide average, while free-occupiers are slightly below. Renter household incomes are significantly lower than the average ranging from public renters who earn 16 percent less to private renters where the figure is 25 percent less.



Although private renters are the poorest group, they are paying the highest rents. Table 2 shows private renters to be paying approximately 4 times the rent of public renters on a unit basis and 4.5 to 6 times the public rent on a square meter basis. Also, the difference in rents between a one and two bedroom flat in the public sector is 146 percent while in the private sector it is only 80 percent; possibly a reflection of the different pricing mechanisms.<sup>6</sup>

<sup>5</sup> The components used to determine household income can be seen in the survey questionnaire in Annex B.

<sup>6</sup> Public units are rented according to a fixed tariff on a square meter basis.

**Table 2**  
**Mean Rent by Owner**  
**(in leva per month)**

OWNER	RENT PER SQ M	ALL UNITS	RENT PER UNIT			
			BY UNIT SIZE (IN ROOMS)			
			1	2	3	4+
Municipal	1.42	81	30	74	82	100
State	1.81	90	--	67	106	125
Private	8.35	355	200	362	376	--

The purpose of examining both rents and incomes is to gain an understanding of what percentage of their income households are paying for rent; the rent to income ratio. Overall, these ratios are 5.5 percent for municipal renters, and 16.5 percent for private renters, a three-fold difference. Again, it is instructive to look more closely and figure 2 illustrates rent to income ratios by income group. Rent to income ratios for private renters are considerably higher -- above 20 percent -- for those households with incomes below 2,000 leva per month declining to approximately 10 percent for those with incomes of 2,500 to 3,500. As would be expected, ratios for municipal renters are much lower across all groups with only those earning less than 1,000 leva per month paying 12 percent while all others pay 7 percent or less.

### **Housing Quality**

In discussing housing quality we are concerned with both overcrowding and the presence of various amenities: The first observation is that over a quarter of the private rental units are shared by two households substantially higher than the percentages found in public rentals (table 3). Second, 12 percent of all rental units are occupied by three generations, and this figure rises to 20 percent for municipal units. Indicators such as square meters and rooms per person only vary slightly by ownership.

Figure 2  
Rent to Income Ratios by Income Group  
(in percent of monthly household income)

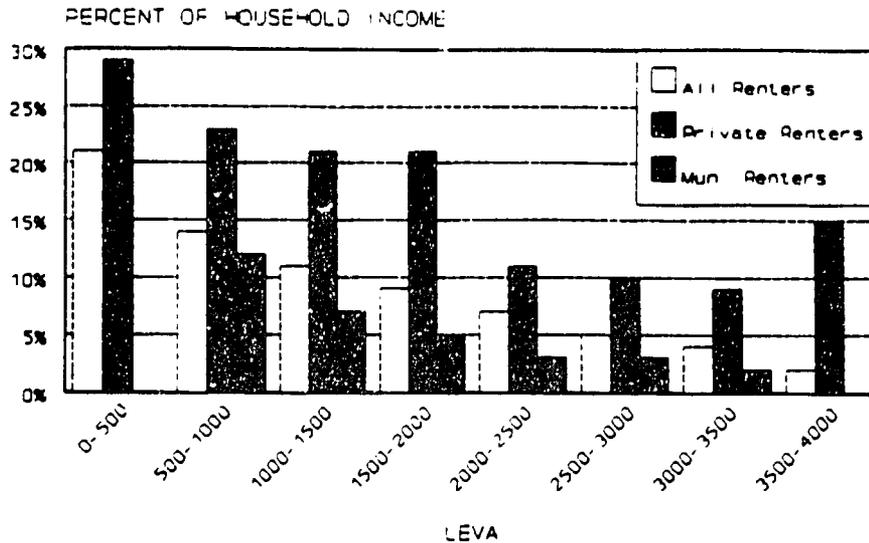


Table 3  
Renter Household Characteristics by Unit Ownership

	Unit Ownership			
	Municipal	SOE/Dept.	Private	All Rentals
Ave. Household Size	4.0	3.4	2.4	3.5
Two Household Units	7%	11%	27%	13%
Three Generation Units	20%	6%	3%	12%
Sq. Meters / Person	18.35	16.60	17.03	17.55
Rooms / Person	0.87	0.87	0.99	.90

Households living in public housing have better amenities than those in private units (table 4). There is a group public renters, however, which are lacking in one or more basic amenities -- roughly 10 percent of these households. In most cases these lacks are associated with shared units. For private rentals the situation is considerably worse and for any amenity one third to one half of the households are deficient, and many of the households are wanting more than one.

**Table 4**  
**Percent of Households Not Having**  
**Various Amenities**

Amenity	Ownership	
	Private	Public
Bathroom	50.0	10.4
Flush Toilet	46.7	8.3
Cold Running Water	30.0	7.3
Hot Running Water	50.0	11.5
Kitchen	30.0	3.1
Telephone	66.7	42.7

Consideration of unit size is important as it affects the amount of the allowance payment. Figure 3 presents different views of unit size beginning with the composition of the rental stock as a whole. Overall about 60 percent of the rental stock consists of units larger than 60 square meters while about 12 percent of the stock is composed of units 32 square meters or smaller (figure 3a). More striking is the distribution of ownership by size (figure 3b). About two-thirds of those units with 16 square meters or less are privately owned while the bulk of the larger units are public. Finally, in looking at the distribution of unit size by owner (figure 3c) we see that privately owned units are reasonably distributed across the size groups while municipal units are concentrated at the high end of the range. More importantly, these illustrations raise the question of the ability of Blagoevgrad's rental stock to accommodate the city's households at least in terms of square meters of available space; an issue is explored in subsequent sections of this report.

### **Conclusions**

Several factors stand out which are important for a housing allowance program. First, the current rental market is quite small limiting current choice for program participants as well as others. Second, rent to income ratios, while distorted by public subsidies, are within a reasonable range for both private and public renters and thus the changes implied in an allowance scheme, while significant, are not drastic. And third, the private rental stock is of much poorer quality and smaller size than the public raising concerns about both the quality of current rental units and future growth in this sector. In summary, however, these factors are seen as concerns which need to be addressed in program design, and cautions about program results, but not as obstacles to the initiation of an allowance system.

Figure 3a

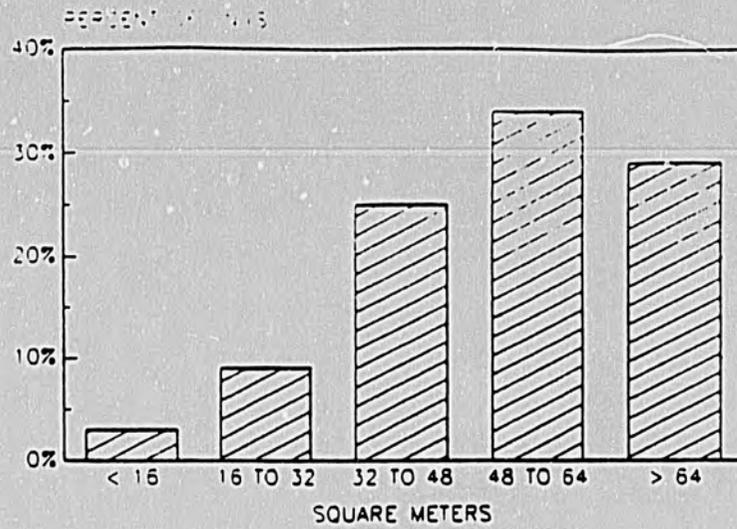


Figure 3b  
Distribution of Ownership by Unit Size

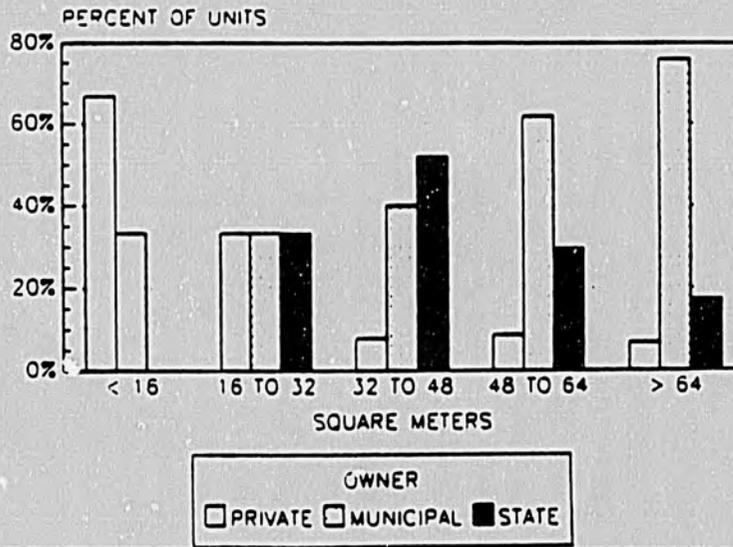
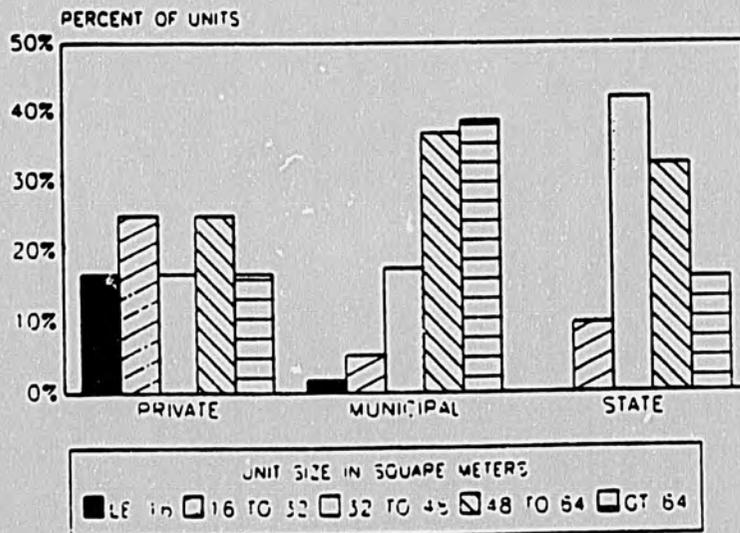


Figure 3c  
Distribution of Unit Size by Owner



### **3. HOUSING ALLOWANCE SIMULATIONS: ASSUMPTIONS**

Using data from the Blagoevgrad Household Survey of July, 1992, we simulated a housing allowance program to study alternative results given changes in certain key parameters. The simulations were structured to give housing policy officials in Blagoevgrad answers to questions such as:

- What will be the rent burden to poor and other tenants under various increases in rents?
- What will be the cost of the subsidy required to be paid by the municipality?
- What will be the net revenue (rent receipts minus allowances) for the municipality for maintenance or other expenses?
- How many households would be eligible to participate in the program?

The simulations were processed using standard statistical software and a program developed by The Urban Institute. In order to run the simulations a series of assumptions must be made. These are documented below and include data about both households and the housing stock. All of these assumptions are also variables which could be changed by the municipality in order to meet policy goals.

#### **Participant Population**

We assumed that only renters would be eligible for the program for reasons of administrative practicality, program cost, and because including homeowners would require including utility payments in the calculations. We desired not to do the latter because utility payments are currently in a state of flux as they are being deregulated and thus difficult to estimate at present. In the future, the program could be redesigned to include homeowners.

Next we assumed that only households living in municipal and privately-owned rentals would be included in the simulations, not those living in departmental or state enterprise rentals. This was because the pilot project was aimed at the municipality and departmental housing is outside the municipality's control. If a national program is developed in the future departmental housing should be included.

### **Participation Ratio:**

Next we assumed that 100 percent of those eligible to participate would do so. Actual experience from income assistance entitlement programs in other nations shows participation to be less than 100 percent. For example, the participation of eligible low-income households in U.S. welfare assistance programs is less than 70 percent. The highest recorded participation rate in a housing allowance program is around 85 percent in the Netherlands. For our simulation we assumed a 100 percent participation for two reasons:

- a desire to maximize estimates of the program cost: the higher the participation, the greater the subsidy cost;
- an assumption that our estimate of eligible households may be enlarged by application from other households who are newly formed, immigrants to Blagoevgrad, or under-reporters of income.

### **Maximum Social Rent**

Next we made several assumptions to calculate the maximum social rent (MSR). MSR is based on the empirical information about the distribution of market rents for units, deemed to be "comfortable" by the interviewers. A "comfortable" unit was defined as a unit subjectively judged "good" or "average", and having exclusive use of a toilet, shower or bath, hot and cold running water, and an indoor kitchen. The rationale for this assumptions is that the purpose of the program is to assist households in obtaining decent housing and decent housing was define as noted above. With this in mind we assumed market rents to be in the range of 8 to 12 leva per square meter; a range which uses the current figure as a starting point and assumes increases of approximately 25 and 50 percent. This was done in order to allow for some inflation as well as to be liberal in estimating program costs. Given the recent but limited emergence of rental markets in Bulgaria this figure will have to be monitored closely and probably adjusted frequently.

### **Floor Space per Person**

Next we made several assumptions about floor space to determine the adequate amount of floor space for each household to be used in calculating MSR. Space allowances were determined according to the number of persons in the household with an increment added to a base amount. The actual figures were a base of 20 square meters for every household plus 12 square meters per person with a maximum of five people (table 5).

**Table 5**  
**Space Allowance by Household Size**

Persons per Household	Floor Space (m2)
1	32
2	44
3	56
4	68
5+	80

As with the other parameters it is possible to vary the floor space per person in preparing the simulations. However, because of the potential number of variations involved we decided to use these figures as a constant in our estimates. As can be seen in figure 3a above, these estimates mean that around 10 percent of the stock would not qualify for allowances. In terms of square meters per person (table 3) a three person family would receive approximately the average for all renters with smaller households doing slightly better than the current average. Given the state of the current stock as well as financial constraints, it is suggested that enlarging this figure would be impractical.

#### **Income and Expenditure Data**

Next we assumed that all income and expenditures are as reported by households in the Blagoevgrad Household Survey of July, 1992. Incomes include monthly wages and salaries of all household members, other income from business, interest, dividends, and rent, support from relatives, pensions, and social allowances and benefits. Also included is a monthly share of annual bonuses and other earnings.

#### **"t" Values**

We assumed  $t$  values of 10, 15, 20, and 25 percent of household income;  $t$  being the household contribution if the unit is exactly at the assumed space allowance. If a household is, "over-housed", i.e. living in a larger flat than its space allowance, their actual rent payment will be higher than  $t$  while an "underhoused" household will pay less. The actual household payment being the difference between the actual rent minus allowance. An "underhoused" family with a low income may actually receive more than their monthly rent. Because of our concern with affordability and subsidy costs we undertook simulations using each of these values.

### **Twelve Simulations**

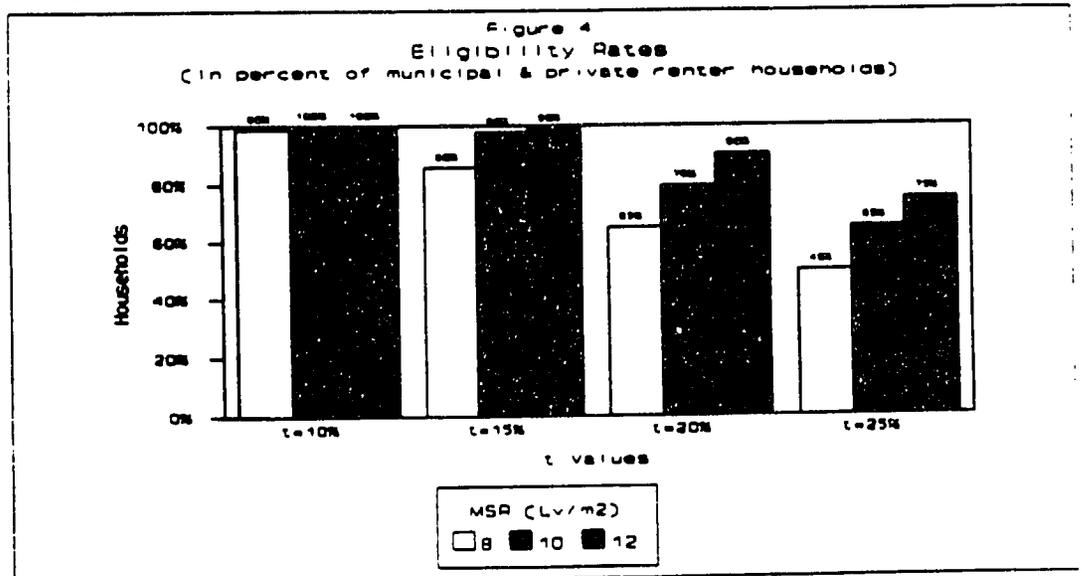
Using the assumptions presented above we ran twelve different simulations: three levels of MSR, and four different t values. While other factors, especially the floor space allowance, could also be varied, we did not do this except in an exploratory fashion. The reasons for this were partly practical, i.e. to keep the total number of simulations reasonable, and partly because the size of existing units prevents increasing the space allowance significantly. In addition, the critical factors which the municipality must consider are t and MSR. The results of the simulations are presented in the next section and additional results are found in Annex D.

#### 4. HOUSING ALLOWANCE SIMULATIONS: RESULTS

How many and what types of households receive subsidy payments under different housing allowance program designs? Do subsidies really go mostly to the poor? What share of their incomes must those not receiving subsidies spend on housing? After making the housing allowance payments, is there money left over from the increased rents to improve housing maintenance? This section answers these and other questions using the results of the simulation outlined in the previous section. Additional details on the results are given in Annex D.

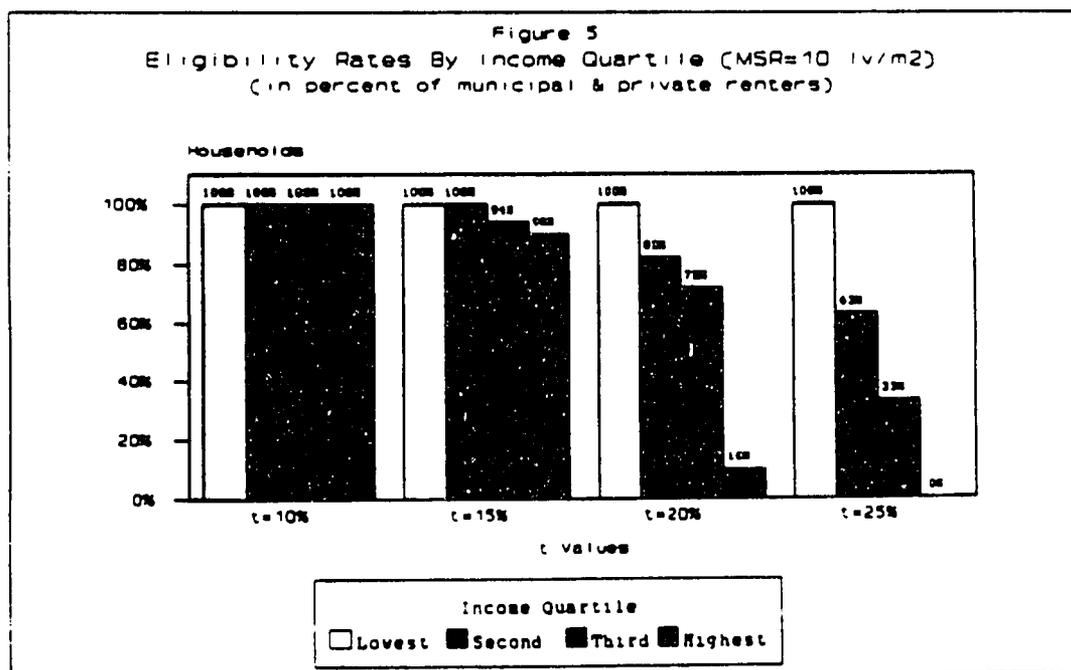
##### Who Receives Benefits?

In figure 4 we show the percentage of tenants in municipal and private housing combined, who would be eligible to receive allowance payment under the twelve cases simulated. These cases involve  $t$  values of 10, 15, 20, and 25 percent and rent increases to 8, 10 and 12 Leva per square meter. As it is evident from the figure, *the percentage of tenants who are eligible to participate in the program is sensitive to the amount of the increase in rent and the value chosen for  $t$* . As housing costs are increased, the MSR also increases so that the maximum level of income, " $Y_M$ ," at which a tenant is able to receive benefits also rises (i.e.,  $Y_M = MSR / t$ ), and as participants contribution ( $t$ ) increases the maximum level of income at which a tenant is eligible to receive subsidies decreases.



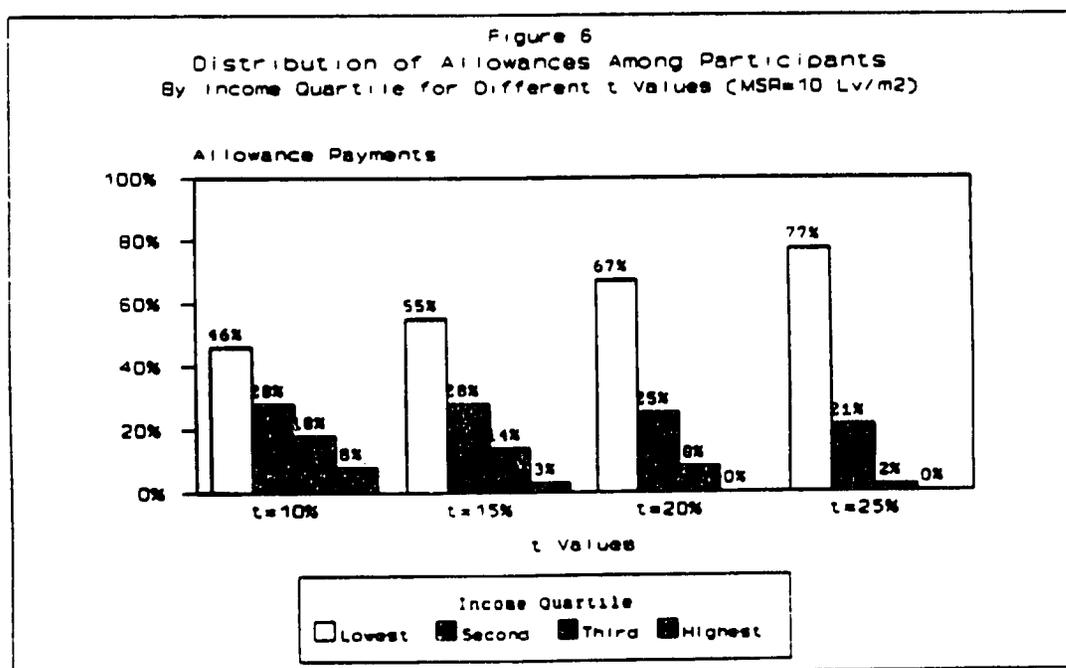
When the rent is increased to 8 Leva per square meter and the tenants are required to contribute 25 percent of their income for rent, the participation rate is the lowest: 49.5 percent of the eligible tenants or 539 households receive a payment. If the rent is increased to 10 or 12 Leva per square meter and the tenants are required to contribute 10 percent of their income for rent, essentially all 1089 families living in municipal and private rental units would receive a subsidy.

Importantly, under the housing allowance program *subsidy payments are focused on poorer households*. Figure 5 shows participation rates by income groups. The strongest result is the high eligibility rate for low-income tenants: all tenants in the lowest income quartile receive payments. Among tenants with incomes placing them in the second lowest income quartile, the participation rate is also very high ranging from 63 to 100 percent. In contrast, among households in the highest income quartile, with the exception of  $t$  equal to 10 and 15%, the participation rate is low. When tenants contribution is 20 percent only 10 percent of the households in the highest income quartile are eligible to participate in the program, and when  $t$  is 25 percent all households in this income group are ineligible to participate. This raises a choice for the city: if  $t$  is kept low households pay less but more higher income households will participate in the program, if  $t$  is high, the program is more targeted to low-income groups, but they will pay more.



Rates of participation were examined for types of tenure, number of children, age of respondent, number of earners, and families with pensioners. Results for participation are as expected and, for the most part, desired. Those families with an older head of the household, with fewer earners, and with pensioners have high rates of participation under each variant of the model. In all cases, households with no earners have over 90 percent participation<sup>7</sup>.

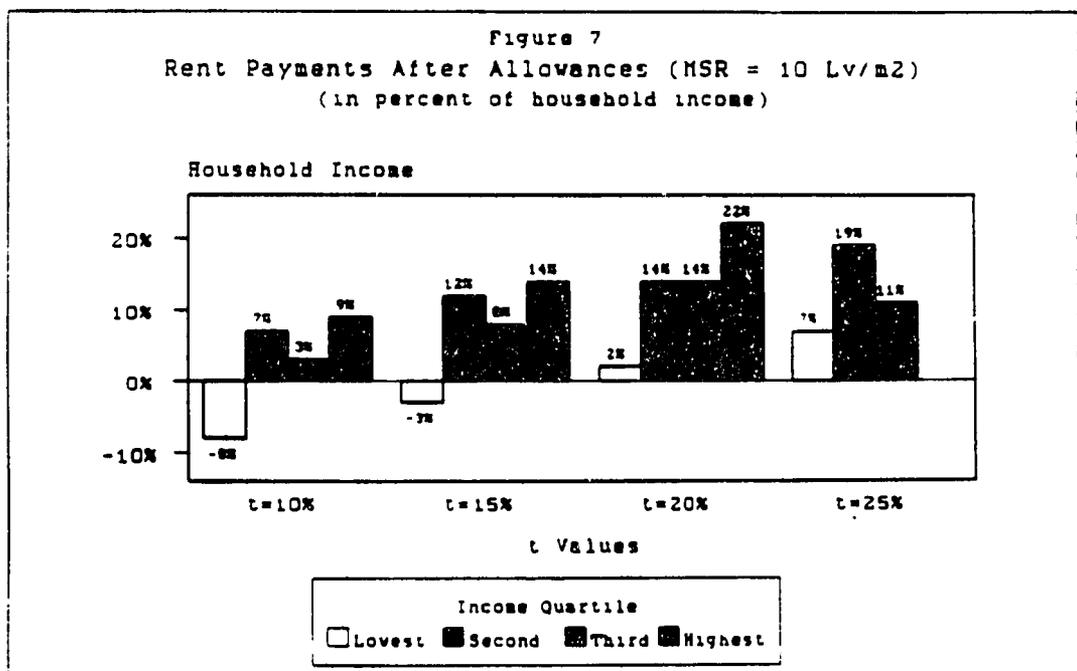
In fact, however, the targeting of subsidy payments to poor tenant households is even stronger than suggested by the eligibility rates, as indicated by the distribution of subsidies by income quartile (figure 6). Subsidy distribution is well targeted, with the lowest income quartile receiving the largest percentage of total allowances under each variant. As  $t$  increases, more of the allowances go to the lower income quartiles, but even with the lowest  $t$  (10 percent), 74 percent of the subsidies would go to those in the lower half of the income distribution. When  $t$  rises to 25 percent almost all of the subsidy payments go to this income group. Thus, in setting the  $t$  value the municipality has to decide about a tradeoff between better targeting to low-income households and the amount households can afford to pay.



<sup>7</sup> See Annex D for additional tables of participation rates by household types.

### What is the Impact on Renters' Housing Costs?

To what extent do the housing allowance payments protect the poor? The answer depends on whether the tenant is living in a unit larger or smaller than that defined as standard for a family of its size under the housing allowance program. Figure 7 shows the actual, after-subsidy, rent payments as percent of household income for households who are over-housed, those underhoused, and those living in the "program standard unit" for a household of its size. Many participants are currently living in smaller than the program standard unit. Under the different scenarios more than half the participants are occupying units that are smaller than the program standard (these are units for which the actual rent is less than the MSR). As noted in section 1, these families would receive a payment equal to the difference between their unit rent and the MSR. For example two-thirds of the households in private or municipal housing and in the lowest income quartile are underhoused, that is, living in less space than allowed under the program. As a result, the average payment for this group is well below the targeted percent of income for rent. For example, rent payments for the poorest participants after allowances are -8% of their income when  $t$  equals 10 percent, that is to say these families would receive a net cash payment which amounts to 8% of their income.



Overall, two points stand out in these data. First, those participating in the housing allowance program are substantially protected from having to pay an excessive share of their incomes for housing: the highest rent payment after allowances as percent of

income of the lowest income participants is 7 percent. Second, those who are underhoused are given a significant incentive to look for a bigger (more suitable to their household size) unit with rent at the MSR.

### **What Will the Program Cost?**

A critical question about the combination of raising municipal rents and introducing housing allowance payments is whether the cost of the subsidies under the housing allowance program is less than the increased revenue from the higher rents. The results of the simulations show that by raising rents of municipal units to market rents, the municipal government will receive a substantial increase in revenue from rental property (table 7). Net revenue (market rent minus subsidized rent) from municipal rental units increases by 541 percent if rents are raised to 10 Leva per square meter.<sup>8</sup> A second important item is that for all values of  $t$  except 10 percent, housing allowances are self-financing, that is, the rents are large enough to pay for allowance payments with considerable income left over for upkeep and repairs after housing allowances. The third major finding is that in these same cases the additional revenue available for maintenance is greater than current revenue from subsidized rents. For example, if rents are raised to 10 Leva per square meter and  $t$  equals 15 percent the net revenue available for upkeep and repair increases by 129 percent and if  $t$  equals 20% the net revenue rises 276 percent.

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<sup>8</sup> Note that this increase is only dependent upon the MSR and not upon the  $t$  value selected.

**Table 7**  
**Program Costs per Month Under Different Scenarios**  
**Rent per square meter: 10 leva**

	t value			
	10%	15%	20%	25%
Gross Rental Income	375,914	375,914	375,914	375,914
Total Allowance Payment	406,318	300,443	214,825	155,874
Net Revenue (Rent less Allowances)	-30,404	75,471	161,629	220,040
% Net Revenue / Gross Revenue	-8%	20%	43%	59%
Current Rental Income	58,627	58,637	58,627	58,627
Revenue Increase (Gross Income - Current Income)	317,287	317,287	317,287	317,287
% Revenue Increase	541%	541%	541%	541%
% Net Revenue / Current Income	-51%	129%	276%	375%

## 5. SUMMARY & STEPS FOR IMPLEMENTATION

### Summary of Existing Conditions

**Blagoevgrad's Rental Market:** The amount of rental housing in Blagoevgrad is small and the private rental market is even smaller. Further, housing quality in the private rental sector is poor. If rental markets were static, this would be a strong constraint on the effectiveness of a housing (rental) allowance program. However, there are many indications that the market is both growing and changing both as a result of government actions such as decontrolling rents in the private sector and because of normal market forces. One part of the latter factor is that vacant units which were kept out of the market because they held no value as rental properties are now being rented. In addition, the allowance program will make the private rental market more efficient by increasing its competitiveness through having public units rented at market rates, by enabling many more families to rent at those rates, and by encouraging more entrepreneurs to develop rental units. Thus, it is reasonable to expect that after a period of time, market imperfections will begin to rectify themselves. Private rental housing plays a significant role in shelter in almost all countries of the world (in many of these countries in conjunction with an allowance program) and there is no reason why it will not fulfill this role in Bulgaria as well.

**Blagoevgrad's Households:** Blagoevgrad's renters are poorer than the its residents as a whole and they are paying a higher percentage of their income for housing. This is true for both public and private renters with the latter group being the poorest. Private renters, regardless of income, also pay more of their income for rent, are more likely to lack one or more basic amenities in their units, and also to share that unit with another household. The allowance program will both help to lower the percentage of income spent on rent by poorer families while providing incentives for these families to find more adequate accommodations in terms of both size and quality.

### Summary of Simulation Results

**Participation Rates are High:** The percentage of renters who are eligible to participate is high and is very sensitive to program parameters. The number of eligible households doubles when t is dropped from 25 percent to 10 percent. This reflects the relative flatness of the income distribution curve, with a large share of households (53 percent) clustered close to the average income. With this distribution,

a small decrease in t greatly increases the number of eligible households, although many of them would receive only a marginal benefit.

***Subsidy Payments are Focussed on Low-income Groups:*** Subsidy payments are distributed among participants in way that shows strong targeting by need. Under the different scenarios 72 to 100 percent of the subsidies go to households in the lower half of the income distribution. In addition, those participating in the housing allowance program are substantially protected from having to pay an excessive share of their incomes for housing; the highest share after allowances for the lowest income participants being 7 percent.

***Subsidy Payments are Focussed on Underhoused Families:*** More than half of the potential program participants are underhoused, i.e. living in units that are smaller than the program standard. These households would receive the means and have the incentive to obtain more adequate shelter.

***The Allowance Program is Self-Financing:*** The direct costs of the housing allowance program are relatively small and in most of the alternatives they are overshadowed by the increase in rents from municipal units. Under program designs most likely to be adopted, housing allowances remain self-financing.

### **Next Steps**

If the City of Blagoevgrad decides to pursue a housing allowance experiment there are three groups of issues that need to be addressed.

#### ***1. Program Design Decisions:*** The city should:

- a) decide to raise public rents to market levels and agree to a method for determining that level;
- b) select the percent of household income all households should pay; and,
- c) decide on the appropriate space allowance.

The authors believe the figures suggested in this report to be the most suitable ones, but the decision is ultimately the municipality's.

**2. Resolution of Legal Issues:** The city needs to determine:

- a) does it have the authority to raise rents on a pilot basis or does it need action from the central government;
- b) can municipal rent revenues be retained by the city and redistributed as allowances with the remainder being used for maintenance and repair?
- c) what is the appropriate budgetary mechanism to accomplish the above?

**3. Development of an Implementation Program:** The city needs to develop a program to implement the allowance scheme. This would include:

- a) a determination of what office will administer the program;
- b) an assessment of the capability of that office and its staff to administer the program;
- c) the development of appropriate software, forms, manuals and procedures to administer the program;
- d) the training of appropriate staff;
- e) the development of public education materials and appropriate publicity; and,
- f) the drafting of an appropriate municipal decree which will implement the above the housing allowance program.

## **ANNEXES**

## **A. BRIEF DESCRIPTION OF BLAGOEVGRAD**

**Blagoevgrad** (Gorna Dzhoumaya until 1950) is the administrative, economic and cultural center of the Bulgarian region of Pirin Macedonia. Located in the South-western Bulgaria, close to the Greek and Macedonian frontiers, it is 62 miles to the south of Sofia on the international road and railway to Thesalonika and Athens. The city borders the south-western ranges of the Rila Mountains and the river Blagoevgradsca Bistritsa, one of Strouma's tributaries, runs through the city. Mineral water is taken from springs on the city's north-eastern outskirts and the local climate is semi-continental with a slight Mediterranean influence.

### **POPULATION**

Twice in its recent history Blagoevgrad has experienced large population growth due to migration from the surrounding countryside after the collectivisation of land in 1946 and, after the start in 1956 of industrial development. In 1990 the population was estimated to be 80,000.

### **HISTORY**

The earliest traces of human activity in the area of Blagoevgrad are the remains of Scaptopara, a Thracio-Roman settlement of the 3rd century AD. In the Middle Ages, a Bulgarian community settled in an area which is still within the boundaries of the city. The historic nucleus of present-day Blagoevgrad was recorded as the market town of Dzhouma (or Dzhouma-Pazur) in Ottoman documents of the 15th-16th century AD.

In the late 18th century the city became a district center and rose to economic prosperity. At that time, the river served as a boundary between the Bulgarian quarter, on its left bank, and the Turkish quarter on its right bank. In the 1877-1878 Russo-Turkish War, the city was liberated by the Russian army but its short-lived freedom was ended by the postwar Berlin Treaty under which it again became part of the Turkish Empire together with the entire region of Macedonia. This triggered a popular insurrection with Blagoevgrad (then Gorna Dzhoumaya) its center. Later, a committee known as the Internal Macedon-Edirne Revolutionary Organization (VMRO) was formed in the city to continue the fight for national liberation after the failure of the insurrection.

Gorna Dzhoumaya finally gained its freedom from Ottoman rule in 1912, during the first Balkan War. Then, the entire Turkish population left the city following the retreat of the Turkish forces. In the following years of the Second Balkan War, Gorna

Dzhoumaya was never too far away from the frontline but it still attracted thousands of Bulgarian refugees from the Aegean and Vardar parts of Macedonia.

With the 1920's and the city's renewed district status came tangible economic growth and prosperity. Banking firms and many corporate manufacturers established their branches in the city, and commerce flourished. Dominant in local politics until 1934 was VMRO.

The early 40's were marked by the armed anti-fascist resistance which in 1944 brought to power the communist-dominated Fatherland Front. Most notable of the many far-reaching political and economic developments that followed were: the hearings of the so called People's Court<sup>9</sup>, the nationalization of all private enterprises, and the collectivisation of agricultural land, largely by force.

### **ECONOMY**

In the years before the nationwide economic crisis in 1989, predominant in the local economy were the agro-processing industry, including tobacco, meat and dairy, breweries, and animal feeds; and mechanical engineering with a large share of microelectronics and electrotechnics, including sound equipment, printed circuits, and measuring devices. Textiles had a lesser share, together with construction materials and a range of light industries.

With the worsening of the economic crisis during the last two years, industrial output has declined appreciably, and mechanical engineering is now at an almost complete standstill. Agricultural output has also declined.

Public transportation in the city of Blagoevgrad relies on a fleet of largely obsolete and entirely depreciated buses and taxi-cabs. Shopping services are supported by a reasonable large network of facilities with a growing number of private outlets.

### **ARCHITECTURAL APPEARANCE**

The overall architectural appearance of Blagoevgrad is composed of several distinct zones which preserve the atmosphere of the time they were first developed. A National Revival period (19th c) quarter has been restored; Macedonia square and the

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<sup>9</sup>The People's Court was set up to bring to justice those responsible for the national catastrophes of 1913 and 1919, and the members of the 1941-1944 war cabinets, yet, locally, the institution was used to settle personal accounts with wealthier members of the community.

nearby streets provide typical examples of 1930's architecture; and the civic center was completely redeveloped in 1986-87. Most of the overall area of the city is covered by a residential zone, divided into three housing developments and a fourth satellite urban development. In the old quarters, mid-rise apartment blocks and two-storied family houses prevail. the rest are high-rise, large-panel planned unit developments.

Industry is concentrated in three separate zones on the southern and south-western outskirts of the city. On the city's outskirts are also two public parks.

### **EDUCATION & CULTURE**

The first monastic school was founded in Gorna Dzhoumaya in the 17th century. A century later the first large public school and library were built. Today, the educational establishments in the city include: the American University, the College of Education, the Undergraduate School of Medicine, the College of Mechanical Engineering and Electrotechnics, four general secondary schools, four vocational schools, eleven primary schools (age 6 to 14), and 16 day-care centers (age 1 to 6).

The city of Blagoevgrad is the focal point of cultural activity in the region. The institutions include: the theater, the chamber opera company, the Pirin Traditional Song and Dance company, the Museum of History, three public libraries, an art gallery, etc. There are also the local radio and television.

## **B. THE BLAGOEVGRAD HOUSEHOLD SURVEY**

### **The Blagoevgrad Household Survey**

The data employed in this study came from a survey of households in Blagoevgrad in July of 1992 undertaken by The Urban Institute and MTK Konsult. This survey was a random sample of 2005 households drawn from a household list prepared in July, 1991 by The National Statistics Institute in anticipation of a national census.

The survey instrument (which is reproduced on the following pages) was designed specifically to provide data for the simulation of housing allowances and therefore it was not a comprehensive inquiry into Blagoevgrad's housing market.

A. Interviewer No.	— —	A
B. Date	— —	B
C. District	— —	C
D. Sample No.	— — — —	D

- E. Reason for not completing interview  E  
*[leave blank if interview completed]*
1. Unit doesn't exist or cannot be located
  2. Unit is vacant
  3. No permanent household (all students or temporary residents)
  4. Occupant refused interview
  5. Occupants are on vacation
  6. No one home after three tries
  7. Group dwelling or non-residential unit

F. TIMES FOR FOLLOW-UP ATTEMPTS

1.	_____
2.	_____

SCREENING QUESTIONS

1. Is this a group dwelling (hostel, monastery, et. al.)  01
  1. YES --> **END OF INTERVIEW RECORD RESULT IN BOX E**
  2. NO
2. Is this your usual place of residence?  02
  1. YES
  2. NO --> **GO TO 4**
3. Are you a student?  03
  1. YES
  2. NO --> **GO TO 5**
4. Is there a permanent household occupying this unit?  04
  1. YES --> **RECORD TIME TO INTERVIEW MEMBER OF PERMANENT HOUSEHOLD IN BOX F. ABOVE**
  2. NO --> **END OF INTERVIEW, RECORD RESULT IN BOX E.**
5. For what purpose is the unit used?  05
  1. exclusively as a residence
  2. partly as a residence
  3. wholly for non-residential functions --> **END OF INTERVIEW RECORD RESULT IN BOX E**

*[FILL OUT THE QUESTIONNAIRE ONLY FOR THE PART OF THE UNIT USED FOR RESIDENTIAL PURPOSES]*

PROPERTY OWNERSHIP & ACQUISITION

- 5-8 Does anyone in this household have a housing-linked account at the SSB?
- 6 Household head or spouse [Yes =1; No =2] ---
- 7 Child [Yes =1; No =2] ---
- 8 Other [Yes =1; No =2] ---  
 --> If the answers to 6, 7, & 8 are all no, go to 12
- 
- 9-11. Do any of these persons have enough points to be allocated a unit?
- 9 Household head or spouse [Yes =1; No =2] --- 09
- 10 Child [Yes =1; No =2] --- 10
- 11 Other [Yes =1; No =2] --- 11
- 
- 12-14. Is anyone in this household currently registered on the municipal waiting list?
- 12 Household head or spouse [Yes =1; No =2] --- 12
- 13 Child [Yes =1; No =2]  13
- 14 Other [Yes =1; No =2]  14
15. How long have you lived in this unit Months     15
16. Are you or a member of your household ---
1. the owner of the unit --> GO TO 20 --- 16
2. a renter
3. living here without owning or paying rent --> GO TO 20
17. Who is the owner? ---
1. private party --> GO TO 19 --- 17
2. municipal government
3. state enterprise, government dept., or socialist organization
18. Did you acquire this unit directly from the municipality, state enterprise, etc.? ---
1. Yes --- 18
2. No, from parents or relatives
3. No, from someone else
19. What is the monthly rent? --> GO TO 28
- 
20. From whom did this household acquire the unit
1. the municipality
2. a state enterprise, gov't dept., or socialist org
3. a private party
21. How did the household acquire the unit?
1. purchase
2. gift or transfer
3. inheritance
4. exchange
5. restitution --> GO TO 27

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22. Did the household obtain the loan to purchase the unit from:  
 1. NC --> GO TO 26  
 2. from the DCK  
 3. from some other bank or commercial source  
 4. from a friend or relative
23. Is it still making payments on the loan?  
 1. Yes  
 2. No --> GO TO 26
24. How many more years until the loan is paid off? . . . . . 24
25. How much is the monthly payment . . . . . 25
26. Did you or a member of this household live in this unit as a renter before you acquired it? [1=YES; 2=NO] . . . . . 26
27. Does a member of the household . . . . . 27  
 1. own the land either individually or jointly with others  
 2. own a building right

HOUSEHOLD CHARACTERISTICS

28. How many people are in this household: . . . . . 28
29. What is the age of the head of the household: . . . . . 29
30. How many children are currently living in this household . . . . . 30
31. How many generations . . . . . 31
32. How many people are employed . . . . . 32
33. How many households occupy this unit . . . . . 33

DWELLING UNIT CHARACTERISTICS

34. How many rooms -kitchen included- are there in the unit? . . . . . 34
35. What is the total (gross) floorspace of the unit (m2) . . . . . 35
36. Does this household have exclusive use of all these rooms and floorspace?  
 1. Yes --> GO TO 39  
 2. No
37. How many rooms does this household use . . . . . 37
38. How much floorspace does this household use . . . . . 38

39-44. Does this unit have [1 = Yes; 2 = No; 3 = Shared with other household in same unit]

39. Shower Bath
40. Flush toilet
41. Cold running water
42. Hot running water

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- 43. Telephone ---
- 44. Kitchen in unit not summer kitchen ---
- 45. Where does the heat for this unit come from ---
  - 1. Municipal plant ---
  - 2. Furnace boiler in building - NOT the unit ---
  - 3. Space heater or stove in unit ---

**HOUSEHOLD INCOME AND EXPENDITURES**

46. How much net income did your household receive last month from
- a wages & salaries  46a
  - b income from other work  46b
  - c rent  46c
  - d business income, interest, or dividends  46d
  - e money or in-kind support from friends-relatives  46e
  - f pensions  46f
  - g child allowances  46g
  - h unemployment benefits  46h
  - i social (decree 159) benefits  46i
  - j student stipends  46j
  - k other [specify] \_\_\_\_\_  46k

47. What type of annual payments/income did your household receive last year? *[Check to make sure these were not included above]*
- a. employment bonuses  47a
  - b. sale of agricultural produce  47b
  - c. business income, interest, dividends  47c
  - d. savings from consumption of self production  47d
  - e. other [specify] \_\_\_\_\_  47e

48. Does this household own other residential property ---
- 1 Rural dwelling ---
  - 2 Villa - Summer Home - Second Home ---
  - 3 Another urban unit ---
  - 4 No --> GO TO 50 ---

49. Is this other property ---
- 1 Used only as a second home by this household ---
  - 2 Rented to another household ---
  - 3 Rented to a firm ---
  - 4 Vacant ---

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50. How much do you pay in property taxes per year  
(Enter 0 if they do not pay) . . . . .
51. How much do you pay in condominium fees? . . . . .
52. What is the average monthly payment for water? . . . . .
- 53a. For an average summer month how much do you  
pay for electricity? . . . . .
- 53b. For an average winter month how much do you  
pay for electricity . . . . .
54. What is your average monthly telephone bill? . . . . .
55. What is your average monthly payment for  
central heating (boiler for the entire building)? . . . . .
56. How much did you spend last winter for heating fuel  
(wood, coal, oil, etc?) . . . . .

END OF INTERVIEW

*Interviewer to complete*

57. What is the condition of the unit . . . . .
1. Good
  2. Average
  3. Poor
58. What type of building is this? . . . . .
1. High rise block of flats
  2. Low rise building (maximum four stories)
  3. Single family detached dwelling / villa
59. Which questions, if any, did the interviewee refuse to answer?  
. . . . .

**BEST AVAILABLE DOCUMENT**

## **C. AN OVERVIEW OF SOCIAL BENEFITS IN BULGARIA**

## **Introduction**

Bulgaria has an extensive, complicated and not quite transparent system of government cash transfers designed to complement the income distribution of the labor market and aid needy individuals. Part of it is inherited by the old central planning system and part of it is newly established. Experts in the Ministry of Labor and Social Welfare are quite aware of the fact that the current social benefit system needs to be reorganized but it seems that they don't have the notion how to do it. In 1990 more than 95 percent of the programs were funded and administered through the social security system. In December 1989, unemployment compensation and job search programs were added to the system, funded under the Professional and Retraining Fund<sup>10</sup>. This chapter describes the system and reviews the major issues that can be expected to arise during the period of transition to a market economy, including the system's ability to protect the poor.

## **The Social Security System**

The social security system has three main components: (1) pensions for the elderly and disabled, (2) other benefits mandated by the Labor Code for employed workers (sick pay), and (3) maternity benefits and family allowances (provided under the Decree for Stimulating the Birth-rate). All these benefits are funded by an earmarked payroll tax on a pay-as-you go basis. The revenues, however, are not kept separate, but are absorbed into central government revenues. On average, cash transfers from the social security system provide 20 percent of household income.

**Pensions:** All Bulgarian pensions are provided by the central government; there are no enterprise-based funds. So far as we know there are no private funds. There are five main groups of pensions in the Bulgarian social security system:

- Old-age retirement pensions;
- Disability pensions;
- Special pensions for exclusive services
- Other pensions (widows, widowers, and orphans)
- Social pensions<sup>11</sup>.

We will discuss the first two groups as they are most relevant to our work.

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<sup>10</sup> See section III for more details.

<sup>11</sup> From June 30, 1992 the level of the social pension is 450 levs.

**Old-age pensions:** Eligibility for old-age pensions varies according to the sex, age, type of occupation, and number of children for women. The standard retirement age is 55 for women and 60 for men, but early retirement with full pension is allowed for these working under hazardous or stressful conditions. Depending on the occupation (there are three categories according to labor conditions) this type of retirement can take place as early as 47 for women and 52 for men. Years of service and previous salary determine the size of the pension benefits<sup>12</sup>. For fewer years of work the pension is reduced proportionally. For more years of service the pension rises to a maximum of 12 percent. The size of the pension is based on the three best earning years in the 15 years previous to retirement. Replacement rates are an inverse function of the pension base. The maximum replacement rate is 80 percent and the minimum is 65 percent. There are adjustment coefficients of the average monthly earnings for people who retired which vary from 1 to 9.69 according to the year of retirement in order to adjust the nominal monthly earnings in real terms.

**Disability Pensions:** Persons may qualify for disability pensions if poor health prevents employment totally or partially and if their problem is long-term. To be considered for a disability pension the applicant must have worked and the worsening of his/her health should have happened during his working period or up to 2 years after it. This does not apply for blind people. The eligibility for these pensions is determined by a local committee of physicians which makes initial examination and sets the category of disability (there are three categories). The replacement rate varies from 100 percent for the first category to 35 percent for the third category.

***Maternity and Parenthood Benefits:*** Maternity benefits provide for leave in three phases and apply only for the first three children. Women are entitled to three years of leave with a firm level reentry guarantee. During the first phase, paid leave amounts to 100 percent of the basic wage (excluding bonuses). The period is 45 days prior to delivery and up to 180 days after, depending on the number of children. During the second phase, maternity leave allowance is paid at the minimum wage level. This allowance remains for the first two years after the birth (working father or the mother's parents can take it). During the third phase, leave without pay extends to the third year after birth (but the mother still qualifies to receive family allowances).

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<sup>12</sup> Full pensions are given after 15 years of service in risky occupations both for men and women (category I), 20 years of work in less dangerous conditions for both men and women (category II), and 20 years of work for women and 25 for men in the third category.

***Birth Grants and Child Allowances*** are given for each child up to a family maximum of three children. If the mother is employed, these payments are disbursed by her firm. If she is not employed but the father is, the payment is disbursed by his firm.<sup>13</sup> If nobody is employed the payment is disbursed by the local social security office. The birth grant ranges from 100, 250, and 500 leva for the first, second, and third child respectively. Allowances per child increase from 15 leva per month for the first child to 55 leva per month for the third child (starting with the fourth child, the allowance declines to 15). Payments are made until the child turns 18, as long as he/she is in school. If a mother is disabled or single, allowances per child are roughly double.

***Accident-, Sickness-, and Death-related Benefits:*** These are benefits regulated under the Labor Code to compensate individuals in case of death, illness or accidents. They also provide paid leave in case of illness of a worker's child. The system covers both the employed and the self-employed. Eligibility for full and unrestricted benefits is established after three months of registered work. Employees (including the self-employed) obtain up to six months of sick leave per year, subject to physician's verification, and up to 60 days of child sick leave per year. Industrial accidents and work-related health problems are covered under normal sick leave for short-term problems and disability for long-term problems.

### **Income Support Programs**

There are two income support programs:

- Poverty level benefits; and
- Compensatory grants.

***Poverty Level Benefits:*** The Ministry of Labor and Social Welfare regulates social welfare programs; they are administered by the local social welfare offices. Funds come from central budget transfers, based on proposals prepared by the municipalities.

Social welfare programs fall into 2 main groups:

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<sup>13</sup> Note that the firm is simply the disbursing agent, as firms are reimbursed from the central government for these payments.

- (1) Monthly means-tested benefits for low-income families;
- (2) Benefits for special groups such as handicapped, the elderly, the disabled, and orphans.

Monthly means-tested benefits for low-income families are part of an income protection program designed to bring households with very low income up to the poverty line. A person or a family is considered "socially weak" (eligible for means-tested benefits) if monthly income is below a definite level which is differentiated according to the demographic structure of the family and calculated on the basis of minimum income of 500 leva; the poverty line of one member households is 500 leva. This figure should be updated every three months by the Council of Ministers<sup>14</sup>.

The amount of the benefit is equal to the difference between the household's income and the poverty line. Thus the benefit reduction ratio is 100 percent; if the household income increases by 100 leva, the benefit is reduced by 100 leva and total household income remains the same.

In order to be eligible to participate in this program low-income families should meet the following additional requirements:

- own only one dwelling and the size of the dwelling should match the size of the household: for 1-, and 2-member households the unit should consist of 1 room, for 3-, and 4-member family - 2 room unit, and for 5+-member family - 3 room dwelling;
- not have savings and investments with a total value greater than tree times the poverty line;
- not have assets which can be a source of income;

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<sup>14</sup> The formula for calculating the poverty line for other types of households is:

$$P_1 = N_a \cdot 0.9 \cdot 500 + N_{ca} \cdot 200$$

where  $P_1$  is the poverty line,  $N_a$  is the number of the adults, and  $N_{ca}$  is the number of children in the family. So for a family of four with two children aged under 16, the poverty line will be 1300 lev per month.

- not transfer any real estate property in the last 12 months; and
- if the applicant is unemployed he/she should be registered at the Labor Office and not have refused an offer of work.

Municipal and state enterprise renters and households making mortgage payments can also participate in the program if after these payments their income is lower than the poverty line. If they have no other income but monthly means-tested benefits, they can apply for an additional benefit covering the full amount of the mortgage payment or the rent.

It is not clear if the private renters can participate in this program but it seems that there is a ceiling for rent at either municipal rent levels or 1.65 leva per square meter for private rents, which adversely affects those who choose to live in private rental housing.

Households who have income below the poverty line but who do not meet the additional standards may apply for monthly benefits only if they sign a contract with the municipal welfare office to repay the benefits or to authorize the welfare office to rent their property in which case the benefits are covered by the rent revenues.

Benefits for special groups: Under the same program municipal welfare offices can provide lump-sum payments to persons in special distress (after fire, accident, severe illness, divorce), but it is not clear from the law how these benefits are determined. They also can provide benefits to needy families for expensive medicines, heating and so on, allowances for families of soldiers, and those who care for handicapped children, and subsidies for transport, telephone, and drugs for the handicapped and the elderly.

Administration: These benefits are provided upon request and verification of entitlement. Although verification does not appear to be precise, abuse is not reported to be a major problem, in part because available funds are so low. Applicants must go to the municipality to complete application forms. They are warned that false information will result in termination of the benefits. Each application is followed up (by decree) with a site-visit by a social worker to verify the claim.

**Compensatory Grants (Indexation):** Compensatory grants were introduced in February 1991<sup>15</sup> to soften the shock of price increases after price controls were lifted.

The following payments are compensated with statutorily set figures as follows:

- gross wages and salaries - 270 leva;
- maternity and parenthood benefits, accident and sickness benefits - 242 leva;
- birth grants and child allowances - 90<sup>16</sup> leva;
- unemployment allowances and assistance - 270 leva;
- pensions - 182 leva.

Employers pay the grants to the employees and their dependents and are reimbursed by the central government. The self-employed must apply for the grants through their local social security office.

The sources for the compensatory grants come from:

- the state budget - for employees of budget institutions, for pensions, child allowances, birth grants and parenthood allowances, accident and illness benefits, unemployment allowances and assistance;
- Wage bill of enterprises and organizations with economic activity, both state and private.

### **Unemployment Insurance**

In December 1989, the Council of Ministers approved a specialized fund (Professional Training and Retraining Fund, PTRF) to provide unemployment compensation, labor market information, and training of the unemployed. All workers dismissed for economic and technological reasons who register with the Labor Office are eligible to receive compensation; voluntary departures are not covered. Minimum service requirement is 6 months service during the last twelve months.

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<sup>15</sup> Decree No. 8 of the Council of Ministers/29.01.1991. The same Decree sets the minimum salary at 435 Levs, which is updated with Decree No. 135 from 17 July 1992 at a level of 850 Levs.

<sup>16</sup> With Decree 135 from July 17, 1992 the monthly compensations for child allowances increased to 170 Levs per child.

There are two types of unemployment benefits: allowances and assistance. The basis for the unemployment allowance is the national minimum wage plus 20 percent of the difference between the applicant's average gross wage per month during the last 6 months and the minimum wage. The period covered by the unemployment allowance depends on the age and the length of work of the applicant. The minimum length of allowance is 6 months and the maximum one is 12 months. Then for three additional months the unemployed is entitled to assistance provided as a flat-rate benefit at the level of the minimum wage. The funds for both the allowances and assistance come from the Professional Training and Retraining Fund (PTRF) which receives resources from two main sources: an earmarked tax and transfers from the state budget. The unemployment contribution is set at 0.5 percent of the wage bill of all enterprises and organizations with economic activity as well as private enterprises. Budgetary institutions are excluded from the tax base.

### **Issues and Reform Proposal**

The social security and social assistance systems in Bulgaria serve multiple purposes:

- a. to redistribute factor incomes and aid in consumption smoothing;
- b. to provide insurance against loss of income from accident, sickness, and so on;
- c. to prevent poverty by providing a safety net for the most vulnerable groups;
- d. to encourage population growth.

Until recently the popular perception has been that the system has been fairly successful at providing a minimum level of social insurance. Combined with the universal employment policy and other social sector programs, it has prevented serious poverty. The system has not been successful at encouraging population growth.

The costs of the system are high, both in fiscal terms and because of inefficient allocation of resources. On the fiscal side, roughly 30% of the current total public expenditures go to these programs as we were informed by the experts in the Ministry of Labor and Social Welfare; statistical yearbook show a figure of 21 % for 1990 and

if these numbers are correct it shows a tremendous increase of public expenditures for social welfare. Without some reform of the system, current entitlement could cause expenditures to rise even above this level in the near future, given the increases of price and unemployment.

It's obvious that Bulgaria needs an effective safety net to protect the most vulnerable groups. It is unlikely that the country could afford to provide such a range of programs and continue to fund all the current entitlement. It is essential, too, to increase the cost-effectiveness of the system and to support a redirection of incentives. The main elements of a social assistance reform should include:

- reducing the universal character of benefits and concentrating scarce resources on the most vulnerable groups;
- making all income redistribution transparent by separating social insurance from social welfare objectives;
- seeking other, more cost-effective instruments to encourage population growth and reconsidering whether it is appropriate to use social benefit system for it.

## **D. SUPPLEMENTARY DATA & RESULTS**

Table D.1  
Participation Rate Among Different Social Groups

Rent Increase: Value of t:	8 leva/m2				10 leva/m2				12 leva/m2			
	10%	15%	20%	25%	10%	15%	20%	25%	10%	15%	20%	25%
<b>Tenure</b>												
Private rental	97	77	53	33	100	93	63	53	100	97	80	60
Municipal rental	100	90	71	57	100	100	87	71	100	100	95	82
<b>Number of Children</b>												
None	97	80	50	40	100	93	67	50	100	97	83	60
One	100	89	73	58	100	100	85	73	100	100	89	85
Two or more	100	89	71	51	100	100	86	71	100	100	97	80
<b>Age of Respondent</b>												
< 35	98	83	58	35	100	98	75	58	100	98	88	68
35 - 50	100	86	69	54	100	97	83	69	100	100	91	83
51 - 65	100	92	85	85	100	100	85	85	100	100	92	85
65 +	100	100	33	33	100	100	67	33	100	100	100	33
<b>Number of Earners</b>												
None	100	100	93	93	100	100	93	93	100	100	100	93
One	98	94	74	55	100	98	86	74	100	98	96	82
Two	100	72	40	20	100	100	68	40	100	100	80	60
Three or more	100	-	-	-	100	67	-	-	100	100	33	-
<b>Families with Pensioners</b>												
	100	89	61	61	100	100	83	61	100	100	94	78
<b>Income Group</b>												
Lowest quartile	100	100	100	92	100	100	100	100	100	100	100	100
2nd	100	96	63	44	100	100	82	63	100	100	96	74
3rd	94	78	33	0	100	94	72	33	100	94	83	67
Highest quartile	100	20	0	0	100	90	10	0	100	100	50	0

**Table D.2**  
**Distribution of Allowances Among Participants**  
**(in percent of allowance payments by Income Quartile & Tenure)**

Scenario: Rent per square meter: Value of t:	8 leva				10 leva				12 leva			
	10%	15%	20%	25%	10%	15%	20%	25%	10%	15%	20%	25%
<b>Income Quartile</b>												
lowest	50	63	77	88	46	55	67	77	44	50	59	68
2nd	28	26	21	12	28	28	25	21	28	28	27	25
3rd	16	10	2	0	18	14	8	2	19	16	13	7
highest	6	0	0	0	8	3	0	0	9	6	1	0
<b>Tenure</b>												
Private Renters	25	22	21	21	26	24	22	21	26	25	23	22
Municipal Renters	75	78	79	79	74	76	78	79	74	75	77	78

**Table D.3**  
**Rent-To-Income Ratios Among Program Participants After Allowances**  
**(in percent of Household Income)**

Scenario: Rent per square meter: Value of t:	8 leva				10 leva				12 leva			
	10%	15%	20%	25%	10%	15%	20%	25%	10%	15%	20%	25%
<b>All Participants</b>	4	8	10	14	0	5	8	11	-3	2	6	9
<b>Income Quartile</b>												
lowest	-3	2	7	11	-8	-3	2	7	-14	9	-4	1
2nd	9	14	16	20	7	12	14	19	5	10	15	17
3rd	5	11	10	-	3	8	14	11	1	6	12	16
highest	10	14	-	-	9	14	22	-	8	13	17	-
<b>Tenure</b>												
Private Renters	1	4	4	3	-5	-1	-2	0	-12	-7	-5	-7
Municipal Renters	5	9	12	17	3	8	12	15	2	7	11	14

Table D.4  
**Rent-To-Income Ratios Among Different Social Groups**  
**(in percent of Household Income After Allowances)**

Rent Increase: Value of t:	8 leva/m <sup>2</sup>				10 leva/m <sup>2</sup>				12 leva/m <sup>2</sup>			
	10%	15%	20%	25%	10%	15%	20%	25%	10%	15%	20%	25%
<b>Tenure</b>												
Private rental	1	5	8	10	-5	0	4	6	-12	-7	-2	2
Municipal rental	5	10	14	17	3	8	13	17	2	7	12	16
<b>Number of Children</b>												
None	7	12	15	17	5	10	14	16	2	7	11	16
One	-1	3	7	10	-6	-1	3	7	-11	-6	-1	4
Two or more	4	9	13	16	2	7	11	15	-1	4	9	14
<b>Age of Respondent</b>												
< 35	5	10	13	16	3	7	12	15	-1	4	9	13
35 - 50	1	5	9	12	-3	2	6	10	-7	-2	3	7
51 - 65	6	11	15	20	5	10	14	18	3	8	13	17
65 +	2	7	9	11	-1	4	9	10	-5	0	5	10
<b>Number of Earners</b>												
None	2	7	11	16	-1	4	7	13	-4	1	6	11
One	2	7	11	14	-1	3	8	12	-5	0	4	9
Two	6	10	13	15	4	9	13	15	2	7	12	15
Three or more	12	14	14	14	11	16	17	17	11	16	19	19
<b>Families with Pensioners</b>												
	5	10	13	16	3	8	12	16	1	6	11	15

**Table D.5**  
**Program Costs per Month Under Different Scenarios**  
**(in Leva)**

Scenario:								
Value of t:	10%	15%	20%	25%	10%	15%	20%	25%
Rent per square meter:	8	8	8	8	12	12	12	12
<b>Gross Rental Income</b>	303512	303512	303512	303512	448316	448316	448316	448316
<b>Total Allowance Payment</b>	282037	186985	124700	84598	530728	423054	322220	243482
<b>Net Revenue (rent receipts-allowances)</b>	21475	116527	178812	218914	-82412	25262	126096	204834
<b>% Net Revenue/Gross Revenue</b>	7%	38%	59%	72%	-18%	6%	28%	46%
<b>Current Rental Income</b>	58627	58627	58267	58627	58627	58627	58627	58627
<b>Revenue Increase (gross income-current income)</b>	244885	244885	244885	244885	389689	389689	389689	389689
<b>% Revenue Increase</b>	418%	418%	418%	418%	665%	665%	665%	665%
<b>% Net Revenue/Current Income</b>	37%	199%	305%	373%	-141%	43%	216%	349%

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BULGARIA (DRAFT)

Author(s) MAYA KOLEVA, MICHAEL HOFFMAN, JENNIFER DANIELL

Center IAC/PEH Date of Report 12/92 Client ATD  
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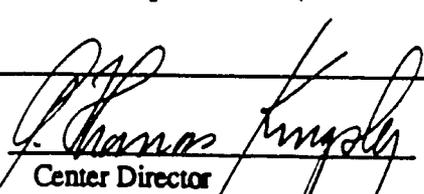
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