

Enterprise Housing Divestiture in Russian Federation

Economic Reform Today
Market Solutions to Social Issues
Number 4, 1996

By Raymond Struyk, Sheila O'Leary, and Iona Dmitrieva

Raymond Struyk, Ph.D., is a senior fellow at the Urban Institute and has been in residence in Moscow for over four years as director of the Institute's USAID-funded Housing Sector Reform Program (HSRP). Sheila O'Leary, J.D., is a policy analyst in the International Activities Center of the Urban Institute. Iona Dmitrieva, Ph.D., is a municipal finance expert working on the HSRP infrastructure finance project in Moscow.

A lengthier version of this report is available in O'Leary et al. (1995) (see references). This version is available on the Center for International Private Enterprise website, (www.cipe.org). Reprinted with permission from CIPE.

During the Soviet era enterprises provided a range of social services to enterprise employees, including housing, kindergartens, recreational facilities, and health care clinics. In the middle part of this century the push to industrialize and modernize Russia led to the creation of enterprises in otherwise underdeveloped parts of the country. Because the capacity of local government (where it existed) in these areas was often insufficient to provide social services for the increasing labor force, and in order to attract employees, these areas developed into "company towns" with the enterprise providing nearly all social infrastructure. Even as these underdeveloped regions developed into urban areas, enterprises, indirectly supported by government subsidies, continued to provide these services to attract and keep employees.

The attitude of the federal government and enterprises to the provision of social services to employees has changed dramatically in the past few years with the government's efforts to reorient the Russian economy along market principles. The major program of reform affecting enterprises has been privatization of production facilities and related assets and divestiture of the enterprise's social assets. Given the amount of enterprises' resources devoted to provision of social services and maintenance of social assets, the privatization program assumes that after divestiture, substantial resources will be rechannelled into the enterprise's production and management activities, increasing the overall efficiency and profitability of the enterprise.

This article deals with housing and related infrastructure facilities, the largest social asset possessed by enterprises. Beginning in the early 1990s the federal government has mandated that privatizing enterprises divest their housing stock to local authorities. To assist local governments in absorbing the financial burden of divestiture additional tax revenue and federal budget subsidies are to be made available to local governments. Considering the potential impact on the financial position of the enterprise and the assumed resultant benefits to macroeconomic conditions as the byproduct of more productive and efficient enterprises, the federal government, enterprises and the international donor community have been eager to implement the divestiture program. On the other hand, local governments, fearing the financial burden of

divestiture on their already inadequate resources to maintain the current municipal housing stock, have been hesitant to accept the stock despite the financial assistance offered by the federal government.

For reasons explored in this article the pace and process of divestiture have not been as rapid or smooth as envisioned in federal law. Much of the information presented in this article is the result of research conducted with enterprise directors and local government officials in three Russian cities (Petrozavodsk, Ryazan, and Vladimir) during the fall of 1995. In all, 35 enterprises were interviewed—10 in Petrozavodsk, 12 in Ryazan and 13 in Vladimir. City officials from the Finance Committee and Committee on Housing and Communal Services were interviewed in all three cities. The objective of the research was to consider the financial and legal implications of divestiture from the perspective of the municipality and enterprises and to understand why the pace of divestiture has not been as rapid as many enterprise directors and policy makers would like.

Framing the issue

Enterprise housing was never in fact owned by enterprises, but held by them on their balance sheet under the concept of "full economic control." Management control and financial responsibility rest with the enterprise, but, because they do not own the housing, privatizing enterprises are prohibited from taking housing along with other assets into the capital of the enterprise. According to federal law, within six months of the date of privatization, privatized enterprises are obligated to transfer housing and related maintenance and infrastructure facilities from their balance sheets, that is, relinquish both control and financial responsibility, to the balance sheets of a designated government or its agent, and the designated government is legally obligated to accept the transfer. Most housing of privatizing enterprises will either be directly divested to the municipality where the enterprise is located or, after transfer to the balance sheets of the federal or regional government, will ultimately be divested to the municipality.

The group of federal laws outlining the conditions and procedures for divesting enterprise housing to municipalities is fairly straightforward. However, the implementation at the local level of federal laws and regulations related to divestiture varies from location to location depending most essentially on local economic conditions, not on any real flaws in the federal legislative framework. Although the federal government has provided financial assistance through several mechanisms to municipalities to cover the cost of divestiture, municipalities' position that these funds are inadequate to cover the costs associated with divestiture is the one of the most crucial, if not the most crucial, impediments slowing the pace of divestiture.

Municipalities are concerned that divestiture will increase the municipal housing stock resulting in a drain of municipal resources in excess of the amount of revenue the city will receive from various sources to cover the costs associated with divestiture. It should be noted that as municipal housing privatization has occurred alongside enterprise housing divestiture, the number of units in the municipal housing stock has not changed dramatically since 1991. Table 1 presents the amount of enterprise housing that has been divested to municipalities and the percentage of municipal housing privatized for the nation as a whole since 1991.

Table 1
Departmental Housing Divestiture and Municipal Housing Privatization for the Russian Federation, 1991-1995

| | 1991 | 1992 | 1993 | 1994 | 1995 |
|---|-------|--------|--------|---------|---------|
| Cumulative departmental housing divested ('000) (sq.m.) | 9,060 | 26,921 | 80,589 | 173,899 | 254,075 |
| Cumulative departmental housing divested as % of total departmental stock | 1.0 | 2.9 | 8.5 | 18.4 | 26.9 |
| Cumulative municipal units privatized ('000) | 122 | 2,734 | 8,538 | 10,934 | 12,463 |
| Cumulative municipal housing privatized as % of total municipal stock | 0.6 | 8.2 | 25.3 | 32.4 | 35.9 |

Note: Departmental housing stock is actually composed of three categories: (I) housing of non-budget, mostly urban, enterprises, (ii) agricultural farm housing in rural areas (also considered "self-financing" in official statistics), (iii) housing controlled by federal ministries and agencies funded from the state budget. To date enterprise housing divestiture has only occurred in housing from the first category.

Given that the rates of privatization and divestiture have essentially canceled each other out, the amount of housing owned by the municipality remained relatively constant from 1991 to 1995. However, the amount of housing municipalities were responsible for maintaining increased dramatically because the municipality typically remains the provider of management and maintenance services to privatized municipal units and the revenue collected from residents in privatized and non-privatized housing does not equal 100% of management and maintenance costs incurred. Therefore, if 26.9% of the 1991 departmental housing stock has been transferred to municipalities to date, and the average unit is 50 square meters, then about 4.6 million units were transferred. Stated alternatively, the typical municipality saw the housing stock under its maintenance and management responsibility expanded by about 36% through divestiture, using the 1991 municipal inventory as the base.

Funding enterprise housing divestiture

Municipalities use a variety of budgetary and non-budgetary sources of financing for enterprise housing divestiture. The main source of financing is resident payments for maintenance and communal services. The city may also use rents from nonresidential space in residential buildings toward housing maintenance. Three sources of financing that the federal government has made available specifically to assist local governments in handling the costs associated with divestiture are 1) federal budget transfers; 2) a 1.5% turnover tax on enterprises revenue from which goes to the municipal housing budget, and 3) municipalities may negotiate financing arrangements with enterprises to pay some of the cost of maintenance and repair of the divested stock.

According to federal law, municipalities accepting the divested stock of former federally-owned enterprises may receive intergovernmental transfers from the regional government (oblast) and, to the extent funds are available, from federal budget transfers. (Although enterprises and related assets were held "on the balance" of enterprises, as explained earlier, their actual ownership rested with the government, either the federal, regional (oblast) or municipal government. To distinction is not relevant for this discussion, but does have an important bearing on the process of transferring property rights in enterprise housing between various levels of government after privatization.) In practice, municipalities receive little or no funds from the oblast and rely heavily on federal budget transfers, although the approved amounts fall far short of the amounts cities request. Furthermore, only a portion of the approved amounts during the past two years has actually been allocated. In 1994 and 1995 the Ministry of Finance approved approximately 50% of the amounts requested. As of September 1995, only 69% of the 1994

approved requests and 1.8% of the 1995 approved requests had been disbursed. Although at the time this research was conducted it was not certain how much money would be available for 1996, according to a financial expert at the Ministry of Finance, the 1996 funds would be used to pay amounts owed for 1994 and 1995. Municipalities will be responsible for using their own resources or contributions from enterprises to pay for the cost of enterprise housing divestiture for 1996.

Table 2
Aggregate Federal Budget Transfers to Municipalities in 1994 and 1995 (millions of rubles)

| Year | Requests to Finance Ministry for Budget Transfers | Budget Transfers Approved by Finance Ministry | Amount of Transfers Received as of September 1995 | Percent Approved of Transfer Requested | Percent Received of Approved Transfers |
|------|---|---|---|--|--|
| 1994 | 20,795,450 | 12,096,671 | 8,348,214 | 58.2 | 69.0 |
| 1995 | 3,375,618 | 11,815,109 | 210,000 | 50.5 | 1.8 |

Source: Unpublished data from the Ministry of Finance to the Urban Institute, November 1995.

Municipalities may also level a 1.5% turnover tax on all enterprises and use the revenue for maintenance of the municipal housing stock, including divested housing and other divested social assets. There are a number of factors to note that will make the benefit of the tax relatively greater or lesser depending on the status of these factors in a given city. First, the language of the law authorizing this tax allows for use of the revenue to "maintain" the stock and does not expressly allow these fund to be used for capital repair, housing subsidies, or any of the other related costs now borne by the city after divestiture. Second, the federal law states that the turnover tax should be paid from enterprise profits only after payment of the profits tax, meaning the city will collect revenue only if taxable profits remain after the profits tax is paid. Third, there are a number of exemptions from each law that limit the revenue a city may collect.

Finally, municipalities may negotiate financing agreements with enterprises divesting their housing to receive supplementary funds for maintaining and improving the stock. It is common in the cities interviewed for the municipality to require that the enterprise continue to pay for housing maintenance and repairs in the divested stock for some period from several months up to two years after the stock has been transferred to the municipality. The cities also routinely require that enterprises make certain capital repairs to substandard buildings at their own expense before the city will accept the stock.

Enterprise housing divestiture in Petrozavodsk, Ryazan, and Vladimir

The city's perspective

Table 3 shows how the amount of divested enterprise housing has increased the size and expenditures of the municipal housing stock in Petrozavodsk, Ryazan, and Vladimir from 1992 through the third quarter of 1995.

As demonstrated in Table 3 there are several trends consistent across all three cities. Since 1993 all cities have experienced significant surpluses of funds for maintenance of the divested stock over budget outlays. The reader should note, however, that these figures do not reflect large deficits for housing maintenance and communal services each city accrued during the early 1990s due to high inflation rates which they are still in the process of paying. Although the table clearly shows a major surplus of revenue over expenses for each period, at least in Ryazan and Vladimir the surplus becomes a smaller portion of the revenue as the rate of divestiture and utility rates rise.

The percentage of budget outlays for housing attributed to heating costs has increased markedly in each city. The main reason for this increase is the liberalization of energy prices. Another important factor is the progressively worsening condition of poorly-weatherized buildings and the lack of energy efficient measures undertaken by city maintenance bodies to contain heating costs. Table 3 shows that cities are spending decreasing percentages of their housing budgets on maintenance. Deferred maintenance of heating-related facilities exacerbates the problem of energy inefficient buildings and contributes to the increasing cost of municipal budget outlays for heating.

For a number of reasons it is difficult to draw conclusions about the sufficiency of funds from the turnover tax and federal transfers to cover a municipality's costs associated with enterprise housing divestiture. Federal budget transfers are not a consistent source of funds for cities to rely on in calculating resources available for housing divestiture. Revenue from the turnover tax is the only reliable source of financing, but it is not clear that with the pace of divestiture accelerated beyond the current rate there will be a corresponding increase in turnover tax revenue sufficient to cover the costs associated with divestiture. Ryazan serves as a useful example of this point. As the amount of divested housing became a larger portion of the municipal housing stock (from 18.6% in 1994 to 38% by the end of the third quarter of 1995) and budget outlays for heating increased sharply as a percentage of total budget outlays for housing (from 21.8% at the end of 1994 to 58.2% at the end of the third quarter of 1995) the difference between the sources for funds and outlays for divested housing became a significantly smaller percentage than in 1993 and 1994.

This trend may explain why cities are so reluctant to accept divested housing although it appears that they have more than sufficient revenue to cover these costs. From the city's perspective, the marginal increase in turnover tax revenue expected from enterprises divesting their stock is likely to be less than the marginal costs to the municipality associated with accepting the stock. Considering that cities are already collecting turnover tax from all local enterprises which either never had a housing stock or divested a housing stock, the only potential increases in turnover tax revenue will come from a) increased sales of enterprises currently paying the tax and b) tax revenue from enterprises that divest in the future.

However, in all of the cities interviewed well over 50% of the potentially divestible stock remains to be divested. If cities accelerate the current pace of divestiture and accept this stock it is possible they will soon find themselves in a position where the cost of maintaining this stock is greater than the revenue received from the turnover tax and federal transfers.

Table 3
Divested Housing Stock and Municipal Budget Outlays for Housing Stock and Sources of Funds in Petrozavodsk, Ryazan and Vladimir
(millions of rubles)

| | Petrozavodsk | | | Ryazan | | | Vladimir | | |
|--|--------------|----------|----------|---------|----------|----------|----------|-----------|----------|
| | 1993 | 1994 | Q3 1995 | 1993 | 1994 | Q3 1995 | 1993 | 1994 | Q3 1995 |
| <i>Total divested stock (cumulative)</i> (‘000 sq.m.) | 254.1 | 351.0 | 362.3 | 8.1 | 937.3 | 1,028.0 | 8.1 | 73.7 | 327.5 |
| As % of total municipal stock | 7.3 | 9.6 | 9.8 | 0.2 | 18.5 | 19.9 | 0.3 | 2.6 | 10.1 |
| <i>Budget outlays for housing maintenance, heating, capital repair, housing allowances, of which</i> | 7,413.1 | 21,392.9 | 57,135.4 | 3,945.5 | 26,022.7 | 71,849.0 | 4,022.0 | 31,788.3 | 54,670.0 |
| Housing maintenance (percent) | 19.7 | 21.5 | 5.2 | 59.1 | 61.1 | 26.8 | 29.6 | 61.7 | 35.0 |
| Heating (percent) | 76.1 | 74.0 | 92.4 | 3.4 | 21.8 | 58.2 | 28.7 | 22.2 | 57.3 |
| Capital repair (percent) | 4.1 | 4.3 | 1.6 | 37.5 | 17.2 | 14.9 | 41.7 | 16.0 | 7.6 |
| Housing allowances (percent) | n.a. | 0.1 | 0.4 | n.a. | n.a. | 0.2 | n.a. | 0.1 | n.a. |
| <i>Budget outlays for housing maintenance, heating, capital repair, housing allowances for divested housing</i> | 541.2 | 2,053.7 | 5,599.3 | 7.9 | 4,840.2 | 27,302.6 | 12.1 | 826.5 | 5,685.7 |
| As percent of total budget outlays for housing | 7.3 | 9.6 | 9.8 | 0.2 | 18.5 | 19.9 | 0.3 | 2.6 | 10.4 |
| <i>Revenue sources in principle available to cover housing outlays, of which</i> | 1,519.0 | 7,870.0 | 14,543.9 | 7,686.9 | 37,667.0 | 59,929.0 | 1,725.0 | 19,170.0 | 7,619.0 |
| 1.5 percent tax (70 percent by city decree in Petrozavodsk) | 1,440.2 | 6,727.2 | 14,170.7 | 7,686.9 | 37,668.0 | 55,432.9 | 1,725.0 | 4,735.0 | 6,483.8 |
| Transfers from federal budget | 78.9a | 1,142.7b | 373.2c | 0.0 | 0.0 | 4,496.1d | 0.0 | 14,435.0e | 1,135.2f |
| <i>Difference between sources for funds and outlays for divested housing</i> | 977.8 | 5,816.3 | 8,944.6 | 7,679.0 | 32,826.8 | 32,626.4 | 1,712.9 | 18,343.5 | 1,933.3 |
| <i>Budget outlays for housing maintenance, heating, capital repair, housing allowances of divested housing, as a percentage of total city budget</i> | 1.6 | 1.7 | 3.7 | 0.02 | 2.6 | 13.2 | 0.04 | 0.8 | 5 |

Notes:

a—Federal transfer received from Ministry of Finance in October 1993.

b—Federal transfers received from Ministry of Finance in May 1994 and October-November 1994.

c—Funds received through Mutual Settlement Account.

d—Federal transfer for 1994 funds received from Ministry of Finance in January 1995.

e—Federal transfer received from Ministry of Finance in August 1994.

f—Federal transfer for 1994 funds received from Ministry of Finance in September 1995.

Source: Data on budget outlays from Municipal Finance Committees. Data on housing allowances from Housing Allowance Center.

The enterprise's perspective

From the enterprise's perspective the gain from housing divestiture is the potential reduction in the amount of profit that must be expended on housing costs and may be rechannelled to other enterprise activities.

For enterprises that do not divest their housing various tax benefits are available to offset the burden of maintaining undivested housing or divested housing for which the enterprise has entered into a financing arrangement with the municipality. The two major benefits are the deduction from taxable income (profits tax deduction) and the credit against the local 1.5% turnover tax imposed by local governments (turnover tax credit). Both benefits are subject to certain limitations. The profits tax deduction may only be taken up to normative costs for building maintenance and operating costs set by local governments, universally lower than actual costs (in some cases enterprises have been allowed to deduct the actual costs of expenditures). Furthermore, the deduction cannot reduce the enterprise's profits tax burden by more than 50%. The turnover tax credit is more valuable to an enterprises. While the profits tax deduction is equivalent to a partial reimbursal for every ruble spent, the turnover tax credit is a ruble reduction in tax burden for every ruble spent on maintenance. The turnover tax credit is also subject to norms set by local government and may only be taken after the profits tax deduction is taken and undeducted allowable costs remain.

Quantifying the gain to enterprises that do divest their housing has been difficult; therefore, our conclusions regarding this gain are based primarily on qualitative information obtained from enterprise directors.

In our interviews with enterprise directors, there was generally support for housing divestiture. Despite some of the short-term burdens cities place on divesting enterprises, nearly all directors feel that the long term gains far outweigh the short term burdens. The following chart summarizes, in descending order of frequently-quoted responses, the advantages and disadvantages of housing divestiture cited by enterprise directors. Of the advantages cited, five of six involve some aspect of improved finances, the sixth is the beneficial effect on senior management time. The disadvantages are more diverse.

Table 4
Enterprise Directors' Views on the Advantages and Disadvantages of Enterprise Housing Divestiture

| Advantages | Disadvantages |
|--|--|
| 1. Decrease in enterprise financial losses 2. Decrease in general debt of enterprise 3. Ability to reallocate senior management time to concentrate on business and production activity of enterprise 4. Opportunity to channel additional resources to the production activities of the enterprise 5. Opportunity to lower sales product prices 6. Ability to increase shareholder dividends | 1. Increase in taxes 2. Loss of rent from commercial spaces 3. Fear that city will maintain former enterprise housing worse than enterprise 4. Loss of bargaining chip to attract employees |

In an attempt to quantify the gain realized by enterprises from divesting their social assets, Mikhalev (1996) uses several measures of enterprise resources devoted to social services: 1) expenditures as a percentage of the enterprise's net profits; 2) expenditures as a percentage of the enterprise's wage bill; and 3) expenditures as a percentage of the enterprise's workforce engaged in activity related to social services.

Mikhalev reports that as a percentage of the enterprise's profits expenditures on social assets may be up to 80%. This figure varies considerably among firms. Furthermore, this figure may be reduced substantially because some of these costs may be accounted for as industrial costs and some may be used to offset the enterprise's tax burden. Mikhalev reports the ratio of social assets costs to profit for five enterprises ranging from a low of 16.7% to a high of 257.4%. The largest expenditure by far was housing costs representing 63% and 70% of costs for these two enterprises, respectively.

Given that the amount of an enterprise's profits devoted to social asset expenditures may vary considerably for the reasons mentioned above, Mikhalev considers social expenditures as a percentage of an enterprise's wage bill to be a more accurate indicator. Relying on reported figures from a 1994 World Bank survey, Mikhalev writes that on average social expenditures accounted for 18% of an enterprise's wage bill, this percentage (23%) being highest for large firms (1,500-10,000 employees) and lowest (9%) for small firms (up to 100 employees).

The final indicator reported by Mikhalev is the number of enterprise employees working in some capacity related to social services, the assumption being that if the enterprise ceases to provide social services these employees will either be fired or reassigned to another department within the enterprise, in either case the enterprise reduces its expenses for social services. Mikhalev reports data from the Russian Economic Barometer collected from an enterprise survey in August 1994. According to this survey, an average of 12% of an enterprise's workforce is employed in some capacity related to social services. Like the figures on wage bills, this percentage (23%) is highest for large firms (over 1,500 employees) and lowest (7%) for small firms (up to 350 employees).

Our research in Petrozavodsk, Ryazan, and Vladimir also demonstrates that enterprises may see a real gain in resources from reallocation or downsizing of staff, particularly senior management, after divestiture. Table 5 shows approximate percentages of senior management and other employee time spent on housing related activities in three enterprises that divested most of their stock. The gains enterprises realize from changes are most dramatic in enterprises that divest nearly all their stock. Because so many enterprises maintain financial and management responsibility for their stocks even after divestiture, the general trend is to retain employees necessary to manage the stock until all financial and management responsibility is transferred to the city.

Interviews with those enterprises not represented in Table 5 confirmed that the amount of time senior management spends on housing related issues is significant. Based on our interviews, in five enterprises directors spent from 1 to 10% of their time on housing-related activities. In one enterprise senior management reported spending 30% of its time on housing! In the vast majority of enterprises directors spent between 11 and 20% of their time on housing matters. These figures are only estimates and certainly are more or less dramatic depending upon the size of the enterprise. However, the conclusion is clear: enterprise housing divestiture will free up senior management time to concentrate on the firm's primary activity.

Table 5
Enterprise Housing Related Employment Before/After Housing Divestiture

| Enterprise | Share of total enterprise housing divested 1993-1995 (percent) | Share of Employees Devoted Full-Time to Housing (Before/After Divestiture) | | | Share of senior management time spent on housing before/after divestiture(a) (percent) |
|--|--|--|-----------|-------------|--|
| | | Managers | Engineers | Maintenance | |
| <i>Vladimir</i> V. Traktorniy | 83.3 | 5.0/1.0 | 8.0/1.5 | 24.0/4.0 | 20.0 / 8.0 |
| V. Road Repair | 88.3 | 1.5/0.5 | 2.5/0.5 | 6.0/2.0 | 16.0 / 10.0 |
| <i>Petrozavodsk</i> Onezhskiy Traktorniy | 93.7 | 9.0/0.1 | 20.0/0.5 | 30.0/0.5 | 20.0 / 0.5 |

Notes:

a—Senior management is defined as directors, assistant directors, head engineers and head accountants.

b—These percentages were based on oral reports made by enterprise directors with whom we met and should be interpreted as general estimates.

General assessment of divestiture

In the final analysis, the great majority of enterprises will be better off after divesting their housing, although the full gains from divestiture may not be realized for some months or years after formal housing divestiture takes place because of continuing financial and management responsibility for the stock imposed by the city. Enterprises that choose not to divest will likely see the cost of maintaining their stocks increase dramatically as energy prices are liberalized. While tax benefits allow enterprises to recoup some of these expenses, the current combination of tax credits and deductions does not allow a ruble-for-ruble reimbursal of all expenses and are subject to a number of limitations that undermine their value. Indeed, rough estimates suggest real financial gains to enterprises from divestiture.

For enterprises to realize these gains assumes that cities will accept the divested stock. Absent intervention from higher level governments or the courts to enforce federal laws on divestiture, cities will likely only accept this stock at an accelerated rate and without requiring financial agreements with enterprises if they feel they have the resources. One potential mechanism for increasing revenue advocated by some cities is to increase existing or levy new taxes. However, the short term gains to be realized from additional revenue for enterprise housing divestiture may not be worth the potential negative financial impact of higher taxes on fledgling private enterprises. Cities with limited resources to devote to housing and other social sectors have difficult choices to make to prioritize allocation of these

resources. An increase in funding for housing divestiture may necessitate a decrease in funding for education or health care and cities may consider this an unacceptable trade-off.

Another way to think about the situation of municipalities is that they have an acute short-term budget problem. Many cities (including Petrozavodsk, Ryazan and Vladimir) have begun programs to raise rents in municipal housing that have been stagnant for decades. Assuming that rent increases continue on schedule, rents will cover operating costs in 1998. Cities will then accept housing with little financial loss. The fundamental issue is whether cities should increase taxes just now to permit them to accept divested housing. The answer depends on the importance cities attach to getting enterprises out of their role of landlord immediately and an estimation of whether the taxes imposed by cities will have highly adverse consequences for certain types of firms.

One concrete, immediate measure cities can undertake to contain the costs of divestiture is to improve the efficiency of current housing services. Projects in some cities that introduce real competition into the procurement of maintenance services show that large cost savings can be realized. (Analysis conducted in Moscow comparing the cost of maintenance services provided by competitively-selected private firms rather than state firms has shown that private firms can provide higher quality services at prices competitive with state firms. [Angelici et al., 1995].) The largest scope of savings is in energy savings—for both heat and hot water. Current projects underway, financed by the donor community to retrofit existing structures and improve infrastructure networks can be combined into powerful packages for local implementation. Widespread and timely promulgation of these innovations should be highly effective because of the intense interest of cities in cutting costs and improving services in order to at least partially justify the rent increases.

References

- Angelici, K., R. Struyk, and M. Tikhomirova. 1995. Private Maintenance for Moscow's Municipal Housing Stock: Does it Work? *Journal of Housing Economics* 4.
- Mikhalev, V. 1996. Restructuring Social Assets: The Case of Health Care and Recreational Facilities in Two Russian Cities. Paris: Organisation for Economic Co-operation and Development.
- O'Leary, S., S. Butler, I. Dmitrieva, R. Penegina, and R. Struyk. 1995. Russian Enterprise Housing Divestiture. Washington, D.C.: The Urban Institute.