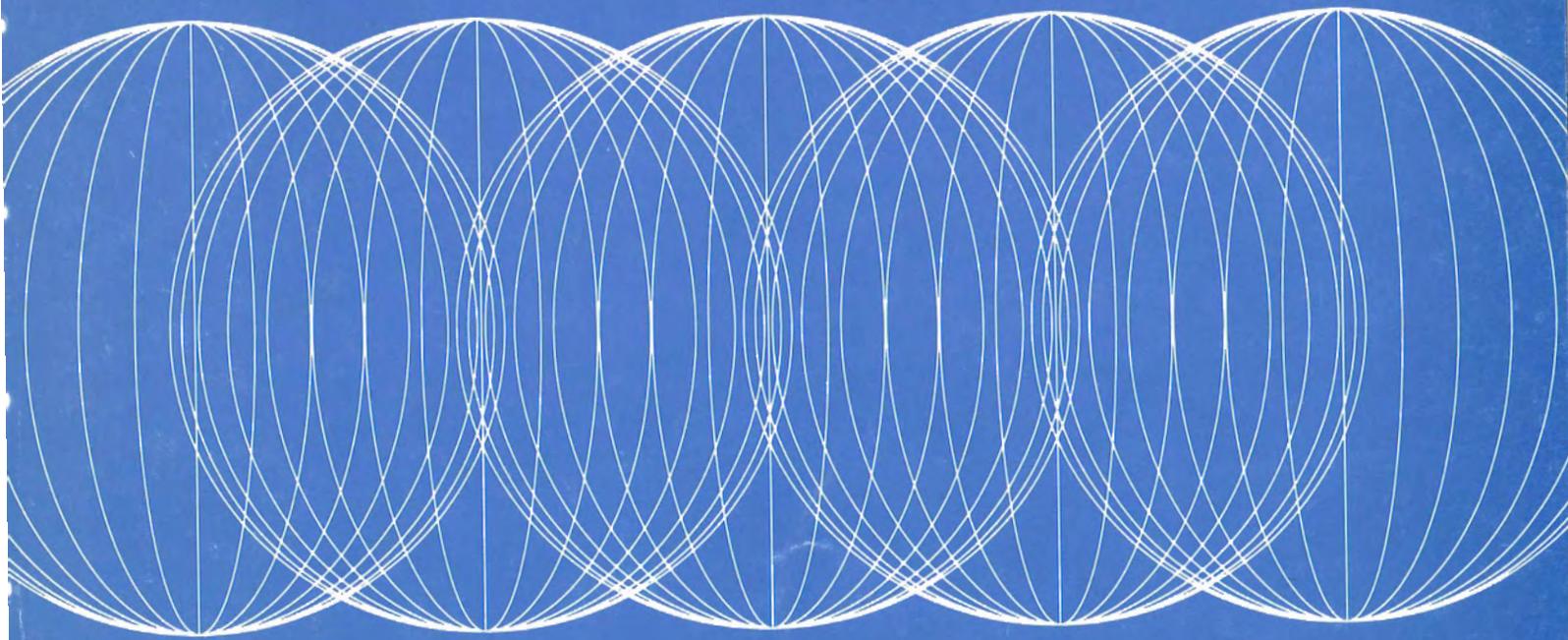


**MONITORING RUSSIA'S EXPERIENCE
WITH HOUSING ALLOWANCES**



THE URBAN INSTITUTE

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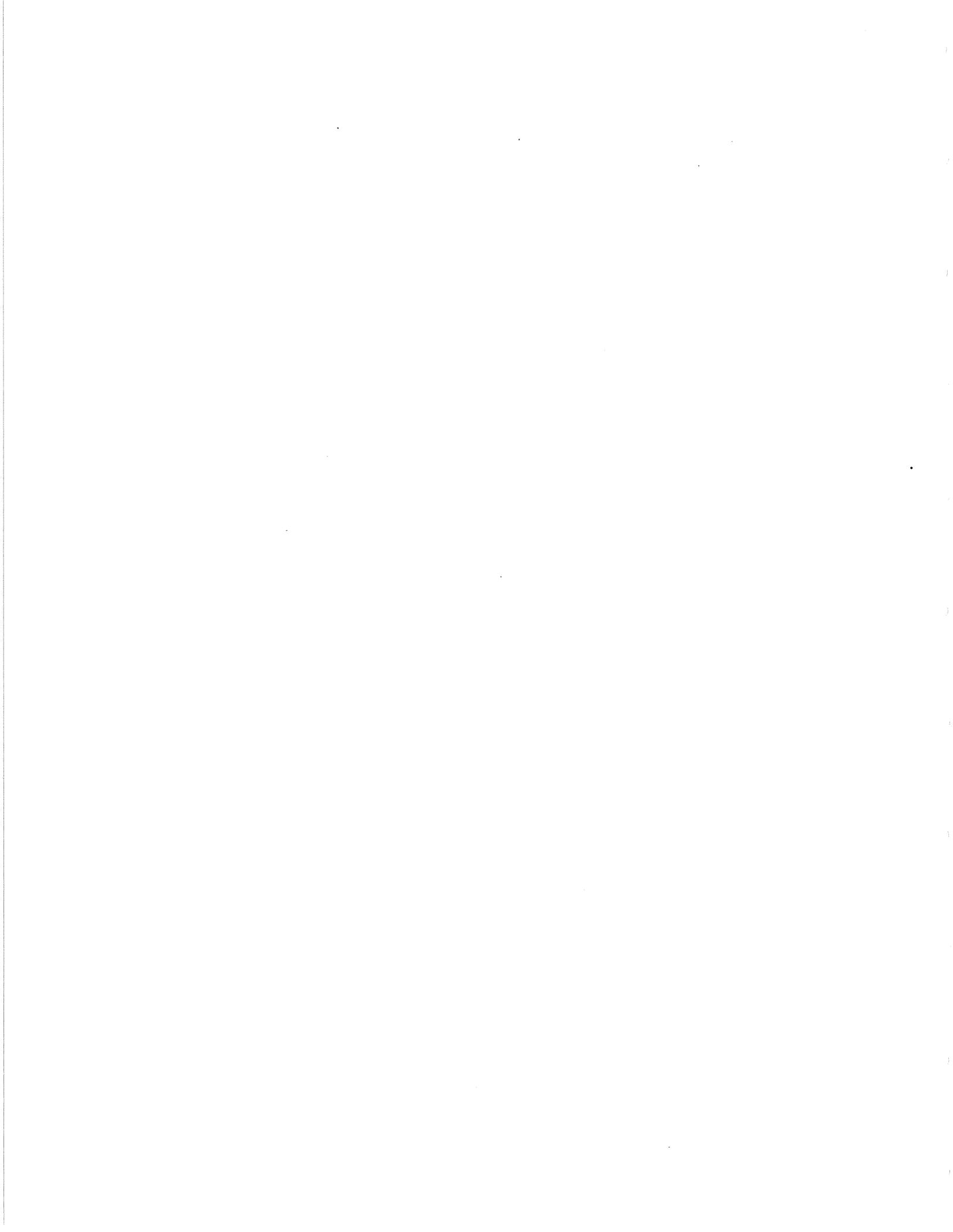
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ABSTRACT

The implementation of housing allowances is an integral part of Russia's program of systematic rent increases in state and municipal rental units which began in 1994. Because housing allowances constitute the country's first income-tested program, its performance transcends the housing sector. Rents are being increased in steps to cover full operating costs by the beginning of the next century. The first increases were modest in real terms, and 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 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 quite low but increasing participation rates and knowledge about the program. While these results are in part explainable by the low average benefit levels at this stage in the program of rent increases, they also clearly call for greater effort by local and national administrations to inform the population.



MONITORING RUSSIA'S EXPERIENCE WITH HOUSING ALLOWANCES

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—by 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 Soviet 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);
- The dominant role of a single, state-operated system for distribution of housing which operated through local and enterprise waiting lists;
- Subsidies went disproportionately to urban areas; rural residents with a much higher incidence of unit ownership paid a higher share of total housing costs.²

Obviously, 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

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

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

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 Reforms.** The legal history of the transfer of ownership 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 has been to place responsibility for housing provision with the local government, 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. Local governments were given the possibility of charging tenants for space occupied above the nationally set minimum. 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 building and how much it will cost.⁴ In December of 1992, the Supreme Soviet established free of charge privatization throughout the Federation.

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.⁵ By the end of 1995, a total of 12 million units had been privatized nationally (36 percent of eligible units); but the rate of privatization had slowed markedly since the second half of 1994.⁶

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 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 were passed by the Federal Assembly (new parliament) at the end of 1995, but vetoed by President Yeltsin. In April 1996 the State Duma overrode the President's veto. The margin was sufficient to prevent another presidential veto, although this action was unlikely because the law was amended to address the presidential objections which were the cause of the original veto.

⁵ See Kosareva and Struyk (1993) for a description of the privatization law and its early implementations.

⁶ For details, see chapter 4 of Struyk and Kosareva (1994) and Kosareva, Puzanov, and Tikhomiova (1995).



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.** The Law on Fundamentals of Housing Policy, passed in December 1992, was the second major step in the transformation of 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 through introducing competitive procurement procedures, and to reduce tenant rights by permitting eviction to low quality housing for non payment of rent (rather than provision of equivalent housing conditions as was previously the case). This law is the linchpin of sector reform, because raising rents permits the market to achieve a more 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, a program whose implementation was mandated to accompany each locality's initial rent increase.

The housing allowance 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 to 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. Consequently, over time as the supply of private rentals grows, the waiting lists will tend to contract,⁷ as will a major source of inequitable treatment and corruption.⁸ Initial results of this policy can now be observed. According to the report of the RF Ministry for Construction in 1995, the national waiting list lost 2 million households and now amounts to 8 million. Of those who quit the waiting list, 1.4 million households found alternative housing using market mechanisms.

The impact of the Law on Fundamentals was reinforced by the Government's adoption of the program *Zhilishche* or "Housing," as a major policy statement. Beyond the provisions of the Law on Fundamentals, it enunciated policies of shifting from government funding of new housing to non-budget finance, particularly through mortgage lending; targeting any remaining construction

⁷ The draft of the new Housing Code, which is the basic housing law, limits those who will be eligible to receive a housing unit under the traditional "social" (*naim*) contract to low income households in a limited number of categories.

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

subsidies to well-defined groups and shifting from supply-side to down payment subsidies; and, making lower density housing (compared with the high density high-rise *mikro-raion* estates) the norm in all but the largest cities.

■ **Phase Three.** Beginning in the fall of 1993, this phase might be termed the period of implementation (Kosareva et al., 1995). In November 1993, the Council of Ministers issued regulations for implementation of the program of rent increases and introduction of housing allowances. Presidential Decrees on mortgage finance and down payment subsidies were issued. And the Ministry of Construction adopted a normative document on the procedures for holding competitions among contractors to provide housing maintenance services for state or former state housing still assigned ("on the balance of") to municipalities or enterprises.

The program of phased rent increases and introduction of 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 July 1995, government data showed that the rent-allowance program covered about 95 percent of population. The introduction of the competitive selection of contractors has preceded more slowly. Indeed, by the fall of 1995 only a handful of cities has held even one competition.

■ **An Early Assessment.** This paper presents the results of an evaluation of the initial implementation of the housing allowance program—the nation's first means-tested program—based on the experience of two fast-starting jurisdictions. Data from two waves of household and beneficiary surveys, conducted in October 1994 and October 1995, are employed. The evaluation specifically focused on the participation rates of apparently income eligible families and on participants' perceptions of their treatment in the program.

These two related 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 the failure to reach a substantial share of eligible families and/or by widespread resentment of participants by uncivil or inefficient treatment by program administrators. Russian officials have good reason to focus on the participation issue: existing social safety net programs are not reaching a substantial share of those eligible. The World Bank (1995, p.75) reports that the majority of poor households not receiving public transfers during 1993 were eligible for assistance. The same report (p.61) indicates that rising energy prices alone will increase real housing costs by 50-100 percent in the next few years, meaning that hardship and eligibility rates will increase making it even more important for the poor to take advantage of the program.

The results are important for other countries in the former Soviet bloc. Among these countries, the Russian Federation and Estonia are the leaders in adopting comprehensive programs of rent increases and having operational housing allowance programs with significant participation. While many of these countries have enacted housing allowances, participation rates are low because of a combination of low rent increases and highly restrictive conditions for participation (Struyk, 1995). The Russian program appears to have realistic program parameters and, in its second year, significant take-up rates. In recent months, delegations from Kazakhstan, Ukraine, and Kyrgyzstan have visited Russia to observe the program.

This article 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.

Raising Rents and Implementing Housing Allowances

"Rents" consist of two components that are charged for 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. Charges for communal services were raised fairly frequently in the early years of the transition; 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. 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 tenants' 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 made adjustments in three ways in response 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 the estimated required costs in 1992. In Moscow in 1993, this figure was 45 to 50 percent. Even so, the city still devoted about 20 percent of its total budget to existing municipal housing. The rent increase program has not yet permitted divesting the city's budget of municipal housing subsidies because energy costs have been soaring at even higher rates. Moreover, the piling up of deferred capital repairs continues, and without a launched rent increase program, the numbers given in Table 1 could be at least 1.5 times higher. Estimates for the few other cities for which data have been compiled showed 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 1993.¹¹

⁹ Actually, beginning in April 1992, it was possible for local Soviets to increase maintenance fees, and a few, such as 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 household income and budget survey conducted by the 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.

¹¹ 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 whether 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

Table 1
Share of Housing Stock Maintenance Subsidies in Moscow City Budget (percent)

	1994	1995	1996 (draft)
Current maintenance subsidies	2.8	5.6	6.2
Capital repairs	10.1	6.6	3.6
Heating energy subsidies	4.1	6.6	8.4

These figures highlight two realities. First, the cost of providing services is a substantial drain on cities' current resources, making them anxious to acquire revenues to cover these costs. The apparent alacrity with which localities have embraced the new turnover tax for maintenance supports this point. Second, in 1994 the great majority of families could afford to spend a substantially greater share of their incomes for housing. Taken together these facts suggested the feasibility of implementing the program of increasing rents and introducing housing allowances.

The Law on Fundamentals as of 1992 requires that rents be raised to fully cover operating costs within a five-year period, with local governments introducing housing allowances at the time of the initial rent increase.¹² During this five-year period, state support for capital repairs is to continue. In September 1993, the Council of Ministers issued regulations on the program of rent increases and housing allowances, putting these provisions of the law into effect on the first of January 1994. However, although the government's program HOUSING makes clear that raising rents to market levels is the eventual goal, amendments to the Law on Fundamentals adopted in January 1996 now extend the transition period to 10 years, i.e. until 2003. The schedule specified by the initial regulation for the share of costs to be covered by rents was the following:

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 of the revenue generated, our sense, based on visits to oblasts in the central part of Russia, is that many local governments have implemented it. Moscow acted relatively late, adopting the tax only at the end of 1993 (Moscow Government Order, "On the Structure of the Moscow City Budget for 1994," N. 1135-A, December 14, 1993).

¹² 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 a variety of methods. For a description of the myriad of benefits enacted during the Soviet era, see Institute for Communal Economy.



Year	Percent of operating costs to be covered by rents ^a	Maximum percent of income to be paid for rents ^b
1994	15-20	10
1995	20-40	15
1996	40-60	15
1997	60-80	15
1998	100	20

- a. By amendments to the Law on Fundamentals in January 1996, this schedule was made optional, and the target of full cost recovery was shifted to 2003.
- b. This is the social norm for payments of housing for households of particular size and composition. This is further described in the text below.

At least four reasons can be advanced for the Government's rejecting a "shock therapy" approach of raising rents and instead introducing the step-by-step approach. 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., 1995). 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 maintenance and communal services costs and about incomes in the years ahead. The step-by-step approach permits that adjustments to the original plan be made as needed.

Third, the more gradual approach for raising rents permits more time for increases in income. Hopefully, within the transition period, real increases in income 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. However, in the meantime, real incomes fell significantly on the eve of 1995 and by the end of that year amounted only to be 68 percent of the January 1990 level. This largely fueled the decision to extend the transition period.

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. The jump to full cost coverage would also result in about the same net (after allowance payments) increase in rent revenues as a smaller increase would because after a moderate increase, allowance payments are required to pay all of the additional rent increase (Struyk et al., 1993).

The housing allowance payments are calculated using a "gap formula" similar to that in the U.S. housing voucher program and several Eastern European countries:¹³

¹³ A detailed explanation of this formula and simulation results of Moscow for a program using this formula can be found 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.

$$S = MSR - tY$$

where S is the subsidy payment to the tenant; MSR is the "maximum social rent," e.g., 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 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. 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 gap formula, rather than a percentage of rent formula, was selected because the primary objective of the program is income support rather than stimulation of housing consumption.¹⁴ Stimulation of consumption seemed particularly inadvisable in light of the significant housing shortages and likely low responsiveness of supply to increased demand attributable to the dominance which state firms have over managing and maintaining housing, even after units are privatized. Furthermore, simplicity and clarity of the incentives to recipients and administrators were primary reasons for selecting this particular formula rather than the more complicated schemes used in some western countries.

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 2).

Table 2
Distribution of Policy Responsibilities Among Federal, Republic, and
Local Governments Specified in the September 1993 Council of Ministers Regulation

Federation Government	Republican Government	Local Government
Rent increases, i.e., the maximum and minimum share of operating costs which must be covered by tenant payments each year during the transition period	Program regulations, i.e. which households are eligible to participate (renters in private units, cooperatives, etc.)	New rents
Maximum share of income that tenants can be required to pay for rent and receive the subsidy (maximum value of "t")	Social housing norms	Actual share of income that subsidy recipients must spend on rent ("t")

¹⁴ Fallis (1990) has demonstrated that neither the gap formula or the percentage of rent formula dominates the other when the government cares both about the housing consumption and utility level of households.



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 they wish. Localities are making essentially all households eligible, generally with two exceptions: "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 step-by-step approach to rent increases with any alternative.¹⁵ 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. In fact, most regions have followed the original schedule.¹⁶

Lastly, the Law on Fundamentals (Article 15) foresees 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.

Expectations Based on International Experience

While many countries have some data on the growth over time of participation in its housing allowance program, very rarely are data on the first year or two very detailed. Understandably, administrators concentrated on start-up problems and seldom focused on monitoring issues in the first few years.¹⁷ One notable exception 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 the pilot program in Hungary.

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.

¹⁶ A law amending the relevant sections of the Law on Fundamentals of Housing Policy was signed in January 1996. The law extends the adjustment period from 5 to 10 years, among other changes. Implementing regulations are being prepared.

¹⁷ In exploring the information available for the Netherlands and the Federal Republic of Germany, for example, 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 years later. The evaluations also provided information on reasons for non-participation. (Personal communications from Peter Boelhouwer, Delft University of Technology, August 1994; and Eugene Dick, German Federal Ministry of Housing and Spatial Planning, October 1994.)

Under the Housing Allowance 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 about how housing subsidy payments to a substantial share of the population would effect the local housing market. The first payments were made in July 1974 in Green Bay and in January 1975 in South Bend. For the first five years the program was subjected to intense monitoring by the Rand Corporation which ran the experiment.¹⁸ The "gap" formula for computing benefits in the experimental program was 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 households eligible for the program knew about it (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 (those who had signed up for the program) as a percent of those eligible to participate. After two years, enrollment rates were already close to steady-state rates—estimated to be 44 percent in one city and 19 percent in the other.¹⁹

Lowry lists four factors that contributed to enrollment rates. First, the household must know about the program in order to enroll. Second, the household 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 were more likely to enroll. Fourth, enrollment depended on the household's attitude about seeking assistance from the government. Some households who object to taking charity which would reduce their sense of independence would 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.²⁰

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 also may well 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 close to the Russian program. On the other hand, it uses a different formula in computing subsidies:

¹⁸ 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.

¹⁹ Data on early enrollment are from Rand (1977 and 1978); two year enrollment rates are from Rand (1978; Table 4.1). Steady-state enrollment rates are from Lowry (1983; Table 4.6).

²⁰ See, for example, Boelhouwer (1980).



subsidies are 50 percent of rent payment (excluding 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 sharply—by 400 percent—which potentially 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 of those eligible joined the program within the first two years of its operation.²¹ 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, the figure would be about 45 percent (Mark et al. 1995). Interestingly, one-third of eligible non-participating households interviewed reported that they had not heard about the program.

The experience just reviewed suggests that in Russia 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, perhaps steady-state, levels.²² 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. In the end, enrollment rates seem more likely to be closer to those in East Germany than in the supply experiment for two reasons: (1) the housing quality standard was a major deterrent to participation in the supply experiment;²³ and, (2) the attitudes of East German and Russian households about accepting housing assistance are likely to be more similar than those of Russians and Americans.

²¹ Personal communications from Dr. Eugene Dick, Federal Ministry for Housing and Spatial Planning.

²² 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.).

²³ 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).

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 of 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.²⁴ Hence, by the time of the first survey, 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 kilometers northeast of Moscow. It is the capital of a relatively small *oblast* (region) of the same name. The city's economy was traditionally heavily dependent on industries producing for the military. It also produces motors, machines, and tractors for the non-black soil region of Russia.

Gorodetz has a population of 30,000 and is a district center in the Nizhni Novgorod Oblast. It is located on the Volga River about 400 kilometers 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 the 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 1994. In 1995, rents were raised twice (in January and April) by a total of 180 percent to achieve cost recovery of about 40 percent. Inflation eroded the share of cost recovered during the balance of the year.²⁵ At the start of the program, the *oblast* legislature elected to make the household contribution rate ("t") vary with household income. More specifically, it established the following schedule:

Per capita income per month ('000 rubles) ^a	t (percent)
Less than 40	2.5
40-50	5.0
50-60	7.5
More than 60	10.0

a. The exchange rate in September 1994 was approximately rubles 2,350= US\$1.

²⁴ Many other cities, including Moscow and St. Petersburg only raised rents in the late summer or fall of 1994.

²⁵ From May through October, inflation averaged about 5.6 percent per month.

The impact of substituting the graduated values of t for the flat 10 percent rate is to increase subsidy payments to the poorest households among those who are eligible. However, that system was cancelled in 1995 and the new value of t was set at 15 percent for all. That partly explains why eligibility income thresholds in Gorodetz did not increase in 1995 adequately and even decreased for some categories of families (Table 3). Gorodetz's income thresholds in 1995 are taken on average as the city returned to the system of floating thresholds, calculating subsidy payments based on actually occupied housing when the latter is less than the social norm. Unlike Vladimir, Gorodetz by the time of surveys did not include electricity in subsidized services and did not cover individual dwellings with subsidies. Coverage of these was introduced only in November 1995.

In Vladimir, in 1994 rent payments were initially raised in two steps—on April 1 and July 1—to cover 20 percent of full operating costs. The second step came after the housing allowance program was fully operational. The city adopted the policy in early 1995 to raise rents every quarter in order to keep pace with inflation and to reach 40 percent cost recovery. However soaring energy prices and a fall in real incomes of the population did not permit the city to reach that mark.

Vladimir set the household contribution rate at 10 percent for all households in 1994 and at 15 percent in 1995. Moreover, it determined that the value of "special benefits" be subtracted from the MSR in determining the subsidy payment. Special payments are a legacy of the Soviet period. The permitted certain classes of households, e.g. invalids, veterans of the Great Patriotic War and their spouses, victims of Chernobyl, receive 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 are clearly to reduce the number of income-eligible households who would receive a positive subsidy payment.

Table 3
Income Thresholds for Housing Allowance Eligibility (monthly income)

Household Size/Floor Space Social Norm	1994		1995	
	Rubles	Dollars	Rubles	Dollars
<i>Vladimir</i>				
1 (15-30 m ² total space per capita)	99,000	47.36	198,000	43.95
1 (More than 30 m ² total space per capita)	166,000	79.41	330,000	73.25
2 (15-30 m ² total space per capita)	166,000	79.41	353,000	78.36
2 (More than 18 m ² total space per capita)	184,000	88.02	391,000	86.79
3 (15 m ² total space per capita)	232,000	110.98	508,000	112.76
4 (15 m ² total space per capita)	300,000	143.51	664,000	147.39
5 (15 m ² total space per capita)	367,000	175.56	819,000	181.80
6 (15 m ² total space per capita)	434,000	207.61	975,000	216.43
7 (15 m ² total space per capita)	500,000	239.18	1,388,000	308.10
<i>Gorodetz</i>				
1	100,000	47.84	180,000	39.96
2	200,000	95.67	280,000	62.15
3	300,000	143.51	320,000	71.03
4	400,000	191.34	390,000	86.57
5	500,000	239.18	480,000	106.55
6	600,000	287.01	520,000	115.43
7	700,000	334.85	570,000	126.53
8	800,000	382.69	620,000	137.62

Note: Dollars are given based on ruble exchange rate in October 1995 and are adjusted for inflation.

Table 4
Summary of Information and Outreach Campaigns in Vladimir and Gorodetz

Action	Vladimir	Gorodetz
<i>1994</i>		
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 (mikro-rayons)
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
<i>1995</i>		
TV/Radio	Not done	Six programs: one strictly informational; five call-in
Local newspapers	Journalists initiated four stories	Relevant decrees published; three subsequent articles.

■ **Outreach.** The two cities both mounted information campaigns in the first year to "sell" the rent increases and announce the availability of housing allowances, but they took quite different approaches to notifying their citizens about the possibility of housing allowances. The actions of the two cities in 1994 and 1995 are summarized in Table 4 above.

On the one hand, officials in Vladimir expected a large number of participants—as many as 5,000 at the earliest stage of implementation—and worried about the ability of the new housing allowance offices 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. (Allowance recipients were given retroactive payments for April and May.) Increased enrollment in 1995 encouraged officials to avoid publicity.

In contrast, in Gorodetz the 1994 publicity campaign was very aggressive. A principal motivation was to convince the population that raising rents made sense and would not impoverish anyone. 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; and this had the

Table 5
Sample Sizes by Survey and Year

City and Year	Household Survey	Participant Survey
<i>Gorodetz</i>		
1994	305	59
1995	301	75
<i>Vladimir</i>		
1994	500	75
1995	523	102

Basic Facts On Eligibility and Participation

The results from the second year of the survey are encouraging and have positive policy implications. Participation rates among eligible households increased dramatically during the one year period. In Vladimir, the participation rate among eligible households increased from 2.1 percent to 20.4 percent; in Gorodetz, this rate jumped from 3.6 percent to 37.8 percent (Table 6). The proportion of eligible households in Vladimir has remain unchanged at about 45 percent. However, in Gorodetz the eligibility rate has dropped from 55 percent of households to only 19 percent as a result of the lowered income threshold levels which determine eligibility for subsidies. Clearly, the participation rate of eligible households could have little indication of social welfare if the eligibility rate is itself inconsequential. The increase from 1.9 percent to 7.3 percent in the participation rate among all households in Gorodetz is a clear indicator of an improvement of social welfare. However, the participation rate among eligible households belies an improvement from 1994 that is overstated as a result of the lower income thresholds that determine eligibility in 1995.

Table 6
Eligibility and Participation Percentages

	Vladimir		Gorodets	
	1994	1995	1994	1995
Total households	100.0	100.0	100.0	100.0
Eligible households	46.1	45.4	54.8	19.3
Eligible households (assuming 30 percent underreporting of income)	20.9	30.7	30.5	13.1
Participation rate	1.0	9.3	1.9	7.3
Participation rate among eligible households	2.1	20.4	3.6	37.8
Participation rate (assuming 30 percent underreporting of income)	3.3	30.1	5.8	55.6

Note

In both cities in 1995, some respondents who are participants have incomes higher than the income thresholds which determine eligibility for housing allowances. We identified these respondents as being eligible, presuming that their incomes fell within the threshold limits at the time of approval for a housing allowance. In Gorodets, there are 18 such respondents (5 after weighting); in Vladimir, there are 7 such respondents (2.6 after weighting).



potential to generate demonstrations and other manifestations of popular discontent. 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. The information flow continued in 1995 but was limited to mass media.

Evaluation Structure

The evaluation addresses two issues which correspond to those of primary interest to Federation and *oblast* officials. The first is participation rates, i.e. the percentage of income eligible households receiving housing allowance payments. Our interest was both in these rates at the two points in time for which data were available, and in the extent of increase over the one year period. Since knowledge of the program is a necessary antecedent to participation, this topic was also studied. A related point of interest is the extent to which the program by the second year affected the net-of-housing-expenditure income distribution of the population, which depends both on the extent of participation and the size of the subsidy payments.

The second issue is the experience of applicants during the process of becoming a participant. To the extent that the process is inefficient and the income-testing procedures are viewed as excessively intrusive or burdensome, participation rates will likely be adversely affected as applicants describe their experiences to other potential participants. The standing of the rent increase/housing allowance program will be undermined by the complaints and by non-participants who are spending a high share of their income for housing.

To address the participation issue a random survey of households in each city was undertaken in October 1994 and again in October 1995. (Sample sizes are in Table 5.) The questionnaire obtained basic information on the respondent household's dwelling and building condition, 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 but was not receiving allowance payments, 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. Because learning more about the attitude of participants toward the program was a high priority, a separate random sample of participants was drawn from program files; and these persons interviewed, with the same instrument as used in the household survey.

Table 7
Eligibility Rates by Income Quintiles, Size of Household and Type of Household

	Vladimir		Gorodets	
	1994	1995	1994	1995
Eligibility Rates	46.1	45.4	54.8	19.3
<i>By Total Incomes Quintiles</i>				
Lowest	98.0	99.2	90.1	66.4
Second	86.3	56.1	78.6	20.6
Third	28.3	35.5	53.0	1.3
Fourth	15.9	18.0	37.6	0.0
Highest	2.0	1.7	14.8	0.4
<i>By Size of Household</i>				
1 person	79.3	80.2	76.2	42.7
2 persons	45.0	35.0	48.1	12.8
3 persons	33.2	35.2	29.0	14.6
4 persons	40.9	47.1	61.5	11.5
5 persons	55.1	48.4	72.5	11.1
6 persons	47.1	52.9	83.5	0.0
7 or more persons	33.3	100.0	48.0	0.0
<i>By Type of Household</i>				
Pensioner household	60.2	45.9	67.1	26.9
Other	42.8	45.2	50.3	15.1

The housing allowance program in Gorodetz in 1995 demonstrates an unclear focus in targeting subsidies to the most needy households. This is mostly because social standards were removed, and instead subsidies were calculated on the basis of actually occupied housing. The fall in income eligibility thresholds in 1995 should result in a higher concentration of recipients in the lowest income quintile. However, analysis of participants by income quintiles indicates that the proportion of recipients in the lowest income quintile of all recipients actually declined in 1995 from 66 percent to 60 percent. In comparison with rates in Vladimir where eligibility thresholds remained fairly constant from 1994 to 1995, participation in Gorodetz is lower in the lowest income quintile and higher in the second income quintile (Table 8).

Aside from a decrease in the participation rate of eligible households in Gorodetz in 1995 because of the lower income eligibility thresholds, participation rates of eligible households in fact may be understated in all years. The proportion of eligible households is very likely to be inflated due to the frequent underreporting of family income by survey respondents. Prior surveys conducted in Moscow indicate that although the results of income distribution data generally have been consistent with *Goskomstat's* income and budget survey for Moscow, an analysis of mean income data indicated that as much as 29 percent underreporting of income may occur in a survey less rigorous than one conducted by *Goskomstat* (Struyk and Kosareva, 1994; Annex A).

To illustrate the effect of such an error, eligibility was computed again assuming a 30 percent underreporting rate for all households in the survey. Under this assumption, eligibility rates fall as much as from 46.1 percent to 20.9 percent in Vladimir in 1994 (Table 6). Similarly, participation rates

Table 8
Participation Rates by Income Quintiles, Size of Household and Type of Household

	Vladimir		Gorodets	
	1994	1995	1994	1995
Participation Rates	1.0	9.3	1.9	7.3
<i>By Total Incomes Quintiles</i>				
Lowest	4.1	26.0	6.3	19.7
Second	0.8	9.5	1.9	12.7
Third	0.0	4.6	1.1	1.3
Fourth	0.1	0.7	0.2	0.0
Highest	0.0	0.7	0.0	0.4
<i>By Size of Household</i>				
1 person	3.7	26.6	4.9	15.4
2 persons	1.1	7.8	2.1	5.8
3 persons	0.4	4.9	1.4	4.6
4 persons	0.3	7.6	1.3	6.0
5 persons	0.5	5.8	0.3	1.2
6 persons	0.0	5.8	0.8	0.0
7 persons	0.0	0.0	0.0	---
8 or more persons	0.0	---	3.0	---
<i>By Type of Household</i>				
Pensioner household	2.5	17.1	3.0	11.4
Other	0.6	7.1	1.5	5.0

among these eligible households increased substantially; in Gorodetz in 1995, over half of eligible households are participants in the housing allowance program.

The substantial increase in participation from 1994 to 1995 is probably strongly attributed to the continual rent increases which have become increasingly burdensome to households' budgets. Improved outreach programs and larger subsidy payments may also have acted to increase participation rates by heightening awareness and improving incentives. The following sections evaluate the changes from 1994 to 1995 on program knowledge, the impact of housing allowances on household budgets, and finally on participant experience with housing allowance program.

Program Knowledge

Both Vladimir and Gorodetz put forth considerable effort at the onset of the housing allowance program to inform their populations of the housing allowance program. In both cities, awareness of the housing allowance program increased from 1994 to 1995. In Vladimir, the informed population, i.e., those who heard something about the program, increased from one-fifth to one-half of those eligible (Table 9). Although, this figure did not change substantially in Gorodetz (from 44 percent to 51 percent of eligible population), the percent of those eligible who were fully informed of the housing allowance program nearly doubled from 1994 to 1995.



Table 9
General Level of Information (percent)

	1994			1995		
	All Households	Non-eligible	Eligible	All Households	Non-eligible	Eligible
<i>Vladimir</i>						
Informed ^a	9.0	8.2	10.0	22.7	14.2	32.8
Heard something	12.4	13.0	11.7	20.7	22.7	18.2
Not informed	78.6	78.8	78.3	56.7	63.1	49.0
<i>Gorodets</i>						
Informed	24.6	26.8	22.8	25.9	21.7	43.7
Heard something	24.0	27.6	21.1	30.6	36.1	7.6
Not informed	51.3	45.6	56.1	43.4	42.2	48.7

Note

a. Informed indicates having full knowledge about the application process, eligibility, and benefits.

Lack of program knowledge has continued to be the major impediment in the enrollment of the eligible population (Table 10). In both cities, nearly half of the eligible population still have no knowledge of the availability of subsidies to them. However, after being informed of their eligibility status for a housing allowance, a large proportion of these respondents said that they probably would apply for subsidies if rent payments were to increase again.²⁶ For Vladimir, the percent of eligible uninformed participants who would probably apply in the future is 42 percent in 1994 and 78 percent in 1995; in Gorodetz, these figures are 78 percent and 35 percent, respectively.

Similarly, the most encouraging change from 1994 to 1995 is the large proportion of respondents who indicated that they knew about the program and intended to apply soon to the housing allowance office. Absolutely no respondents in 1994 indicated that they had plans to participate in the program; whereas, in 1995, 24 percent of eligible non-participants in Vladimir to 30 percent in Gorodetz stated clear intentions to apply for housing subsidies. This change perhaps speaks to an increased need for financial assistance to pay for the rising rent and communal payments and also to a greater acceptance and understanding of the housing allowance program and its intentions.

In congruence with the percent increase of respondents intending to apply soon is a decrease in the proportion of respondents who were unclear about their eligibility status. In 1994, as many as 22 percent of eligible respondents believed that they were not entitled to receive housing subsidies; in 1995, there was less than one percent of these respondents. This shift suggests that those who know something about the housing allowance program are clearly more well-informed than in 1994; being better informed about the program, these respondents are making the decision to participate.

²⁶ The survey instrument posed the question "Will you apply in the future for subsidies if your rent payments continue to go up?". In calculating the percent of respondents who intended to apply, we included all those that had responded "yes" or "probably yes".

Table 10
Reasons For Not Applying For Those Who Are Eligible

	Vladimir		Gorodets	
	1994	1995	1994	1995
Never heard about program	78.3	58.8	68.5	59.4
Do not believe they are eligible	8.9	2.9	22.4	0.6
Low expected benefit	4.9	5.9	8.4	2.8
Intend to apply soon	0.0	23.5	0.0	30.6
Other	4.9	8.8	5.6	6.7

Note

The proportion of uninformed among those eligible differs here from Table 9 because these questions were only asked to respondents who were eligible at the time of the survey. Thus, the respondents who were ineligible at the time of the survey were not given this block of questions to answer; and therefore our figure here for eligible uninformed is not the same as in Table 15.

An important factor in improving outreach and publicizing the housing allowance program is to evaluate the most effective means for informing the population. The largest change from 1994 to 1995 in Vladimir is the increase in the use of relatives, acquaintances, and neighbors as a means of information (Table 11). Newspapers remained a major source of information in 1995; however, this percentage dropped from 43 percent to 26 percent in Vladimir. Television as a source of information dropped from 17 percent to 5 percent; similarly, radio as a source dropped 6 percent. Overall, information dissemination via formal advertisements seemed to lessen from 1994; yet, conversely, the informed eligible population increased by nearly two and a half times. The level of information among the non-eligible population only increased by about 75 percent. Thus, although efforts seemed to decrease using formal methods, information campaigns in Vladimir effectively targeted the eligible population.

The most effective means of information for those eligible for subsidies appears to be from relatives, acquaintances, and neighbors, thereby indicating a high degree of public support for the housing allowance program. Public support in Vladimir could be the key to the success and longevity of the program. This type of support disseminates information more effectively because trusted friends and relatives share their experiences of the housing allowance program with each other.

In Gorodetz, where the public information campaign was more aggressive than Vladimir, the informed population did not increase substantially. The increase in the fully informed population indicates that information is not necessarily spreading but only remaining concentrated in those who already know something about the program. Furthermore, the proportion of those informed among non-eligible households is higher than among eligible households, indicating that Gorodetz did not effectively target the eligible population.



Table 11
Forms of Information in Eligible Groups (percent)

	Vladimir		Gorodets	
	1994 (n = 107)	1995 (n = 234)	1994 (n = 149)	1995 (n = 175)
From an information bulletin	1.2	2.6	0.7	1.6
From employee in your housing organization	2.3	3.7	3.2	6.5
From TV	17.1	5.3	18.1	23.2
From radio	23.2	17.2	26.2	27.5
From newspaper	42.9	26.1	64.6	57.5
From employee in a social security office	2.2	5.4	3.8	4.9
From relatives, acquaintances, neighbors	20.5	62.2	18.9	23.8
From other sources	8.9	2.6	13.0	3.9

Note

Totals do not equal 100 because respondents were allowed to choose several responses.

Participation and Benefits

Because the strategy of phased rent increases required that increases in the first year be small, benefits were correspondingly small, and thus incentives to participate also were not great. However, the second year saw dramatic changes in the costs of housing and in subsidy payments. The cost of housing in nominal rubles went up 3 to 4 times from 1994 to 1995 (Tables 12 and 13, item 2). In contrast, income only doubled in Vladimir and increased about 80 percent in Gorodetz. The impact on household budgets is more clear when evaluating the cost of housing as a percent of total family income. For all households, the proportion of income spent on housing nearly doubled from 1994 (Tables 12 and 13, item 5), and for eligible non-participants (not assuming a 30 percent underreporting of income), housing costs for all housing types as a percent of total income more than doubled.

In 1994, the mean total income for eligible non-participants was much higher than for participants (Table 12, item 1). This difference indicated that the eligible non-participants may have been better off not participating because the benefits of receiving a subsidy may not have compensated for the cost of enrolling. The mean subsidy payment as a percent of income in 1994 was only about 5 percent. The payment would have been even less for the eligible non-participant households because their mean incomes were much higher than the mean income for participant households; thus, the potential benefits to the eligible non-participating households would have been proportionately smaller and most likely not worth the effort of applying.

Conversely, in 1995, the mean household income for eligible non-participant households is lower in Gorodetz than for participant households (Table 13, item 1). Some participant households from 1994 may have lost their eligibility status but continued to receive allowances, thereby raising



Table 12
Mean Incomes and Housing Costs in 1994

	Vladimir		Gorodets		
	All (n = 499)	Excluding Individual Houses (n = 471)	All (n = 306)	Excluding Individual Houses (n = 202)	Individual Houses Only (n = 104)
<i>1. Mean Total Income ('000s rubles)</i>					
All Households	283.4	284.8	315.6	346.1	256.7
Eligible Non-participants	181.1	179.5	223.1	245.3	191.8
Eligible Non-participants ^a	120.7	120.6	183.8	205.2	161.0
Participants	87.2	87.1	130.9	128.2	n.a.
<i>2. Cost of Housing per Month ('000s rubles)</i>					
All Households	13.5	14.1	22.8	18.0	32.0
Eligible Non-Participants	13.3	14.0	24.2	18.7	32.0
Participants (without HA)	11.1	11.3	14.5	14.2	n.a.
Participants (with HA)	6.7	6.8	9.0	8.7	n.a.
<i>3. Cost of Housing per Month (no wood, coal, or gas; '000s rubles)</i>					
All Households	12.7	13.2	11.6	15.4	4.3
Eligible Non-participants	12.7	13.4	10.9	15.5	4.4
Participants (without HA)	11.1	11.3	13.9	14.1	n.a.
Participants (with HA)	6.7	6.8	9.0	8.7	n.a.
<i>4. Cost of Housing Services (costs covered by housing allowance; '000s rubles)</i>					
All Households	12.7	13.2	7.5	11.2	0.34
Eligible Non-participants	12.7	13.4	6.8	11.3	0.38
Participants (without HA)	11.1	11.3	11.0	11.0	n.a.
Participants (with HA)	6.7	6.8	5.6	5.6	n.a.
<i>5. Cost of Housing (item 2 above) as a Percent of Total Income</i>					
All Households	7.0	7.0	11.0	7.0	18.0
Eligible Non-participants	8.0	8.0	15.0	10.0	22.0
Eligible Non-participants ^a	10.0	11.0	18.0	12.0	24.0
Participants (without HA)	15.0	16.0	14.0	14.0	n.a.
Participants (with HA)	9.0	9.0	8.0	8.0	n.a.

Note

a Assumes 30 percent underreporting of income.

the mean income among these households. More likely, the participant households simply may not represent the neediest households as a result of information mistargeting and poorly targeted eligibility determinations.

Because the housing allowance program in Gorodetz did not include individual housing at the time both surveys were conducted, and because the sample of individual housing is

Table 13
Mean Incomes and Housing Costs in 1995

	Vladimir		Gorodets		
	All (n = 540)	Excluding Individual Houses (n = 510)	All (n = 309)	Excluding Individual Houses (n = 201)	Individual Houses Only (n = 108)
<i>1. Mean Total Income ('000s rubles)</i>					
All Households	619.8	624.9	540.4	554.0	512.8
Eligible Non-participants	382.1	385.1	166.8	133.9	197.8
Eligible Non-participants ^a	290.8	292.7	122.9	107.9	164.3
Participants	310.7	311.2	235.4	235.4	n.a.
<i>2. Cost of Housing per Month ('000s rubles)</i>					
All Households	61.7	62.6	82.9	62.1	121.8
Eligible Non-Participants	60.6	61.2	82.9	56.3	100.9
Participants (without HA)	61.8	62.4	55.8	55.8	n.a.
Participants (with HA)	39.5	40.1	38.1	38.1	n.a.
<i>3. Cost of Housing per Month (no wood, coal, or gas; '000s rubles)</i>					
All Households	60.2	62.2	36.5	52.2	8.1
Eligible Non-participants	56.8	59.4	23.8	50.0	8.3
Participants (without HA)	62.5	63.2	53.3	53.3	n.a.
Participants (with HA)	39.1	39.7	35.6	35.6	n.a.
<i>4. Cost of Housing Services (covered by housing allowance; '000s rubles)</i>					
All Households	60.2	62.2	30.0	46.2	0.85
Eligible Non-participants	56.8	59.4	16.7	44.5	0.85
Participants (without HA)	62.5	63.2	48.2	48.2	n.a.
Participants (with HA)	39.1	39.7	30.5	30.5	n.a.
<i>5. Cost of Housing (in 2 above) as a Percent of Total Income</i>					
All Households	13.0	13.0	18.0	14.0	27.0
Eligible Non-participants	18.0	18.0	32.0	27.0	36.0
Eligible Non-participants ^a	21.0	21.0	29.0	34.0	15.0
Participants (without HA)	22.0	22.0	26.0	26.0	n.a.
Participants (with HA)	13.0	13.0	18.0	18.0	n.a.

Note

a Assuming 30 percent underreporting of income.

proportionally quite large to the entire sample, analysis of the sample which excludes individual housing depicts a more accurate assessment of the burden to households that are deemed eligible by the housing allowance program in Gorodetz. In 1994, the ratio of housing payments to income for eligible non-participants not residing in individual housing was 10 percent (Table 12, item 5); whereas participant households paid a larger share of their income, 14 percent, on housing costs. These ratios are expected because participant households, having already assessed and foreseen



Table 14
Size and Distribution of Housing Allowance Payments In October 1995 Dollars

Subsidy Amount (US\$)	1994			1995			% Distribution of Subsidy Payment
	Mean Subsidy (US\$)	Mean Ratio of Subsidy to Income (percent)	Distribution of Subsidy Payment (percent)	Subsidy Amount (\$)	Mean Subsidy	Mean Ratio of Subsidy to Income (%)	
<i>Vladimir</i>							
< 1.00	0.60	1.6	30.9	< 2.00	1.30	2.3	15.1
1.00-1.99	1.44	4.5	24.7	2.00-3.99	2.96	5.6	23.9
2.00-2.99	2.40	8.2	22.2	4.00-5.99	4.82	8.6	33.9
3.00-3.99	3.30	11.6	11.1	6.00-7.99	6.96	13.0	13.6
≥ 4.00	5.03	12.3	11.1	≥ 8.00	10.19	21.3	13.6
All cases	2.00	6.0	n.a.	All cases	4.93	9.0	n.a.
<i>Gorodets</i>							
< 1.00	0.62	2.0	16.9	< 2.00	0.99	2.7	33.3
1.00-1.99	1.49	3.6	20.3	2.00-3.99	3.03	7.3	34.4
2.00-2.99	2.40	6.8	30.5	4.00-5.99	4.60	12.4	10.0
3.00-3.99	3.69	5.3	11.9	6.00-7.99	7.02	16.8	6.7
≥ 4.00	5.29	8.2	20.3	≥ 8.00	11.47	16.0	15.6
All cases	2.65	5.0	n.a.	All cases	4.09	8.0	n.a.

Note

1994 subsidy amounts are inflated based on an inflation rate of 215.5 percent from October 1, 1994 to October 1, 1995. Ruble/dollar exchange is as of October 1995.

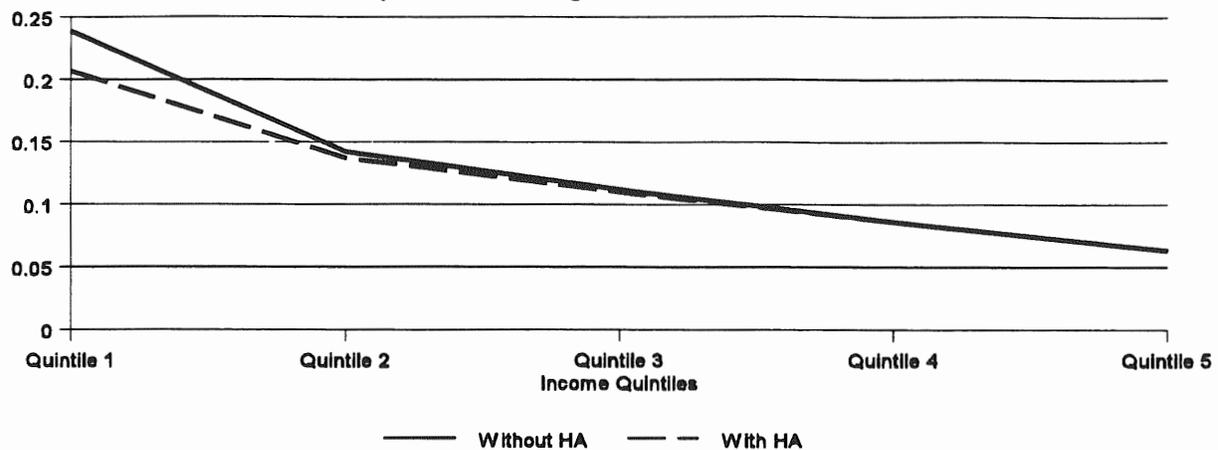
the gains of enrolling in the program, should be invariably in more need of subsidies than eligible non-participant households. However, in 1995, these ratios reverse (Table 13, item 5); eligible non-participant households are spending a larger proportion of their income on housing than participant households, indicating that households which need most help in Gorodetz are not participating in the housing allowance program.

In Vladimir, there is only a 23 percent difference in mean incomes in 1995 between eligible non-participant households and participant households as opposed to a 72 percent difference in 1994. Although this difference in mean incomes between these two groups has decreased, Vladimir appears to effectively reach those households which are most needy. In 1994, eligible non-participant households were spending about 8 percent of their income on housing costs (Table 12, item 5), compared to 15 percent for participant households without the allowances. In 1995, although the margin between these two groups has narrowed, participant households are still spending more of their income on housing than eligible non-participant households (Table 13, item 5). Evidently, the benefits to non-participating households in Vladimir, and more so in Gorodetz, would be similar to those received by participant households who have already expended the cost of enrolling in the program. Thus, the need for housing allowances clearly has increased, and the deterrent to participation is no longer necessarily the deficiency of benefits in outweighing the cost of application.



Figure 1

Vladimir: Percent of Income Spent on Housing



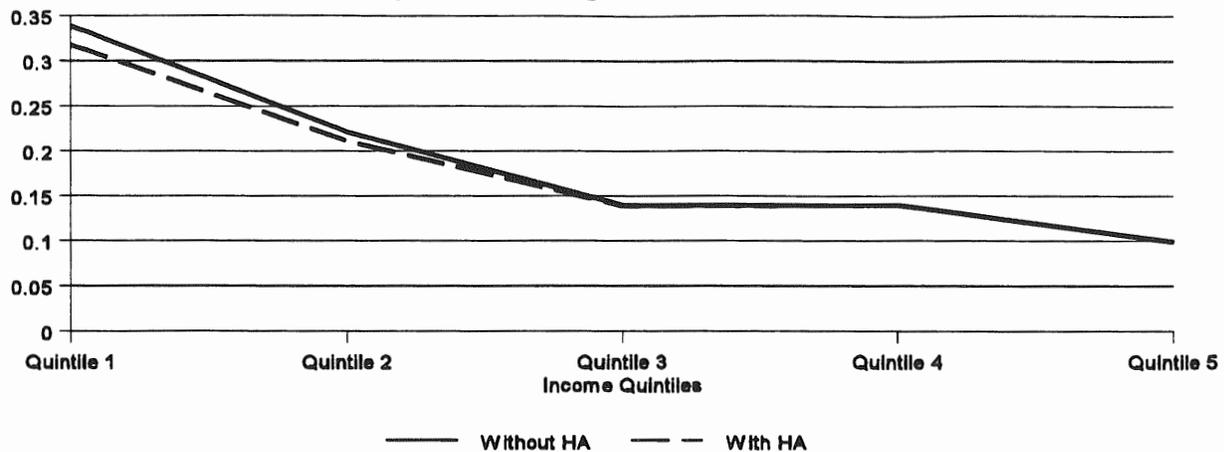
Subsidy payments did show a concomitant increase with the rises in housing costs although not as dramatic. The real dollar value of the mean subsidy payment, computed at a constant exchange rate, more than doubled in Vladimir from \$2.00 to \$4.93 (Table 14); in Gorodetz, the real subsidy payment went up by 50 percent from \$2.65 to \$4.09. The mean subsidy to income ratio increased by about one and a half times in both cities. Although subsidies grew over the year, the increased amount may not have warranted the ninefold increase in participation in Vladimir or the fourfold increase in Gorodetz. Other factors may have been key to the increased participation in 1995. Very likely, one of these factors was simply the lagged response time of the population during which understanding and trust of the program developed. Another factor may be that there is some empirically defined threshold of 8 or 9 percent of total household income beyond which people's interest in subsidies increases drastically. In any case, subsidy payments did increase but not sufficiently to be obviously responsible for the sizeable boosts in participation rates.

Nevertheless, the increased welfare to households resulting from the subsidy payments is considerable. This is clear when evaluating the change in the percent of income spent on housing payments after deducting the subsidy payment from housing costs. Figure 1 shows the change in the percent of income spent on housing—for all services including wood, gasbulbs, and coal—for the entire population of Vladimir in 1995 with and without housing allowances. In the first income quintile, there is a 4 percentage point decrease in income spent on housing. This figure would show a much more dramatic difference for only participant households but here it demonstrates the improvement in welfare for the entire population. Figure 2 shows similar results for Gorodetz. Households in the first income quintile spend an average 3 percentage points less of income on housing costs.

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? Having

Figure 2

Gorodets: Percent of Income Spent on Housing

become more established by the time the 1995 survey was carried out, the program should have worked out many of the administrative difficulties that it may have had at the outset. Furthermore, workers at the housing allowance offices (HAOs) should have become more experienced and knowledgeable in efficiently processing applications and assisting potential participant households. Thus, the results for 1995 of program experience is a better indication of the performance of the housing allowance programs than the results for 1994. The areas for consideration in evaluating participants' program experience include the following: the experience in providing the documentation necessary to certify their incomes, the amount of time spent visiting the housing allowance offices, and their overall opinion about the speed with which their case was handled and their treatment by HAO staff.

From 1994, the proportion of participants in Vladimir who did not know which documents to bring to the HAO declined by 25 percent (Table 15, item 1). Evidently, a large proportion of households (about 60 percent) in 1995 still did not know which documents were needed to process their applications. The explanation for the ambiguity of these documents most likely rests in the fact that the most effective means of information in Vladimir were informal, e.g., through relatives, acquaintances, neighbors. Thus, although households may have received enthusiastic recommendations on the benefits of housing allowances, they may not have received explicit instructions on the application process. In Gorodetz, participants were relatively more informed about which documents to bring to the HAOs, and the proportion of those who did not know dropped by one-third over this period.

Although a large proportion in both cities (83 percent in Vladimir and 63 percent in Gorodetz) in 1995 did not know exactly which documents to bring, the majority of applicants brought the correct paperwork necessary to process their applications (Table 15, item 2). This may indicate that the necessary documents are fairly simple and predictable and that the application process is intended to be an uncomplicated one. Furthermore, the time that was needed to obtain the additional necessary documents was generally no longer than several days. In Vladimir, 65 percent of those who did not bring the correct documents on the first visit were able to obtain the necessary documents within 4 days; and in Gorodetz, nearly 70 percent secured these documents within 2



Table 15
Participant Experience With Program Administration (percent of responses)

	Vladimir		Gorodets	
	1994	1995	1994	1995
<i>1. Did you think you knew which documents to bring to the interview?</i>				
Yes	14.0	17.8	42.0	36.7
Not Exactly	6.0	23.0	22.0	40.0
No	80.0	59.3	36.0	23.3
<i>2. Did you bring all the necessary documents on the first visit?</i>				
Yes, all of them	42.0	56.3	36.0	74.4
Yes, but not all	14.0	18.5	24.0	20.0
No, I came without documents	42.0	24.4	39.0	5.6
No answer	0.0	0.7	0.0	0.0
<i>3. How many days did it take you to obtain the additional documents?</i>				
1 day	34.9	27.8	46.3	60.9
2 days	7.9	17.5	19.5	8.7
3-4 days	15.9	16.5	7.3	0.0
5+ days	22.3	35.0	4.8	0.0
No answer	19.0	3.1	22.0	30.4
<i>4. How many times did you visit the housing allowance office?</i>				
1 time	25.0	8.1	43.0	63.3
2 times	64.0	68.1	44.0	34.4
3 times	11.0	19.3	13.0	1.1
4 times	0.0	2.2	0.0	0.0
No answer	0.0	2.2	0.0	1.1
<i>5. How long did you wait in line on your first visit?</i>				
No line	57.0	22.2	62.0	63.3
Less than 30 minutes	23.0	34.8	29.0	30.0
30-60 minutes	13.0	18.5	5.0	5.6
More than an hour	7.0	22.2	4.0	0.0
No answer	0.0	2.2	0.0	1.1
<i>6. How long did the interview take during your first visit?</i>				
< 10 minutes	45.0	26.6	24.0	77.1
11-20 minutes	34.0	46.0	63.0	21.1
21-30 minutes	11.0	23.7	13.0	0.0
31-40 minutes	10.0	0.7	0.0	0.0
41-50 minutes	0.0	0.7	0.0	0.0
No answer	0.0	2.2	0.0	1.1

Table 15 (continued)
Participant Experience With Program Administration (percent of responses)

	Vladimir		Gorodets	
	1994	1995	1994	1995
<i>7. How long did the interview take on your second visit?</i>				
< 10 minutes	62.7	25.8	0.0	87.1
11-20 minutes	37.3	38.7	80.0	9.7
21-30 minutes	0.0	29.9	20.0	3.2
31-40 minutes	0.0	1.6	0.0	0.0
41-50 minutes	0.0	0.0	0.0	0.0
50+ minutes	0.0	1.6	0.0	0.0
No answer	0.0	2.4	0.0	0.0
<i>8. Total transaction time; time waiting and in interviews for all visits?</i>				
Under 30 minutes	32.0	21.4	63.0	58.8
30-60 minutes	28.0	16.3	27.0	30.0
60-90 minutes	11.0	31.1	5.0	2.2
90+ minutes	29.0	31.0	5.0	8.8
<i>9. Evaluate the speed with which your case was handled by the HAO.</i>				
Very slowly	0.0	13.3	2.0	1.1
Slowly	8.0	14.1	2.0	4.4
Average	12.0	38.5	10.0	12.2
Quickly	54.0	28.1	66.0	44.4
Very quickly	25.0	3.7	20.0	37.8
No answer	0.0	2.2	0.0	0.0
<i>10. Evaluate the treatment by the HAO employee with whom you had the most contact.</i>				
Fully satisfied	76.0	61.5	80.0	61.1
Satisfied	18.0	23.0	18.0	26.7
More or less satisfied	0.0	7.4	2.0	11.1
Not satisfied	4.0	3.7	0.0	1.1
Not at all satisfied	2.0	2.2	0.0	0.0
No answer	0.0	2.2	0.0	0.0

days (Table 15, item 3). Interestingly, the time needed to obtain the documents increased in Vladimir but decreased in Gorodetz. This increased simplicity of the enrollment process in Gorodetz may not necessarily be a positive indication of program performance. Gorodetz may not be as careful at screening potential recipient households and therefore may fail to recognize the neediest households. In contrast, Vladimir has more effectively targeted the neediest households most likely by means of its relatively stricter enrollment policies. Nevertheless, for the majority of cases, the documents required were typically not hard to secure within several days, and thus obtaining them did not unduly delay receiving benefits.

The frequency of visits to the HAOs and the duration of these visits are necessary to assess in estimating the costs for enrollment. In Vladimir, the majority of participants visited the HAO twice. The percent of those who visited only once dropped in 1995 from 25 percent to 8 percent (Table 15, item 4). Vladimir most likely has become more rigorous in screening and interviewing applicants, and thus multiple visits have become a standard part of the enrollment procedure. In Gorodetz, on



the other hand, there was an increase of nearly 50 percent of applicants who were enrolled after one visit, and almost no one had to visit the HAO more than two times.

In 1995, the typical applicant in Gorodetz also expended less time waiting in line or during interviews. Most respondents indicated that they did not have to wait in any line on the first visit (Table 15, item 5). Similarly, the average time expended for both the first and second interviews was cut in half to 10 minutes in 1995 (Table 15, items 6 and 7). However, as suggested above, the increased expediency in Gorodetz does not necessarily indicate better efficiency in the enrollment process, and this rapidity in processing applications gives rise to concern over the inability to screen applicants effectively. In contrast, in 1995 applicants in Vladimir experienced increased waiting time in lines and longer interviews. Much more effort was expended waiting in lines for the initial visit to the HAO. The number of respondents who waited in line for more than an hour increased by 3 times; and only one-fifth of respondents, down from over a half in 1994, indicated that there was no line.

To summarize the amount of time spent in the HAO, the variable "total transaction time" was constructed, which is the sum of all the time spent waiting to see a HAO staff member plus interview durations for all visits by an applicant to the HAO. In Vladimir, there was nearly a 30 percent decrease in applicants whose total transaction time was under 30 minutes, and there was a 50 percent increase in total transaction times that were over an hour (Table 15, item 8). In Gorodetz, total transaction times did not change much from 1994; a large majority of applicants still spent no longer than 30 minutes to complete the enrollment process. Clearly, the cost of enrollment, in terms of transaction time, in Vladimir is higher than in Gorodetz and thus could be indicative of the relative levels of satisfaction between the two cities.

In assessing the speed of enrollment, applicants' own opinions in Vladimir indicated a sharp decrease of over 50 percent in those who thought the transaction times were quick or very quick; and there was a threefold increase in respondents who thought that the application process was slow or very slow (Table 15, item 9). However, the longer transaction times in Vladimir does not necessarily indicate participants' dissatisfaction with the housing allowance program. The 10 percent decrease, from 94 percent, of those who were either satisfied or fully satisfied with their treatment by the HAO does not correspond to the more negative assessments of transaction times given by the respondents (Table 15, item 10). In Gorodetz, where participants indicated greater expediency of the application process, the level of satisfaction with their treatment by the HAO also declined. Similar to Vladimir, there was a 10 percent decrease for those who were either satisfied or fully satisfied—from 98 percent to 88 percent. Clearly, expediency of enrollment is not the only indicator of participants' satisfaction with the program. Thus, although Vladimir has a longer enrollment process than in Gorodetz, a high level of satisfaction with the treatment by the HAO remains in both cities in 1995.

Conclusion

The central conclusion of this early assessment of Russia's housing allowance program is that participation in the program among apparently income-eligible households is moderate. This level of 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 fairly 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. 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. The sharp increase in participation under a moderate increase in subsidies which occurred in 1995 supports this point. There is also still great uncertainty about actual household incomes in Russia. Low participation among apparently eligible households could be an indicator of the share of people receiving substantial income from the informal economy.

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 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 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. Furthermore, better organization of the program could help to absorb the higher rents as it did in Vladimir in 1995.

Another conclusion is that program administration appears to be quite efficient, and client satisfaction appears to be high. It is possible that income verification procedures have been oversimplified 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 to 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.

Comparing the two cities' strategies, one could point out that Vladimir chose a more serious and comprehensive approach which took it more time to start (in 1994, it was "behind" Gorodetz on most of the examined criteria) but afterwards resulted in a more rapid expansion of the program and in real changes in participation, targeting, public support and overall protection. The Vladimir program's characteristic features relative to that in Gorodetz can be summarized as the following:

- More fair eligibility determination (use of the social standard);
- Use of real interviewing in applicant in-take;
- Use of an information campaign which is more targeted to eligible groups; and
- Better overall protection in 1995 (payment to income ratio after housing allowances is lower).

Gorodetz, at the first stage of the program, took advantage of the small city size: the information campaign was easier, and lower effort could be spent on income verification because of the informal "public" control (i.e., everyone knows everything about everyone). But the city's policy to sharply cut eligibility thresholds resulted in a nearly threefold decrease in eligibility and participation being less concentrated in the lowest income group. Participants in Gorodetz are no longer those who would have spent a greater share of income on housing compared with eligible non-participants.



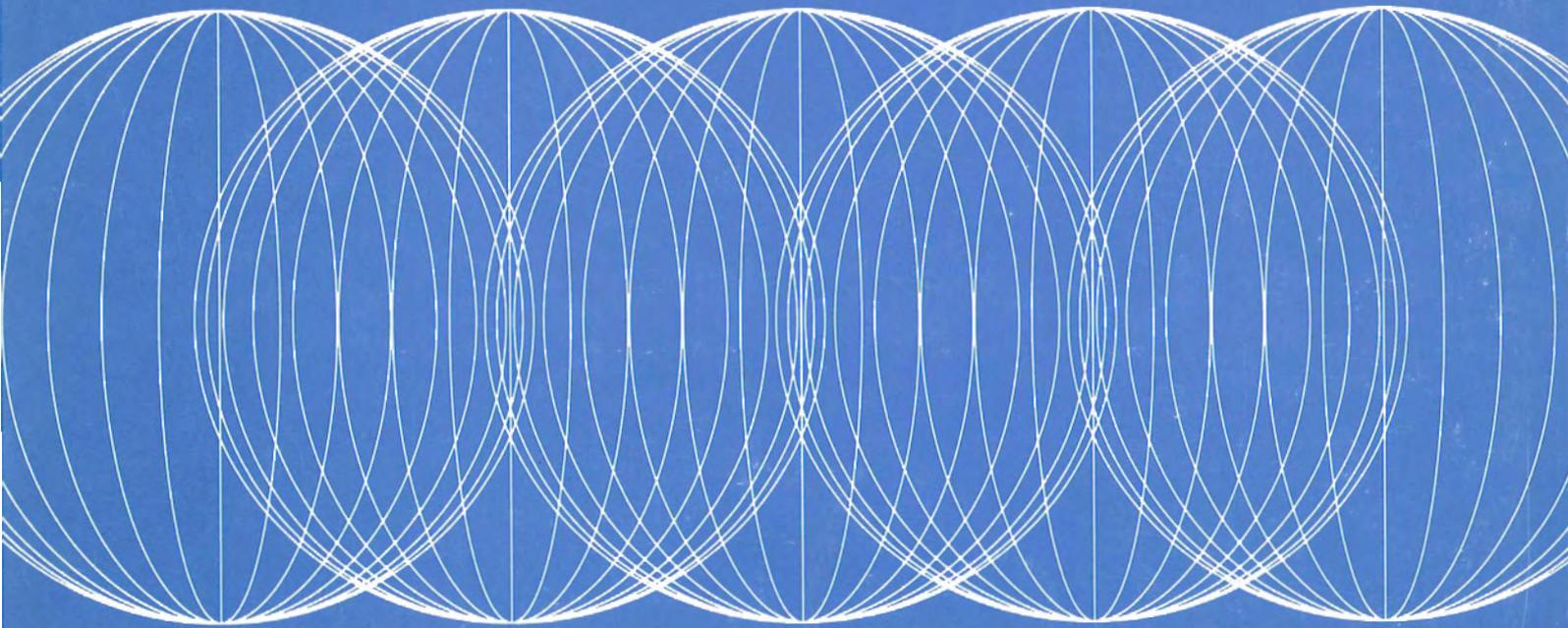
Our final conclusion is the necessity of continuing to monitor the implementation of the program over at least the next two years while rents should increase to levels at which the majority of the households will be eligible for non-trivial benefits. Timely adjustments in program outreach, program administration,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

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