

EAP Task Force

**CONSUMER PROTECTION AND PUBLIC PARTICIPATION
IN THE REFORMS OF THE URBAN WATER SUPPLY AND SANITATION IN THE NIS**

EXPERT WORKSHOP

4-5 MARCH 2002, PARIS, FRANCE

**SOCIAL PROTECTION TO THE POPULATION
IN TRANSITION TO FULL COST RECOVERY
FOR HOUSING AND UTILITIES
AND
SOCIAL CONSUMPTION NORMS FOR WATER
IN THE RUSSIAN FEDERATION**

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Social protection measures

Major goal of housing sector reforms in Russia is moving from budget financing of this sector of economics by the phased-in reduction of the budget support of the service providers and the transition to the full coverage of services by consumers with the simultaneous enhancement of the social protection of the low-income households. Guidelines for the attainment of this goal were laid down in the federal law *On Fundamentals of the Federal Housing Policy* (1992) and subsequent legal acts: *The Zhilishche [Housing] State Targeted Program* (1993), *The Guidelines for Implementation of a New Phase of the Zhilishche State Targeted Program* (1996), *The Concept of the Housing Sector Reforming in the Russian Federation* (1997) and finally in *The Zhilishche Federal Targeted Program for 2002-2010* (September, 2001) and its subprogram *Restructuring and Modernisation of the Housing Sector of the Russian Federation* (November 2001).

One of the principles - transition to the new rent policy, which is carried out in Russian Federation since a 1992. The existing legislation provides for termination of budget subsidies in 2008. The rates and the tariffs will cover the full costs of services. Originally law *On Fundamentals of the Federal Housing Policy* defined the year 1998 as the ending of transition period but in 1996 this term was prolonged till 2003, and in 1999 - prolonged again till 2008. As a result of such a policy today in the majority of municipalities of Russian Federation the population still pays only part of costs of services provided. The main flow of budget support goes directly to service providers as compensation of a difference between the tariff for the population and the base tariff of housing and utilities enterprises.

In early the 90-th the population of Russian Federation paid 2 to 4 % of rent and utility costs, in 1997 - 29 %, in the middle of 2000 - 45 %, at the beginning of a 2001 - more than 60 % of rent and utility costs.

As for water supply and sewerage services, the level of their coverage by the population fluctuates (depending on a region) 30 % to 90 %, average level is about 60%. For the last two years this level has grown in 1,5 times. As a whole, the tariffs for water supply and sewerage services for the consumers are divided, as a rule, into three groups - population, budget organisations, industrial and commercial consumers. The difference between the tariff for the population and the base tariff are covered, as a rule, by cross subsidies, which suppose increased tariffs for the industrial and commercial consumers. In some regions Vodocanals are partially subsidised from the local budgets, but it is not very common. According to the recent Government decree the cross subsidising should be liquidated already in 2004.

Simultaneously with the termination of direct subsidising the housing and utilities enterprises the reform assumes transition to the targeted social support to the population. In 1994, a start was given to the national program of housing allowances, which was the

first program of means-tested social assistance for low-income families. The program is based on the principle that rent and fees paid by tenants for a standard volume of housing and communal services should not exceed a fixed share of a household income. So, the size of housing allowances is calculated as an amount covering a gap between the actual rent a family should pay according to social standard rates and the maximum share of its total income the government considered affordable for a family to pay. Currently allowances of this kind are paid to more than 3.5 million of low-income families accounting for 8 percent of the total population, and they account for just about 3 per cent of total budget expenditures for the housing sector.

In addition, the current legislation considers a huge part of tenants in the Russian Federation (nearly 40 percent) eligible to pay for housing and communal services at a reduced rate.

With the stop of budget subsidising of service producers (in 2003 - in accordance with the subprogram *Restructuring and Modernisation of the Housing Sector of the Russian Federation*), the budget support of the sector is expected to shrink to a level required to compensate price concessions and housing allowance costs. The RF Government Program of the long-term social and economic development anticipates that the practice of category-based social benefits will soon be substituted for means-tested ones. The Program also suggests extending in 2002 the use of the gap formula, first introduced by the housing allowance program, to all main types of price concessions existing in the housing sector.

In 1994 – 2000, Russia was receiving the comprehensive technical assistance in launching and further development of its own housing allowance from the USAID and WB sponsored projects (including the *Enterprise Housing Divestiture Project*) implemented by the Urban Institute, USA (hereinafter referred to as the UI) and the Institute for Urban Economics, Russia. The main objectives of this assistance were the improvement of the current housing and social legislation, the provision of technical assistance to municipalities in launching and administering housing allowances, the delivery of training courses and seminars, the design of guidelines and manuals on various aspects of rent and social safety reforms.

At present, the USAID continues to render the technical assistance in the implementation of rent and social sector reforms including legal, regulatory and administrative development under a new project *Improved Local Governance and Economic Development: Transition to Smart Growth*, contracted to the Institute for Urban Economics.

The improvement of the housing allowance program is also at the focus of attention of the cities – beneficiaries of the *Enterprise Housing Divestiture* World Bank project that are now concerned with the design of their own water and heat infrastructure renovation projects. In 2001, the Institute for Urban Economics conducted analysis of the efficiency of benefits and subsidies in the housing sector at the federal, regional, and

local levels within the framework of the review of budget expenditures for the sector under the World Bank project, *Reform of Regional Finance*.

Taking into account obvious success of implementation of the housing allowances program it is clear also that the further progress in the transition to the means-tested mechanism of social protection of low-income users of housing and utility services is substantially impeded by a diversity of factors, most essential of which caused by the inadequacy of legal regulation, finance and fiscal relations, and procedural guides.

Probably, the most serious methodological problem it that caused by approval by State Duma of *Amendments* to the law *On Fundamentals of the Federal Housing Policy* in 1996. Till 1996 size of the housing allowances granted depended directly on family incomes. According to the *Amendments* the second criterion of eligibility for allowances has appeared: if a family's income is below the subsistence minimum, their expenditures for rent and utility costs should not exceed 0,5 of the size of minimum wages approved by the federal law.

Today the size of housing allowances is now determined according to one of the two possible criteria:

- the maximum spending a family can afford for the standard range and volume of housing and communal services;
- the rental limit established for all families whose income is below the subsistence minimum.

The specifics of this new order of granting housing allowances can be visually represented graphically.

If within the AB interval (the first criterion) size of the housing allowance depends on the family income, on the BC interval (the second criterion) size of the housing allowance is equal for all the recipients without dependence from the family income. Such approach contradicts main principles of rendering of the targeted social support which, first of all, should depend on the income of family.

But the most unpleasant situation arises near the point C. If the income of the family is a little lower than C, then the housing allowance will be rather large, but if the income of family is a little higher than C, the allowance will be just 0. Other important principle of the targeted social support that is continuity thereby is infringed.

The introduction of the second criterion has a detrimental impact on housing allowance offices as it works as a strong incentive for the family income misrepresentation. The further expansion of the housing allowance program will only enhance this detrimental effect. Such situation essentially increases budget expenditures for housing allowances and complicates the forecast of required funds. It is easy to notice at the figure, that both size of the average housing allowance and the amount of families

eligible for the allowances sharply increase if subsidies are calculated on the second criterion.

The situation, which accrued after financial crisis of August 1998 in Russia, is in this respect indicative. The changes of the subsistence minimum has resulted in growth of amounts of the recipients of the housing allowances without any major resizing rent and utilities tariffs for the population.

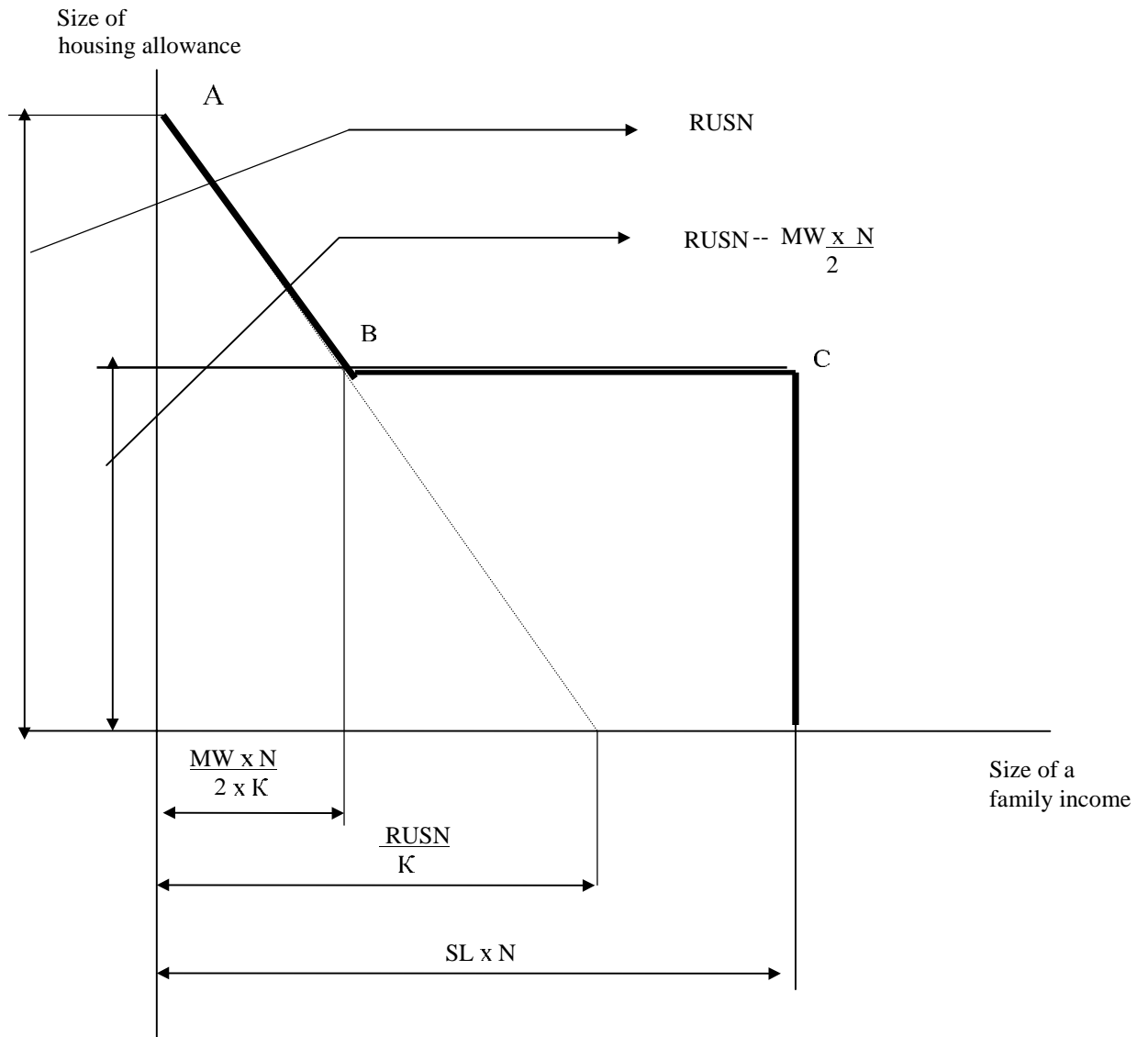


Fig.1 Calculation of housing allowances according to current legislation
 RUSN – rent and utility tariff for standard norm of an apartment’s total area
 MW – minimum wages
 N – size of a family
 K – the maximum spending a family can afford for rent and utilities approved by the Government
 SL – subsistence level

The regions and municipalities react to this situation in two ways.

1. The housing allowances are granted only on the first criterion; usually it is justified by absence of the normatively approved methodology of determination of the size of subsistence minimum;
2. They do not provide in the budget of ample funds for housing allowances calculated on both two criteria. This results in repetition of a situation with benefits for rent and utilities, when the absence of budget coverage of the benefits and allowances provided turns to "falling out" (unpaid) incomes of the service providers. As a whole in Russia the budget obligations under the housing allowances are executed approximately on 60 %, however in a number of regions only 10-20 % of the demanded funds is transferred to enterprises.

There are also other methodological problems in running the system of housing allowances. For example, approximately in 50 per cent of Russian municipalities households who live in apartments smaller than social norm receive housing allowances calculated proceeding from the actual total area of the apartment but not from the social standard area. This means that such households receive lowered housing allowances. Serious problems arise in the area of verification of reliability of information about the incomes of the potential recipients of the housing allowances.

The essential problems are incorporated in the area of distribution of authorities in realisation of housing policies between government levels. The Regulations for granting housing allowances to the citizens as a rule are being approved by sub-federal (regional) governments. However to develop the universal document which could take into account specifics of running the program in municipalities of different scales, practically it is impossible.

In municipalities the housing allowances are granted to each concrete family by organisation authorised by a local government. Again there is no uniform operating procedure for these organisations or their structural layout and subordination. In different Russian cities there are various schemes of structural layout of housing allowances services, which have the advantages and defects, and while, on our sight, it is difficult to recognise any scheme optimum.

The important ideological underlying reason of the targeted social support to the population in Russia is as of today the following. Though the housing allowances granted depending on the income of family, are a more progressive mode of distribution of budget support, than benefits to certain categories of population, or than direct subsidies to the housing and utility enterprises, the transfer of the budgetary funds to the enterprises is carried out today on behalf of the citizens, but without their direct participation. Main idea of economic reform in this sphere stipulated by the subprogram *Restructuring and Modernisation of the Housing Sector of the Russian Federation*, is the transfer of the right to "manage" budget resources from public utilities directly to the citizens. Citizens

are to the greatest degree interested in effective expending of these means.

One of questions which are taking place now in area of attention of federal government is creation of the system, allowing citizens to manage the budget funds which in the targeted forms are allocated on the purpose of social support. Within the framework of realisation of the subprogram *Restructuring and Modernisation of the Housing Sector of the Russian Federation*, it is supposed to implement an experiment on introduction of the system of personal social accounts for the citizens in the several regions of Russian Federation. Under the experiment the specialised bank accounts will be opened for the citizens eligible for the housing allowances. The housing allowances then will be transferred from the budget to these personal accounts. The funds will have a special-purpose designation; i.e. it can be used only for payments for rent and utilities. Besides transfer of the housing allowances, the social accounts can be used also for other kinds of budget support in housing area. For example, the regional and municipal benefits can be transferred to the social accounts if then beneficiaries pay rent and utility services according to the actual rates and tariffs. However by the moment it represents a problem, as will require modification in the regional legislation and local normative acts regulating granting of such benefits. The reorientation of financial flows will result in shift of responsibilities for financing "falling out" incomes of the housing and utility enterprises to the population. However it does not mean, that the budget will be to a lesser degree responsible for financing the housing allowances programs. On the contrary, the budget will be responsible not before the enterprises but before the citizens for duly granting of funds in complete volume. Such measure will allow to make budget finance flows in housing sector more transparent.

The preparation and realisation of the experiment demands for solution of many methodological, legal and organisational problems. Several organisations will provide for institutional support of experiment in regions of Russia including the Institute for Urban Economics. Among these problems are approval of the mechanisms of the social accounts, approval of the various schemes of transfer of the budget funds to the social accounts opened in banks and schemes of transfer of the sums of housing allowances from the social accounts to service providers, determination of positive and negative results of experiment. The important task also is revealing positions of the federal laws, decrees of the President of Russian Federation, decrees of Government of Russian Federation and other normative legal acts, and also regulations of Bank of Russia, cancellation, change, addition or implementation of which will allow for more effective use of the system of the social accounts.

On the social specifications of consumption of water in Russia

The water supply is one of the most advanced branches of utility industry in Russia. The problem of providing all the population of the country with drinking water was solved in Russia as long as in the Soviet époque.

Even in southern areas of Russia, where water as a resource is limited, drinking water is provided during the certain 6 - 10 hours each day, but volume of water consumption is not limited.

As of today water in Russia is a cheap resource (in many respects - because of problems existing in the sphere of tariff regulation). Cost of water for the population is less than 1 dollar per person per month (as of November 2001 average cost throughout Russia was 0,83 dollars). Now population pays approximately 60 % of water costs. If the population paid full cost of water supply service the payment for water would be less than 2 dollars per person per month, or else, the family consisting of three persons would pay about 5 dollars per month. If the poor family can not afford paying for water, it most likely means that such family can not pay other municipal services either; and the reason is low family income but not high cost of water supply service.

This is local governments who approve the consumption norms of water in Russian cities. These norms are within the limits of 200 - 400 litres per day per person in different cities. Nowadays given the high degree of availability of water as a resource saving water is not the priority of the state policy in area of saving resources (problem with heating in Russia is much sharper). The availability of water for consumption needs and it's low cost neither stimulate municipalities to establish more rigid consumption limitations, nor population to save water.

As of today installation and use of water meters measuring water consumption by certain consumers in apartments is very rare in Russia, as the pay-back of a meter is about 5 - 7 years because of low cost of the resource and expensiveness of meters.

It is necessary to mark in this connection that establishing consumption limits of water for low income families which for certain will require complex technical solutions (existing system of water supply does not allow to implement any limitations for the certain users) may likely appear to be complicated, long-term, expensive and hardly paid back project. The effect from such solutions can be minimum in comparison with the expenditures.

The author's point of view on the problem of social protection of needy families in the area of water supply is reflected by the system of housing allowances existing today in Russia. The housing allowance directly depends on a family income and covers all the housing and utility services but not the separate kinds of services.