

Participation in a Decentralized Housing Allowance Program in a Transition Economy

by

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Abstract

When Russia's housing allowance program, the country's first means-tested program, was introduced in 1994, it was truly innovative. But there were difficulties from the start, many arising from 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 principles for very low-income households. Moreover, local governments have exhibited a willingness to vary 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 for housing, provided on a means-tested basis to low-income families to help pay these costs; 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 (e.g., Armenia, Kyrgyzstan.²) 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.

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 funding the benefits. Three basic models can be distinguished:

1. A unified program structure set by the national government with centrally funded subsidies for allowance payments, e.g., Ukraine, Slovakia;
2. A broad program structure set at the national level 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 for similar households in different locations, creating potentially significant equity issues.

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).

² Descriptions and analyses of programs in the region include World Bank (2000) and Struyk (1996).

This article presents an 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 subjected to a number of modifications over the years. This analysis explores how differences in administrative procedures have affected participation rates across cities. Participation rates are defined as the share of all households receiving housing allowances. The more desirable measure, the share of eligible households receiving allowances, cannot be computed because of the lack of information on household incomes at the local level.

In brief, we find that sub-national administrative practices account for large differences in participation rates among cities. 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 article closes with some conclusions and recommendations.

The Russian Housing Allowance Program³

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. In part, this fact accounts for the peculiar allocation of responsibilities in the housing allowance program among the three levels of government.

Basic description. In December 1992 the rent reform program was created within the housing reform framework law and then 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 requires the simultaneous introduction of housing allowance payments to qualifying families.

Legislators believed that introducing full payments for housing and utility services by the population with simultaneous social protection of the poor would result in a significant decrease in budget expenses. Under the new system they expected that the need to provide subsidies to housing and utility enterprises would be eliminated and budget expenses would only be associated with the housing allowance for the poor and “benefits” to special groups (e.g., veterans of 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 the occupant family;

MSR = the maximum social rent payment by the tenant household for the standard norm of living space for a household of that size, that is, the maintenance cost⁴ 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.

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), and Frienkman (1998).

⁴ A charge for rehabilitation was included in subsequent legislation.

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. 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 (federal legislature) 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 US\$2 per day. This formula is:

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

where

MW = minimum monthly wage set by federal authorities (RUR 450 at the end of 2002, or about \$15), and

N = number of household members.

A key implication of the formula is that for families with incomes 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 five years (i.e., in 1998 consumers should have paid the full cost of services). Over the years, this provision has been amended several times, with the current legal date for full cost recovery 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 required to pay the housing allowance benefits, providing extra revenue that accrued to the city budget. Nevertheless, regional and local governments viewed these payments as an unfounded federal mandate. Consequently, the 1999 legislation provided for federal grants to help with allowance payments. But the federal government used the formula to prod localities to raise rents and improve the efficiency of housing operations in concert with the federally set schedule. The grant amount to a locality is based on program parameters for calculating household subsidies established by the federal government; communities that established cost recovery rates (achieved through the level of the MSR) and household contribution rates (t) meeting or exceeding the federal parameters get their full grant allocations; others receive less.⁵ The federal government has used the incentives in this 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; 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 implementing regulations established that occupants of state and municipal housing were eligible regardless of tenure (i.e., including those who had privatized their units).⁶ Other groups could also be declared

⁵ The efficiency element was that the localities' cost per square meter of providing services could not exceed the federal number. This gave localities with highly inefficient operations incentive to improve them.

⁶ 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 housing was transferred to municipalities. So the distinction is no longer important. Tenants of both types of housing were eligible to privatize their units, but unless these

eligible by local governments. Only in 1999 was eligibility broadened by federal law to include all owners and renters.

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

Context. During the decades 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, in part because of 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, fees for housing and utility services for a standard apartment (54 square meters per three persons) in administrative centers of the Subjects of the Russian Federation increased, on the average, 2.96 times in nominal terms (from RUR 251 to RUR 742 per month) or more than 2 times in real terms.

Regarding housing allowances, most 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

tenants formed and registered a condominium association and formally took over management

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 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 most of the Subjects of the Russian Federation issue annual decrees setting the level (share) of payments by their population for housing and utility services. The share established by the Subject serves either as the upper limit for local governments or as the regional standard.⁷

For political reasons, municipalities are, as a rule, reluctant to increase housing and utility rates and tariffs to the level set by their 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, the city of Belgorod, which 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.

responsibility, the building remained on the balance sheet of the municipality.

⁷Until 2001, regional standards were usually slightly behind federal standards, although current interbudgetary relations encourage the authorities of the Subjects of the Russian Federation to reduce this gap.

Table 1. Data on housing and utility payments policy in selected Russian cities (as of April 1, 2002)⁸

№	City	Amount of payment for housing and utility services in standard apartments (RUR)	Amount of payment for housing and utility services in standard apartments as per federal standard of maximum price for housing and utility services, for 2002⁹ (RUR)	Residents' coverage of housing and utility costs (%)	Federal standard of residents' coverage of housing and utility costs for 2002¹⁰ (%)	Maximum allowable share of household expenditures for housing and utility payments in total household income (%)	Federal Standard of Maximum Allowable Share of Household Expenditures for Housing and Utility Payments in Total Household Income for 2002¹¹ (%)
1	Ulianovsk	460	799	52	90	18	22
2	Dimitrovgrad	531	799	70	90	20	22
3	Ioshkar Ola	516	702	67	90	20	22
4	Cheboksary	398	702	90	90	20	22
5	Vladimir	414	799	80	90	8	22
6	Kovrov	Na	799	100	90	16	22
7	Ryazan	529	761	60	90	16	22

⁸ Source: Data provided by municipal administrations to the Institute for Urban Economics.

⁹ According to Government Resolution dated November 19, 2001, #804, "On Federal Standards of Transition to the New System of Payment for Housing and Utility Services for 2002," this federal standard is established for the Subjects of the Russian Federation (equivalent to U.S. states).

¹⁰ According to Government Resolution #804 and the concept of reforming the housing and utility sector in the Russian Federation, approved by Presidential Decree dated April 28, 1997, #425.

¹¹ According to Government Resolution dated November 19, 2001, #804.

8	Kaluga	746	961	80	90	20	22
9	Maloyaroslavets	Na	961	80	90	15	22
10	Cherepovets	837	977	100	90	10	22
11	Tikhvin	Na	1107	72	90	19,5	22
12	Velikii Novgorod	729	1026	70	90	20	22
13	Murmansk	864	1728	50	90	17	22

The reluctance of municipalities to raise fees often depends on which entity has the right to set the rates—the local legislature (Duma) or 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. When 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 by federal law. An analysis of the current situation reveals considerable differences between locally and federally established standards for maximum allowable share of household expenditures for housing and utility payments in total family income (Table 1).

Table 2. Differences between maximum allowable share of expenditures for housing and utility payments 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:

- by calculating housing allowances using the first principle only, justifying it by the absence of established regulatory methods of determining the minimum subsistence level;¹²
- by not budgeting sufficient funds for housing allowances based on both principles; resulting in underpayment for services to housing and utility enterprises. In Russia as a whole, local governments are paying only about 60 percent of their housing allowance obligations to the municipal enterprises that provide services.

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 apartments 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 that 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

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. 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.

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 and influenced by specific economic and political situations.

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.¹³ Where needed, explanation for the hypothesis is provided.

1. *Local elections cause increases in the fees of residents for housing and utility payments to be deferred until after the elections.*
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. *Cities have several procedural regulations under their control that can encourage or discourage program participation.*
 - a. *They can choose whether or not to employ the second formula; cities not using the second formula will have lower participation rates than others.*
 - b. *They can choose between two standards for computing the MSR. While the law indicates that the appropriate standard is the size of dwelling in which the applicant family is entitled to live 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.*

¹² Federal regulations implementing the regional minimum subsistence standard have not been formally issued, which creates this loophole.

¹³ 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 a gap formula of the type used in Russia, are reported in Cronin (1981). Note, however, that the U.S. program requires that the dwelling occupied by a participant meet certain minimum standards. This is not the case in Russia.

- c. *They can choose between two definitions of the household occupying the unit, which has an impact on the household's program income. The city can define the household either 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 other than income to determine eligibility. For example, some deny benefits to families who report no income and whose able-bodied workers are not registered with the employment office. 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 programs efficiently and effectively, thereby reducing the costs of client participation and increasing participation rates.*

Administrative practices that may be important include the average number of clients processed per day per staff member, the share of applicants who succeed in becoming participants (reflecting the agency's success in informing potential participants about eligibility requirements), and the availability of computers and office equipment.¹⁴

Data Resources and Model Specification

Data were assembled for six cities from several cities: 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 experiences. The figures in Table 4 are participation rates, based on all households, in January 2000.¹⁵ The rate in Velikii Novgorod is almost 10 times that in Dmitrovgrad. It is important to note that the participation rate in the same

¹⁴ 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).

¹⁵ The more desirable and more frequently used definition is the percentage of eligible households receiving the benefit. We could not employ this measure because of the absence of household income data at the local level.

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 a reputation for having well-administered housing allowance programs (e.g., Velikii Novgorod and Vladimir); the latter case is particularly interesting in light of a municipal decision to restrain participation. Ulianovsk, on the other hand, was very late in establishing its program and has generally resisted 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 for another, January 1998. The participation rate is defined as the percentage of all households receiving housing allowance payments. Data on the number of eligible households are not available.

As a final comment, it is worth noting that cities have changed their basic program parameters with some frequency, in part to control the level of participation. The final column of Table 4 shows that our sample cities changed the values of t and/or MSR more than once a year; indeed, three of the six made three or more changes per year on average.

Table 4. Housing allowance participation rates and average parameter changes per year in the sample cities, January 2000

City	Participation rate ¹⁶	Average parameter changes per year ¹⁷
Velikii Novgorod	11.0	1.33
Dmitrovgrad	1.3	2.00
Ulianovsk	7.2	3.43
Cheboksary	9.0	3.00
Vladimir	2.2	3.12
Ryazan	8.1	1.47

¹⁶ Base is all households.

¹⁷ Average number of changes in t or MSR per 12-month period.

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; percent of families receiving a 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

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 of 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.*
Placing a housing allowance office (HAO) within the administration of the housing and utility sector involves a conflict of interests: the HAO protects not only citizens' interests but also the budget interests of the housing enterprises. This can lead to barriers to families that want 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 information about incomes of families applying for allowances with the tax office, it sometimes identifies those underreporting their incomes. Where the HAO does such checks, the indicator was assigned a value of 1; offices 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 social protection programs allows outreach to these groups to inform them about the programs. The indicator value is 3 if progressive information campaigns were used and 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 intake workers could not make a decision or where a decision is being appealed. If a committee meets regularly (once or twice a month), program clients are treated individually and carefully, which 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 (value 2 or 1).
6. *Ratio of the number of intake workers to the total number of staff in the office.* The more staff members performing intake functions, the shorter the lines and the more accessible 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 either greater efficiency or a lack of care in verifying the terms of eligibility. In either case, more households are 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 that 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. At the same time, a high value could signal that the HAO is doing a poor job of verifying incomes. 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 Dimitrovgrad 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 compute 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 harsher 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 previously, the allowance payment of households who qualify to have their benefits determined by this formula does not depend on their income level. Moreover, the t value they face is independent of city policy on this point.

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 nontrivial change is modest. If a city improved its administrative practices by 10 percent from the 13 point average value, participation would increase by about 1 percent, or from 5.50 to 5.55 percent.

Taken as a whole, these results point to potentially large differences in participation rates among cities—and the equity with which similar families are treated depending on where they live. The potential for different participation rates resulting from local practices is driven home by the figures in Table 7, which compares

participation rates of a fictitious “populist administration” and a “tight-fisted administration.” The participation rate in each city is computed by 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 the opposite policies. The resulting difference in participation rates—10.6 vs. 0.88 percent—is indeed striking.

Table 6. Regression results

Variable	Regression coefficient
Constant	-3.141
	(-2.103) ¹⁸
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

Table 7. Simulated participation rates for different municipal policies¹⁹

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%	0.88%

¹⁸ The *t*-statistics are in parentheses.

¹⁹ All variables not listed in the table are held at the mean value for the sample cities.

Conclusions

When Russia's housing allowance program, its first means-tested program, was introduced in 1994, it was truly innovative. 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, in general the program was well received.

But there were difficulties 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 administrations and Dumas—have exhibited a willingness to alter 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, the federal government needs to exercise greater leadership. This recommendation is not made lightly, in view of the provision of 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 local governments' freedom of action in many areas. Nevertheless, the current program, once so promising, is clearly in need of a thorough overhaul.

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