

A Note on Enterprise Housing Divestiture in the Russian Federation*

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To encourage enterprise privatization and improve enterprise efficiency, the Russian Federation government mandated that local governments assume financial and management responsibility for the housing stock of privatizing enterprises. Despite the mandate, the process of enterprise housing divestiture has proceeded relatively slowly. This paper overviews the legal basis for enterprise housing divestiture and discusses the fiscal impact of divestiture on enterprises and local government budgets. We collected data in three Russian cities: Petrozavodsk, Ryazan, and Vladimir, during the fall of 1995. We conclude that, although the financial benefits to enterprises may be quite significant, the cost of enterprise housing divestiture will impose a significant financial burden on local governments. This conclusion explains the hesitancy of many local governments, despite the federal government mandate, to accept the housing stock of privatizing enterprises.

Alm and Sjoquist (1995) examined the potential impact of enterprise social asset divestiture on local government budgets. They find that, as of spring 1993, government officials reported the *actual* impact on fiscal conditions to be quite minimal. Nevertheless, their data suggested the *potential* impact to be quite large. Using more recent data from other sources,

*This paper was prepared as part of an ongoing program of the United States Agency for International Development and the Urban Development on housing and urban development. The opinions expressed are solely those of the authors. A lengthier version of this report is contained in O'Leary *et al.* (1995).

and concentrating exclusively on the impact of enterprise housing divestiture, we explore the same question as Alm and Sjoquist. We conclude that, although the financial benefits to enterprises may be quite significant, the cost of enterprise housing divestiture will impose a significant financial burden on local governments. This conclusion explains the hesitancy of many local governments to accept the housing stock of privatizing enterprises, despite the federal government mandate to do so.

Soviet enterprises provided a range of social services to their employees, including housing, kindergartens, recreational facilities, and health care clinics. The quality and quantity varied by industrial sector, depending upon priority designation. In less developed regions of the country the capacity of local government was often insufficient to provide social services. These areas developed into "company towns" with the enterprise providing nearly all of the social infrastructure. As these regions developed into urban areas, enterprises, indirectly supported by government subsidies, continued to provide these services to attract and keep employees.

Privatization has caused both government and enterprise officials to rethink the provision of social services to employees. Indeed, the commitment to the providing social services has changed dramatically in the past few years with efforts to reorient the Russian economy toward market principles. Privatization of production facilities and related assets has included the divestiture of the enterprise's social assets. Soviet firms devoted substantial resources to providing and maintaining social services and assets. The working assumption was that, after divestiture, these resources would be rechanneled into the enterprise's production and management activities, increasing the overall efficiency and profitability of the enterprise.

We focus on housing and related infrastructure facilities, the largest social asset possessed by enterprises. The federal government 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 were to be made to local governments. Forecasting a positive impact on the financial position of the enterprise, and improved macroeconomic conditions resulting from more efficient enterprises, both the federal government and enterprises, as well as the international donor community, were eager to implement the divestiture program. Yet, local governments, contrasting the financial burden of divestiture with 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.

The pace and process of divestiture have not been as rapid or smooth as envisioned in federal law. We use interview data collected from enterprise

directors and local government officials in Petrozavodsk, Ryazan, and Vladimir, Russia, during the fall of 1995, in order to evaluate the financial and legal implications of divestiture (see Table 2). We include the perspective of the municipality, city officials from the Finance Committee and Committee on Housing and Communal Services, and enterprises, to explain the relatively slow pace of divestiture.

Framing the Issue

Soviet enterprises never, in fact, owned the housing, but rather held it on their balance sheet under the concept of "full economic control." Consequently, privatizing enterprises were prohibited from including housing in their overall capital asset value. Legally, privatized enterprises were obligated, within 6 months, to transfer housing and related infrastructure facilities from their balance sheets to the government's balance sheet. The designated government, in most instances local, was legally obligated to accept the transfer.

Despite the fairly straightforward laws, the implementation of housing divestiture varied by location, depending on local economic conditions. Federal authorities provide financial assistance to municipalities to cover the cost of divestiture, but local authorities view these funds as inadequate. Enterprise housing divestiture puts a drain on municipal resources in excess of the revenue received. Table 2 reports on enterprise housing divestiture and the percentage of municipal housing privatized in Russia since 1991.¹ Rates of privatization and divestiture are such that the units of housing *owned* by the municipality remained relatively constant from 1991 to 1995. However, the units of housing for which municipalities acquired maintenance responsibilities increased dramatically. Revenues collected from privatized and non-privatized housing is less than the management and maintenance costs incurred.

Policy Choices

Transferring housing ownership from enterprise to municipality augments budgetary problems of most local governments in Russia. It may be viewed as a temporary measure, one that will end when residents choose to form condominium associations and assume management responsibilities.

Transferring enterprise housing ownership directly to residents as a policy alternative poses several difficulties. Current subsidies mean that residents pay less than half (40%) of total housing costs. An immediate ownership transfer would increase housing costs to residents by an average of 250%.

TABLE 1
Housing Divestiture Characteristics of Sample Enterprises

	Vladimir	Ryazan	Petrozavodsk
Number of firms interviewed	13	12	10
Percentage of enterprise housing sampled of total enterprise housing in the city	44	23	87
Divestiture status of sample firms (%)			
no housing divested	69	75	60
in process of divestiture	23	17	30
fully divested	8	8	10
Distribution (%) of sample firms by size of housing holdings (sq.m.)			
under 50,000	46	42	70
50,000-100,000	46	42	10
more than 100,000	8	16	20

TABLE 2
Departmental Housing^a Divestiture and Municipal Housing Privatization for the Russian Federation

	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

^aDepartmental 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.

Source: Goskomstat of the Russian Federation. Consolidated Report on the Housing Stock and Total Inhabitants of the Russian Federation and Report on Privatization of the Housing Stock. Republican Information and Publishing Centre, Moscow, 1991-1996.

This cost does not include capital repairs, which, in most places, poses a significant liability considering the years of deferred maintenance of the state housing stock.

Residents in enterprise housing would likely balk at these new housing costs, especially if municipal tenants continued to receive subsidies. Increasing their wages or offering a subsidy is a promise that rings distinctly hollow: promised financial assistance to municipalities to offset the costs of divestiture is not paid and cash-strapped municipalities are without adequate funds to provide financial assistance directly.

Leaving aside the knotty problem of finance, will residents organize themselves in order to manage the property? To date, most privatized municipal buildings have been slow to form condominium associations. Fewer than 1,000 have been created in the two years since a law was passed to allow formation of these associations. Perhaps the psychological transition from "renter" to "homeowner" is lengthier and more complicated than the mere act of privatization or condominium formation. In Hungary, where a condominium association had to be formed as a legal entity before the first unit could be privatized, property management has not improved (Sarkany and Erdosi 1996). In Kazakstan, the government mandated the creation of condominium associations after the unit privatization process was nearly complete, but this "forced collectivization" is reported to have produced few functioning condominiums.

Financing Enterprise Housing Divestiture

Municipalities use a variety of budgetary and non-budgetary sources to finance 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. Federal support to assist local governments in divestiture costs comes from federal budget transfers; a 1.5% tax on enterprises revenue. Municipalities also 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.² 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 (see Table 3). 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.

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 funds 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

Table 4 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. Since 1993, all cities have experienced significant surpluses of funds for maintenance of the divested stock over budget outlays. These figures do not reflect large deficits for housing maintenance and communal services accrued during the early 1990s due to high inflation rates which

TABLE 3
Aggregate Federal Budget Transfers to Municipalities in 1994 and 1995
 (millions of rubles)

Year	Requests to MOF ^a for Budget Transfers	Budget Transfers Approved by MOF	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

^aMinistry of Finance

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

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 liberalization of energy prices and the progressively worsening condition of poorly weatherized buildings, as well as the lack of energy-efficient measures undertaken by city maintenance bodies to contain heating costs, contribute to this situation. Cities are spending a decreasing percentage of their housing budgets on maintenance (see Table 4). Deferred maintenance of heating-related facilities exacerbates the problem of energy-efficient buildings and contributes to the increasing cost of municipal budget outlays for heating.

Are funds from the turnover tax and federal transfers sufficient 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

TABLE 4
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
Total divested stock (cumulative) ('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
Budget outlays for housing maintenance, heating, capital repair, housing allowances, of which	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 (%)	19.7	21.5	5.2	59.1	61.1	26.8	29.6	61.7	35.0
Heating (%)	76.1	74.0	92.4	3.4	21.8	58.2	26.7	22.2	57.3
Capital repair (%)	4.1	4.3	1.6	37.5	17.2	14.9	41.7	16.0	7.6
Housing allowances (%)	n.a.	0.1	0.4	n.a.	n.a.	0.2	n.a.	0.1	n.a.
Budget outlays for housing maintenance, heating, capital repair, housing allowances for divested housing	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

continued

TABLE 4 (continued)

	Petrozavodsk			Ryazan			Vladimir		
	1993	1994	Q3 1995	1993	1994	Q3 1995	1993	1994	Q3 1995
Revenue sources in principle available to cover housing outlays, of which	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% tax (70% 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	78.9 ^a	1,142.7 ^b	373.2 ^c	0.0	0.0	4,496.1 ^d	0.0	14,435.0 ^e	1,135.2 ^f
Difference between sources for funds and outlays for divested housing	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
Budget outlays for housing maintenance, heating, capital repair, housing allowances of divested housing, as a percentage of total city budget	1.6	1.7	3.7	0.02	2.6	13.2	0.04	0.8	5.2

^aFederal transfer received from Ministry of Finance in October 1993.

^bFederal transfers received from Ministry of Finance in May 1994 and October–November 1994.

^cFunds received through Mutual Settlement Account.

^dFederal transfer for 1994 funds received from Ministry of Finance in January 1995.

^eFederal transfer received from Ministry of Finance in August 1994.

^fFederal transfer for 1994 funds received from Ministry of Finance in September 1995.

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. Cities already collect turnover taxes from all local enterprises. Potential increases in turnover tax revenues must come either from increased sales of enterprises currently paying the tax or tax revenue from enterprises that divest in the future. However, in the 3 cities where we 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.

From the enterprise's perspective, the gains from housing divestiture are, first, the potential reduction in the amount of profit that must be expended on housing costs and may be rechannelled to other enterprise activities and, second, the increase in senior management's time devoted to the firm's main activity.

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.³ Furthermore, the deduction cannot reduce the enterprise's profits tax burden by more than 50%. The turnover tax credit is more valuable to 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 the 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 gains to enterprises that do divest their housing proved to be infeasible. 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 the directors in our sample 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 (see Table 5).

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: expenditures as a percentage of the enterprise's net profits; expenditures as a percentage of the enterprise's wage bill; and expenditures as a percentage of the enterprise's workforce engaged in activity related to social services. Mikhalev reports that expenditures on social assets reach 80% of profits. 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. Mikhalev (1996) 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; ranging from 23% for firms employing 1,500–10,000 people and 9% for firms employing fewer people.

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.

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 6 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

TABLE 5
Enterprise Directors' Views on the Advantages and Disadvantages of Enterprise Housing Divestiture

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

TABLE 6
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	
Vladimir					
Vladimirsky Traktorniy	83.3	5.0/1.0	8.0/1.5	24.0/4.0	20.0/8.0
Vladimir Road Repair	88.3	1.5/0.5	2.5/0.5	6.0/2.0	16.0/10.0
Petrozavodsk					
Onezhskiy Traktorniy	93.7	9.0/0.1	20.0/0.5	30.0/0.5	20.0/0.5

^aSenior management is defined as directors, assistant directors, head engineers and head accountants.

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

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 6 confirmed that the amount of time senior management spends on housing-related issues is significant. Based on our interviews, in five enterprises directors spent between 1% and 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. While estimates, the conclusion is clear: enterprise housing divestiture will free up a significant amount of senior management time.

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 maintenance costs 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 gain to enterprises from divestiture.

For enterprises to realize housing divestiture gains, cities must 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.⁴ 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.

Notes

1. It appears that 26.9% of the 1991 departmental housing stock has been transferred to municipalities. If the average unit is 50 square meters, this means about 4.6 million units were transferred. For a typical municipality, maintenance and management responsibility expanded by about 36%.

2. 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.

3. In some cases enterprises have been allowed to deduct the actual costs of expenditures.

4. 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).

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