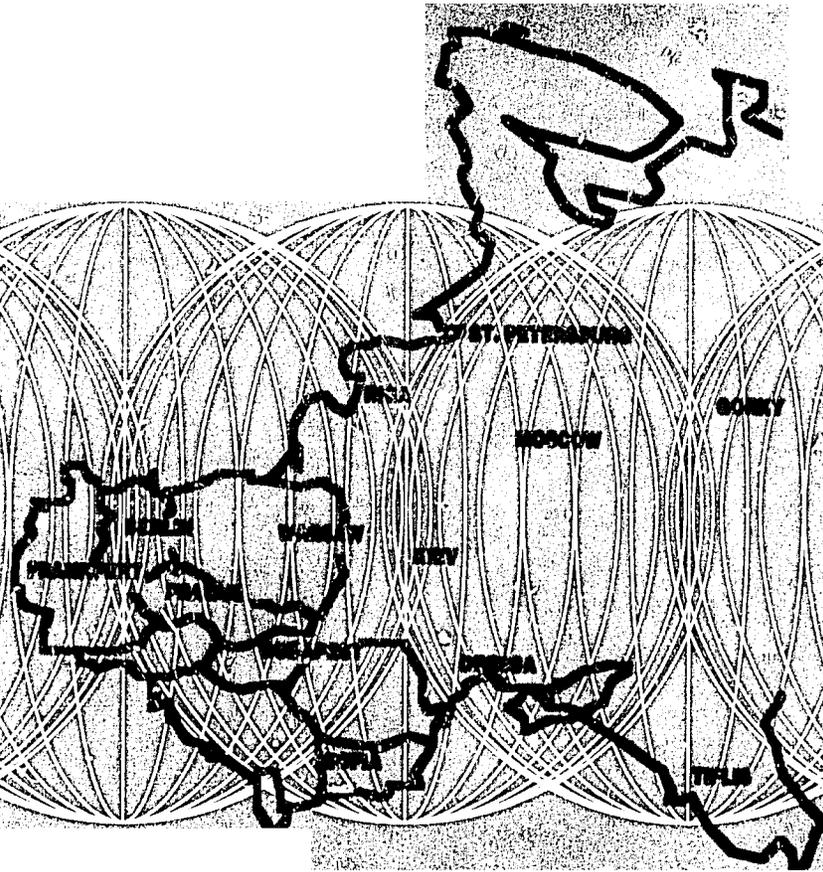


AN INTERNATIONAL ACTIVITIES PROJECT

FROM PLANNING TO MARKETS

HOUSING IN EASTERN EUROPE



**MONITORING RUSSIA'S EARLY EXPERIENCE
WITH HOUSING ALLOWANCES**

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ABSTRACT

The implementation of housing allowances is an integral part of Russia's program to increase systematically tenant payments on state rental units (both those privatized and those remaining rentals) beginning in 1994. Because housing allowances constitute the country's first income-tested program, the significance of its performance transcends the housing sector. Tenant payments are being increased in steps over a five year period to cover full operating costs; a housing allowance program was to be operational in each city when rents rose. This paper reports the results of an initial assessment of the housing allowance program in two cities. The assessment focuses on the extent to which income eligible households know about the program, their participation rates, and their experience in becoming recipients. Survey results show disappointing low levels of knowledge about the program and extremely low participation rates. While both can in part be explained by the low average benefit levels at this stage in the program of rent increases, they clearly call for greater effort by local and national administrations to inform the population.

THE SOVIET LEGACY AND INITIAL REFORMS

At the beginning of the era of Russia's accelerated political and economic transition in the summer of 1991, the country's housing stock was characterized by an overwhelming state presence. Nationally, 67 percent of the stock was state owned--either municipalities or state enterprises and governmental agencies.¹ In urban areas 79 percent of the housing was owned by the state. In the largest cities, state ownership accounted for 90 percent of all units. The importance of state ownership of housing in Russia dwarfed the corresponding sectors in Eastern European countries at the beginning of economic reform. For example, in Hungary the state sector accounted for only 20 percent of the housing stock in 1989; Bulgaria, 9 percent; Poland, 34 percent (possibly plus 14 percent of units that were in rental cooperatives); and Czechoslovakia, 45 percent (Baross and Struyk, 1993: Table 1).

The attributes of the system which developed and maintained this system can be summarized as follows:

- Centralized distribution of all resources and strictly formalized planning of the volume and distribution of new housing construction;
- Use in practically all regions of the country of standardized multi-floor building construction plans, with the housing constructed by a small number of big kombinats;
- Extreme state monopolization of the construction complex and housing maintenance facilities;
- Financing of all state housing construction exclusively from centralized assets of the state budget or of state-run enterprises;
- Near-total subsidization of housing and maintenance organization activity through various forms of state funding;
- The constitutional guarantee of housing provision at a low cost (strong rent controls);

¹ Units owned by enterprises and government agencies are jointly referred to in Russia and in this article as the departmental housing stock.

- The dominant role of a single, state-operated system for distribution of housing which operated through local and enterprise waiting lists.²

Dismantling this state-dominated system and replacing it with a market-oriented one would be a most formidable task. Early reforms had two decisive elements: a law permitting and encouraging mass privatization of housing (in the sense that sitting tenants could, under certain terms, claim the ownership of their unit); and, the shift of the ownership of the state housing stock to local governments.

The First Phase of Reform. The legal history of the transfer of state housing to local governments is tangled, and it was far from definitive in initially transferring control of housing from enterprises to the municipalities. However, as enterprises are fully privatized, their housing is removed from their balance sheets and usually transferred to local government.³ The overall result in general has been to place responsibility for housing provision closer to the people, with financial support from the federal government essentially disappearing except for certain groups such as retired military officers and victims of Chernobyl. The locus of housing policy responsibility has also shifted in part to regional and local governments.

The second initial policy change in the Russian housing sector was the privatization of state rental units. Tenants were given the opportunity to acquire their unit at little or no cost simply by requesting the transfer of ownership. The law "On Privatization of the RSFSR Housing Stock," passed by the Supreme Soviet in June 1991, mandated privatization of state-owned rental units (both municipal and departmental) to registered tenants.⁴ A year and a half later the Supreme Soviet established free of charge privatization throughout the Federation.

A tenant who privatizes his unit receives full rights to dispose of it: the unit can be rented or sold in the open market without restriction. However, the new owners receive essentially no additional rights in determining who will manage the

² Descriptions of the Soviet housing system before the major reforms are provided by Andrusz (1990), Kalinina (1992), Bessonova (1992), and Ruble (1993).

³ For a brief summary of the transfer of housing to local governments, see Struyk et al. (1993) pp.21-23. See Struyk and Kosareva (1994), Chapter 4, for a discussion of the changing ownership pattern in housing that was departmental housing at the beginning of the transition.

⁴ Local governments were given the possibility of charging tenants for space occupied above the nationally set minimum. While most cities opted for charging for "extra space," Moscow adopted free of charge privatization in January 1992. But even in cities that did levy the charge for extra space 85-90 percent of units were transferred without charge because of the generous minimum space standards.

building and how much it will cost.⁵ In addition, they must continue to pay for communal services such as heat and gas, under contracts negotiated by city officials.

Under the 1991 law, privatization got off to a slow start. By the beginning of December 1991, only 90,000 units, or 0.4 percent of self-contained, state-owned rental units in Russia, had been transferred to private ownership. Privatization did not really get underway until early 1992 by which time local governments had determined the terms under which units would be transferred.⁶ By the end of 1992 the number of units being privatized each month had increased significantly--638,000 units in December alone, a quarter of the 1992 total. Among municipalities, Moscow's free of charge program, which was combined with an efficient system for processing applications, got off to a quick start and performed well during 1992. According to the State Statistical Office, 366,000 units were privatized in Moscow by the end of the year, or about 13 percent of the 1990 state housing stock. By the end of 1994, a total of 11 million units had been privatized nationally (31 percent of eligible units); but the rate of privatization had slowed markedly in the second half of the year.⁷

In short, the housing privatization program appears to be well on its way to achieving its primary objectives: transferring sufficient units to private ownership so as to form the basis of a private market, and giving a substantial number of families a genuine stake in Russia's economic reforms.

The Second Phase of Reform. The Law on Fundamentals of Housing Policy, passed in December 1992, was the second major step in the transformation of THE housing sector in general and the rental sector in particular. This legislation established a program to raise rental payments, introduce housing allowances, improve maintenance of state housing by replacing a monopolistic system with competitive procurement procedures, and reduce tenant rights by permitting eviction to low quality housing for non payment of rent.

The two tracks of privatization and rent reform are closely related. Raising rents is critical to increasing the attractiveness of privatizing a unit. It is also the linchpin of sector reform, because raising rents permits the market to achieve a more

⁵ The possibility of establishing condominiums was created in the Law on Fundamentals of Housing Policy in the Russian Federation which was passed by the Supreme Soviet in December 1992. A presidential decree issued in December 1993 presented the necessary (but temporary) implementing regulations. The final regulations are still in the drafting stages. By the fall of 1994 a number of cities were creating their first condominiums.

⁶ See Kosareva and Struyk (1993) for a description of the privatization law and its early implementation.

⁷ For details, see chapter 4 of Struyk and Kosareva (1994).

efficient utilization of the stock by allocating available housing to those with effective housing demand. Higher rent revenues will support improved maintenance, which in turn will increase tenants' willingness to absorb further rent hikes. However, as recognized in the law, improvements in the quality of maintenance services only seems likely if the existing monopolies of state maintenance firms are decisively broken and replaced with procurement of services on a competitive basis.

Russian policy-makers understood that rents could not be raised unless poor families were protected from the full impact of higher rents. Consequently, the Law on Fundamentals also created a housing allowance program, whose implementation was mandated to accompany each locality's initial rent increase.

The program likely has important implications for the seemingly endless waiting lists for housing, so long a hallmark of the Russian housing system. As rents rise to market levels, there will be no attraction for families who do not qualify for housing allowance payments to wait to be allocated a state unit. Similar units, whether private or municipal, will cost the same; why wait? The same, of course, will be true for those who do qualify for a housing allowance, i.e., if they can find a unit they can afford with the allowance payment in the open market, they will be able to rent it. Over time as the supply of private rentals grows the waiting lists will tend to disappear, and along with them a major source of inequitable treatment and corruption.⁸

The program of phased rent increases and introducing housing allowances was launched at the beginning of 1994 on a national basis. The timing of implementation has been uneven, as localities organized the new program at different speeds. Nevertheless, by the fall of 1994 expert observers believed that the rent-allowance program covered most of the housing stock.

This paper presents the results of a very early evaluation of the housing allowance program--the nation's first means-tested program--based on the experience of two fast-starting jurisdictions. The evaluation specifically focussed on the participation rates of apparently income eligible families and on participants' perceptions of their treatment in the program. These two issues were selected because national officials and their advisors are acutely aware that support for the program of rent increases could be severely eroded by failure to reach a substantial share of eligible families and/or widespread resentment by participants of their treatment by program administrators. Hence, early feedback on program performance was viewed as critical.

⁸ See Alexeev (1988) for a summary and references to the literature of the actual allocation of units under the Soviet system.

The presentation is organized as follows. The first section gives an overview of recent developments in the state rental sector and the structure of the housing allowance program. Then we review the specific parameters of the programs evaluated. In the third section the structure of the evaluation is explained and the results are presented in the fourth section. The article closes with our conclusions and recommendations for the later stages of the program.

RAISING RENTS AND IMPLEMENTING HOUSING ALLOWANCES

"Rents" consist of two components that are charged and paid separately. Until 1994 maintenance fees remained unchanged since 1928 and cost a maximum of 16.5 kopeks per square meter of living space.⁹ Charges for communal services are computed separately for about a dozen different services. Of these, only electricity and telephone usage are monitored and billed separately for individual units; others are billed according to the number of occupants or the unit's square meters of floor space. Charges for communal services have been raised fairly frequently in the last few years; charges for some of the less important items now cover full cost.

In 1992 and 1993 tenant payments made a wholly insignificant contribution to the costs of providing services because inflation eroded the value of the Soviet-era rents. Moscow officials estimated that they covered less than 1 percent of maintenance costs at the end of 1992 and even less in 1993. This contrasts with 35 percent in 1990. A similar picture emerges from data on tenant's expenditures. In March, 1992 the average tenant devoted about 2 percent of its income to rents (maintenance fees and communal services); for the poorest 25 percent of the population, these expenditures accounted for only 4.2 percent of income. By November 1993, the poorest households spent only 0.8 percent of their income on housing.¹⁰

Local governments adjusted in three ways to the sharp reduction in total costs covered by tenants: cutting services, increasing subsidy payments from their budgets, and imposing a new tax on enterprise turnover to pay for housing maintenance. On a national basis funded maintenance budgets were sufficient to cover only 25-30 percent of estimated requirements in 1992. In Moscow in 1993 the figure was 45 to 50 percent. Even so, the City devoted about 17 percent of its total

⁹ Actually, beginning in April 1992 it was possible for local Soviets to increase maintenance fees, and a few, such as the one in St. Petersburg, did.

¹⁰ The figure on the share of income spent on housing is from Struyk, Kosareva et al. (1993); parallel data for 1993 are from authors' calculations using data from the monthly households income and budget survey conducted by Mosgorstat for November 1993. The figure on the share of total costs covered by tenant payments was provided by the Moscow Department of Engineering and Communal Services.

budget to existing municipal housing: 2.8 percent for current maintenance; 10.1 percent for capital repairs, and 4.1 percent for communal services subsidies.¹¹ If maintenance services had been adequately funded, they alone would have accounted for 6 percent of the City's budget. As it is, deferred maintenance is piling up, which implies additional capital repairs in the future. Estimates for the few other cities for which data have been compiled show 25-30 percent of total expenditures going to housing in 1994. To help cover the rising cost of maintenance and communal services many local governments have enacted a 1.5 percent tax on enterprises' turnover, based on a law enacted by the Supreme Soviet in early 1993.¹² These figures highlight two realities. First, the great majority of families can afford to spend a substantially greater share of their incomes for housing. Second, the cost of providing services is a substantial drain on cities' resources, making them anxious to acquire revenues to cover these costs.

Taken together these facts suggest that it would be feasible to implement a program of rent increases and housing allowances. The program outlined in the Law on Fundamentals requires that rents be raised to fully cover operating costs within a five year period, with local governments introducing housing allowances for social housing at the time of the initial rent increase. During the five year period, state support for capital repairs is to continue.¹³ The Federal Government's Program HOUSING makes clear that raising rents to market levels is the eventual goal.

In September 1993 the Council of Ministers issued the regulation on the program of raising rents and implementing housing allowances, thereby putting this provision of the law into effect on the first of January 1994. Perhaps its most distinct feature is the step-by-step approach to increase rents, i.e., fees for maintenance and communal services, to cover full operating costs over a five year period. Beginning in January 1994 rents could be increased but housing allowances had to come into

¹¹ Data supplied by the Moscow Department of Engineering and Communal Services.

¹² Law of the Russian Federation, "On Foundations of the Tax System," N.2118-1, February 25, 1993. Each locality decides whether to implement the tax. They also decide on the distribution of revenues collected, i.e., whether they go solely to maintain municipal units or if they are shared with enterprises who have their own housing for workers. In some locations enterprises that have their own housing must pay the tax but their own expenditures on housing maintenance and communal services are deductible. In others, enterprises with their own housing are exempt from the tax. While there are no national data on the number of localities which have adopted the tax or the revenue generated, our sense, based on visits to oblasts in the central part of Russia, is that many local governments have implemented it.

¹³ Similarly, the various benefits allocated to citizens under the old system are to be preserved. No Federation-level guidance has been prepared on how to incorporate the old benefits into the housing allowance structure, and localities are using various methods. For a description of the myriad benefits enacted during the Soviet era, see Institute for Communal Economy (1993).

effect at the same time. The schedule specified for the share of costs to be covered by rents was:

	percent of operating costs to be covered by rents ^b	maximum share of income to be spent on rents ^a
1994	15-20	.10
1995	20-40	.15
1996	40-60	.15
1997	60-80	.15
1998	100	.20

- a. Payment for housing of the social norm for household of particular size and compositions. This is further described in the text below.
- b. By Government Decree 15 December 1993, this schedule was made optional, with only the target of full cost recovery by 1998 retained.

At least four reasons can be advanced for the Government rejecting a "shock therapy" approach of raising rents. First, it was simply politically infeasible to pass a law that would mandate such an abrupt policy change. Second, there are severe data limits for a faster approach. Perhaps most importantly, no one knows what it costs to maintain housing in the Russian Federation. There are now private companies that do a good job of maintaining municipal housing at a price that is much lower than the currently estimated "full costs" (Angelici et al., 1994). If the official estimates were used, then the true cost of efficient maintenance could be overshoot, leading to further inefficiency. There are also enormous uncertainties about developments in maintenance and communal services costs and incomes in the years ahead. The step-by-step approach permits adjustments to the original plan to be made as needed.

Third, the step-by-step approach permits more time for increases in income. Hopefully within the five year period, real incomes increases will result from productivity gains; in addition, cash incomes will rise as workers receive more of their total compensation in cash rather than in in-kind services. The fourth reason concerns the administrative apparatus. Housing allowances are the first income-tested program in Russia of any scale or sophistication. The step-by-step approach controls the volume of participants and gives the time needed to perfect administrative procedures. An immediate increase to full cost coverage would result in essentially universal participation—meaning in Moscow, for example, three million participant households at the start. Also, a jump to full cost coverage would also result in about the same net (after allowance payments) increase in revenues as a smaller increase, because after a moderate rent increase allowance payments are required to pay all of the additional rent increase (Struyk et al., 1993).

The housing allowance payments are made using a "gap formula:" $S = MSR - tY$, where S is the subsidy payment to the tenant; MSR is the "maximum social rent," i.e., the fees for maintenance per square meter of total space plus the payment for the "normatives" of communal services times the number of square meters defined as the social norm for a family of a given size and composition; t is the share of (gross) income deemed reasonable for the family to spend on housing; and, Y is household income. Thus, the allowance covers the gap between the cost of an adequate accommodation and what the family can reasonably afford to pay.¹⁴ The household pays the full cost of housing above the MSR, i.e., for extra space occupied, creating a clear incentive for low income, overhoused families to move to smaller units. Families with incomes greater than MSR/t are not eligible for the program, as they would not receive a positive payment.

The Council of Ministers' Regulation divides responsibility for the specific features of the program among the federal, republican and local governments, permitting significant choices to be made at the sub-federal levels (Table 1).

Table 1
Distribution of Policy Responsibilities
Among Federal, Republic and Local Governments
Specified in the September 1993 Regulation

Federation Government	Republican Government	Local Government
<ul style="list-style-type: none"> - rent increase, i.e., the maximum and minimum share of operating costs which must be covered by tenant payments each year during transition period - maximum share of income tenants can be required to pay for rent and receive the subsidy, i.e., maximum value of "t" 	<ul style="list-style-type: none"> - program regulations, e.g., which households are eligible to participate (renters in private units, cooperatives, etc.) - social housing norms 	<ul style="list-style-type: none"> - new rents - actual share of income that subsidy recipients must spend on rent, i.e., "t"

The law mandates that tenants in state units, both municipal and departmental, be eligible for allowance payments. Republic governments can expand the definition of those eligible as broadly as it wishes. Most localities are making essentially all households eligible, including private renters. The two exceptions

¹⁴ A detailed explanation of this formula and simulation results for Moscow for a program using it are in Struyk, Kosareva et al. (1993). This same type of formula has been adopted in Estonia and Hungary and is being used in the experiment being prepared in Bulgaria.

seem to be "secondary owners," i.e., those who have purchased privatized units or new units in the open market, and those who lease their housing on the market. Apparently the reasoning is that such families can afford to pay full operating costs.

In December 1993, the Council of Ministers enacted a major revision to the initial regulation in which republic governments were permitted to replace the mandated schedule of rent increases with any alternative.¹⁵ The only restriction is that rents must fully cover operating costs in 1998. Under this scheme republic governments can set the share of operating costs to be recovered through tenant payments; each municipality and region (*rayon*) then sets its charges correspondingly.

Lastiy, the Law on Fundamentals of Housing Policy (Article 15) takes into account that overhoused families will be under increasing pressure to move to smaller units as rent payments are increased. The drafters of the law were deeply concerned about overhoused tenants being "trapped" in units they could not afford. The law, therefore, provides that local governments must provide "overhoused" families who request smaller units with units that meet the social norm. While the new unit is being found, the family pays only for the social norm of housing, thus putting the city under pressure to help find a suitable unit. Given the high volume of apartment swaps—for example, about 95,000 or 3 percent of the stock per year in Moscow (Khadduri and Puzanov (1992)—and the large number of families seeking larger units, effecting these transfers should not be problematic.

RENT-ALLOWANCE PROGRAMS IN VLADIMIR AND GORODETZ

The cities of Vladimir and Gorodetz were selected for the initial evaluation of housing allowances because the two cities implemented their programs early compared with other cities. The objective was to obtain information on program performance as quickly as possible to make program adjustments throughout the country if necessary. Gorodetz raised rents in January 1994 and implemented its housing allowance program in March (with retroactive payments for the first two months). Vladimir raised rents as of April 1 and qualified its first participant near the end of May; participants were retroactively given subsidies for April and May. Hence, by the time of the survey work in the second half of September, the Gorodetz program had been operational about six months and the Vladimir program about four months.

Vladimir, a city of 350,000, is located about 200 km northeast of Moscow. It is the capital of a relatively small *oblast* (region) of the same name. The city's

¹⁵ Council of Ministers Resolution, "On Addition to the Resolution of the Council of Ministers, Government of the Russian Federation of September 22, 1993, N. 935," N. 1329, December 23, 1993.

economy is heavily dependent on industries producing for the military. It also produces motors, machines, and tractors for the non-Black Soil region of Russia.

Gorodetz, with a population of 30,000, is a district center in the Nizhni Novgorod Oblast. It is located on the Volga River about 400 km northeast of Moscow. The main employer is a machinery plant in Zavolzhye, Gorodetz's twin city on the opposite bank of the Volga.

Program Design. While both cities followed the basic program design set forth in the Council of Ministers Resolution, both introduced significant modifications.

In Gorodetz, rent payments were raised to cover 20 percent of full operating costs at the start of the year. However, the oblast legislature elected to make the household contribution rate ("t") vary with household income. In particular, it established the following schedule:

per capita income per month (000)*	t
<40	2.5%
40-50	5.0
50-60	7.5
>60	10.0

* The exchange rate in September 1994 was approximately Rubles 2,350 = 1\$

The obvious impact of substituting these graduated values of "t" for the flat 10 percent rate is to increase the number of households who will have positive subsidy payments and therefore be eligible to participate.

Vladimir, increased rents to cover 20 percent of full operating costs in two steps--on April 1 and July 1--with the second step coming after the housing allowance program was fully operational. The household contribution rate was set at 10 percent for all households. The city also decided that the value of "special benefits" be subtracted from the MSR in determining the subsidy payment. Special benefits are a legacy of the Soviet period. They permitted certain classes of households, e.g. invalids, veterans of the Great Patriotic War and their spouses, victims of Chernobyl, privileges in terms of extra living space or discounts on some or all payments for communal services. A household entitled to multiple benefits elected the one with the greatest value to it. The impact of the deductions from the MSR is to reduce the number of income-eligible households who would receive a positive subsidy payment.

Outreach. The two cities mounted substantial information campaigns but the significant differences in their approaches. The actions of the two cities are

summarized in Table 2. On the one hand, officials in Vladimir expected a large number of participants--as many as 5,000--and were worried that the new housing allowance offices lacked capability to process so many applicants. Therefore they chose to run a "non aggressive" information campaign. The campaign got underway in late May when the housing allowance offices were fully functional, although rents were raised on the first of April.

Table 2
Summary of Information and Outreach Campaigns
in Vladimir and Gorodetz

action	Vladimir	Gorodetz
TV/radio	presentation on TV; regular messages on radio	Head of administration spoke three times on radio
Local newspapers	3 leading newspapers published materials on rent and allowance reform prepared by the city administration	2 extensive stories in local newspapers, including interviews with head of administration and his deputy
Presentations (briefings) at enterprises	Not done.	20 briefings at all big enterprises and organizations
Presentations in neighborhoods	Not done.	3 presentations in neighborhoods (<i>mikro-rayons</i>)
Training of workers in local housing maintenance offices	Seminar for these employees	Materials sent to every housing organization
Printed matter	Information sheets posted in housing maintenance offices and in building entryways	Not done.

In contrast, the publicity campaign in Gorodetz was very aggressive. The Gorodetz district was the first in the oblast, and perhaps the first in the country, to implement the combined program of rent increases and housing allowances. Since there was the potential for demonstrations and other manifestations of popular discontent, the publicity campaign had to convince the population that raising rents made sense and would not impoverish anyone. Therefore, the district's senior administrator personally made speeches at all of the district's main enterprises, organized major

newspaper stories and otherwise worked hard to announce both the necessity of the rent increase and the protection afforded by housing allowances.

Having begun operations in May, Vladimir had about 1,000 participant families in September or about 1 percent of households. Gorodetz, with its longer enrollment period, more generous program, and more aggressive information campaign had about 250 households, about 2 percent of all households, receiving housing allowance payments by September.

EXPECTATIONS BASED ON INTERNATIONAL EXPERIENCE

While many countries have some data on the growth over time in participation in their housing allowance programs, very rarely are data on the first year or two very detailed. Understandably, administrators concentrated on start-up problems and seldom focussed on monitoring performance in the first few years.¹⁶ One notable exception to this record is the Housing Allowance Supply Experiment in the United States. Important but more limited information is also available from the extension of the West German housing allowance program to East Germany and from a pilot program established in Hungary.

Under the Housing Supply Experiment an open enrollment housing allowance program was operated in two middle-sized cities--Green Bay, Wisconsin and South Bend, Indiana--for ten years to learn how making housing subsidy payments to substantial share of the population would effect the local housing market. The first payments were made in July 1974 in Green Bay and January 1975 in South Bend. For its first five years the program was subjected to intense monitoring by the Rand Corporation which also administered the experiment.¹⁷ The "gap" formula for computing benefits in the experimental program is the same as that employed in Russia, although households had to spend 25 percent of their incomes on housing before receiving an allowance payment.

The Rand Corporation launched an aggressive information campaign before the introduction of allowances and thereafter. After three years over 80 percent of all

¹⁶ In exploring the information available for the Netherlands and the Federal Republic of Germany, for sample, we found that data were available on the number of participant families but not on participation rates, i.e., participants as a share of eligible households. Evaluations providing this information only came some year later. The evaluations also provided information on reasons for non participation. (Personal communications from Peter Boelhouwer, Delft University of Technology, August 1994; and Eugen Dick, German Federal Ministry of Housing and Spatial Planning, October 1994.)

¹⁷ A general description of the experiment is provided by Lowry (1983); see Struyk and Bendick (1981) for a description of the place of this experiment in the overall series of housing allowance experiments.

households eligible for the program knew of its existence (Lowry, 1983; table 4.5). Enrollment rose sharply in the first year of the program in both cities, reaching well over 50 percent of the "steady state" enrollment rates, i.e., the share of enrollees as a percent of those eligible to participate. After two years enrollment rates were already close to steady state rates¹⁸--estimated to be 44 percent in one city and 19 percent in the other.

Lowry lists four factors that contribute to low enrollment rates. First, to enroll a household had to know about the program. Second, it had to believe that it might be eligible to participate. Despite the program's extensive information campaign, the fact that many ineligible households tried to enroll suggests that the conditions for enrolling were not well understood. Third, an eligible household had to weigh the economic benefits against the perceived costs of participation, i.e., the effort necessary to apply for the program, including assembling the necessary documents and visiting the program office perhaps several times. Imperfect information about benefits would cause some households to underestimate the gain from participating and cause them not to enroll. Those expecting large benefits are more likely to enroll. Fourth is the household's attitude about seeking assistance from the government. Some households who object to taking charity or do not like public assistance because it reduces their sense of independence refuse to enroll. Statistical modeling supports these factors as effecting enrollment rates (Lowry, 1983; table 4.7). Importantly, these are the same factors reported by analysts in other countries as affecting participation in housing allowances.¹⁹

One feature of the U.S. program deserves special attention: to receive a subsidy payment an enrolled household had to live in a unit that met certain minimum physical standards. Failure to find housing meeting these standards had a major negative impact on participation rates and may well also have affected enrollment rates by discouraging some families from applying.

The German program does not contain a housing quality standard and in this feature it is closer to the Russian program. On the other hand, it uses a different formula in computing subsidies: subsidies are 50 percent of rent payment (exclusive of utilities) up to a ceiling, less the tenant's contribution which varies with income and household size. In October 1991, after housing allowances had been available in West Germany for about twenty years, the program was implemented in the East German states. At the same time rents in the east were increased by 400 percent, which would have caused tenants with below average income or large apartments to spend 35-40 percent of income on housing had housing allowances not been in place (Dick, n.d.). While detailed data are lacking, experts believe that about 60-65 percent

¹⁸ Data on early enrollment are from Rand (1977 and 1978); two year enrollment rate are from Rand (1978; table 4.1); steady state enrollment rates are from Lowry (1983; table 4.5).

¹⁹ See, for example, Boelhouwer (1980).

of those eligible became program participants within the first two years of its operation.²⁰ This compares with 50 percent participation in the West German states at about the same time, suggesting a greater willingness to participate among those from a socialist housing system.

An evaluation of an entitlement housing allowance program piloted in the middle-size city of Szolnok, Hungary offers additional information. Like the German program, there is no housing quality test. However, households who are in arrears on their rental payments are not eligible to participate unless they enter into a contract to pay back the arrears on an agreed upon schedule. After eighteen months of operation about 42 percent of income eligible tenants were participating. Without the rent arrears provision, Hungarian experts estimate that the figure would be about 45 percent (Mark et al., forthcoming). Interestingly, one-third of eligible but non participating households interviewed in a survey after eighteen months of program operation said they had not heard about the program.

These experiences suggest for the program in Russia that households who have the most to benefit will be more likely to participate, that receipt of accurate information about benefits could have a positive effect on enrollment rates, and that households will be less likely to enroll if they perceive the program as one for "poor people" and do not want to be categorized in this group or if households object to government assistance. The strength of the last factor is certainly suspect in Russia because of the long tradition of the State providing housing assistance. The experience of Eastern Germany, Hungary and the U.S. supply experiment also suggests that enrollment can quickly reach high (and perhaps steady state) levels.²¹ However, the step-by-step approach to raising rents and the household contribution rate in Russia means that steady state enrollment rates will not be evident for several years. After five years, enrollment rates seem more likely to be closer to those in East Germany than in the supply experiment for two reasons: (a) the housing quality standard was a major deterrent to participation in the supply experiment;²² and, (b) the attitudes of East German and Russian households about accepting housing assistance are likely to be more similar than those of Russians and Americans.

EVALUATION STRUCTURE

²⁰ Personal communication from Dr. Eugen Dick, Federal Ministry for Housing and Spatial Planning.

²¹ In the Netherlands enrollment and participation rates are also believed to have been high from the start because of the role played by the large social housing sector (over 40 percent of the housing stock) in informing tenants, many of whom were eligible to participate (personal communication from P. Boelhouwer, op.cit.).

²² Estimates of participation rates with and without the housing quality standard are as follows for the two sites: Green Bay, 36 and 71 percent; South Bend, 31 and 75 percent (Lowry, 1983: table 4.12).

The two parts of the evaluation correspond to the two issues of primary interest to the federation and *oblast* officials. To address the issue of the extent to which households, particularly those potentially eligible to participate, knew about the program, a random survey of households in each city was undertaken in September 1994. The target sample size was 500 in Vladimir and 300 in Gorodetz; final samples were 500 and 305, respectively. The questionnaire obtained basic information on the respondent household's dwelling and building conditions, ownership status, and income. It also contained a series of questions on the respondent's knowledge about the housing allowance program and his/her opinion about it. If the household appeared to be income-eligible to participate, reasons for non participation were solicited. When program participants were encountered, they were asked questions about their experience with the program. In preparing the questions about the housing allowance program, we drew on the experience of the evaluation of a similar program in Szolnok, Hungary, the only housing allowance program in that country.

Because of the combination of the moderate-size of the sample in the household survey and the low incidence of participation, it was very unlikely that a sufficient number of program participants would be included in the survey. To obtain information on participants' experience with the program a separate random sample of participants was drawn from program files; these persons interviewed, with the same instrument as used in the household survey. The target sample sizes were 75 in Vladimir and 50 in Gorodetz; actual samples were 83 and 59, respectively.

BASIC FACTS ON ELIGIBILITY AND PARTICIPATION

One of the most policy-significant facts is the low participation rates in both cities. As shown in Table 3, about half of all households are income eligible, based on the income they reported to the interviewers. The corresponding participation rate is 1 or 2 percent of eligible household.

One explanation for such a low participation rate is that the size of the eligible population is overstated due to underreporting of income. It is very likely that there is underreporting in the survey data, although from prior surveys we know that we do about as well as the government statistics office (Goskomstat) in its income and budget survey for Moscow (Struyk and Kosareva, 1994; Annex A). It is less likely that they are understated very much compared with the amounts households would report (and have to verify) to the housing allowance offices. Nevertheless, to illustrate the effect of such errors we recomputed eligibility assuming a 30 percent underreporting rate for all households in the survey data compared with the incomes they would report to the housing allowance office. Under this assumption, eligibility

falls to 21 percent in Vladimir and 30 percent in Gorodetz. But participation is still only 3.3 and 5.8 percent, respectively.²³

An examination of patterns of eligibility and participation by income class, household size, and whether the household is composed exclusively of pensioners shows the expected results. Hence, there is no obvious reason to believe that the sample is somehow badly biased with respect to eligibility.

Obviously, the cardinal question is what accounts for the low participation rates. The following two sections look at the possible role of program knowledge and the value of potential subsidy payments that participants could receive.

PROGRAM KNOWLEDGE

Both cities went to considerable effort to inform the population about the program, although Gorodetz's efforts were greater and more comprehensive. Nevertheless, knowledge of the program in the income eligible population is low: in Vladimir 78 percent of such households had not heard about the program; in Gorodetz, 56 percent (Table 4). Of those who had heard something, about half responded correctly to at least one of three questions asked them about the working of the program. The higher rate of program knowledge among eligible in Gorodetz indicates a positive return to greater efforts at informing the population.

Lack of program knowledge totally dominates the distribution of responses made by income eligible households as to why they had not applied to receive benefits (Table 5). The second most common reason for not applying (22 percent of respondents in Gorodetz) was that respondents thought they would not be eligible. The Gorodetz figure is about 2.5 times that for Vladimir and suggests some possible problem with the information distributed. Only 4 or 5 percent of respondents gave answers indicating that they were ashamed to apply, and only a slightly higher share gave low expected benefits as the reason.

An important question is which methods of publicizing the program were the most effective. In both cities the newspaper was cited most frequently as the respondent's source of information (Table 6).²⁴ Radio and television were also

²³ Another factor reducing participation from expected levels in Vladimir is the deduction of existing housing benefits in computing the housing allowance payment. Our rough estimate is about 10 percent of eligible households might be materially effected. Again, this is not enough to change the main result of very low participation.

²⁴ There is a discrepancy in the figures for Gorodetz in Tables 4 and 6 on the percentage of respondents who said they did not know about the program. When asked the general question about having heard about the program (table 4) 56 percent said they had not heard about it. However, when

important sources. Informal sources--neighbors, friends, and relatives--were a surprisingly infrequent source of information, possibly reflecting the newness of the program.

The importance of the local newspaper as an information source can be interpreted in at least two ways. The straight interpretation is that this was really how the respondent first found out about the program. An alternative interpretation is that the respondent may have heard something about the program elsewhere that induced him to read the story in the newspaper which provided him additional details. We certainly cannot distinguish between these explanations, and it seems advisable for cities not to concentrate their outreach efforts exclusively on the newspaper but to take a more comprehensive approach.

PARTICIPATION AND BENEFITS

The strategy of phased rent increases in the Russian program means that in the first year benefits would generally be small because the rent increases were small. Table 7 gives some general information on household incomes and housing expenses for Vladimir and Gorodetz. Monthly household incomes are substantially higher in Gorodetz, particularly among program participants; but housing costs are also much higher--on average 13,500 rubles per month in Vladimir compared with 22,600 rubles in Gorodetz (in September 1994, rubles 2,350=\$1). The table additionally shows the ratio of housing expenses to income for eligible households not participating in the housing allowance program and for participants. The figures for participants are given with and without taking the housing allowance payment into account.²⁵

The impact of the housing allowance payments on beneficiaries is clear. The average share of income spent on housing by participants in Vladimir falls from 15 to 8 percent. In Gorodetz from 14 to 9 percent.

In Vladimir participants would be devoting about 15 percent of their income to housing expenses without the housing allowance payment compared with 9.6 percent of income for eligible non participants. In contrast, in Gorodetz the two groups have about the same house expense burden, 14 to 15 percent. However, in both cities the income of those eligible but not participating are much higher than those of participants: in Vladimir, 72 percent higher and in Gorodetz 70 percent (using the income of participants as the base). Thus, on average those not

later asked how they had heard about it (table 6), 68 percent decided they really had not heard about it. The second figure is probably more reliable, but the difference does not effect our conclusions.

²⁵ The value of subsidies was not added to the household's income in making these calculations.

participating would receive much smaller subsidies than those who actually chose to participate.

Moreover, the absolute size of the subsidy payments was quite small. The average subsidy payment in Vladimir was 4,093 rubles and in Gorodetz 5,551 rubles—\$1.75 and \$2.35 per month at the September exchange rate. The distribution of the value of subsidies shown in Table 8 reveals that many participants receive very small subsidies: in Vladimir and Gorodetz 53 and 34 percent of participants received payments of under 4,000 rubles per month.

Another angle on these findings is that for the average participant in the two cities housing allowance payments were the equivalent of about 4.5 percent of income. Even the largest payments of around 10,000 rubles represent only about 11 percent of the income of households in the lowest quintile of the income distribution in Gorodetz. For the average eligible non participant, the average program payment would be about 2.5 percent of income; the actual payment due to these households would be a little over 1 percent of income.

In short, it appears that the great majority of income eligible households who chose not to apply for the program had good reason not to do so. Their benefits would be very small.

PROGRAM EXPERIENCE OF PARTICIPANTS

The housing allowance program is the first explicitly means-tested program to operate in the Russian Federation. Whether this program or other means-tested programs are accepted by the population (and the government) depends in part on how program participants view their experience. In short, how much effort is it to apply and how are applicants treated in the process? Below we consider three aspects: the experience in providing the documentation necessary to certify their incomes, the amount of time spent visiting the housing allowance offices (HAOs), and their overall opinion about the speed with which their case was handled and their treatment by HAO staff.

Regarding applicants' experience in bringing the necessary documentation to the HAO, in Gorodetz a majority of applicants thought they had information about what they should bring before going to the office, while in Vladimir comparatively few did (Table 9, panel A). Nevertheless, about 40 percent of those now participating in both cities brought the necessary documents on the first visit to the office. Among those who brought no documents, in Vladimir these applicants generally knew nothing about documents being required, while in Gorodetz such people were going to the office only to learn more about the program, not to attempt to enroll during that visit. Importantly, in both cities the majority of those who needed to bring more documents were able to obtain the documents in one or two days. This indicates that

the documents required were typically not hard to obtain and that obtaining them did not unduly delay receiving benefits.

Recipients generally report being handled efficiently at the HAOs. In Vladimir most recipients visited the office twice to qualify, but in Gorodetz the common pattern was one or two visits (Table 9, panel B). In both cities the typical applicant did not have to wait in line before his interview with an intake worker. Some applicants did have to wait, however. Very few applicants waited as long as 30 minutes in Gorodetz, but in Vladimir 20 percent of applicants had to wait this long. Applicants spent very little time in their interview with the intake worker in Gorodetz--typically between five and ten minutes. Times were longer in Vladimir, with 34 percent spending more than 15 minutes in the interview and 21 percent spending more than 20 minutes. These differences suggest quite summary procedures in Gorodetz and more thorough procedures in Vladimir.

To summarize the amount of time spent in the HAO we have constructed a "total transaction time" variable, which is the sum of all of the time spent waiting to see a HAO staff member plus interview times for all visits by an applicants to the HAO. For Gorodetz the majority of recipients (63 percent) spent less than 30 minutes at the HAO qualifying for benefits. In Vladimir, the times are longer but certainly not excessive. Sixty percent of participants reported spending less than an hour at the HAO; at the other end of the spectrum 29 percent needed over 90 minutes at the HAO to qualify.

Overall, applicants are spending a seemingly brief amount of time qualifying for benefits. This experience is consistent with HAOs placing a premium on quickly processing applicants and not devoting many resources to checking incomes from sources other than primary jobs. Given the start up phase of the program and the low benefit levels, this is arguably the correct approach.

The efficiency of HAO operations is reflected in participants' opinions about the speed with which their case was handled by the HAO and about their satisfaction with how they were treated by HAO staff (Table 9, questions 8 and 9). The ratings are extremely positive and certainly indicate that participants should not be discouraging other eligible families from applying because of their experience with the program.

CONCLUSIONS

The central conclusion of this very early assessment of Russia's housing allowance program is that participation in the program among apparently income eligible households is very low. The low participation is attributable both to a low level of knowledge about the program's existence in the general population and among those eligible and to the very low benefit levels that the average eligible non

participant would have received if he had participated in the program. In fact, low benefit levels and program knowledge may well be related. One can readily imagine Russians scanning their morning newspaper and seeing a major article about rent increases and the housing allowance program. Such stories usually contained a quick guide for the reader to get an idea if he were eligible to receive benefits and some idea of the benefits. A few seconds assessment would have revealed at best a small monetary benefit and the reader would pass on to more interesting news. In other words, many income eligible households may have been exposed to information about the program but simply not retained it because there was no value to them in the information. At the same time, the findings indicate that the greater outreach efforts in Gorodetz were rewarded with greater program awareness.

In early 1995 many cities and rural regions began a second or even third round of rent increases designed to have rents cover 40 percent of total operating costs. The obvious lesson of this assessment is that the rent increases must be accompanied by another information campaign about the housing allowance program. As rents take a bigger bite of household incomes, income eligible families should be more attuned to the message of possible assistance. Local administrators have a very definite interest in raising participation: if the rent increases are viewed as too onerous by the population, pressure will grow at the federal level to rescind the five-year program of rent increases; and localities will lose a major source of increased revenues. High participation in the housing allowance program is the obvious way to blunt citizen dissatisfaction.

Another conclusion is that program administration appears to be quite efficient and client satisfaction is high. It is possible that income verification procedures have been over-simplified in some cases. However, the incremental benefits (and city revenue losses) from underreporting are at this stage very modest. Hence, erring on the side of simplification to encourage participation may be wiser than devoting more resources to verification.

In both Vladimir and Gorodetz only about 2 percent of the increase in rent revenues went for housing allowance payments. Our understanding is that this has been the standard pattern across the country. Therefore, local administrators have been very pleased with the net financial impact of raising rents and are anxious to implement further rent hikes. Stated alternatively, the program embodies a strong incentive to cash-strapped cities to continue with rent increases.

Our final conclusion is the necessity of continuing to monitor the implementation of the program over at least the next two years while rents increase to levels at which the majority of the households will be eligible for non trivial benefits. Timely adjustments in program outreach, program administration, and possibly program design are likely to be needed to insure its ultimate acceptance as a cornerstone of Russian housing policy.

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Table 3
Eligibility and Participation Percentages

	Vladimir	Gorodetz
All households	100	100
Eligible households	46.1	54.8
Eligible households (assuming a 30% income underreporting rate for all households)	20.9	30.5
Participation rate	1.0	1.9
Participation rate among eligible households	2.1	3.6
Participation rate (assuming a 30% income underreporting rate for all households)	3.3	5.8

Table 4
General level of Information
(percent)

	Vladimir			Gorodetz		
	All Households	Non-Eligible	Eligible	All Households	Non-Eligible	Eligible
Informed	9.0	8.2	10.0	24.6	26.8	22.8
Heard Something	12.4	13.0	11.7	24.0	27.6	21.1
Not Informed	78.6	78.8	78.3	51.3	45.6	56.1

Table 5
Reasons for Not Applying
(percent)
(Among Those Who Are Eligible But Did Not Go to HAO)

	Vladimir	Gorodetz
Never heard about it	78.3	68.5
Do not believe they are eligible	8.9	22.4
Low expected benefit	4.9	8.4
Do not want to ask for help	4.0	4.9
Do not know location of HAO	0.9	0.7
Intend to apply soon	0	0

Table 6
Forms of Information in Eligible Groups (percent)

	Vladimir	Gorodetz
Newspapers	8.4	28.6
Radio	6.5	11.3
TV	4.6	7.8
Neighbors	2.0	6.3
Public briefing at job	0	3.0
Relatives or acquaintances	0.9	0
Did not know about this opportunity	78.3	68.5
Total	100	100

Table 7
Income and Housing Expenses

	Vladimir	Gorodetz
Mean Total Income (in thousands of rubles)		
All households	283.4	315.6
Eligible non-participants	149.8	223.1
Participants	87.3	130.9
Housing Expenses (in thousands of rubles)		
All households	13.5	22.6
Eligible non-participants	11.7	24.1
Participants (without HA)	11.0	14.5
Participants (with HA)	6.5	9.2
Housing Expenses as Percent of Total Income		
All households	6.5	10.7
Eligible non-participants	9.6	14.8
Participants (without HA)	15.1	13.8
Participants (with HA)	8.3	8.7

Table 8
Size Distribution of Housing Allowance Payments

Subsidy amount	Vladimir		Gorodetz	
	Mean subsidy	% distribution of subsidy payments	Mean subsidy	% distribution of subsidy payments
Under R 2,000	R 1,179	30	R 1,297	17
R 2,000 - 3,999	R 2,834	23	R 2,929	17
R 4,000 - 5,999	R 4,775	22	4,859	32
R 6,000 - 7,999	6,780	13	7,086	8
R 8,000 and over	10,514	11	10,498	25
Overall mean	4,093	100	5,551	100

Table 9
Participant Experience with Program Administration
(percent)

	Vladimir	Gorodetz
A. Experience with Documents		
1. Did you think you knew which documents to bring to the interview?		
yes	14	42
not exactly	6	22
no	80	36
2. Did you bring all the necessary documents on the first visit?		
yes, all of them	42	36
yes, but not all	14	24
no, I just went for consultation	10	39
no, I didn't know anything about documents	32	0
3. How many days did it take you to obtain the additional documents?		
1 day	26	32
2 days	6	14
3-4 days	12	5
5+ days	18	3
No answer (i.e., did not need)	37	46
B. Experience at Housing Allowance Office		
4. How many times did you visit the housing allowance office?		
1 time	25	43
2 times	64	44
3 times	11	13
5. How long did you wait in line on your first visit?		
no lines	57	62

	under 30 minutes	23	29
	30-60 minutes	13	5
	more than an hour	7	4
6.	How long did the interview take during the first visit?		
	5 minutes	8	24
	5-10 minutes	37	63
	10-15 minutes	21	13
	15-20 minutes	13	0
	20+ minutes	21	0
7.	Total transaction time: time waiting and in interview for all visits		
	under 30 minutes	32	63
	30-60 minutes	28	27
	60-90 minutes	11	5
	90+ minutes	29	5
C. Overall Opinions			
8.	Evaluate the speed with which your case was handled by the HAO		
	very slowly	0	2
	slowly	8	2
	average	12	10
	quickly	54	66
	very quickly	25	20
9.	Evaluate your treatment by the HAO employment with whom you had the greatest contact		
	not at all satisfied	2	0
	not satisfied	4	0
	more or less satisfied	0	2
	satisfied	18	18
	fully satisfied	76	80

Table A.1
Eligibility Rates by Income Quintiles, Size of Household and Type of Household

	Vladimir	Gorodetz
Eligibility Rates	46.1	54.8
By Total Income Quintiles		
1	98.0	90.1
2	86.3	78.6
3	28.3	53.0
4	15.9	37.6
5	2.0	14.8
By Size of Household		
1	79.3	76.2
2	45.0	48.1
3	33.2	29.0
4	40.9	61.5
5	55.1	72.5
6	47.1	83.5
7+	33.3	48.0
By Type of Household		
Penstoner households	60.2	67.1
Other	42.8	50.3

Table A.2
Participation Rates by Income Quintiles, Size of Household
and Type of Household

	Vladimir	Gorodetz
Participation Rates	1.0	1.9
By total income quintiles		
1	4.1	6.3
2	0.8	1.9
3	0	1.1
4	0.1	0.2
5	0	0
By Size of Household		
1	3.7	4.9
2	1.1	2.1
3	0.4	1.4
4	0.3	1.3
5	0.5	0.3
6	0	0.8
7	0	0
8+	0	3.0
By Type of Household		
Pensioner Households	2.5	3.0
Other	0.6	1.5