

# **AN ASSESSMENT OF ADMINISTRATIVE PRACTICES IN RUSSIA'S HOUSING ALLOWANCE PROGRAM**

by

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## **Executive Summary**

Implementation of housing allowances is an integral part of Russia's program of systematic rent increases on 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 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.

Reported here are the results of a first-time assessment of the practices of local Housing Allowances Offices (HAOs) who are tasked with administering the program. Field work included on-site reviews at 17 HAOs and analysis of about 1,200 files of program beneficiaries.

HAOs were found to have a mix of desirable management practices and omissions in such practices, covering such areas as the presence of written job descriptions, written guidelines for in-take workers, generation of reports for high level authorities, and set standards for the routine review of files of applicants determined to be eligible for benefits, applicant rejected, and time during which processing of approved cases should be completed. Very large and hard to explain differences were identified for one measure of HAO efficiency: the number of cases processed per staff member per month. Finally, and important for program credibility, errors in computing subsidies paid to beneficiaries were found to be consistently low.

## The Soviet Legacy and Housing Sector 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<sup>3/4</sup>by either municipalities or state enterprises and governmental agencies.<sup>1</sup> 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.

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

-- Subsidies went disproportionately to urban areas; rural residents with a much higher incidence of unit ownership paid a higher share of total housing costs.<sup>2</sup>

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 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 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.<sup>3</sup> 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. 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.<sup>4</sup> In December of 1992, the Supreme Soviet established free of

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

<sup>3</sup> 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.

<sup>4</sup> 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 are being

charge privatization throughout the Federation. By the end of 1997 about 43 percent of the eligible stock had been privatized. So over half of all housing was then in private ownership.

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. It 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.

Because of the importance of multifamily housing in the entire housing stock--about 60 percent of all housing and a much higher share in urban areas of over 100,000 population--most privatized units are in multifamily buildings. If and until those tenants in a building who have privatized their units form a condominium association and take responsibility for managing the building, these new owners pay the same rental fees as do rental tenants. Hence, the "rent policy" is designed to work with the privatization program. Higher rents for municipal housing encourage owners in heavily privatized buildings to form condominiums and to self-manage, arguably improving the efficiency with which the housing stock is operated.

Russian policy makers understood that rents could not be raised unless poor families--both renters and those who privatized units in a multifamily building--were protected from the full impact of higher rents. Consequently, the Law on Fundamentals also created a

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suspended because they lack the Presidential signature.

housing allowance program, a program whose implementation was mandated to accompany each locality's initial rent increase.

**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 90 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.

In the years since 1995, the Russian government has taken other initiatives in the sector, particularly in the area of housing finance but the central focus has remained on the municipal rental sector: raising rents, implementing housing allowances, and improving housing maintenance and management. With strong support and continuous at the Deputy Prime Minister level since early 1997, genuine progress is evident (Struyk, 1997).

### **Early Assessments**

Russia's housing allowance program is unusual among those in the region for having been subjected to careful analysis. Work has been carried out in two areas: the examination of participation rates--social protection is a key issue for a government determined to see rents rising; and, as reported here, the analysis of administrative practices by the local offices actually implementing the program.

**Participation rates.** A recent article presents the results of an evaluation of the initial implementation of the housing allowance program<sup>3</sup>/<sub>4</sub>the nation's first means-tested program<sup>3</sup>/<sub>4</sub>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, were employed. The evaluation specifically focused on the participation rates of apparently

income eligible families and on participants' perceptions of their treatment in the program (Struyk, Puzanov, Lee, 1997).

The central conclusion of the assessment was that participation in the program among apparently income-eligible households is moderate. This level of participation was attributed to 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, the article speculates that 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 did not retain it because there was no value to them in the information. The higher rates of participation among the lower income eligible families and the sharp increase in participation after a moderate increase in rents (and subsidies) which occurred in 1995 are cited as support for 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, and therefore who are less needy than indicated by their reported incomes.

Another conclusion was that program administration appears to be quite efficient, and client satisfaction appears to be high. The authors though it possible that income verification procedures could have been over-simplified in some cases. They also note, however, that the incremental benefits (and city revenue losses) from income underreporting are at this stage very modest because of the low household contribution rate of 10-15 percent of incremental income. Hence, erring on the side of simplification to encourage participation may have been wiser than devoting more resources to verification.

**Program Administration.** This paper shifts focus to address directly issues of program administration. In particular, it provides an initial examination of program administration by the housing allowance offices (HAOs) in eighteen municipalities. In particular the assessment included a review of whether basic administrative procedures were in place: job descriptions, written instructions for in-take workers and those computing program payments, quality control, and reports for senior management. Additionally, the team drew a random sample of files at each office to check for the completeness of the documentation for income certification and the accuracy of the benefit computations.

The presentation is organized as follows. The next section gives an overview of

implementation of the national program of rent increases and the structure of the housing allowance program. Then program administration and the organization of its assessment are described more fully. Results are presented in the following 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.<sup>5</sup> 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. During 1993 tenants' payment effort fell even further.<sup>6</sup>

Even during the Soviet era the national government provided little ear-marked support to municipalities for operating expenses and rehabilitation of the housing stock. *Olbast* (regional) governments did and continue to directly fund housing expenditure in areas (*rayons*) outside of municipalities. Today local governments are essentially on their own. Hence, while the transfer of ownership of the municipal housing stock to local governments was initially viewed positively by local officials, local governments position has changed to skepticism at best as the full financial implications of the combination of national price

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<sup>5</sup> Actually, beginning in April 1992 under legislation on removing price controls generally, it was possible for local Soviets to increase maintenance fees, and a few, such as in St. Petersburg, enacted modest, one-off hikes.

<sup>6</sup> 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.

controls and limited local budgets became clear and as responsibility for increasing rents was devolved from the central government to localities.

Local governments made three kinds of adjustments 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. Even with the rent increases, in 1996-1997, most municipalities spent from 30 to 40 percent of their budgets on subsidies for maintenance and utilities in the housing sector. 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.<sup>7</sup>

The foregoing 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 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.<sup>8</sup> 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. The schedule specified by the initial regulation for

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<sup>7</sup> 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 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).

<sup>8</sup> 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.

the share of costs to be covered by rents was the following:

	Percent of operating costs to be covered by rents <sup>a</sup>	Maximum share of income to be paid for rents <sup>b</sup>
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 were 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% 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<sup>3/4</sup> 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:<sup>9</sup>

$$S = MSR - tY$$

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. Household income for program purposes is defined comprehensively in the recommendations on this point made by the Minister of Labor and include essentially all transfer payments, such as the child allowances and stipends, and benefits exempted from income taxes, and income from garden plots or farms. In practice, income is defined by local governments which generally exclude the more difficult to measure items such as the value of food produced on a garden plot.

Housing allowances are the only income-conditioned assistance program in Russia. Housing allowance benefits are not counted by other programs, such as pensions or child allowances, in determining eligibility nor benefit levels. As such housing allowances are a net addition to households income. Allowances are not subject to income tax.

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

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<sup>9</sup> 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.

consumption.<sup>10</sup> Stimulation of consumption seemed particularly inadvisable in light of the significant housing shortages and likely low responsiveness of supply to increased demand that can be attributed 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 1). This creates the likelihood of significant differences in the treatment of similar households across jurisdictions.<sup>11</sup>

<b>Table 1</b> <b>Distribution of Policy Responsibilities Among Federal, Republic and Local Governments Specified in the September 1993 Regulation</b>		
Federation Government	Republican Government	Local Government
<ul style="list-style-type: none"> <li>- 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</li> <li>- maximum share of income that tenants can be required to pay for rent and receive the subsidy (maximum value of "t")</li> </ul>	<ul style="list-style-type: none"> <li>- program regulations, i.e, which households are eligible to participate (renters in private units, cooperatives, etc.)</li> <li>- social housing (space) norms, based on household size and composition</li> </ul>	<ul style="list-style-type: none"> <li>- new rents. i.e., maintenance and utility fees</li> <li>- actual share of income that subsidy recipients must spend on rent ("t")</li> </ul>

The law mandates that tenants in state units, both municipal and departmental, be eligible for allowance payments. The privatization law states that those who privatize their units will not pay more for operating expenses than renters in state (municipal and

<sup>10</sup> 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.

<sup>11</sup> This point is discussed in World Bank (1998), pp. 16-18.

departmental) housing. Therefore, those who have privatized their units are eligible to receive housing allowances. In short, those who privatize face the same risk of rent increases as tenants in state units. In fact, this feature of the privatization law has been meticulously followed, in part to continue to encourage privatization. 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.<sup>12</sup>

The program has been amended twice since the initiation of implementation:

1. 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.<sup>13</sup> 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 followed the original schedule for the first two years. But the election year pressures of 1996 essentially halted rent increase for a twelve-eighteen month period.

Even so, real increases in rents have been impressive. For example, during the two year period beginning in March 1995, rents in major cities rose on average by 47 percent in real terms.<sup>14</sup>

2. In January 1996 the Law on Fundamentals was amended with two important changes for rent increases. On the one hand, the transition period was extended from five to ten years. But on the other hand, additional cost items were added to those to be covered by the end of the transition period. In particular, capital repair costs and another contribution to capital costs--perhaps best thought of as a depreciation cost--were included. These additional costs may double the cost per square meter to be covered from the

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<sup>12</sup> 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.

<sup>13</sup> 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.

<sup>14</sup> Puzanov (1997) provides detailed data on the program of rent increases. The figure in the text is from his Table 5.3.

tenants.

In addition, the 1996 law changes the calculation of benefits for households having incomes below the federally-defined subsistence level. The law states that such households will not spend more than one-half of the federal minimum monthly wage for housing maintenance and utilities. To enforce this provision, the government issued a resolution which specified that for tenants in this group housing allowances were to be calculated either by the formula given above or as follows:

$$S = MSR - 0.5 (MW)N$$

where MW is the minimum monthly wages and N is the number of household members. The family gets the larger of the two subsidies. But overhoused families still pay the full cost of space above the normative.

By the end of 1996, the housing allowance program had already become large. About 3.5 million households, or 7 percent of the total, were program beneficiaries (Puzanov, 1997). Enrollment has very likely expanded significantly, although further national data are missing to verify this point. At the same time, survey data show very wide variation in participation rates. For example in fall 1996 participation (as a percent of all households) ranged from under 1 percent in Perm and Volgoda to 16 percent in Petrozavodsk and 13 percent in Orenburg (Puzanov, 1997, Table 5.11). Much of this variance is attributable to municipalities' choices of program parameters and their aggressiveness in raising rents, but it some may also result from administrative decisions.

### **Assessing Program Administration**

Administrative responsibility for the housing allowance program is lodged at the local level. Municipal governments have this responsibility under only very general oversight from state (*oblast*) governments. For smaller communities and rural areas, primarily responsibility rests with the *oblast* which assigns these duties to district (*raion*) administrations. *Oblasts* and municipalities are free to designate an existing agency to administer the housing allowance program or to create a new entity. While many jurisdictions set up new offices with the housing management complex for this task, others chose social service agencies or existing housing maintenance/management organizations.

The federal government has provided several types of guidance on the administration of the program, but binding regulations cover only a modest number of program aspects. In particular, the formula to be used in calculating benefits is mandated in the two

Resolutions of Government issued to date. These have been supplemented by clarifying letters of instruction from the responsible ministry--the Ministry of Construction (*Minstroj*). As noted, sub-national governments have substantial latitude in determining who is eligible to participate and setting program parameters (which also effects participation rates). In addition, these governments ultimately determine the definition of program income and what documents applicants must provide to support their reported income figures. Local governments also determine the frequency with which participant incomes must be recertified to continue to receive benefits.

In practice many local governments follow the standards recommended in guidelines disseminated by *Minstroj*. Two principal documents have been issued. The first was promulgated at the time implementation of the housing allowance program began. This was a comprehensive guide covering such topics as how to set up a local office to administer the program, how to estimate staffing levels, the procedures to be followed by intake workers, recommended MIS reports, what to include in program income and how to verify income from various sources, and how to compute benefits. The second document was issued in 1995 and addressed the income verification issue. It contained examples of current practices by strong-performer HAOs and made recommendations on how to detect those likely understating their incomes and ways to check hard-to-document income sources.

Nevertheless, the general point is that local administrations and their HAOs have wide discretion in setting program parameters, defining program income and offsets to it, and various administrative procedures.

The assessment carried out was designed to document current practices and to analyze the extent to which they comply with reasonable standards and to determine error rates in the computation of subsidies and in the documentation of program income as *defined by the HAO*. A sample of 17 municipalities were purposively selected for inclusion.

Thirteen are from the set of fourteen of the municipalities are "housing reform pilot cities" designated by the Government of Russia in spring 1997 mostly on political grounds. (The omitted city was just setting up its program at the time of the evaluation.) The other four cities are participants in a World Bank project. All of these cities are being assisted in making housing reforms by a USAID technical assistance project. While on the surface one would say that because of the technical assistance received by the time of the assessment in spring 1998, these HAOs are better than average. This may be true, but it

is nevertheless the case that, as documented below, they still exhibit a wide range in the size of their housing allowance programs and the sophistication in administrative practices.

Indeed, two of the thirteen pilot cities had begun their programs only about a year before the evaluation.

Data were gathered in the spring and summer of 1998 from each HAO in two ways. First, questionnaires were administered to head of the HAO and to an in-take worker to obtain information on (a) program operations and the presence of various administrative procedures and practices, e.g., the presence of job descriptions and instruction manuals for in-take workers, and the type of management reports produced, and (b) the extent to which they were followed, e.g., the standard for the share of cases to be check and their estimate of the share actually checked. Second, a random sample of 70 case files was drawn in each HAO. The contents of the file were used primarily to independently check the calculation of the subsidy payment checked based on the information contained in the file. In addition, files were checked to verify the presence of documents necessary to confirm income amounts reported by applicants, other eligibility factors (e.g., type of housing occupied), and those which effect size of the subsidy, such as the number of persons registered to live in the unit. Documents required vary somewhat among HAOs.

Difficulties were encountered in obtaining some program data. In a number of offices the office head did not have the information and even after probing it was unclear whether the information sought was recorded at all or whether the office director was simply not informed about it. A more serious problem was inconsistent information provided on program totals and elements in the programs, such as the number of subsidy recipients being implausible compared with the number of transactions (the sum of new enrollees, terminations, etc) recorded by the office. We resolved as many of these differences as we could but some inconsistencies remain. We have not dropped these cases from the data set, in part because they illustrate the limited administrative competence of the offices involved. Where relevant, we cite examples of these problems as we discuss the assessment results.

In analyzing these data two approaches were taken. For the administrative procedures, we defined a standard against which to judge each procedure. In some cases, this is simply whether the documentation or procedure was in place, for example, job descriptions or written instructions for in-take workers and supervisors. In other cases, the standards permit some differentiation for the quality of the procedures in place. For example, in

studying the reports prepared by the office we distinguished between those giving simple counts of transactions or expenditures and those which had greater analytic content.

The second analytic approach goes further by confronting the standards with information on actual practices. In some cases, the HAO's own standard is compared with its self-reported performance, for example, in the percentage of applicant files subject to checking by a supervisor. In other cases, we use the results of our own audit of case files to compute error rates in benefit calculation and income certification (as indicated by missing documents needed to verifying reported income).

## Results

**HAO activity levels and organization.** Some sense of the variation in program size and administrative procedures is available in Table 2 which gives some basic data for the program in each of the cities. For orientation one can consider participation rates, i.e., the share of all household receiving subsidy payments. While the average rate is 6.17 percent, the range is from 1 percent in Gus'khustrani (Table 2b) to 14.9 (Novocherkassk and Petrozavodsk) and 13.7 (St. Petersburg). Such large variances result from the extent to which rents have been raised and the generosity of the program defined by local government, particularly the value set for "t." There is parallel variance in the number of participants: from 336 and 352 in Gus'khustrani and Volkhov, respectively, to over 228,000 in St. Petersburg.

Program activity levels are defined as the number of transactions with clients over the past three months and include initial intake of new participants, recertifications, and terminations. Note that because many applicants are eliminated early in the application process these figures understate the number of the public with whom an HAO actually has contact. In part, the number of transactions is driven by the frequency of income certification. The more frequently a HAO recertifies, the lower are its subsidy payments, other things equal, because incomes tend to move with inflation which has been 15-20 percent annually in recent years. On the other hand, recertification adds administrative costs in notifying recipients, checking documents and recalculating rents. Of the 17 sample programs, five recertify eligibility every three months, eleven every six months, and only Novgorod annually. Activity levels are also driven by the frequency with which the local administration increases rents; after a rent increase there is a general recomputation of benefits and this will in some cases require additional contact with beneficiaries. Because of the politics involved in increasing rents, the pattern has typically been highly irregular.

Table 2a shows that over the three month period preceding the assessment, transactions were equivalent to about 60 percent of the number of beneficiaries. But this average is clearly heavily influenced by the experience of St. Petersburg. The very sharp variance in the experience of the sample HAOs is displayed in Table 2b. In-take is high in cities with rent increases just before or during the three month observation period, such as Ryazan and Samara. Recertification volume depends on the past timing of rent increases

but are high in the five cities with recertifications required every three months.<sup>15</sup> The comparatively large number of terminations in Novgorod and Novocherkassk result from increasing the household contribution rate, as part of a rent increase program.

Table 2 also includes three indicators of the way different HAOs organize their operations. One indicator is the percent of the staff that has direct contact with applicants. Four HAOs stated that all staff meet with applicants; on the other hand, the lowest share of staff handling applicants is in Tver (36 percent). Most cities have 60 to 85 percent of their staff meeting the public. The second indicator is the average time spent on an in-take interview. Greater time presumably means greater care is being taken in identifying all relevant sources of income and verifying them and checking other conditions of eligibility. Five of the HAOs reported times of 15 minutes or less, while eight reported spending 30 minutes or more with the average client. Of these eight, half spend 45 minutes or more. Differences of three or four times in the amount of time spent at in-take is striking and suggests that those spending only a few minutes with applicants could make improvement in this area.

The third indicator is the extent of computerization. The typical HAO has computerized its records and benefit calculations but is not recording information obtained during the in-take interview directly into a computer file. But again there is a wide distribution: five HAOs have little computerization, nine are substantially computerized, and three are fully computerized, including entering data obtained at the time of the in-take interview.

A striking variation is the cost per transaction ("cases processed") of HAO operations. This is computed simply as the HAO budget (exclusive of subsidy payments) divided by the number of transactions or work load. Five offices report a cost of under 10 rubles, which is only about 10 percent of the cost in Vladimir where the city cuts the MSR in the summer by eliminating the heat component which dramatically cuts the number of participants.<sup>16</sup> But the staff is retained for the surge in (re)applications in the fall. Still, in Ulyanovsk and Nizhni Novgorod which do not have this policy still have quite high costs of about 50 rubles. Gus' Khrustalni's tiny program is expectedly costly per transaction.

Interestingly, if we focus only on large programs there is no particular pattern: some

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<sup>15</sup> We note some apparent inconsistencies in the data provided: in Volkhov recertifications are questionably high compared to program size. In Samara the number of new participants is implausibly large. In Tver, the program administrator knew the total number of transactions, but not the total number of participants.

<sup>16</sup> The exchange rate at the time of the survey was about 6 rubles to one USD.

have low costs per transactions and some high, like Nizhni Novgorod.<sup>17</sup> In general such wide variation in administration costs is hard to account for on the surface and even in terms of the administrative practices reviewed below. Rather, they suggest underfunding for services at the lowest cost offices and inefficiency or extra functions being assigned to the expensive offices.

**Administrative practices.** Field interviewers asked program directors a series of questions covering standard practices in administering social benefit programs. Good practices were outlined in the administrative guidelines distributed by *Minstroj* at program launch. So HAOs had in principle been exposed to them this way and additionally by the technical assistance some of them received through the USAID program. Responses to these questions are summarized in Table 3. In general practices are good; the patterns can be overviewed as follows:

1. Fifteen of seventeen HAOs had written job descriptions for at least 75 percent of the staff positions.
2. Importantly most (14) HAOs had written guidelines available on in-take procedures for in-take workers and their supervisors. Two other agencies has partial instructions available. Only one HAO had no written guidance available.
3. Fifteen of the seventeen had defined time limits within which applications for benefits are to be processed, i.e., the number of days between when an application was completed and the family would receive a payment book with the rent figure reduced by the amount of its housing allowance. These range from 15 to 30 days with mode being 20.
4. On the other hand, only eleven HAOs defined the share of all files that should be routinely checked as a quality control measure. A similar number (12) required that the files of all applicants denied benefits be reviewed by a supervisor.
5. All but two HAOs had established formal commissions to review complaints made by applicants or beneficiaries.

In terms of these practices most HAOs score fairly well. Weaker administrations are in Tver and Novocherkassk; on the other hand, Yaroslavl seems to be doing nearly everything right. But the differences are not very great.

All of the HAOs studied provide higher level of administration with reports on basic

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<sup>17</sup> For reference the average HAO administrative costs (28 rubles per transaction) can be compared with the average monthly subsidy received by participants, which average 48 rubles, or about USD8. Presumably as cost recovery and rents rise, pushing up payment amounts, these two figures will be more in balance.

program activity at least monthly.<sup>18</sup> Nine of them generate analytic reports as well. Some of these are quite simple but others give detailed profiles of recipients, good information on developments over time and the like.

Finally, we explored the practices of HAOs in advising potential applicants about the program and required documentation prior to their visiting the office to make a formal application. All HAOs reported either a system of preliminary visits or giving consultations over the phone; five provide both. From prior work we know that this practice was not standard in the early days of the program. But administrators have learned that such advice can save both the HAO and the applicant time and aggravation. The more effective such advice, the lower should be the rate at which applicants are rejected.

**Outcome indicators.** Heretofore the discussion has addressed administrative policies. It now shifts to results. As indicated earlier, the indicators reviewed are broad. Often the link between an indicator and specific administrative practices is ambiguous.

The difficulties present are illustrated with an examination of applicant *rejection rates*. On the one hand, if the HAO has done a good job in informing the population about eligibility requirements, comparatively few ineligible families will apply; and the rejection rate will be low. On the other hand, low rejection rate could simply mean that the in-take staff is very lax in checking eligibility. A third element is that different HAOs have different eligibility criteria. The clearest example concerns the treatment of applicants who are in arrears in their rental payments. Some municipalities simply reject such applicants; others make the family enter into a workout agreement under which the unpaid bills are repaid on an agreed upon schedule. Lastly, recorded rejection rates depend on how far the applicant gets in the process, i.e., if he is found quickly to be ineligible, then no record may be made of the application whatsoever. Practices on this point also differ among offices. On balance, data on rejection rates for individual HAOs should be treated as only suggestive.

In looking at the data in Tables 4a and 4b on rejection rates, one is first struck by the fact that five HAOs keep no information on the total rejection rates, suggesting an area for improvement. (Nevertheless, two administrators did provide their own estimate of the distribution of the causes for rejection.) The principal reason for rejection (49 percent on average) is the applicant's income being too high. Presumably closely related to this is the failure of the applicant to provide the necessary documents (26 percent), most of which are

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18 Some cities, such as Tver and Kansk, deliver only information on program expenditures and similar data needing for the city's budgeting and pay little attention to the number of recipients and participant characteristics.

required to verify income from various sources. But "family type" which includes such diverse problems as not living in an eligible unit (e.g., a purchased flat in a new building) and possessing more than one apartment. In addition, on average 5 percent of applicants are disqualified because they had rent arrears.

As shown in Table 4b, there is a good deal of variance among the seventeen cities in the relative importance of these causes. Some of this can be explained simply by differences in the order in which information is collected from applicants and some by the way in which the cause of rejections are recorded. An in-take worker confronted with someone who they believe has too much income to qualify, who does not provide the necessary documentation of income, and who also is in arrears on his rent would have a great deal of discretion on how to classify the reason for rejection. For these reasons, we do not dwell further on the details presented in the table.

A more narrow administrative issue concerns the *share of records of applicants approved for payments which are reviewed by a supervisor* (labeled "share of files checked" in Table 4). While the overall average is 56 percent, the variation among offices is striking. Six HAOs review all records; at the other end of the spectrum, Ryazan and St. Petersburg check less than 5 percent, and Orenburg only 11 percent. Administrative officers for income support projects in Western countries routinely check 20-25 percent of cases. Of the fifteen HAOs reporting information, two-thirds would meet this standard.

HAOs report that they routinely meet the *norms they have established for processing new applications*--only 0.5 percent exceed the norms (item 3, Table 4a; col. 2, Table 4b). The information in the table is that reported by HAO directors. In looking at the experience of individual HAOs, only two report any cases over their limit and both of these are tiny differences: Samara with 0.2 percent and Cherepovets with 0.5 percent. This record is plausible in light of the generous norms established, the simplicity of the process of generating a payment book, and the fact that most offices are computerized.<sup>19</sup>

The thirteen HAO directors who could provide information reported that the *accuracy of the documentation on income sources provided by applicants is checked* for 4 percent of applicants on average. About one-sixth of the time an inquiry produced data that was not consistent with that submitted by the applicant (items 3 and 4, Table 4a). This seems a reasonable checking rate, because the documentation required are nearly always papers

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<sup>19</sup> In some cities, however, the process is complicated by all computations regarding rents, including housing allowance payments, being handled through a central computing unit. In such cases, the records are sent to the centers and the processing times are often long and certainly outside of the control of the HAO.

that carry the official stamp of the issuing organization. An in-take worker could question, for example, a very low wage figure reported for a worker by an enterprise. And it is possible that an accountant was prevailed upon to issue a low figure on an "official document" so as to increase the amount of the housing allowance payment.

Two HAOs reported very high rates of documentation checking--Ulyanovsk at 35 percent and Cherepovets at 20 percent (col. 3 and 4, Table 4b). In Cherepovets about one case checked in five resulted in finding a discrepancy, while the similar "hit rate" in Ulyanovsk was much lower. As noted earlier, the Ulyanovsk program is quite young; and the administrator may be still testing the effectiveness of different procedures. The Nizhni Novgorod case is worth noting: the office staff appears to be doing an excellent job in identifying those cases in which fraudulent documents are being submitted--in 80 percent of the cases challenged a discrepancy is documented.

An interesting pattern is evident for *referrals of complaints to the internal commission and higher administrative authority*. It is obviously important for the credibility of the program that complaints which cannot be resolved by the HAO staff be referred to other administrative bodies. Of the 16 HAOs reporting information, seven had no complaints to deal with in the previous three months. This strikes one as implausible. More believable are rates of around 1 percent given by several HAOs. As expected even fewer cases are referred to higher authority.

One of the few efficiency indicators we could construct is *the number of cases processed per staff member per month* (item 8, Table 4a; col. 10, table 4b). The mean is 242, or about 12 transactions per worker per day, indicating overall good performance. Nevertheless, the variance among HAOs is very large indeed. Five HAOs report fewer than 50 cases per staff member per month; two HAOs have staff processing less than fifteen cases per month, Nizhni Novgorod and Gus'Khrustalni. The corresponding figure of 1,439 reported by Tver is consistent with the relatively short time its in-take workers spend with applicants (15 minutes), its comparatively lax administrative procedures (Table 3b), and a consistent lack of information of HAO operations, another indicator of a less developed and less professional program.

But one cannot identify a consistent general relationship between time spent with applicants and work load per worker. For example, in Volkhov in-take workers take 40 minutes on average with an applicant who becomes a recipient and work load per worker is 222 cases per month. In contrast, in-take workers in St. Petersburg average 12.5 minutes

with an applicant but the workload per staff is only 112. The composition of the work loads in the two cities during this period was similar. As another example, in-take workers in both Tobolsk and Yaroslavl averaged 45 minutes with an applicant; but the work load per staffer in Tobolsk is almost twice that in Yaroslavl--146 versus 77 cases processed per month. It is worth noting, however, that while the total work load of the two HAOs was similar over the three month reporting period, Yaroslavl had 584 new recipients compared to 42 in Tobolsk.

A key issue concerns the *accuracy of subsidy computations*: are beneficiaries receiving the payment they should, i.e., one computed accurately according to program guidelines? We calculated subsidy payments for each family using the data on income in its file and the HAOs rules for computing benefits. Figure 1 shows the errors for all HAOs combined and two typical offices. Although quite numerous, the errors were generally very small. Overall 92 percent of all errors were less than 5 percent of the correct benefits amount. Only 3.2 percent of the errors exceeded 5 percent, and these were all overpayments, i.e., the welfare implications are not severe as they could be with underpayments. No HAO was identified as having a significant problem in the accuracy of its computations.<sup>20</sup>

Lastly, the record is also strong with respect to *the presence of the necessary documentation verifying income reported by the applicant* (Figure 2). Of the 70 files sampled in each office, a maximum of four files were found to be missing one or more documents in three HAOs--Tver, Ryazan, and Gus'Khrustalni. But three HAOs had all documents present, and the rest had only one or two files missing a required document.

## Conclusions

Russia's housing allowance program is very young, and a number of smaller cities have only recently set up offices (HAOs) and begun making payments. Thus, in undertaking a review of administrative practices one expects to find a mixed picture. Most of the seventeen sample HAOs have adopted many standard administrative practices, such as the presence of written job descriptions, written guidelines for in-take workers, generation of reports for high level authorities, and set standards for the routine review of files of applicants determined to be eligible for benefits, for applicants rejected, and for the time during which processing of approved cases should be completed. At the same time, nearly

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20 These error rates appear to compare favorably with those for the U.S. housing allowance and other income-tested housing programs, although comparisons cannot be precise. A recent comprehensive study (Loux et al., 1996) found that errors arising from mistakes in making the calculations, i.e., taking the information on incomes in case files as valid, were quite frequent--21 percent of cases. The report does not give parallel data on the size of the errors.

none has the full set of practices in place. Moreover, there are glaring omissions in the records kept, which in the case of this assessment were most evident in the absence of basic information on some aspects of program operations. The problem is worse that the missing data indicate because it was clear that responses to some questions posed by interviewers were based on judgements and intuition rather than hard information. While the data supplied in such cases may be roughly accurate, the lack of formal records will be likely thwart oversight by higher authority and the preparation of time series analysis in the future.

Very large and hard to explain differences were identified for one measure of HAO efficiency: the number of cases processed per staff member per month. Determining the explanation for such variance is important for understanding fully the operations of HAOs.

Very importantly error rates in computing subsidy levels were found to be consistently low. Similarly, documentation required to verify incomes reported and other eligibility requirements was present.

Overall, our judgement is that administrative practices are good for such a young program pioneering income-testing. At the same time certain improvements are clearly in order. Because of the decentralization of administrative responsibilities and the limited ability of the national government to prescribe such procedures, the Government of the Russian Federation should prepare and distribute two types of guidance. The first guidance, addressed to HAOs, should specify the types of information it is desirable for HAOs to maintain and provide justification for the recommendations. The guidance should include table formats. The second type of guidance should be addressed to the HAOs and the responsible deputy mayors and list the key administrative practices which experience is showing to be desirable. The guidance would provide a check-list for the deputy majors to use in reviewing the actual procedures of the city's HAO; it would also give some guidance on reasonable values for the various parameters, e.g., processing times, share of files to be reviewed, and the kind of information he should routinely be receiving. The Combined this guidance holds the promise of stimulating progressive administrators to improve their programs.

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