

Chapter II

HOUSING REFORM

This chapter provides an overview of the most important housing reforms that the Government has initiated during the past decade in view of the changing framework conditions of the housing sector (sect. A). In addition, the chapter addresses the question of how variations within the housing sector of the different regions of the Russian Federation affect housing policy design (sect. B).

A. Major steps in the housing sector reform

Housing plays an important role in a country's economy. The housing sector typically accounts for 10-20% of total economic activity and housing investment constitutes 2-8% of GDP. Beyond its economic role housing is also often an individual's biggest asset. With the majority of the population of the Russian Federation having become homeowners with the right to exercise any sort of transaction such as to sell, grant and bequeath, housing has turned into the biggest asset of most households.

The structure of the Russian Federation's housing sector has undergone major changes during the past decade. Probably the biggest development was the privatization policy, which led to a change in ownership structure by allowing individual tenants to claim ownership of their units and by transferring the State housing stock, including the housing stock of former State enterprises, to municipalities. Today private housing makes up 59% of the total housing stock compared to 33% in 1990.¹⁹

Following the first steps in the privatization process the Government endeavoured to establish the legal basis for regulating the new housing situation. The passage of the Law on the Fundamentals of Housing Policy in December 1992 was important in this context, for the rental sector as well as for the owner-occupied sector. It laid the foundations for a programme to increase rents, introduced housing allowances, provided

for improved maintenance of State housing by introducing competitive procurement procedures, reduced tenant rights by permitting eviction from municipal flats to low-quality housing for the non-payment of rent, established condominiums, clarified property rights, and improved possibilities for mortgage lending.²⁰

More legislations and reforms later strengthened and redefined some of the principles laid down in the Law on the Fundamentals of Housing Policy. In particular, they aimed at further advancing the privatization of the housing stock of the State, municipalities and State enterprises, setting the legal basis for the establishment of homeowners' associations, increasing the activity of the housing market, reforming the housing and utility sector, and initiating reforms in social allowances.

This legislative activity is impressive. Yet, the primary goal of housing reform has undoubtedly been to establish market relations throughout the sector, privatization becoming the key instrument in this process. All households in publicly owned multi-apartment blocks became part of the reform, as residents were granted the right to privatize free of charge the flat that they were occupying. Most crucially, it was assumed that together with this transfer of ownership the new owners would take over the management and maintenance of the housing stock.

The implicit aim of housing privatization was, therefore, to shift responsibility for the maintenance of the housing sector to consumers, who, through the provision of legal title, would be given the incentive to invest in their own housing. The presumption was that tenants would form building-level management structures. In accordance with the federal Law on the Fundamentals of Housing Policy, occupants were given the right to participate in the management of the housing stock, a right which was later further developed in the Law on Homeowners' Associations. Due to the limited financial means of the new owners, however, municipal

¹⁹ Institute for Urban Economics, Urban Management Reform in Russia: 2001.

²⁰ Institute for Urban Economics, Urban Management Reform in Russia: 2001.

authorities continued to manage and maintain the housing stock.

In reality, therefore, privatization has not yet led to a widespread change in the management structure of, in particular, the multi-unit apartment buildings. It has not given the owners of units in these buildings real management authority over the building and adjacent grounds.

Today there are only some 4000 homeowners' associations in the Russian Federation covering just about 1% of the total housing stock. In addition, most existing homeowners' associations have been created for newly constructed buildings. Only few associations have been formed for existing buildings. The main reasons for the slow development are, next to deficiencies in the regulatory framework, little public promotion of homeowners' associations for the management of the common property and inadequate support from local administrations.

The multi-unit housing stock therefore effectively remains public housing from the perspective of repairs, maintenance, upgrading and utilities, regardless of the percentage of apartments that are privatized. The municipality is still viewed as the owner of the building and property, and municipal enterprises continue to provide maintenance, repair and rehabilitation – generally at inadequate levels mostly due to the lack of funding.

Competition for housing maintenance services is consequently still low and a functioning market for housing and utility services hardly exists. However, some improvements are visible, such as the slow but steady increase in the number of private companies within the sector. In addition, households' payments towards the costs of housing and utility services increased substantially along with decreases in budget subsidies for these services and the implementation of targeted social support to low-income households.

Having realized the importance of finding solutions to the current problems in the management and maintenance of the existing housing stock, the Government announced in September 2001 the federal programme 'Dwelling' for the years 2002-2010 with two subprogrammes 'Reform and upgrading of the

housing and utilities sector in the Russian Federation for 2002-2010' (government decision of November 2001) and 'Relocating the citizens of the Russian Federation from slums and dwellings in emergency repair' (government decision of January 2002). The federal programme (including its subprogrammes) calls for significant reforms in the housing and utility sector. Its principal goal is to find a complex solution for introducing the principles of sustainability in the housing sector and allowing residents to enjoy affordable, safe and comfortable housing conditions. Four key actions are identified in the federal programme to achieve this goal:

(a) Ensuring the stable and effective provision of housing and utility services which includes the provision of targeted social support to needy residents;

(b) Making housing more affordable through the development of an effectively functioning housing market and appropriate financial instruments as well as providing support to residents with lower incomes to improve their housing conditions;

(c) Increasing the volume of housing construction by taking into account the demand and requirements of residents;

(d) Ensuring that the federal budget is used more effectively to address the needs of disadvantaged population groups.

The two subprogrammes spell out further strategies for the provision of housing and utilities as well as for the rehousing of residents from condemned dwellings. The reforms included in the federal programme and its subprogrammes are to be implemented in phases until 2010. This is likely to constitute a considerable challenge as implementation is already behind.

On a positive note, the measures stipulated in the federal programme include a review of the Russian Federation's current system of support to socially weak households. It is of great importance to have a targeted, means-tested housing allowance programme as an integral part of reforming the housing and utility sector. A rise in tariffs for maintenance and utility services towards cost-covering levels is possible only when provisions are made for that part of the population that is not able to pay. The first steps for a targeted housing support programme have

already been taken through the introduction of the housing allowance programme. However, more will have to be done, as much of the social system operating today still relies heavily on granting social benefits on the basis of privileges for certain population groups, which are often not the most needy.

The current discussions on the carrying-out of the federal programme on housing reforms show how complex and how interlinked with other policy areas the housing sector is. Reforms in the housing sector cannot be designed without considering their social implications nor can they be implemented without corresponding land reform or municipal reforms, for instance in the role of municipalities vis-à-vis federal or regional institutions. Indeed, the need to balance economic and social efficiency emphasizes the place that housing reform occupies in the Russian Federation's overall social and economic development programme.

A crucial factor for the success of housing reforms is the position of the municipal authorities as legislation grants them the authority to determine the administrative structure used to manage municipal housing and utility services, to set the tariffs of municipal enterprises, and to decide on the time and form of carrying out reforms in this sector of the economy. In addition, the administration of land is effectively in the hands of the municipal authorities as they establish land use, rearrange land plots from one use category to another, set rates for land, undertake inventories of land, supervise municipal land use, protect the property rights of landowners and settle disputes.

To encourage municipalities to actively engage in the process of reform, an all-encompassing municipal reform needs to be carried out. The main component of the reform needs to be a provision that balances the obligations of municipal authorities with their financial capacities. State services were transferred to the municipal sector between 1993 and 1998. By 1998 coverage of these services was supposed to be fully effected from the municipal budget, but the municipal budget is not large enough to cover all expenses. Municipal authorities do not receive sufficient subsidies to comply with the tasks entrusted to them by federal legislation and do not

have sufficient capacities to generate their own funds. As a consequence, the new Law on Local Self-Government is crucial to introduce a balance between the sources of financing and budgetary responsibilities between the different levels of public authority. Its implementation must be accompanied by an amendment of budgetary legislation at the municipal level. Such legislation will need to recognize that different municipal authorities will have different abilities to implement the reform and the legal framework will need to be developed accordingly.

It is to a large extent these structural problems related to the mismatch between responsibilities and capabilities at different institutional levels that account for the partial and limited impact of reform today. It is necessary to resolve these structural problems for reforms to be effective in the Russian housing sector. In addressing these problems, the situation of the country as a whole but also the particularities in the different regions will have to be taken into account.

B. A need for a regional, differentiated housing policy?

The Russian Federation has a large population. It includes areas with very different geographic conditions and cultural traditions. The question therefore is how effective national housing policies can be and if an overall strategy for the housing sector for the entire country is feasible at all. The same question could be posed for conducting this very study. Is it possible to conduct a study with significance for the Russian housing sector as a whole? Will research show that the housing situations in different regions/ geographical areas are so different that a differentiated analysis for these regions/groups of regions is necessary and that different conclusions and recommendations will have to be made for different parts of the country?

The methodological concept of this study was specifically designed to help answer these questions and to identify regional variations in housing policy requirements. For this reason different regions of the country were visited and the research was based on information from across the country.

There are certainly for some regions extreme challenges which do not exist for other areas of the country. The best examples are the large-scale depopulation of the far northern settlements and the inward migration across the south-west. In particular, the massive depopulation of the northern settlements is unique and would merit extensive study in its own right.

Beyond these extreme challenges, divergences in economic development are the main explanatory factor for differences in the housing situation across regions. In particular, the ability of the regional or municipal authorities to provide their own resources or attract private resources for the financing of major repairs and/or new construction depends heavily on their overall economic situation.

In general, however, it can be concluded that, although there are regional variations with regard to the housing situation, the basic concerns and challenges in the housing sector are similar across the country. The differences are most often a

reflection of the extent to which a certain problem or challenge within the housing exists, rather than a difference in the nature of the problem or challenge. Basic housing policy therefore will not require differentiation between different regions. However, its implementation will have to take into account regional particularities.

Of prime importance for the implementation of the housing reform is, however, that the coordination between the different levels of government, the federal, regional and municipal levels works well, that the roles and responsibilities of each level are clearly defined and that a regular system of communication is established. The need to bring the federal and regional levels closer to improve the quality of housing policy and implementation will be discussed throughout the report and in particular chapters IV and VII will analyse the current relationships between the federal, regional and municipal level, and will provide suggestions for improving them.