PARTICIPATION IN A DECENTRALIZED HOUSING ALLOWANCE PROGRAM IN A TRANSITION ECONOMY

Raymond Struyk - Senior Fellow, the Urban Institute (Washington)
Tatiana Lykova - Municipal Economy, Head of Housing-Related Social Problems sector, the Institute for Urban Economics (Moscow)
Ekaterina Petrova - Municipal Economy, Lead Expert, the Institute for Urban Economics (Moscow)
Sergei Sivaev - Municipal Economy, Director, Ph. D. (Technology), the Institute for Urban Economics (Moscow)

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Abstract

When Russia's housing allowance program was introduced in 1994, it was truly innovative, being the country's first means-tested program. But there were disadvantages from the start as well. Especially prominent was the division of authority for setting program parameters among different levels of government and the potential for variation in the treatment of similar households in different cities. In 1996 the program's original simple basis for benefit determination was seriously impaired by the introduction of different principle for very low-income households. Moreover, local governments have exhibited a willingness to increase and cut benefits from year-to-year, depending on political and budgetary considerations. The analysis presented here documents the impact of these variations on participation rates in a sample of Russian cities. Large inequities are obviously present in the treatment of similar households from city to city. Indeed, it is questionable whether the program as currently configured is fulfilling the social safety net function envisioned for it in the original legislation.

In the former socialist countries of Eastern Europe and the Commonwealth of Independent States, housing allowances have been a critical element in housing sector reform. Housing allowances are demand-side subsidies, usually in the form of a discount on the bill the resident receives, provided on a means-tested basis to low income families to help pay the cost of housing; generally they are structured so that poorer households receive larger benefits.[1] Under the socialist system rents, or more accurately payments for housing and communal services, were rigidly controlled at levels far below full cost recovery. The introduction of housing allowances has been a key component of the program to increase rents toward market or at least full cost levels and to focus the remaining subsidies on low-income families. Housing allowances have been widely adopted. Countries not adopting them have often sought to protect the poor from bearing the full brunt of rent and communal services' price increases through implementing a unified family benefit program, e.g., Armenia, Krygzstan.[2]

The allowance programs implemented in the region differ along two major dimensions: the degree of national versus sub-national control over program design, including benefit determination, and the level of government that funds the benefits. Three basic models can be distinguished.

1. Unified program structure set by the national government and subsidies for the allowance payments centrally funded, e.g., Ukraine, Slovakia;

2. Broad program structure set at the national level but with significant discretion for sub-national governments to adjust parameters and benefit funding shared between levels of government, e.g., Russia; and

3. Local program design and funding of benefits, e.g., Hungary.

The allocation of program design responsibilities to sub-national governments can produce widely different benefit levels and varied program access to similar households depending on where they happen to live, creating potentially significant equity issues.

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[1] See Kemp (1997) for a description of housing allowances in a number of western countries. Vouchers generally are thoroughly described in Steuerle et al. (2000).

This article presents analysis of the administration of the housing allowance program in a sample of Russian cities, where sub-national governments have formal authority to set major program parameters and to establish certain key administrative definitions. The program was first implemented in 1994 and has been subject to a number of modifications over the years. The analysis explores how differences in administrative procedures have affected participation rates across cities. In brief, we find that sub-national administrative practices account for large differences among cities in participation rates. The results argue for a stronger role for the national government in controlling program parameters and administrative practices.

The article is organized as follows. The first section gives an overview of the linked topics of the legislative history and the distribution of responsibilities for benefit determination and administration among levels of government. The second section describes the extent of local variation in actual program operations. The third states several hypotheses about the impact of certain administrative procedures on program participation rates. The fourth section describes how the hypotheses were tested and presents the results of the estimated regression model. The paper closes with some conclusions and a recommendation.

The Russian Housing Allowance Program[3]

The Russian Federation has three levels of government– national or federal, state or Subject of the Federation, and local. At the start of the transition period, housing and related communal services assets, e.g., water companies, were transferred to the ownership of local governments. Under Russian law this means that the national government does not have the right to regulate the use of these assets. This fact accounts in part for the peculiar allocation of responsibilities in the housing allowance program among the three levels of government.

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[2] Descriptions and analyses of programs in the region include: World Bank (2000) and Struyk (1996).
[3] A detailed summary of the legislative history and current allocations of responsibilities is in Sivaev et al. (2003). Early reviews of the program are in Puzanov (1997), Struyk, Lee and Puzanov (1997), Frienkman (1998).

Basic description. In December 1992 the rent reform program was created in the housing reform framework law passed by the national legislature. The law declares the principle of full coverage of costs of maintenance and repair of housing and utility services by residents who occupy residential space in state and municipal housing under social rent agreements. Transition to this new system of housing and utility payments required the simultaneous introduction of housing allowance payments to qualifying families.

Legislators believed that introduction of full payment for housing and utility services by the population with simultaneous social protection of the poor would result in a significant decrease in budget expenses, as the need to provide subsidies to housing and utility enterprises would be eliminated and budget expenses would only be associated with housing allowance and "benefits" to special groups, e.g., veterans of the World War II, that were a relic of the Soviet system.

National legislation established the basic formula used to determine benefits under the housing allowance.

$S = MSR - tY$

where

S = amount of the allowance to be paid to an occupant family;

MSR = the maximum social rent payment by the tenant household for the standard norm of living space for that household, that is, the maintenance cost[4] per square meter multiplied by the number of square meters defined as the standard space of that household plus payments for utilities at standard consumption rates;

t = maximum affordable share of the household's income to be paid for housing maintenance; and

Y = total household income estimated under a procedure established by the local administration.

In Russia, like most other countries in the region, allowance payments take the form of a discount on the monthly bill for housing and communal services received by the program participant, as opposed to a cash payment to participant households. Usually the amount of the discount is shown on the tenant's monthly bill so that the beneficiary is aware of the size of the subsidy.

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[4] A charge for rehabilitation was included in subsequent legislation.

Under this arrangement, the city government is responsible for making payments for the value of the discounts to the housing and communal service providers on behalf of the participants.

In 1996 the State Duma legislated an important amendment to this formula by adding a second formula that would apply to families with incomes under the minimum per capita subsistence income– a standard that is supposed to be set for each Subject of the Federation and is presently at about $2 per day. This formula is

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

where

MW = minimum monthly wage set by federal authorities (RUR xxx at the end of 2002), and

N = number of household members.

A key implication of the formula is that for families with income below the minimum subsistence standard the size of the subsidy does not vary with household income. Thus, the cardinal principle of the original law was modified. The formula also establishes a discontinuity in the subsidy amount at the minimum wage level. Often there is a sharp reduction in the allowance payment when the family's income crosses this threshold. Hence, families have a strong incentive to understate their incomes as their income approaches this level in order to maintain the large benefit.

The original law also stated that the transition to the new system of payment for housing and utility services should be done in stages within 5 years, i.e. in 1998 consumers should have paid full cost of services. The transition was to be done in stages. Over the years this provision has been amended several times, with the current legal date for full cost recovery date being 2008, although the federation government is setting a much faster pace (see below).

Until legislation was passed in 1999, funding for housing allowances was strictly from local government resources. In fact, an increase in fees for housing and communal services almost always generated more revenue than sufficient to pay the housing allowance benefits, leaving extra revenue accruing to the city budget. The 1999 legislation provided for federal grants to help with

allowance payments. But this grant amount is based on program parameters for calculating household subsidies established by the Federal government; communities meeting or exceeding the federal parameters get their full grant allocations; others receive less. The federal standards cover the share of costs paid by tenants, the value of "t," and the cost of providing services,. i.e., cities where the cost of services were excessive were penalized. The federal government has used the incentives in the formula to force the pace of price increases, with a target of the end of 2003 for full cost recovery.

Local administrations are authorized to set several of the key program parameters:

- ? prices and consumption norms for housing and utility services, e.g., kilowatts per month for a family of three;

- ? the maximum share of income a household pays for housing and communal services (within the norms), i.e., "t," before being eligible for an allowance.

However, the right to set the space standards, i.e., the number of square meters used in determining the benefit, is allocated to Subjects of the Federation. By 1997, federal standards for space were established for computing the federal contribution to local governments for housing allowance payments; and these norms have been substantially adopted by the Subjects.

Another important factor determining participation is the definition of tenure groups who are program eligible. The initial law established that occupants of state and municipal housing were eligible, both renters and those had privatized their units.[5] Local governments then could decide on which other groups could be eligible. However, in 1999 eligibility was broadened by federal law to include all owners and renters.

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[5] At the beginning of the transition about 80 percent of housing in large urban areas was either State housing, including that of enterprises, or municipal housing. During the transition the great majority of State was transferred to the municipalities. So the distinction is no longer important. Tenants of both types of housing were eligible to privatize their units. But unless these tenants formed and registered a condominium association and formally took over management responsibility, the building remained on the balance of the municipality.

Inconsistencies in local and federal policies on housing and utility payments and housing allowances.

Context. Over the decade from 1992 to 2002, almost all Russian municipalities were engaged in reforming the system of housing and utility payments, but the process developed unevenly across cities.

We look first at the consistent elements. Over the years there was a significant increase in the share of residents' payments in the total costs of housing and utility services, a decrease in budget subsidies to the sector, and the initiation of direct assistance to low-income families. After the macro-economic crisis of 1998, the rate of fee increase temporarily declined but it recovered again in 2000. In 2001 and 2002 the increases were particularly sharp due in part to further pressure on local budgets from two sources: reduced transfers from higher level governments to local governments (resulting from reallocations of collected taxes) and tougher collection practices by the national electricity monopoly (RAO UES), a policy that increased local governments' effective cost of providing heat and water services. From the beginning of 2000 to September 2002, the fees for housing and utility services for a standard apartment (54 square meters per 3 persons) in administrative centers of the Subjects of the Russian Federation has increased on the average 2.96 times in nominal terms (from RUR 251 to RUR 742 a month) or over two times in real terms.

Regarding housing allowances, the great majority of regions have implemented the program, with about 8.2 percent of households receiving this subsidy.

Local variation. Programs being implemented at the local level are often at variance with federal policy, as expressed in the parameters the federation sets to determine its contribution to financing local housing allowance payments. In other words, parameters such as the level of residents' payments for housing and utility services, prices for housing and utility services and maximum share of household expenditures for housing and utility payments in total family income often do not match federal standards. Table 1 shows the variation across 13 cities that cooperated in providing data for this project for

...on housing and utility payments policy in some Russian cities (as of April 1, 2002)

City	Amount of Payment for Housing and Utility Services in Standard Apartment (RUR)	Amount of Payment for Housing and Utility Services in Standard Apartment as per Federal Standard of Maximum Price for Housing and Utility Services, for 2002[6] (RUR)	Residents' Coverage of Housing and Utility Costs (%)	Federal Standard of Residents' Coverage of Housing and Utility Costs for 2002[7] (%)	Maximum Allowable Share of Household Expenditures for Housing and Utility Payments in Total Household Income (%)	Federal Standard Maximum Allowable Share of Household Expenditures for Housing and Utility Payments in Total Household Income for 2002 (%)
...	460	799	52	90	18	22
...grad	531	799	70	90	20	22
...la	516	702	67	90	20	22
...ary	398	702	90	90	20	22
...	414	799	80	90	8	22
...	Na	799	100	90	16	22
...	529	761	60	90	16	22
...	746	961	80	90	20	22
...slavets	Na	961	80	90	15	22
...ets	837	977	100	90	10	22
...	Na	1107	72	90	19,5	22
...vgorod	729	1026	70	90	20	22
...k	864	1728	50	90	17	22

...ovided by municipal administrations to the Institute for Urban Economics.

... Government Resolution dated November 19, 2001 # 804 "On Federal Standards of Transition to the New System ...
...ility Services for 2002", this federal standard is established for the subjects of the Russian Federation

... Government Resolution dated November 19, 2001 # 804 "On Federal Standards of Transition to the New System ...
...tility Services for 2002" and the concept of reforming housing and utility sector in the Russian Federation, approved ...
...pril 28, 1997, #425.

... Government Resolution dated November 19, 2001 # 804 "On Federal Standards of Transition to the New System of Pay...
...ility Services for 2002"

these three parameters compared to the federal standards. The degree of variation is impressive.

The authority to set rates and tariffs for housing and utility services rests with local governments. Nevertheless, the administrations of the majority of the Subjects of the Russian Federation issue annual decrees setting the level (share) of payments by the population for housing and utility services in their territory. The share established by the Subject serves either as the upper limit for local governments or as the regional standard.[9]

Municipalities for political reasons are, as a rule, reluctant to increase housing and utility rates and tariffs to the level set by its Subject of the Russian Federation. But even those municipalities that have favorable economic and budgetary conditions and could increase fees substantially are limited by the level of residents' payment set at the regional level. Again, as a specific legal matter, the Subjects do not have the authority to set this parameter, but they have strong influence at the local level. Table 2 illustrates an interesting case. This is the City of Belgorod, where the city has set a household contribution rate different from that of the Oblast (Subject) and from the federal norms– its standard is higher than the Subject norm and lower than the federal.

The reluctance of municipalities to raise fees is often associated with the local legislature (Duma) having the authority to establish these rates rather than the head of the administration. The authority to set these fees is frequently defined by the municipality's charter and therefore is hard to change. Where the authority rests with the Duma, raising fees is highly politicized and unpredictable.

Concerning housing allowances, the programs implemented in many municipalities also differ from the principles declared in the Federal law. The current situation is rife with considerable differences between the maximum allowable share of household expenditures for housing and utility payments in total family income as established locally and in the federal standard (Table 1).

Table 2. Differences between maximum allowable share of expenditures for housing and utility payment in household income set by Belgorod Oblast and the City of Belgorod

Maximum allowable share of household expenditures for housing and utility payments established in Belgorod Oblast		Maximum allowable share of household expenditures for housing and utility payments established in the city of Belgorod (%)	Federal standard of maximum allowable share of household expenditures for housing and utility payments (%)
Average per capita income per person per month, RUR	Maximum allowable share of expenditures for housing and utility payments (%)		
up to 700	10	19	22
from 701 to 1200	15		
over 1201	22		

Source: information collected by the Institute for Urban Economics from the municipal and Subject administrations.

Another important difference concerns the introduction of the "second formula," with some municipalities implementing it and others not, even though in principle its adoption is mandatory. For municipalities the introduction of the second formula means considerable increase in budget expenses for housing allowances and an increase in the probability of receiving falsified information from families applying for allowances. Experience shows that regions and municipalities deal with this situation in one of two ways:

- calculate housing allowances using the first principle only, justifying it by the absence of established regulatory methods of determining the minimum subsistence level;[10]

- do not budget sufficient funds for housing allowances based on both principles; this results in the underpayment for services to housing and utility enterprises. In Russia as a whole, about 60 percent of housing allowances obligations in terms of payments to municipal enterprises providing services are being fulfilled.

Although the second formula was introduced about six years ago, according to official monitoring data, about 30 percent of all municipalities still do not use it.

[9]Until 2001 regional standards usually were falling slightly behind the federal standards, although current interbudgetary relations encourage the authorities of the subjects of the Russian Federation to reduce this gap.
[10] Federal regulations implementing the regional minimum subsistence standard have not been formally issued, which creates this loophole.

This type of variance is illustrated for several cities in Table 3. Nevertheless, the number of territories where the second principle is in effect has steadily increased.

Table 3. Indicators on the structure of the housing allowance program in selected Russian cities, as of April 2002

City	Payments for housing and utility services in standard apartment per person (RUR)	Maximum allowable share of household expenditures for housing and utility payments in total family income (%)	Second principle	Amount of income per person, which makes the family eligible for housing allowance under federal standard of 22% (RUR)	Estimated maximum allowable share of household expenditures for housing and utility payments based on minimum subsistence level, %
Ryazan	176	16	yes	800	10
Novgorod	243	20	yes	1104	14
Vladimir	138	8	no	627	10
Nizhnii Novgorod	191	18	no	868	11
Cheboksary	133	20	yes	604	8
Saratov	146	20	yes	663	9

In short, implementation of the federal law on payments for housing and utility services and the housing allowance program at the local level is highly variable, being influenced by the specific economic and political situation.

Hypotheses

This section outlines several hypotheses tested in this analysis. Most are based on the above discussion but a couple draw on other information on program administration. In addition, we have examined the literature on the determinants of participation in means-tested programs and taken the results

of prior studies into account in formulating the hypotheses.[11] Where needed, explanation for the hypothesis is provided.

1. *Local elections cause increases in the fees of residents for housing and utility payments until after the elections to be deferred.*

2. *Cities with larger subsidies as defined by the first formula will have higher participation rates than others.*

3. *Cities with a higher "t" value in the first formula will have lower participation rates.*

4. *A city has several procedural regulations under its control that can encourage or discourage program participation:*

   a. *It can choose to employ the second formula or not; cities not using the second formula will have lower participation rates than others.*

   b. *It chooses between two standards for computing the MSR. While the law indicates that the appropriate standard is the size of dwelling to which the applicant family is entitled to live in regardless of its dwelling size at the moment, i.e., overcrowded families have payments based on a larger unit; some cities use the unit currently occupied by the family to compute benefits. Cities using the "housing standard" rather than actual housing will have higher participation rates.*

   c. *It chooses between two definitions of the household occupying the unit, which has an impact on the household's program income. The city can either define the household on the basis of the persons officially registered at the address or on the basis of those actually living there. The number of officially registered persons is systematically lower than the actual number. So cities using those officially registered will have higher participation rates than others.*

   d. *Cities can add requirements aside from income to determine eligibility. Some deny benefits to families who report no income and whose able-bodied workers are not registered with the employment office, for example. Others deny benefits to those who have outstanding debts to the housing agency or communal service providers. Cities with "additional criteria" have lower participation rates.*

5. *Cities can administer the program efficiently and effectively, thereby reducing the costs of participation to clients, which would increase participation rates.*

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[11] Many of these studies are reviewed in Moffitt (1992). A detailed analysis of participation in housing allowances under conditions of a controlled experiment (the U.S. Experimental Housing Allowance Program), including for a gap formula of the type used in Russia, are reported in Cronin (1981).

Administrative practices that may be important include the average number of clients processed per day per staff member, share of applicants that succeed in becoming participants (reflecting the success of the agency in informing potential participants about eligibility requirements), and the availability of computers and office equipment. [12]

Data Resources and Model Specification

Data were assembled for six cities from several sources: Velikii Novgorod, Dmitrovgrad, Ulianovsk, Cheboksary, Vladimir, and Ryazan. These cities are all in European Russia and they were selected principally on the basis of their willingness to provide the rather extensive amount of data required for the analysis. Nevertheless the cities represent a range of experience. The figures in table 4 are participation rates, based on all households, in January 2000. The rate in Velikii Novgorod is almost 10 times that in Dmitrovgrad. Importantly, the participation rate in the same city can vary widely over time. For Velikii Novgorod, for example, the rates in January were as follows in recent years: 1999, 6.3 percent; 2000, 11 percent; 2001, 9.5 percent; 2002, 6.4 percent. Some of the cities have the reputation as having well-administered housing allowance programs, e.g., Velikii Novgorod and Vladimir; the later case is particularly interesting in light of municipal decision to restrain participation. Ulianovsk, on the other hand, was very late in establishing its program and has generally resisted the program of rent reform.

Our analysis estimates regression models using combined time series-cross section data. Housing allowance participation rates used in the analysis are monthly, usually from the beginning of 1999 through early 2002, but for one city the start date is January 1997 and another January 1998. The participation rate is defined as the percent of all households receiving housing allowance payments. Data on the number of eligible households is not available.

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[12] A recent microeconomic study of participation in the U.S. housing allowance program found that certain administrative practices increased success rates. Such practices included giving individual applicants or small groups of applicants a general briefing about the program and conducting outreach campaigns to landlords on a regular basis to solicit their participation in the program (Finkel and Buron, 2001).

Table 4. Housing allowance participation rates in sample cities, January 2000

City	Participation Rate[13]
Velikii Novgorod	11.0
Dmitrovgrad	1.3
Ulianovsk	7.2
Cheboksary	9.0
Vladimir	2.2
Ryazan	8.1

Table 5 lists all the variables included in the analysis and their definitions. Most of the independent variables are self explanatory in light of the foregoing discussion. One variable, HAO, which measures the efficiency of housing allowance office operations, requires additional explanation.

Table 5. Variables Included in the Analysis

Short name	Definition	Mean value
SF	Dependent variable; share of families receiving housing allowance.	5.5 %
T	Maximum share of income to be spent on housing and communal services, as established by the local government	0.14
SB	Var = 1, if jurisdiction is using the second formula in addition to the first; otherwise var = 0	0.44
TFI	Var = 1, if total family income is calculated based on income of all family members, regardless of their registration. Var = 0, if total family income is calculated based on income of family members who are registered at the given housing.	0.83
EL	Var = 1, if there are local restrictions on eligibility for housing allowances; var = 0 otherwise.	0.43
A	average amount of housing allowance, per month	102.4 RUR
HAO	aggregate index of housing allowance office procedures that would increase participation	13.2

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[13] Base is all households.

HAO is based on scores from 1 to 3 assigned to each of the eight administrative practices listed below. The scores were developed from observations on actual practices during visits by team members to housing allowance offices in each city. Higher values indicate practices more likely to increase participation.

1. *Location of housing allowance office in the structure of municipal services.* Placement of a housing allowance office (HAO) within administration of the housing and utility sector involves a conflict of interests: the HAO protects not only citizens' interests but also budget interests of the housing enterprises. This can lead to barriers to families wanting to participate in the program. Such a conflict of interests does not arise if the housing allowance office is located within the social protection system, for example. The indicator was scored 1 if the HAO is in the housing administration and 3 otherwise.

2. *Use of tax records for income verification.* When a housing allowance office verifies the information about incomes of families applying for allowances with the tax office, it sometime identifies those underreporting their incomes. Where the HAO does such checks, the indicator was assigned value of 1; office not making use of tax records were assigned a value of 2.

3. *Use of social protection databases for outreach.* Using a variety of databases such as those for pensions, handicapped status and other programs for social protection allows outreach to these groups to inform them about the program. The indicator value is 3 if progressive information campaigns were used and is 1 otherwise.

4. *Availability and quality of computers and office equipment.* Offices with fully adequate equipment are scored 3; others receive lower scores depending on the quantity and quality of equipment.

5. *Regularity of dispute committee meetings.* These committees settle complex cases where in-take workers could not make a decisions or where a decision is being appealed.   If a committee meets regularly (once or twice a month), it means that program clients are treated individually and carefully and this may help additional families enter the program (indicator's value is 3). If the committee meets seldom, it is interpreted as reflecting a bureaucratic attitude in the agency (values 2 and 1).

6. *Ratio of the number of in-take workers to total number of staff in the office.* The more staff members perform intake functions, the shorter are lines and the more accessible is the housing allowance office to clients: indicator values are from 1 to 3, with low ratios getting lower scores.

7. *Number of cases processed by one staff member per day.* High scores may indicate greater efficiency or a lack of care in verifying the terms of eligibility. In either case, more households will be processed. Indicator values range from 1 to 3.

8. *Ratio of the number of families participating in the program to the number of applicants.* In part this variable indicates the effectiveness of the

outreach program in informing clients about the terms of eligibility. A high ratio means that more clients understand they are actually eligible when they visit the office; they may be bringing more of the verification documents with them to the initial meeting as well. A high value, 3, is consistent with a high ratio; lower scores are assigned to lower ratios.

As Table 5 shows, the average index value is 13. The highest index of score was for the city of Novgorod (16), while the lowest scores went to Dimitrovograd and Cheboksary (10).

Results

The estimated regression model is presented in Table 6. Most of the coefficients are statistically significant and their signs conform to the hypotheses set out earlier.

Programs that are computing benefits for very poor households using the second formula generate participation rates that are about 1.7 percentage points higher than those that do not. Given an average participation rate of 5.5 percent for the sample, this represents a 30 percent rise in participation, holding other factors constant. On the other hand, basing eligibility and benefit determination on the income of all persons actually in a household rather than only those officially registered as living in the unit results in a 5 percentage point decrease in participation. This is a very large effect and may reflect a harder attitude of authorities toward qualifying households that may not be picked up elsewhere.

Larger average monthly allowance payments result in greater participation. The elasticity evaluated at the mean is 0.22; so a 10 percent increase in the average payment raises participation by 2.2 percent. The share of income participants must devote to housing, t, has no effect on participation rates. Both this result and the somewhat muted impact of average monthly payments on participation may be explained by the confounding role played by the second formula. As noted the allowance payment of households who qualify to have their benefits determined by this formula do not depend on their income level. Moreover the t value they face is independent of city policy on this point.

Table 6.   Regression Results

Variable	Regression coefficient
Constant	-3.141
	(-2.103)[14]
T – max. share of income	0.107
	(1.764)
SB - second basis	1.695
	(4.537)
TFI - aggregate income	-5.035
	(-5.075)
EL - local restrictions	0.416
	(0.897)
A - amount of subsidy	0.012
	(4.687)
HAO - efficiency of subsidy-provision service	0.685
	(4.344)
R^2	0.397
F-statistic	29.070
df (degrees of freedom)	271

Local restrictions on eligibility (EL) do not have a statistically significant impact on participation. However, administrative practices (HAO) have a highly significant effect. The elasticity evaluated at the means is large– 1.64. But still the quantitative impact on participation rates of a non trivial change is modest. If a city improved its administrative practices by 10 percent from the 13 point average value, participation would be increased by about 1 percent, or from 5.50 to 5.55 percent.

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[14] The t-statistics are in parentheses.

Taken as a whole, these results point to potentially large differences among cities in participation rates– and the equity with which similar families are treated depending on where they live. The potential for different participation rates to result from local practices is driven home by the figures in Table 7 which displays participation rates for a fictitious "populist administration" and a "tight-fisted administration." The participation rate in each city is computed using the regression model in Table 6 and varying the size of four of the independent variables as indicated in the table. The populist administration uses the second formula (as well as the first), bases program income on the persons officially registered as living in a unit, and consistently structures program administration to encourage participation. The tight-fisted administration adopts opposite policies. The resulting difference in participation rates– 10.6 vs. .88 percent– is indeed striking.

Table 7. Simulated Participation Rates for Different Municipal Policies[15]

Variable	Populist Administration	Tight-fisted Administration
Second formula	City uses	City does not use
Income definition	Officially registered household members	Actual household members
Average subsidy per month	RUR 102	RUR 90
Housing office practices	Strong – score=15	Weak – score=11
Participation Rate	**10.68 %**	**.88 %**

Conclusions

When Russia's housing allowance program was introduced in 1994, it was truly innovative, being the country's first means-tested program. Thanks in part to the fact that most offices administering the program were newly created and freshly staffed and to the gradual phase in of rent increases, the general response to the program was well-received.

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[15] All variables not listed in the table are held at the mean value for the sample cities.

But there were disadvantages from the start as well. Especially prominent was the division of authority for setting program parameters among different levels of government and the potential for variation in the treatment of similar households in different cities. Over time the program's original simple design for benefit determination was seriously impaired by the introduction of the second formula. Moreover, local governments– both the Administration and the Duma--have exhibited a willingness to increase and cut benefits from year-to-year, depending on political and budgetary considerations.

The analysis presented here documents the impact of these variations for a sample of Russian cities. Large inequities are obviously present in the treatment of similar households from city to city. Indeed, it is questionable whether the program as currently configured is fulfilling the social safety net function envisioned for it in the original legislation.

To overcome this problem there is a clear need for the Federal government to exercise greater leadership. This recommendation is not made lightly in view of the provision of the legislation on the allocation of responsibilities among Russia's three levels of government submitted in late 2002 by the Government to the State Duma that would further limit the local governments' freedom of action in many areas. Nevertheless, the current program, was so promising, is clearly in need of a thorough overhaul.

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