

Working Paper

Restructuring of Enterprise Social Assets in Russia: Trends, Problems, Possible Solutions

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May 1996



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Foreword

The Economic Transition and Integration (ETI) Project at the International Institute for Applied Systems Analysis (IIASA) started a research activity on the behavior of Russian enterprises under liberalization, privatization and restructuring in 1995–1996. This activity originated upon the initiative of the Ministry of Economy of the Russian Federation. The major reason for focusing on this subject was the fact that the current state and further transformation of Russian medium and large sized enterprises became a challenge for the continuation and success of transition related reforms. Despite certain positive tendencies, numerous enterprises still adjust themselves to ongoing changes without considerable market adaptation and modernization. The emerging ownership structure and financial markets demonstrate limited positive influence on stockholders' incentives, decision-making process and strategies of restructuring.

In the course of these enterprise studies, a workshop on “Russian Enterprises on the Path of Market Adaptation and Restructuring” was organized at IIASA on 1–3 February 1996. Russian and Western experts, extensively working in the area of enterprise performance under transition, focused the discussions on recent empirical findings and analyses concerning the following issues: typical models of enterprise behavior; development of the financial situation at the enterprises and its determinants; impact of emerging markets and competition on enterprises; the consequences of privatization and patterns of restructuring; and enterprise social assets divestiture and conversion. The workshop arrived at both analytical conclusions and recommendations for policy measures stimulating “constructive” enterprise behavior. Possibilities for a joint research project on the motivations and behavior of enterprises in transition economies were also discussed.

The circulation of selected workshop papers as IIASA Working Papers is undertaken in order to provoke broad discussions of presented analytical results. Drs. Lev M. Freinkman and Irina Starodubrovskaya describe in this paper the scope of the enterprise social assets restructuring problem, the major factors which influence this process and the consequences of social assets divestiture for both enterprises and local communities.

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Restructuring of Enterprise Social Assets in Russia: Trends, Problems, Possible Solutions

Lev M. Freinkman
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1 Introduction

The problem of enterprise social assets is one of the key issues of enterprise restructuring. Wide provision of social services is the type of activity which diverts enterprises from their core business. Additional financial and administrative costs associated with social functions prevent enterprises from being competitive. Social assets are considered as additional burden for external investors who refrain from investments in enterprises with large social liabilities. Besides, in cases when large potentially insolvent enterprises provide a number of social services to their communities, it increases the bargaining power of such uncompetitive enterprises. This makes it very difficult to start bankruptcy procedures against them, and finally it forces the state to support inefficient allocation of resources. Users of enterprise social services are often not protected enough from arbitrary actions of enterprise managers and general deterioration in the level of providing services.

Downsizing of enterprises' social activities means that some other agents would have to perform these functions instead. That is why the issue of enterprise social assets is not only one of the crucial components of enterprise restructuring, but is also closely connected with both public sector reforms and social sector restructuring. There are a number of purposes for public sector's involvement in substituting enterprise social functions: (i) protection of some critical elements of public consumption (e.g., kindergartens), which might otherwise disappear due to reductions in enterprises' funding; (ii) facilitating reforms in housing as well as in delivering some public services (e.g., health services), which would be easier if all corresponding public assets were concentrated under the single management of municipal

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The paper reflects some findings derived from the preparation work done under the World Bank's Enterprise Housing Divestiture Project. The Project was managed by Dennis Whittle and Mari Kuraishi, whom we are very grateful for stimulating discussions and organizational support. We thank also Marina Krasilnikova, Olga Shabalina, Jeff Procak, Alexander Morozov, and Natasha Veligura for helpful comments and help with collecting and processing the data. Any errors are our own.

governments; (iii) provision of more equal access for citizens to some important public services, because social activities of enterprises are sometimes delivered at a much higher and sometimes at a much lower level, than the public ones; (iv) financial savings through better utilization of economy of scale (closure of excessive units, better management, etc.). At the same time, the former enterprise social assets can be either privatized or used for the introduction of new institutional forms in the public sector, as they are not necessarily to be transferred to existing governance structures and to fall under the control of prevailing system of interests. So, they can be pioneers in social sector restructuring and, therefore, might facilitate social sector reforms in general.

While the importance of this problem for the Russian economy has been widely recognized (World Bank, 1994), very little empirical analysis has been done in this area until recently. Now the situation began to change. Among the recently prepared most detailed studies one can mention the paper written by Simon Commander and Une Lee (Commander and Lee, 1995) devoted to the scope of social benefits which are typically provided by Russian firms, as well as the Report on Russian Enterprise Housing Divestiture prepared by the group of experts from the Urban Institute (Urban Institute, 1995). Both these papers are based on enterprise surveys and interviews. Besides, a few studies of the problem with enterprise social assets also has been started recently with respect to other countries of the former Soviet Union (ADB & Associates Ltd., 1995; Cheasty, 1996; O'Keefe, 1995).

This paper is based on some additional sources of information, which include various macro and sectoral data provided by Goskomstat and the Ministry of Economy of the Russian Federation and the data collected in the course of preparation of the World Bank Enterprise Housing Divestiture Project (EHDP).¹ Specifically, the survey of 24 enterprises took place in 10 cities at the end of 1994–beginning of 1995. Respective municipalities were also surveyed. Although the survey was more directed to enterprise housing issues, the problems of other social assets and benefits were also taken into account. Additional information on the legal and financial framework of enterprise social assets functioning and divestiture was collected from 11 cities competed for participation in the project through a number of interviews with city officials and enterprise managers.

The paper has the following structure. The second section describes the major trends in overall enterprise social spending over 1992–94. Major factors influencing restructuring of enterprise social assets, among which macroeconomic, legal and financial parameters, are discussed in section 3. Section 4 provides a brief summary of major potential directions of such restructuring: they include new reformed forms of enterprise control over social assets, divestiture and privatization. Sections 5 and 6 discuss potential consequences, firstly financial impact, of social asset divestiture on correspondingly enterprises and municipalities. Section 7 is focused on barriers for divestiture, while the remaining section provides some recommendations to facilitate the divestiture process. A more detailed

¹This information was partly used in the paper by S. Commander and U. Lee mentioned above.

description of the enterprise sample is presented in Annex 1. Annex 2 lists major government regulatory acts, which govern the divestiture process in Russia. Annex 3 describes peculiarities of providing social services by enterprises in two specific sectors, agriculture and coal. Annex 4 presents a case study of the Vladimir Tractor Plant, which demonstrates the scale of potential benefits from divestiture for a typical Russian enterprise in manufacturing.

2 The Scope of the Problem

This section provides some macro estimates concerning the overall scale of Russian enterprises' involvement in delivering social services. One might argue that while being quite substantial, enterprise social spending are still much below some earlier provided estimates derived from the small enterprise surveys. In particular, such spending neither make the level of 15% of GDP (Alm and Sjoquist, 1993) nor amount to 40% of the wage bill (Commander and Jackman, 1993).

Table 1 provides some estimates of the *value of social assets* being at the disposal of Russian enterprises before the process of their divestiture has been intensified in 1994. By the end of 1993, total social assets amounted to 5% percent of the total fixed capital assets accumulated by the enterprise sector. Assets in housing and utilities made two thirds of this total, and assets in education and health amounted to more than 20% of the total social assets. The data is derived from Goskomstat's regular annual statistics (form No. 11). Due to high inflation in Russia and because of the unsatisfactory way, in which the accumulated stock of fixed capital has been re-estimated, the quality of the provided data is not very high. In particular, the data are not comparable across the stock (accumulated social assets) and flow (new construction of social assets in 1992–93) variables. Despite these deficiencies, this information might be useful for considering the structure of the social assets accumulated stock. Table 1 also suggests that divestiture was very slow in both 1992 and 1993.

Total social spending by the enterprise sector, as reported by Goskomstat,² amounted to about 3.1% of GDP in 1993 and 3.5% in 1994. In 1993–94 social spending decreased by 30% in real terms compared to its 1992 level. Enterprises did not make any additional reductions in real social spending in 1994 while some divestiture of social assets had been happening during this year despite the general deterioration of the overall financial position of the enterprise sector. As a result, social spending in 1994 constituted a much larger share of gross profit in the economy than it was in 1993. About 30% of the overall 1994 social expenditures was spent on housing maintenance, 22% on education and health services, and about a quarter on new investments in social assets (Table 2). More than 60% of the total amount in 1993–94 was spent by industrial enterprises, employing less than 30% of the total Russian labor force (Table 3).

²The numbers are derived from Goskomstat's official publication (form No. 10f) of financial indicators for various sectors in the Russian economy. The quality of these data is discussed below.

Enterprise social spending as a whole was the equivalent to a little more than 25% of the total consolidated budget spending on social purposes and housing in 1993.³ This share dropped to 22% in 1994 due to some relative decline in enterprise spending on both housing and health. The enterprises' contribution to financing housing maintenance was equivalent to almost 30% of the actual budgetary spending on this purpose in 1993 and it amounted to 23% in 1994.

The data show some increase in social spending as a share of the total labor costs. In 1993, the total registered social spending by enterprises amounted to 17% of the total wage bill⁴ (in industry — 22%) and to 13% of the total labor costs estimated as a sum of the wage bill and the payroll tax (in industry — 18%). In 1994, these shares for the economy as a whole amounted to 20 and 15% correspondingly (Table 3). This aggregate data is consistent with the results of the large enterprise survey. As was shown by the World Bank survey of 420 industrial firms held in summer 1994, average per capita social spending in this sample were equivalent to 18% of the wage bill, and this social spending was positively and significantly correlated with the average cash wage. According to this survey, very few firms, only about 5% of the sample, did not provide any social services, while more than 60% provided five or more various types of such services (Commander and Lee, 1995).

The data suggest that 1994 social spending in industry as a percentage of the cash wages returned to its traditional pre-reform level exceeding 20%:⁵ overall reduction in real enterprise social spending over the years of reforms did not exceed the decline in real cash wages. This makes a dramatic contrast to Poland, where the initial pre-reform level of social spending, of 6%, was as much as 3 times lower, and it has been showing some moderate decline since reforms started (Schaffer, 1995).

2.1 Under-reporting

The presented data on the total enterprise social expenditure are likely to be significantly under-reported. This happens: (i) because of insufficient enterprise coverage in Goskomstat form No. 10f used for relevant calculations (see Tables 2 and 3) and, especially, (ii) due to statistical biases in the data provided by enterprises.

- (i) While the annual form 10f is supposed to cover the whole enterprise sector, as it follows from the employment data, in 1994, Goskomstat was able to collect this form only from enterprises with total employment of about 85% of the overall labor force. However, one might assume that most of the largest enterprises, being the main providers of social services, are covered by this form, and therefore the above

³This excludes transfers from extra-budgetary funds, i.e., government expenditures on social protection.

⁴Including bonuses from profit.

⁵Estimated on the basis of: Finance in the Russian Federation, 1992, M: Goskomstat, 1993, p. 30; Russian Federation in 1992, Statistical Handbook, M: Goskomstat, 1993, p. 121, 224.

mentioned under-reporting is not very large. Small firms, in particular, those newly emerged private businesses, are much likely to be under-presented in Goskomstat data but this part of the enterprise sector is less involved in delivering social services.

- (ii) A number of reasons, such as widespread barter transactions; the delivery of goods and services to employees at low prices; exclusion of depreciation and costs of renting corresponding premises from the total costs related to the provision of social services, etc., make the reported social spending volume substantially under-estimated. Enterprise managers had and still have incentives — e.g., because of the excess wage tax — to include some actual expenditures made in the social sphere into their general production costs by using deficiencies of the existing accounting classifications. In addition, most social services are provided by enterprises on a non-profit basis, so the opportunity costs of getting the same services through independent providers might be higher. Therefore, the actual burden of all types of social financing for enterprises is probably higher than that reported by Goskomstat but it hardly exceeds 4% of GDP.

2.2 Over-reporting

There are also certain incentives for enterprises to over-report their social spending in order increase their benefits from available tax deductions. At the same time, it is very difficult to control the actual allocation of funds between production and social purposes within enterprises. Some types of costs are not even formally accounted for. For example, in our survey, a number of enterprises could not report their costs of heat supply for enterprise housing because they are not accounted separately from the costs of heat used for production purposes. So, funds, which are reported to be spent on social activities, can actually be easily used for production needs. However, as it seems, the overall volume of such over-reporting is lower than the under-reporting discussed above.

3 Factors Which Influence Social Assets Restructuring

The main groups of factors which influence the process of social assets restructuring are: the external economic conditions and the internal situation of the enterprise. Among the external factors one can identify macroeconomic environment, legal framework, financial framework and attitude of local authorities. The internal situation is determined first of all by the financial state of the enterprise and the standpoint of enterprise management on the role and further destiny of social assets.

3.1 Macroeconomic environment

Macroeconomic policy affects seriously the process of enterprise adjustment in general and restructuring of social assets in particular. Tightening enterprise budget constraints as a part of successful stabilization efforts substantially accelerates overall reductions in enterprise social spending, including spending cuts by those enterprises which are doing quite well and do not experience severe financial problems. On the other hand, when the government's financial policy is soft and progress with enterprise reform is slow, even enterprises, which, at all accounts, are in a poor financial shape, might be able to continue financing social services through the accumulation of arrears to suppliers and to the budget, getting soft government credits or other forms of implicit government subsidies.

Ukraine might be considered as a good example of the latter situation. According to IMF, Ukrainian enterprises spent on social activities about 4.6% of GDP in 1994, i.e., measured as a share of GDP as much as they did before reforms have started (Cheasty, 1996). The opposite case, with some reservations, might be found in Kyrgyzstan, where, as a result of the strong stabilization program, most enterprise non-housing social facilities were just shut down (ADB & Associates Ltd., 1995).⁶ It seems that enterprises in Russia, as well as in Kazakhstan (O'Keefe, 1995), implemented in 1993–94, on the average, a sort of intermediary strategy to compare to both Ukraine and Kyrgyzstan. Some reduction in social spending has happened, and some social facilities have been closed. But the scale was much smaller than it had been initially expected. The reason for this can be found in quite inconsistent economic policies conducted in these countries.

General institutional changes can seriously affect enterprise social assets restructuring as well. The role of privatization and improvement of corporate governance mechanisms are very important in this regard. At the advanced enterprise reform stage and under transparent ownership rights, the continuation of social subsidies at the traditional level, even if they are possible financially, will become institutionally unacceptable.

One might draw some important conclusions from this cross country analysis. In particular, though cuts in enterprise spending in Russia are so far quite moderate, it

⁶Unfortunately, there is little evidence regarding the changes in enterprise social spending that happened in transition economies of Eastern Europe. Only the Polish experience is relatively well documented (Estrin, Schaffer and Singh, 1995). Given the radical nature of Polish stabilization, one might expect a quite substantial reduction in social spending by Polish firms. However, the paper by Estrin, Schaffer and Singh (1995) suggests that this did not happen. It is not clear if this should be considered as an argument against our hypothesis that successful stabilization plays a crucial role for accelerating the decline in social expenditures of enterprises. Despite a very sound macroeconomic policy, Polish economy has been characterized by a number of features, which unavoidably prevent enterprises from full and immediate discontinuation of social services delivery. The following factors are probably of major importance: (i) quite low initial, i.e., pre-reform, level of enterprise social spending; (ii) powerful labor unions (especially in privatized firms); (iii) effective government regulation of cash wage increases (popivek). Thus, the Polish developments, as it seems, neither contradicts nor confirms our explanations of the variation in enterprise social spending patterns observed across FSU countries.

might change dramatically as soon as, due to the strengthening of the government's reform efforts, enterprise expectations regarding "prevailing rules of the game" are modified.

3.2 Legal framework

Legal arrangements for the status of enterprise social assets in Russia were determined first of all by the Federal Government for enterprises being in the process of corporatization and privatization (Annex 2). They varied across different types of social assets. A part of social assets (like health, educational, cultural and sport facilities) was allowed to be included in the charter capital of enterprises, with an obligation to keep the profile of these assets unchanged. Another group of assets, which includes housing together with attached utility networks (if they are not on the territory of enterprises), as well as maintenance units of enterprises with all their so-called "material base" are prohibited to be included into the charter capital and have to be mandatory divested to municipalities according to the time schedule approved by municipal administrations but within six months after privatization. Before divestiture happens, such assets are to be held on the balance sheets of enterprises. At the same time, enterprises were not forced to have any social assets in their property, if working collectives did not want to do so and did not intend to include them in the privatization plan. In cases when some assets are located on the territory of enterprises but are used for municipal needs, they have to be transformed into the common property of privatizing enterprises and local authorities.

However, differences in regional and local regulations concerning the operation and funding of enterprise social assets play a major role in the determination of an actual legal framework in this field. There is a lot of evidence that federal norms (which themselves are fragmentary and contradictory in many cases) are often either violated or ignored by local authorities who actually set up their own "rules of the game" (Bim, 1994; Urban Institute, 1995). For example, in some places local authorities insist that almost all social assets could not be included into the charter capital of privatized enterprises, while in other locations the process was mainly determined by the decisions of working collectives of privatizing enterprises.

Meanwhile, in those locations where local authorities are weak and enterprises are strong, the federal rules are violated in a different way. For instance, in many cases heat supply systems (boilers), which are located on the territory of enterprises, were included into the charter capital and since that local authorities have had neither access to the proper information on these boilers' activity (unit costs, technical characteristics) nor power over the supply of heat to municipal housing and other social facilities. As a result, heat tariffs for such heat enterprises are set at a too high level and the supply of heat is unstable (when an enterprise needs more heat for production purposes it reduces supply to residents). The ban to reprofile social assets, which have been included into the charter capitals of privatized enterprises, is also usually violated. In particular, a lot of enterprise kindergartens were either reprofiled for commercial purposes or closed down

after the enterprises were privatized (Bim, 1994). In some cases, those assets, which were forbidden to be included into the charter capital (housing), were in practice privatized along with the fixed capital.

Arrangements concerning certain types of social assets are regulated by traditions. For example, recurrent costs for enterprise medical units were traditionally financed by municipalities while enterprises had to compensate building maintenance and some overhead costs, and such a practice remains unchanged in many localities.

Thus, “the rules of the game” for social assets restructuring are only partly regulated by federal legislation which is not very consistent in itself. In general, the actual developments are mainly determined by the main players at regional and local levels: regional authorities, municipal authorities and local enterprises, their balance of interests and relative bargaining power. Different fragments of federal regulation are used in different places, while the rest is ignored. As a result, the legal regime for social assets restructuring substantially differs both from federal rules and across municipalities. In the further sections of the paper the discussion is focused not on the formal regulations but on the real framework for social assets restructuring. Specifically, local differences seriously affect financial arrangements for both current operations and divestiture of enterprise social assets.

3.3 Financial framework

Two main opposite views have been expressed regarding financial consequences of enterprises’ social functions. The first more traditional one (Shleifer and Boycko, 1994) suggests that financial impact is quite negative and additional spending on social asset maintenance and operations leads to comparative disadvantages for enterprises which hold social assets versus those which are free of such obligations. The other position is that holding social assets does not affect too much the enterprises’ financial position (Teplukhin, Halligan and Willer, 1995). According to our analysis, the actual picture varies from city to city. This means, that on the basis of the general analysis of both legal and financial environment, it is impossible to determine the potential financial impact of maintaining social assets on the enterprises’ financial performance because specific financial mechanisms of compensating their social expenditures vary substantially across cities, and so their consequences for enterprises can be quite different.

The major extra sources of funding for enterprises’ social spending coverage have been introduced by federal regulations and now are uniform almost everywhere: it is the enterprises’ right to deduct their social expenditures from both the profit tax (but not more than 50% of the tax amount due) and from 1.5% local turnover tax, which can be introduced (and actually is introduced now almost everywhere) by local governments specifically to finance housing and social facilities. However, the local implementation of these federal guidance varies a lot across municipalities who use different options for

the regulation of the profit tax and the turnover tax deductions. The following types of differences can be mentioned.

1. By the way of how costs are credited against corresponding taxes:
 - (a) According to actual reported expenditures of enterprises;
 - (b) According to special norms established by municipality for housing and other social assets maintenance and operations (for example, for housing they are measured in “rubles per square meter”). These norms vary substantially across regions, covering from as low as 40% of the actual costs up to 100%.⁷
2. By the way of how tax credit mechanisms are established:
 - (a) Enterprises can credit their expenditures against appropriate taxes (according to any of the mechanisms mentioned above), and if the amount of tax credits is not sufficient, local authorities (e.g., in Ryazan or Yaroslavl) reimburse enterprises’ additional spending.
 - (b) Enterprises can credit the entire volume of their expenditures against appropriate taxes (according to any of the mechanisms mentioned above in para. 1), but if these tax credits are not enough to cover the full amount of spending, the city contributes nothing to support the enterprise social activity.
 - (c) No transparent rules regarding the tax credit mechanism were set and local authorities make individual decisions about tax deductions. For example, as Volgograd officials reported, there were no general rules for 1.5% turnover tax benefits in the city. In certain cases (for example, if an enterprise is loss-maker or works for city needs), a decision might be made to use preferential tax rates. Otherwise, an enterprise has to pay the full amount of the tax due, independently of its actual social spending.

While both options (a) and (b) might be used in the framework of the existing federal legislation, option (c) openly contradicts the federal law, according to which social expenditures of enterprises should be deducted from the amount of 1.5% local turnover tax.

3. By the way of how deductions from two different taxes are combined.

In most cities, but not everywhere, the mechanism works in a way that allows enterprises to benefit twice from the same social spending. The turnover tax is paid before the profit tax, so turnover tax payments automatically reduce profit tax liabilities (which

⁷Besides, in some regions, local governments severely restrict the types of spending being eligible for tax credits. For instance in Moscow oblast, enterprises’ spending on heat and other utility services delivered to enterprise housing is not covered by these benefits. As a result, only about 20% of the actual housing costs of local enterprises are credited against the corresponding taxes (Kalinina, 1995).

makes, on average, the effective rate for enterprises equal to 2/3 of a statutory rate). While enterprises decrease turnover tax payments by the amount of their social spending, they have a right to deduct the full amount of the turnover tax paid (according to a statutory rate) in the process of calculating their profit tax obligations. From eleven cities considered for participating in the World Bank Enterprise Housing Divestiture project, eight confirmed that they have had this rule of double benefits.

There are also some other sources of financial support to enterprises in some cities. For example, sometimes municipalities declare social assets to be divested from enterprises, receive federal transfers to support these assets, and share these funds with enterprises, which actually continue to have social assets on their balance. Such situations are possible, as we will argue below, because the term “divestiture” is still poorly determined by the federal regulations.

It is also worth mentioning that local authorities usually provide financial benefits described above not only to enterprises maintaining and operating social assets being kept on their balance, and which therefore are subject to divestiture, but they also do so even when the corresponding social assets had been included into the charter capital of privatized enterprises.

In some cases federal and regional budget transfers are allocated directly to enterprises. In many rural settlements and one-enterprise towns, municipal governments still do not have adequate administrative capacity to manage corresponding assets because in these places historically the largest firms were providers of the bulk of social services. Due to this tradition, the enterprises, not municipalities, continue to receive subsidies from both federal and regional budgets and to run housing, schools, hospitals, kindergartens, etc. Governmental transfers for social purposes are the most significant in the agriculture, coal, and defense industries (see Annex 3).

3.4 Attitude of local authorities

In general, city officials are interested in delaying social assets divestiture for as long as possible. It is especially true in regard to housing and utilities. According to the survey, municipalities in about 60% of the cases try to delay or stop this process (Table 6). Nine enterprises from ten, which have not started divestiture negotiations yet, foresee that these negotiations would be very difficult because of certain conditions imposed by city administration, that might be very hard for enterprises to fulfill (in one case the city was not intended to start negotiations at all). As a short-term solution, local authorities often try to introduce agreements between enterprises and city administration on joint use and financing of social assets, which actually means that enterprises continue to hold the whole financial and management responsibility for the maintenance and operation of social assets, while the city contributes from time to time some funds if they are available (budgeted at the expense of federal transfers or from 1.5% turnover tax).

However, in some cases, local authorities are very keen to receive the full control over social assets in the city and to start developing and managing the city social infrastructure as a single system. Therefore, they insist on social assets divestiture even if it means the additional financial burden for the city.

It would be very interesting to find out whether there are any objective factors which influence the position of local authorities besides the personal inclinations of certain officials. According to our experience within the Enterprise Housing Divestiture Project, cities which are dominated by one or several large enterprises are on both extremes. In such cities almost all the housing and other social assets used to be controlled by enterprises and, as a result, local authorities only recently were absolutely powerless and depended completely in their social development upon investment decisions of enterprises. City administrations in these cases either completely reject the transfer of responsibility of managing social assets from enterprises or are much more radical in their support to the divestiture than their colleagues from the other cities. In larger and more diversified cities the picture is also diverse. For example, in the middle of 1995 the share of divested enterprise housing in 12 cities, which were initially selected for EHDP, varied from almost zero up to 95%. But in general, local authorities from middle-sized and even large cities are overloaded by their financial and managerial problems associated with existing municipal social facilities and are quite reluctant to push for divestiture which is considered as an additional burden.

3.5 Position of enterprise managers

It is quite clear that on the whole, with all other factors being equal, the more difficult is the enterprise financial situation is, the bigger the pressures are for social assets restructuring. They are spelled out in various ways: a stronger pressure on local governments to divest social assets, introduction of various service restrictions for non-employees, rising cost-recovery through increases in user fees and tariffs, etc. Coopers & Lybrand (1995) provides an example of the link between coal mine profitability and the level of cost recovery in housing financed by these mines. It shows, in particular, that in early 1995, the profitable mine was still capable of retaining its extremely low cost recovery in housing, at the level of 7.4%. Meanwhile, the neighboring mine, which had heavy losses, was forced to increase cost-recovery up to 34.4%.

At the same time, there are some general characteristics of the attitude of enterprise managers towards social functions not explained by pure financial reasons and having more deep psychological and cultural roots.

In general, most of the enterprise managers participating in the survey assess social functions as a significant burden. But the attitude towards different kinds of social activities is the same. As one can see from Table 4, social functions associated with holding social assets are considered by enterprise managers as the most difficult ones. Social functions associated with provision of non-wage benefits including those in kind but which

do not require holding substantial social assets (e.g., food shops with subsidized prices, transportation subsidies, direct distribution of commodities produced by the enterprise itself or received through barter at subsidized prices) constitute a much less burden than the former ones. For example, Table 4 shows that in general it is much more easy for enterprises to compensate their workers for resort recreation in cash than to hold recreation facilities themselves.

In addition, there is a different attitude towards two different groups of social assets. Kindergartens, housing and dormitories are considered as a major burden by a relatively large group of the respondents and the further fate of these assets is now the most painful issue for managers. But it is much easier for enterprises to continue holding such assets as sport facilities, cultural centers, hospitals and clinics.

On the basis of this information, it seems enterprises should be very keen to get rid of social assets, first of all of those which constitute the main burden for them. However, our survey at first sight does not support this view. Only one out of 24 enterprises reported that it planned to stop providing all social services and one more had a clear strategy to make social activities self-financed. The six others presented a sort of strategy of social assets restructuring which can be considered as rational (meaning that these enterprises intended to downsize or to increase cost recovery of those types of social activities which are the most difficult for them to provide). The rest of the sample either had no strategy at all or their strategy could not be considered as rational according to the criterion mentioned above. Six enterprises were not going to change anything in their social activities, and three were going to start providing new social services.

Such an outcome contradicts not only the results of the other studies in this area, but also the answers to some other questions in our survey. For example, only two enterprises reported that they were not interested in housing divestiture, and it means that the others who insisted on preserving all social functions expressed their intentions in a controversial way. But it seems this phenomena has a psychological explanation and corresponds to traditional paternalistic attitude of Soviet enterprise managers towards working collectives. Even if in reality managers take some actions to get rid of social assets they do not consider it as appropriate to admit that they are going to leave their workers without social support from the enterprise, at least without some forms of this support. This outcome is consistent with the results of the large World Bank enterprise survey where more than half of the managers of responding firms explained their continuation social benefits provision by non-economic factors (Commander and Lee, 1995). Certain objective reasons are definitely behind such social and ethical preferences of enterprise managers, among which the necessity to preserve good relations with local and regional authorities seems to play the key role. Thus as managers have quite controversial feelings about divestiture, it is not surprising that their practical steps towards transferring social assets would not be very consistent and active, and they could be easily blocked by local authorities.

4 Possible Ways of Social Assets Restructuring

4.1 Options available

There are three possible solutions to the problem of enterprise social assets. Enterprise social assets can: (i) be kept by enterprises with or without changes in principles of their utilization, financing and ownership; (ii) be divested to municipalities for further privatization; (iii) be divested to municipalities to be kept in municipal ownership for a while.

A significant portion of the entire social assets has been included into the founding capital of the former state owned enterprises and privatized together with their productive assets. Insiders consider (or at least used to consider)⁸ such privatization deals as beneficial for themselves because they see future profitable opportunities of either using or selling this real estate. It was a voluntary action by insiders to take responsibility for maintaining these assets, and therefore there is no reason for the government now both to consider plans of their divestiture and to continue subsidization of their maintenance, including implicit subsidization through tax benefits. Among the social assets, which have been most frequently involved in privatization, are sport, recreation and entertainment facilities. The costs of their maintenance might amount up to 25% of the current total costs of maintaining enterprise social assets (see Annex 4).

According to the survey, enterprises consider different possibilities of how to use social assets being at their disposal, including downsizing certain activities and making them self-financing. Among the ways to increase cost recovery, the most popular is to attract new clients from non-employees and to increase user fees for them. The possibilities to increase fees from the enterprise employees and to reprofile and commercially use some social assets are also under consideration though less frequently.

In those cases when enterprises are keen to divest their facilities in e.g., entertainment or other non-core social activities, the government should support this transfer, while it must not accept responsibility for these assets. Instead of this, the government has to develop and execute a privatization plan for corresponding assets based on the general principles of the Russian privatization program. This possibility is envisaged in Russian legislation (Annex 2).

However, there is a big volume of social assets which either (i) can not legally be included into the charter capital of privatized enterprises or (ii) were not included for some reasons at the time of privatization and (iii) immediate privatization of which is not quite reasonable. We are going to argue that the best option for this kind of social assets in most cases would be divestiture to local authorities. While housing and utilities

⁸Sometimes when the owners change their mind, they manage to make a deal with the local administration and sell these social assets to the city at symbolic very cheap prices, but in other cases they have to suffer from the results of their previous decisions regarding privatization, which proved to be unprofitable.

constitute the largest portion of such assets, the same is also true for some educational and medical facilities.

4.2 Why divestiture, not privatization?

There are a number of reasons why, for certain types of social assets, immediate wide-scale privatization is hardly feasible and not very efficient. This issue is discussed below using the example of housing and supporting utility networks, where most problems are concentrated, but the same factors are also affecting, though to a smaller extent, some other types of social assets.

(i) *Legal regulation.* Legislation on the privatization of apartments in Russia was formed in a way which is not very favorable for the emergence of efficient private owners. Tenants can not be enforced to privatize their apartments because privatization is considered as a voluntary action which can happen any time in future and, meanwhile, these apartments can not be privatized by outsiders. There are several consequences of legal arrangements in this area.

- Privatization of apartments actually changes nothing in the ownership and management of the whole building. Even if 100% of the apartments are privatized, the building can still be considered as a municipal one.
- The only currently available legal form for privatization of the existing multi-apartment buildings in Russia is the formation of condominium associations. However, condominiums, first, are very difficult to form on the basis of already occupied houses (Ryazan is the leading Russian city in condo formation with less than 30 condominiums formed by early 1996) and, second, are not the most stable and efficient form of private ownership for housing in existing Russian conditions: different level of incomes and demands of condo members, undeveloped housing market, lack of professional management, etc., will affect the condos' ability to enforce their ownership rights.
- A lot of households are not interested in even free housing privatization because their rights are well protected against eviction without getting a formal title for the apartments.

(ii) *Subsidization.* Housing in Russia is a heavily subsidized sector. On average, residents covered by the end of 1995 between 20 and 30% of actual housing and utility costs, all the rest was covered by subsidies either from local budgets (for municipal housing) or from enterprises (for enterprise housing). Utility tariffs for residents are the same in municipal and enterprise buildings. The pace of elimination of subsidies is limited by both the general level of population incomes and by political constraints. For these reasons, many Eastern European countries, including Russia,

Ukraine, and Lithuania, found it hard to eliminate housing subsidies simultaneously with overall price liberalization. As a result of this, these subsidies are still the largest subsidies remaining in the fiscal systems and these countries have chosen a very cautious approach to their step-by-step elimination. Preservation of subsidies limits the possibility and desirability of real housing privatization:

- Even if apartments and buildings from the enterprise housing stock are privatized, the responsibility for housing and similar subsidies is to be divested to municipal governments. In Russia and some other FSU states, when tenants privatize their apartments, it does not lead to any change in household housing monthly payments. According to the existing regulations, any form of discrimination in maintenance/utility tariffs based on the ownership rights of the tenants is not allowed: all of them have to pay the same bills.⁹ It is true for both privatized apartments and privatized buildings in the form of condominiums.
 - Remaining subsidization unavoidably will shift incentives of actual and potential building owners. They would not feel too much responsibility for the cost-effective management and maintenance of their property, but they would have strong incentives to fight for extracting the full amount of budget subsidies. The situation is aggravated by the fact that tenants are billed according to special norms of consumption but not to the actual consumption and as such they do not have incentives for more effective use of heat, water and gas. In these circumstances, while municipalities retaining major financial responsibility for housing, can be more interested in the rationalization of the housing sector than private owners.
- (iii) *Technical reasons.* Provision of utility services has been organized in Russia in a way which is not very suitable for transition to private ownership of buildings. Specifically, in most places, housing is supplied by heat not from small boilers serving one or few buildings. On the contrary, in both municipal and enterprise housing heat supply is organized through centralized heating systems, which means the existence of one or several big heat suppliers and long networks connecting them with final users. Heat supply is interrelated across buildings and tenants technically do not have the possibility to regulate heat delivery in a decentralized way. In some buildings, there are not even heat exchangers and water circulating within building heating systems is not separated from external pipes. As a result, tenants have almost no way of influencing the delivery of heat or the quality of incoming water, which can badly influence pipes within their buildings. Changes, which have to be

⁹And sometimes even lower. For example, to push apartment privatization, authorities of the city of Novocherkassk made a decision to decrease by 3% all the rent and utility payments for the owners of privatized flats.

introduced in this system to protect the rights of apartment owners, require certain investments and can not happen overnight.

- (iv) *Monopolization of maintenance.* Provision of maintenance services also has been organized in a way, which served the needs of the centralized, state-owned and state-managed system. Though certain efforts to undertake reforms have been made recently in most localities, the level of artificial monopolization in this area is still quite high. Typically, the market of municipal housing stock maintenance is officially shared by several municipal maintenance companies and each building is assigned to one particular service provider. Enterprises usually have maintenance units in their structure, which provide corresponding services to the enterprise housing stock. Although it is less difficult to overcome monopolization in the provision of maintenance services than in utility services, for some time, the absence of reliable alternative sources of these services also can be considered as a barrier for immediate efficient housing privatization.

4.3 Why divestiture, not “let the market decide?”

There is one more popular argument, however, that there is no need for government in transitional economies to interfere in the area of social benefits (including housing) provided by former state enterprises, as the market itself would sort it out anyway. The common reasons for this conclusion are: (1) firms in the established market economies also provide a number of non-cash benefits as a part of their overall compensation package; (2) social benefits are one of the ways for the firms to compete in the labor market and thus enforced divestiture might affect the mechanisms of market competition; (3) firms in transition have proved their ability to respond to changing economic signals and there is no reason to believe that they would deal with the problem of social benefits on their own less efficiently than with the other adjustment problems (Schaffer, 1995).

While for a number of non-core benefits this type of logic seems to be quite correct, provision of core benefits, first of all housing, by SOEs and former SOEs makes the situation in transitional economies and corresponding firms very much different from that in the countries with developed markets. The key difference is that those benefits, which are both a real burden for the firms and a headache for governments in transition, are not a part of the firms' compensation packages.¹⁰ Enterprises have to provide these services not only to their employees, but also to a substantial number of other residents in surrounding localities. Moreover, they have to provide these services at heavily subsidized prices, i.e., they are involved, in fact, in direct delivering public services instead of the local governments. Due to political constraints, there is no hope that these subsidies will be terminated in the short run. “To let the market decide” in such an environment is the equivalent to giving permission to firms for unilateral either withdrawal from or

¹⁰In addition, the level of social expenditures per capita to compare to cash wages in Russia is 3–4 times higher than that in major Western European countries — as reported by Schaffer (1995).

substantial reduction in delivery of some basic public services. This option is considered as politically and socially unacceptable by most governments in transitional economies. The whole problem of divestiture has derived from the necessity to design a procedure that would substitute enterprises by municipalities in a way, which preserves the continuation of basic services and takes into account major fiscal and institutional consequences of such substitution.

There are some other important considerations, which require involvement of the government in solving the problem of enterprise social benefits and, in particular, in accelerating divestiture.

- (i) There is a serious difference in the provision of social benefits in money and in kind, especially when provision in kind includes holding social assets. Cash benefits are very flexible and can be adjusted in accordance with the financial situation in the firms. And if they are reduced, it does not effect the overall abilities to provide social services in this locality. However it is not true for social assets. It is impossible to get rid of social assets in the short run if the financial situation of the enterprise is becoming worse. The way how enterprises deal with the problem in such situations is just to terminate the operation and maintenance of these social assets. As in many localities enterprises are the main providers of social services or at least play an important role in it, it can badly affect the general situation with the social sphere. It is especially true for housing where residents do not have an alternative at all and enterprises' reduction in maintenance funding leads to the general deterioration of living conditions. The other part of the coin is that badly performing enterprises with big social assets substantially increase their lobbying power and can force the government to provide financial assistance to them and prevent their bankruptcy just because of dangerous social consequences of their failure. Taking into account all the bad social and political consequences of such situations as well as financial instability of all the production sector in Russia, it is much more preferable to undertake divestiture not in the situation of emergency, but in normal conditions, preparing all the necessary financial arrangements, documentation and logistical preconditions.
- (ii) Such social assets as the accumulated housing stock can not be used as a tool of competition in the labor market. As was mentioned above, enterprises have no right either to evict those employees who left the enterprises or to increase rent payments for them. They also have to follow the local policy in cost recovery increase. Any substantial revision of such arrangements is hardly politically acceptable: this will be considered as discrimination of housing rights of tenants in the enterprise housing, which still forms at least 30% of the urban housing stock. Newly constructed housing can be included into the charter capital of enterprises and can be used in a more flexible way to support the labor policy of enterprises.

- (iii) In some specific sectors the right of enterprises to hold social assets in practice results in substantial negative externalities. For example, railroads in Russia hold, fund and operate a huge social infrastructure, which badly affects the level of railway tariffs. In its turn, the level of tariffs in the sector now is one of the main obstacles for growth in domestic inter-regional trade and improvement of enterprises' competitiveness.

Thus, the problem of social assets, which simultaneously are (i) not included into the charter capital of enterprises, (ii) can not be immediately privatized and (iii) are heavily subsidized, is the most painful one. Only two types of solutions, from our point of view, are possible in this situation. Either enterprises continue to hold these social assets on their balance (with no right to make any strategic decisions about these assets and full or partial financial and managerial responsibility for their operation and maintenance) and enjoy some financial benefits established by transparent and fare rules or municipalities accept these assets, which means full responsibility for their further fate, and finance them from their general tax revenues. We are going to argue that from the long-term perspective the last option is better both for enterprises and the economy as a whole.

5 Consequences of Divestiture for Enterprises

We have more information from the survey to analyze the process and consequences of enterprise housing divestiture. In this section we are going to use the example of this very important part of enterprise social assets to draw some additional conclusions. Most of the enterprises in the sample are interested in divestiture of their housing, but most of them are still in the process of divestiture and have not completed it, so we can use only their estimates on potential consequences of this process. However, enterprise managers seem to take this process very seriously and almost all of them (20–21 from 24) were able to give their estimates regarding the possible effect housing divestiture might have on different aspects of enterprise performance (Table 5).

5.1 Financial impact

As a result of different tax treatment analyzed above and the different financial situation of the enterprises, financial consequences of divestiture vary on a case by case basis. Three enterprises reported that divestiture would make no impact on their financial situation, two even thought that financial pressure would be harder. But most enterprises admitted that the financial result of housing divestiture would be positive. According to the general estimates, the enterprise sector as a whole is expected to gain only about 0.5% of GDP from the divestiture process in the short term. However, individual enterprises that provide a lot of housing will get substantial net benefits — up to 70% of their current gross expenditures on housing (see Annex 4).

5.2 Administrative impact

Managers are more uniform in their answers about the managerial consequences of divestiture. Most of them agreed that managerial burden would decrease. It is quite natural, taking into account that, according to the survey, more than 7% of the enterprises' labor force was involved in maintaining and operation of enterprise housing either full time or more than half of their working time. Full employment in both housing and other social activities amounted to almost 18% of total labor. According to the Urban Institute (1995), about 20% of senior management time is typically spent on enterprise housing related activities.

5.3 Impact on the attraction of employees

Managers do not think that housing divestiture would necessarily limit their opportunities to hire workers. More than half of the managers think that it would not influence this process at all. It is not a big surprise, taking into account that in many cases most of the residents of enterprise housing are not enterprise employees¹¹ and enterprises have no right to evict the residents or to increase the rent payment if the residents leave the enterprise. Increasing competition on the labor market as well as labor shedding by many enterprises should also be considered as important factors that dramatically changed the labor market situation. In two cases managers consider divestiture as a way to increase opportunities to hire workers, possibly because it improves financial performance of the enterprise. However, the situation seems to vary in different cases, as 7 managers admit that divestiture would limit their abilities to hire workers and in one case it was the reason for the enterprise not to initiate divestiture at all.

Workers themselves are also not very interested in holding enterprise housing (Table 6). Only three enterprises reported that their working collectives objected to the divestiture process. Yet only in one of these cases it was the trade union who protested, and in the other two resistance came from housing maintenance units of the enterprises. It is also quite natural, as enterprises in many cases have reduced their expenditures on housing below minimally necessary levels and almost stop maintaining it, which leads to deterioration of the housing stock and decreasing comfort for residents. So, even those employees, who live in the enterprise housing, do not consider divestiture of the buildings to municipalities as a threat to their benefit package: they are quite sure that after divestiture rent payments will remain intact and housing services will not deteriorate further.

¹¹According to the survey, employees or retired employees are living in 56% of the apartments of enterprise housing in surveyed cities (of which the share of pensioners amounted to 14%).

5.4 Impact on prices

About a half of respondents do not see any connection between enterprise housing divestiture and the level of prices for their products. However, the other half considers divestiture as a possible source to decrease prices. It supports the idea that in many cases housing divestiture might have a direct positive influence on enterprise competitiveness. It is also interesting that enterprise managers started to understand the inter-relation between the level of social spending and their market competitiveness.

5.5 Impact on wages

This question was not asked directly in the survey but the data provided by enterprises and answers to some other questions help to reveal the situation in this area. It was expected that enterprise savings deriving from the reduction in their social spending will facilitate cash wage adjustment, which, in turn, will support the reduction of budget subsidies for the social sector and public sector reforms in general. However, as it follows from the survey, in practice, enterprise managers have not conducted such a type of wage adjustment to compensate employees for the reduction in real social spending. Only 1 out of 17 firms, which had reduced delivery of social services recently, did this with some compensation to employees through cash wage increases. The same findings have been revealed by the Urban Institute (1995), which reports that managers prefer to spend corresponding savings on purposes, other than wage increases, considered as being more important for enterprise survival.

It seems that the absence of the link between reduction in enterprise social expenditure and an increase in cash wages might be explained by the fact that the dynamics of the real cash wage has been determined so far by other types of the factors, first of all, by average levels of wages prevailing in corresponding localities, which, in turn, mainly follows the price level of basic consumer goods. The changes in costs of living but not reductions in non-cash benefits influence the enterprise wage policy (Commander, Dhar and Yemtsov, 1995). Such implicit indexation of wages was rather effective in Russia in 1992–94 and it caused quite a high level of real wage stability during the period of price liberalization and high and volatile inflation. This might suggest that, while currently managers do not use their savings from social spending cuts for wage adjustment, they might conduct a different type of wage policy in different circumstances, if cost recovery in housing is increased substantially and housing expenditures become a real factor determining the costs of living. Then, it is likely that the growth in employees' housing expenditures, as it happened in 1992–94 with their expenditures on food, would be an effective determinant of managers' policy with respect to cash wage adjustments.

6 Consequences of Divestiture for Municipalities and the Economy as a Whole

6.1 Divestiture and policy reforms

Various components of the Russian public sector require radical changes in their operational and managerial principals. Some currently publicly funded services should be taken out from the public sector completely (housing), others should expect either an increase in cost recovery (child care) or the emergence of more flexible co-existence of public and private providers (health care, education). It might be difficult to achieve these changes without prior transferring social assets under full public control, i.e., without divestiture. First experience with housing reforms in Russia demonstrated practical advantages of having enterprise housing divested to municipalities, which currently have more managerial capacity and more incentives to push for housing privatization, increase in cost recovery, establishing housing allowances for poor households, etc. It might sound controversial but re-establishing full public control over some sectors such as housing might be viewed as an important facilitator for the success of subsequent privatization. Even when enterprises have to support a large housing stock, housing remains a by-side activity for them. Enterprises do not see themselves as promoters of any housing reforms, and their preferable policy in this field is to be a passive and not necessarily accurate follower of recommendations coming from local governments, while their major adjustment has been taking place through simple cutting of funding for housing maintenance. As a result, enterprise housing in Russia is on average in a worse physical shape, it has a slower rate of unit privatization, and its tenants have less access to housing allowances.¹²

6.2 Gross potential fiscal impact of divestiture

Analysis of the structure of enterprise social spending demonstrates that the total incremental fiscal burden from full-scale divestiture will be much smaller than the current level of enterprise spending on social services. One might argue that the potential fiscal impact is not more than 60% of the amount reported by the enterprises, i.e., it is close to 2% of GDP. This is due to the fact, as was partially discussed above, that various types of social spending currently financed by enterprises are not transferable (i.e., they are not subject to divestiture) either in the financial or in the physical sense. These non-transferable types of services include:

- (i) Those services financed not from enterprises' revenues but from budget transfers.

The corresponding assets might be transferred but it will not impose extra costs

¹²From 9 cities which provided information on this issue in 5 cases privatization within municipal housing stock was higher than within the enterprise one, in 2 cases it was equal and in 2 cases privatization was higher in enterprise housing stock.

upon the budget if it will be accompanied by redistributing the transfers from enterprises to municipalities.

- (ii) Those services constituting an important part of the overall compensation package of employees as non-wage benefits. Under existing economic environment, it is unlikely that managers of state-owned and formerly state-owned enterprises will insist either on divestiture of these services or their substantial reduction because they are not considered as a real burden by enterprise management. One might expect that real cuts will happen on its own only in the medium term as a result of substantial changes in both corporate governance regime and taxation.
- (iii) Those social assets remaining in the enterprises' possession as a result of their privatization by enterprises.
- (iv) Those social assets, which should not remain in public possession in the market economy and must be privatized in the case of divestiture.

Moreover, in some cases municipal costs of supporting divested assets might be lower than those of enterprises. This is due to the fact that a part of social assets, which are in the ownership of enterprises, is under-utilized and overstaffed.¹³

6.3 Potential fiscal impact of divestiture for local and federal budgets

Since late 1993, cities gained access to two new instruments to help finance social assets. One is the local tax for support of social assets, a 1.5% tax levied on all enterprise sales, and the second source is federal transfers for social asset divestiture. This means that additional financial burden is shared between local and federal budgets. Three different situations of such cost-sharing should be considered:

- (i) Although the effective tax rate for the turnover tax is much lower than the statutory 1.5% (close to 1% according to our estimates), the total revenues from this tax are still quite substantial. For six cities involved in EHDP, the tax provided on average about 10% of the total budget revenues including transfers from federal and regional budgets. This new source could potentially be used to fund an additional amount of housing divested from enterprises. In this case the average net costs to local governments of the overall divestiture process would be in the order of only 3–4% of current total regional budget expenditures (0.6% of GDP). This gap had to be

¹³For instance, in Kyrgyz Republic, teachers' salaries in kindergartens managed by enterprises are 10–50% higher than those in municipal kindergartens. If the whole kindergarten system were rationalized to bring enterprise kindergartens to an equivalent current municipal expenditure level with respect to food, salaries, and utility spending, the corresponding savings would amount to 20% of the current total costs of supporting kindergartens (ADB & Associates Ltd., 1995).

covered by federal transfers. However, the effect on individual cities (especially one-enterprise towns) could be quite different, and in some cases a new financial burden might appear to be just unaffordable for certain cities.

- (ii) Since the moment when the turnover tax had been introduced in late 1993, municipalities collected quite a lot of revenues from this source but the actual divestiture was very slow. Additional revenues were actually used to fund maintenance and operation of the existing municipal housing. As a result, local authorities put themselves in a much more difficult financial situation regarding further divestiture than it could be if the recent introduction of the turnover tax would have been accompanied by the same rate of actual transferring of enterprise assets. According to our estimate, if the cities increase the effective tax rate of the turnover tax up to 1.5% and get rid of the remaining profit tax exemptions, they will be able to get about 0.7–0.8% of GDP as additional budget revenues. However, the full scale divestiture completion will require about 2% of GDP in incremental expenditures. It is quite likely that municipalities will try to fund the remaining fiscal gap of about 1.2% of GDP or 6–7% of the overall regional budget spending by requiring support through the federal budget transfers.
- (iii) Some local officials argue that not only recurrent costs but also a certain amount of capital repair of transferred assets should be funded. Enterprises did not finance their housing stock as needed, so local officials assume that some additional investments in rehabilitation will be necessary just after divestiture to compensate consequences of recent poor maintenance. When such adjustment for capital repair is done (0.4% of GDP), the total annual fiscal gap for cities as a result of divestiture might be estimated as 10% of the existing regional budgets. Correspondingly, this amount, being an equivalent to 1.2% of GDP, should be considered as the upper limit for the amount of the federal transfers allocated across municipalities to support divestiture.

Federal transfers of this magnitude are justifiable only if all the remaining housing and other assets have been accepted by municipalities. However, recent developments in this field demonstrate that requests for the federal assistance filed by cities are growing much faster than the real rate of divestiture, and the federal government does not have institutional capacity for properly evaluating real municipal needs in such transfers. In particular, the cities' request for federal transfers in 1994 amounted to 20.7 trillion rubles or 3.3% of GDP (Urban Institute, 1995), while not more than a quarter of the overall enterprise housing stock was divested in 1992–94. After consideration of these municipal requests, the Russian Ministry of Finance allocated 12.1 trillion rubles (2.0% of GDP) for this purpose in the 1994 budget, but later it disbursed only 4.5 trillion rubles during the year or 37% of the ear-marked amount in the budget. But given the slow rate of divestiture, one can argue that this was a sufficient amount. To push divestiture, the

federal government had to develop a much smaller but much better targeted program of federal assistance, which would account for real variation across municipalities in tax base, divestiture rate, and the stock of enterprise housing.

7 Pace and Barriers for Divestiture

7.1 Real rate of housing divestiture in Russia

Housing statistics is in flux in Russia now, and so it is not very clear how much housing was actually divested to municipalities. The report by the Urban Institute (1995) estimates that only 20–25% of the initial enterprise housing stock was divested in 1991–94. The evidence from various surveys demonstrated that the actual estimate might be closer to the lower end of this interval. Our survey in December of 1994 showed that the share of enterprise housing in the surveyed cities was still above 40%.¹⁴ The large enterprise survey held in summer of 1994 revealed that by that time less than 5% of enterprises actually transferred any of their social assets (Commander and Lee, 1995). Only one from 24 enterprises participating in our small survey in December 1994 had completed divestiture of a portion of its housing stock by that time, while the rest either still had been running negotiations with local authorities or even had not started them yet. All these figures prove that, in 1995, at least 35% of the total urban housing stock was still financed by enterprises.¹⁵ In addition, divestiture in rural areas was even slower (see Annex 3). However, we would like to mention that a part of this housing, which is described as being financed by enterprises, in fact is controlled and financed by various federal ministries (e.g., Defence, Interior), and this housing is not subject to divestiture.

7.2 Barriers for divestiture

While enterprises are in general interested in the process of housing divestiture, local authorities, as we discussed above, are in general reluctant to accept enterprise housing. The situation with enterprises in the process of divestiture negotiations is described in Table 7. Two main tools are used by local administrations to impede divestiture.

- (i) All the housing is declared to be divested (which actually means nothing, as even formally housing is only on the balance, not in the property of enterprises), but enterprises are forced to keep responsibility for the maintenance and operation of the same housing stock. As one can see from Table 7, it was envisaged in the divestiture agreements that enterprises are going to continue maintenance and capital repair at their own expense in two cases from 11 and continue utility services provision at their own expense in three cases from 11. However, as the definition of divestiture

¹⁴The enterprise housing share in the total urban housing stock initially amounted to about 45% in 1990.

¹⁵This also includes some housing financed by federal ministries, such as the Ministry of Defence.

is very unclear and a lot of compromise solutions (as cost sharing agreements, for example) are legally possible, local authorities use these instruments to delay the actual divestiture.

- (ii) As preliminary conditions for actual divestiture, local authorities insist on a huge amount of capital repair both of the housing stock and utility networks to be financed and actually fulfilled by enterprises. Of course, it is impossible to determine in general what amount of repair works can be considered as reasonable and what is not, but this requirement can be easily used by local authorities to delay divestiture if they would like to. Such conditions, being very frequently included in divestiture agreements, lead to a number of conflicts. If the enterprise has no money and no ability to carry out repair work, the municipality sometimes demands to acquire some additional property to compensate these costs. As the mayor of one of the cities admitted, “if it (the enterprise) has no money, we can take cars, tractors, administrative buildings”. Complaints for the same treatment were expressed by the respondents in the survey. The other conflicting issue is divestiture of enterprise housing maintenance units. Most of the enterprises have no problem with transferring employees from this unit to the municipality (divested maintenance units are usually included into existing municipal maintenance structures or reorganized into separate municipal enterprises), though employees themselves sometimes have different attitude, as was mentioned above. The conflict is around the amount of assets (workshops, tools), which should be divested to municipalities along with housing. All these conflicts are quite sufficient to delay actual divestiture substantially.

8 Necessary Measures to Accelerate Divestiture

Divestiture is a very complicated and painful process which involves a lot of financial, logistical and administrative issues and simple solutions are not appropriate here. However, there are certain aspects of the problem, the solution of which can simplify control over the process and can create additional incentives to push divestiture further:

- (i) Definition of divestiture should be legally clarified. Local authorities might have a right to conclude co-financing agreements with enterprises and leave certain functions for maintenance and operation of social assets with them but such arrangements should not be considered as divestiture. Divestiture means transferring not only the title but also financial and managerial responsibilities to municipalities. Only in these cases should cities be eligible for federal transfers and other forms of support allocated for this purpose.
- (ii) Institutional framework to solve conflicts between local authorities and enterprises in the process of preparing and implementing divestiture must be established. These problems, probably, should be solved on the regional level with involvement, if

necessary, of federal authorities but the existence of disagreements should not be used to delay divestiture forever.

- (iii) Methods of estimating divestiture financial consequences should be improved both to make the picture more transparent for local authorities, who often do not know how much extra funds they will receive as a result of the elimination of local turnover and profit tax benefits. This also will help to improve accuracy of regional requests for the federal transfers filed with the Ministry of Finance.

Enterprise social assets divestiture imposes additional financial and managerial pressure on local authorities. According to the survey of municipalities, which examined this problem with regard to housing divestiture, even the existing level of budget subsidies for the housing sector is considered as serious or even unaffordable burden for the budget. According to city officials, if the housing divestiture would be completed, the share of the budget to be spent on housing subsidies would increase significantly, typically double or triple. As was mentioned above, on average such estimates are substantially upwards biased. This is, in particular, due to the under-estimation of additional tax revenues associated with divestiture. Besides, more active policy reforms can potentially ease excessive budget pressures derived from existing housing subsidies. Two types of activities should be given top priority:

- (i) *Increase in cost recovery.* By the time of the survey, cost recovery in the housing sector of surveyed cities was between 4 and 16% (despite the fact that the cities had the legal right to have cost recovery of 20%). By early 1996, with the legal right to have 60% cost recovery, its general level amounted to between 20 and 30%, while some cities achieved 40% by the end of 1995. While increase in cost recovery will require more spending on housing allowances to protect vulnerable households, on the whole, growth in housing tariffs would eventually transfer a part of the financial burden from municipalities to residents. However, the population income level puts objective limits to the pace of this process.
- (ii) *Policy and institutional reforms.* Current institutional arrangements in the Russian social sector are far from optimal and lead to huge efficiency losses. Additional losses also arise from poor technologies used in this sector. The financial analysis shows that it would be quite difficult to insure a substantial increase in cost recovery, and therefore, reduction in housing subsidies, without a wide range of policy and institutional reforms implementation as well as investments in the existing housing stock to increase its efficiency (Freinkman, Tolstopyatenko, 1996). It means that divestiture would be unaffordable and, as a result, unsustainable in the long run without accelerating wide-scale housing and other public sector reforms. In many locations these problems are quite well understood by authorities. Two types of activities are considered at the local level as a possible way to deal with them. First, local authorities try to decrease losses by encouraging saving of resources,

first of all energy, which includes the introduction of new energy- and water-saving technologies. Second, savings can be received as a result of policy and institutional reforms, specifically :

- demonopolization of maintenance market, attracting private capital and the privatization of municipal units in this area;
- better regulation of utilities as natural monopolies;
- ownership changes in the housing sector: creation of condominiums (as more radical changes are prevented by the concept of voluntary and potentially endless apartment privatization);
- management changes: introduction of private management.

9 Conclusions

This paper provides an analysis of available policy options with regard to the restructuring of enterprise social assets. It argues that these options are different depending on the type of provided social benefits: while some assets and corresponding services are expected to remain intact and continue to be a part of a traditional labor compensation package, other assets have to be either privatized or mandatory transferred to municipal governments. Enterprise housing and, to a less extent, child care facilities should be, first of all, a subject of such divestiture that will have a positive influence on both enterprise restructuring and public sector reform in Russia.

The paper also summarizes the current practice of housing divestiture as it has been conducted by Russian municipal governments. The existing “rules of the game” are quite non-transparent, and the whole process is basically determined by interests and relative influence of the players involved, while the federal regulations are widely violated and only partly enforced. As a result, all the major determinants of the speed of divestiture appeared to be under the control of local authorities: they have influenced to a great extent both the legal and financial framework for this process, and have a number of opportunities for postponing or completely blocking divestiture.

On the contrary, most of the enterprise managers are interested in housing divestiture. They expect financial gains from this process (though cost reduction will be partly compensated by an increase in tax payments) as well as a radical decrease of the administrative burden. Half of them admitted that housing divestiture would allow them to decrease prices for their products and respectively increase their competitiveness.

The paper provides quantitative estimates of the fiscal price of divestiture: the government will be required to spend up to 1.2–1.6% of GDP annually to support divested assets. To arrive at these estimates, we provide quantitative estimates of the overall social spending of Russian enterprises in 1992–94, as 3–4% of GDP per year, and evaluate the potential share of these costs, which will have to be covered by the consolidated budget

after divestiture. It appears that the total enterprise social spending in Russia remains at its very high pre-reform level of 20% as a share of the gross wage costs. This makes the Russian enterprise sector quite different from the path of enterprise restructuring in Eastern Europe.

While the overall fiscal price for divestiture is not too high, an efficient government support of divestiture will require a proper evaluation of across country differences with regard to tax base and the share of enterprise assets. So far, the Ministry of Finance does not have enough capacity to exercise such a precise assessment. To make the process of divestiture less damaging, the Government has to clarify the corresponding regulations, encourage local administrations to increase cost recovery in housing, and to develop other various reforms in the housing sector that will bring about a reduction in its excessive maintenance costs. If macro stabilization in Russia proceeds further, the government has to be prepared to face a much faster reduction in enterprises' spending on maintaining their social assets.

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ANNEXES

ANNEX 1: Characteristic of the Sample in the Enterprise Survey

A special survey of 24 Russian manufacturing enterprises from ten different cities was conducted in December 1994 by VTSIOM as part of the preparation for the World Bank's Enterprise Housing Divestiture Project.

Location:

single enterprise or single sector cities:

Novodvinsk — 1

Dzerzhinsk — 2

cities dominated by several large enterprises:

Engels — 2

Novocherkassk — 3

Orenburg — 2

Komsomolsk-na-Amure — 3

medium-sized cities with diversified economy:

Smolensk — 3

Kursk — 3

large cities with diversified economy:

Volgograd — 2

Krasnoyarsk — 3.

Legal form:

joint stock company with controlling interest retained by the state — 3

joint stock company with less than 50% of the shares retained by the state — 9

totally private joint stock company — 11

state enterprise — 1

Relation to privatization process:

in the process of privatization — 5

privatization process completed — 18

privatization is forbidden — 1

Stage of enterprise housing divestiture:

divestiture completed before 1990 — 1

in the process of divestiture — 11

are interested in divestiture, but relevant negotiations have not started yet — 10

are not interested in divestiture — 2

Financial and economic characteristics. While the enterprises in the sample varied substantially with regard to their sizes as well as to the magnitude of their housing burden, most were the large and extra-large firms (average employment for the sample was above 4,300 in 1994), and from one to three of the largest corporatized firms were selected in

each city. Most firms experienced substantial financial problems: During 1992–93 their average reduction in employment amounted to 25% of the labor force.¹⁶ In addition, in the middle of 1994, about 13% of their labor was permanently on unpaid leave. As a result of these problems, 17 from 24 firms said they had reduced delivery of social services recently, while only 7 firms did not decrease the volume of provided social services.

Social and housing spending. At the same time, the firms were not able to reduce their spending on housing. Real spending on housing in 1994 remained at its 1993 level, while both cash wages and non-housing social spending declined in real terms, and tenants have paid a twice higher share of the total housing costs in 1994 than in 1993. On average, each enterprise in the sample was responsible for maintaining more than 80 multi-apartment buildings with as many as 5,000 apartments in them.

Total housing costs denominated in per employee terms amounted to 20% of the average cash wages,¹⁷ while the full housing and social costs made 35% of the average wage.¹⁸ This provides a useful indicator of the scale of wage distortions which will be eliminated as a result of divestiture. Since the total payroll costs for Russian industry are almost equal to the value of the gross profit, this data might be also considered as a measure of potential gross financial benefits for enterprises participating in divestiture, without accounting for an offsetting tax effect.

It is interesting to note that 20 out of 24 enterprises have an accumulated stock of non-finished housing and they expressed the wish to complete construction of these sites if they could get sufficient funds. Enterprises reported that more than half of their remaining employees were registered for getting a new apartment.

¹⁶All averages presented in this section are non-weighted.

¹⁷Expenditures on heat and hot water constituted about a half of the total housing costs.

¹⁸Comparison of these results with the data from Table 2 proves that the social burden is rather unevenly distributed across enterprises. While for the industrial sector as a whole, average social costs amount to a quarter of both payroll and gross profit, for the largest providers this level is about 35%, which means that for many small and medium-sized enterprises this amounts to only 10–15%.

Annex 2: Major Regulations Governing Enterprise Housing Divestiture

- RF Law On Fundamentals of the Tax System, December 27, 1991 (amended by Law On Introducing Changes and Amendments to Certain Russian Federation Tax Laws, December 22, 1992).
- RF Law On General Principles of Local Self-Governance in the Russian Federation, August 28, 1995.
- RF Presidential Decree No. 721 On Organization Measures of Transformation of State-Owned Enterprises into Joint-Stock Companies, July 1, 1992.
- RF Presidential Decree No. 8 On Use of Socio-Cultural and Communal-and-Personal Service Facilities of Privatized Enterprises, January 10, 1993.
- RF Presidential Decree No. 2265 On Guarantees of Local Self-Governance in the Russian Federation, December 22, 1993.
- RF Presidential Instruction No. 114-RP On Approval of the Status of By-Site Composition of Federal, State and Municipal Ownership and on Procedure of Ownership Rights Registration, March, 18, 1992.
- RF Supreme Soviet Decree No. 3020-1 On Delimitation of State Property in the Russian Federation, December 29, 1991, (with editorial changes of May 23, 1992 and July 21, 1993).
- RF Government Decree No. 86 On Procedure of Kolkhozes and Sovkhozes Reorganization, December 29, 1991.
- RF Government Decree No. 708 On Privatization and Reorganization Procedure of Enterprises in the Agro-Industrial Complex, September 4, 1992.
- RF Government Decree No. 1325 On Financing of Socio-Cultural and Communal-and-Personal Services Being Transferred into the Authority of Local Bodies of Executive Power during Privatization of Enterprises, December 23, 1993.
- RF Government Decree No. 235 On the Order of Transferring of Socio-Cultural and Communal-and-Personal Services in the Federal Property into State Property of Subjects of Russian Federation and Municipal Property, March 7, 1995.
- RF State Committee for Management of State Property (GKI) Order No. 135-r On Streamlining of the Process of Differentiation of Ownership Rights to Socio-Cultural and Communal-and-Everyday Services of Privatized Enterprises, January 27, 1993.
- RF State Committee for Management of State Property (GKI) Letter No. 13/648 On Procedure of Transferring Enterprise Housing Stock, Housing Maintenance and Housing Repair Units Servicing This Stock into Municipal Ownership, January 24, 1995.

Annex 3: Social Assets in the Coal Industry and Agriculture

Coal Industry

The coal sector is the largest single subsidy item remaining in the federal budget. The sector received about 1.2% of GDP in subsidies in 1994 and, as estimated, about 0.6% of GDP in 1995.¹⁹ Due to its privileged status under socialism, coal mines have accumulated a plenty of social assets, which are currently a subject to the direct government financing together with covering operational losses of coal extraction. By our estimates, at least 125,000 employees, or 15% of the total, of the state coal company *Rosugol*, are engaged in providing social services. Budget subsidies to support social assets amount to 17% of the total budget funding, i.e., 0.19% of GDP in 1994. These social spending per employee of *Rosugol* makes 28% of their average wage bill. The Russian Government has developed a number of recommendations to re-channel the social subsidies from the mine associations to municipal governments in coal regions. (Coopers & Lybrand, 1995) but there is not much progress with their implementation so far.

Agriculture

Agriculture is another sector of the Russian economy, in which firms are heavily involved in providing social services to both employees and local population while the government is financing the delivery of these services through implicit and explicit subsidies. According to Goskomstat, agricultural farms spent 0.25% of GDP on social services in 1993–94, which is about 8% of the entire enterprise social spending. At the same time, explicit government transfers to agriculture, not including tax exemptions, comprising 2.4% of GDP in 1994,²⁰ are about 10 times higher than direct social spending by farms. In fact, social services in agriculture are heavily subsidized by the government in an indirect way via subsidies to main farm products. This distorts the incentives of all the parties involved and make the financial environment within the sector non-transparent.

While potential fiscal impact of divestiture in rural areas is quite small,²¹ there are a number of institutional and legal peculiarities of the status of social assets managed by agricultural farms versus those controlled by urban industrial enterprises, which complicate divestiture of these assets to local governments (see below). As a result, divestiture in rural areas is going even slower than in cities. It leads to problems of two different kinds. First, under the current financial crisis in agriculture, the quality of traditionally provided services has substantially deteriorated. And, in contrast to cities, much of the rural population does not have access to alternative sources of supply of these services, especially in education and health. Second, delivering such important services via farms

¹⁹ As reported by the Ministry of Economy of the Russian Federation.

²⁰ Figures are estimates on the basis of Ministry of Economy of the Russian Federation and Central Bank of Russia data. This includes 1% of directed subsidized credits from both CBR and the consolidated budget and 1.4% of GDP of explicit budget (both federal and local) subsidies. Less than 10% of these subsidies are explicitly targeted at supporting the delivery of social services.

²¹ Rural social assets are relatively cheaper because housing makes a smaller share of these assets. In addition, rural housing has much lower access to utilities, and, therefore requires less subsidies.

creates additional barriers for farm restructuring because of the disincentives for workers to leave the farms and because closing loss-making farms is difficult when there is no alternative institutional framework for delivering social services.

Institutional features include:

- (i) A *tax regime* under which farms are totally exempt from paying some basic taxes such as profit tax and turnover tax and local authorities have no power to reduce these exemptions as social assets are divested. The local governments therefore lack a solid tax base to finance divested social services, and, in comparison with cities, rural local authorities have even less incentives to accept the asset transfer.
- (ii) The *institutional weakness of local authorities* in rural areas at the village level. Traditionally in Russia, local administrations in such places perform only very simple administrative functions, such as registration, and are not capable of managing the delivery of social and housing services. Construction, capital repair, heat and other utility supplies, etc., have been delegated to specialized divisions of large agricultural farms, and were not incorporated into the municipal government structure. Human capital is also inadequate for regulating utility enterprises in the case of the transfer of existing facilities into independent utility firms for servicing local social assets.
- (iii) Less *scope for competition* within the housing sector in rural areas, at least in the medium term. It is likely that large former state farms will still dominate at the local level and will retain control over maintenance services. The combination of non-competitive supply of services and weak governance capability of local authorities complicates asset, especially housing divestiture.

Legal features include:

- (i) *Employees' rights*. According to regulations, social assets managed by state or former state enterprises are subject to divestiture. However, about half of all agricultural farms in Russia before 1992 had a legal status of *kolkhozes*, i.e., they were collectively but not state owned. This means that legally the Government of Russia cannot require the full divestiture of social assets from *kolkhozes* as in the case of former state enterprises, including former state owned farms. Instead, the Government of Russia's strategy is based on imposing restrictions for full privatization of the social assets and encouraging *kolkhozes* and former *kolkhozes* to divest them. In general, existing regulation regarding farms requires social assets to be excluded from those farm assets that are the subject of distributing individual shares among farm members. These social assets might be, but not must to be, transferred to municipal ownership or become a part of a non-distributable fund of the farm under restructuring. Housing might be transferred or sold to tenants.²²

²²Government Resolutions No. 86 of 12/29/91 and No. 708 of 9/4/92.

(ii) *Regional vs. federal ownership rights.* The federal program of social asset divestiture is focused on assets maintained by federally owned enterprises, which are, as a rule, medium- and large-sized industrial enterprises located in urban areas. With few exceptions, enterprises in agriculture are not, and have not been, federally owned assets. This means that the Government of Russia has not committed to provide funds to compensate regional budgets for additional costs related to divestiture of rural social assets. As a result, the federal government is not in a position to impose strong pressure on local authorities to accelerate rural divestiture, and local administrations have strong fiscal disincentives to do so.

Annex 4: Social Assets of the Vladimir Tractor Plant

As many large Russian enterprises, the Vladimir tractor plant used to provide a wide range of social services before 1992. During 1992–94, the enterprise had been facing a severe demand shock, which brought about a substantial reduction in both employment and spending on maintenance of social assets. However, only a minor portion of these assets (some kindergartens and sport facilities) was formally divested to the city in this period. In 1994, the enterprise still spent on covering losses related to maintenance of these assets more than 40% of its gross profit. However, it should be mentioned that all social facilities listed below in Table 4.1, except housing stock, kindergartens, and educational facilities, have been included into the founding capital of the enterprise and privatized along with the productive assets. The management of the firm was not supposed to divest such assets as dormitories, sport, entertainment, recreational and medical facilities, while their maintenance costs amounted to almost a quarter of the entire spending on social assets.

Table 4.2 presents the estimates of the potential financial gain for the plant, which might be associated with the full divestiture of social assets not included in its founding capital. All other conditions with respect to financial flows and taxation rules are considered intact. The analysis shows that under the present regime, the plant enjoys substantial profit tax benefits, which offset more than 50% of the actual social spending. However, given these exemptions, the net financial gain for the plant from full divestiture of housing and remaining kindergartens would be quite large, up to half of the actual spending on maintenance of the whole stock of social assets or more than 20% of the gross profit.

Table 4.1: Spending on Maintenance of Social Assets by the Vladimir Tractor Plant in 1994, million rubles

Housing	4082
out of which: Dormitories*	850
Child care	1315
Sport facilities	108
Recreation facilities	160
Entertainment facilities	118
Medical unit	87
Education	41
Total Spending	5911
out of which: on assets subject to divestiture	4588
out of which: as % of the total	77.62
Spending credited against tax payments	5188
Spending as % of the total spending	87.77
Total Spending, as % gross profit	42.38
Memo:	
Gross Profit	13948
Total Sales	834900

* Estimate.

Table 4.2: Potential Financial Impact of Divestiture

	Before Divestiture, Actual	After Divestiture, Estimate
Spending on maintenance of social assets	5911	1323
out of which:		
Spending credited against tax payments	5188	1000
Turnover tax payments	0	252
Profit tax exemptions (-)	1815.8	438.2
Net costs	4095.2	1136.8
Net costs as % of profit	29.36	8.15
Net gain from divestiture		2958.4
Net gain as % of the initial costs		50.05

APPENDIX: Tables

Table 1: Social Spending by the Enterprise Sector in Russia, in 1992–94 in Nominal and Real Terms

	1992	1993	1994
Social spending, total, trillion rubles, current prices	0.739	5.36	21.12
• health	n.a.	0.99	2.79
• education and culture	n.a.	0.58	1.78
• housing, only maintenance	n.a.	1.96	6.48
• investments	n.a.	n.a.	5.42
• other	n.a.	1.83	4.65
Social spending, total, as % of GDP	3.89	3.13	3.46
Social spending, total, real, 1992 = 100	100	72.89	71.27
MEMO:			
GDP, trillion rubles	19	171.5	611
CPI	14.54	9.95	4.03

Source: Goskomstat, estimates of the authors.

Table 2: Social Spending by the Enterprise Sector in Russia, in 1993–94, trillion rubles

	1993			1994		
	Total	Industry	Agri- culture	Total	Industry	Agri- culture
Social spending, total	5.36	3.47	0.43	21.12	12.99	1.564
• health care	0.99	0.64	0.086	2.79	1.93	0.126
• education and culture	0.58	0.41	0.047	1.78	1.29	0.159
• housing, only maintenance	1.96	1.15	0.169	6.48	3.97	0.486
• investments	n.a.	n.a.	n.a.	5.42	2.83	0.506
• other	1.83	1.27	0.128	4.65	2.97	0.287
MEMO:						
Revenue from sales	184.2	107.6	9.52	607.77	357.68	25.61
Total costs ^c	152.6	85.9	7.65	545.28	304.8	28.02
Profit from sales	31.2	21.8	2.06	62.49	47.37	-2.5
Total gross profit, net losses	37.5	26.73	2.8	80.44	52.71	-0.32
Total wage bill, with bonuses ^a	32.22	15.72	3.41	105.36	49.41	8.87
Payroll tax ^b	9.21	3.91	0.85	33.5	16	2.3
Budget expenditure on:						
health care	5.43			27.45		
education and culture	7.96			24.34		
housing	6.6			28.67		
Social spending as a part of:						
distributed profit (para. 5), %	14.29	12.98	15.36	26.26	24.64	-488.75
total labor costs (para. 6+7), %	12.94	17.68	10.09	15.21	19.86	14.00
wage bill (para. 6), %	16.64	22.07	12.61	20.05	26.29	17.63
Total labor costs with social expenditure as a part of total costs (para. 3), %	30.66	26.89	61.34	29.34	25.72	45.45
Social spending as a part of the total social budget spending, %						
• health care (para. 8)	18.23			10.16		
• education and culture (para. 9)	7.29			7.31		
• housing (para. 10)	29.70			22.60		

Notes: ^a As reported by Goskomstat in the form 10f; ^b Estimate; ^c Including VAT and Excises paid on inputs.

Source: Goskomstat, estimates of the authors.

Table 3: The Structure of Fixed Capital Assets at the Disposal of Russian Enterprises.^a

	In Billion Rubles			As % of Total		
	1991	1992	1993	1991	1992	1993
Stock of fixed capital assets ^b	7780	28539	37409	100	100	100
out of which:						
• main(industrial) activities	7521	25418	33830	96.67	89.06	90.43
• non-productive activities	157	1051	1875	2.02	3.68	5.01
out of which:						
housing	56	333	1038	0.72	1.17	2.77
utilities	n.a.	n.a.	250	n.a.	n.a.	0.67
health	n.a.	n.a.	273	n.a.	n.a.	0.73
education	n.a.	n.a.	141	n.a.	n.a.	0.38
other	n.a.	n.a.	173	n.a.	n.a.	0.46
Flow of new assets:						
new construction		375	8541		100	100
out of which:						
• main (industrial) activities		343	7131		91.47	83.49
• non-productive activities		26	950		6.93	11.12
out of which: housing		16	707		4.27	8.28
Divestiture of social assets						
• all non-productive activities		10	253			
out of which: housing		5	126			

Notes: ^a Without agriculture; ^b By the end of the year.

Source: Goskomstat, estimates of the authors.

Table 4: The Most and the Least Problematic Types of Benefits as Assessed by Enterprise Managers

Type of Benefit	Among 3 of the Most Difficult Benefits to Provide (Number of Responses)	Among 3 of the Most Easy Benefits to Provide (Number of Responses)
Kindergartens	15	0
Housing	10	0
Dormitories	7	0
Recreation facilities	5	0
Canteen with subsidized prices	5	3
Compensation for resort recreation	2	3
Sport facilities	2	4
Cultural center	1	0
Healthcare facilities	1	5
Food shop with subsidized prices	0	2
Transportation subsidy	0	2
Commodities on subsidized prices	0	6

Total number of responses: 24.

Source: Enterprise survey.

Table 5: Potential Consequences of Enterprise Housing Divestiture as Assessed by Enterprise Managers

Issues	Total Number of Responses	Assessment of Consequences (Number of Responses)		
		Decrease	Increase	No Influence
Financial burden	21	16	2	3
Managerial burden	21	19	0	2
Opportunities to hire workers	21	7	2	12
Prices	20	9	0	11

Source: Enterprise Survey.

Table 6: Sources of Resistance to Enterprise Housing Divestiture as Assessed by Enterprise Managers

Resistance From the Side of:	YES (Number of Responses)	NO (Number of Responses)
Local administration	12	9
Enterprise insiders, specifically:	3	18
Enterprise managers	0	–
Trade union	1	–
Workers of housing maintenance unit	2	–

Total number of responses: 21.

Source: Enterprise survey.

Table 7: Conditions Included in Housing Divestiture Agreements Between Enterprises and Municipalities

Conditions	Number of Agreements	Were Considered as the Most Difficult by Enterprise Managers in Negotiations with Local Authorities (Number of Responses)
Divestiture of housing in a good technical shape	9	4
Divestiture of heat and hot water supply systems	10	6
Divestiture of enterprise housing maintenance units	10	4
Sharing maintenance costs	2	1
Sharing capital repair costs	4	2
Sharing utility costs	2	1
Continuation of housing maintenance and capital repair at the expense of the enterprise	2	1
Continuation of housing maintenance and capital repair at the expense of the municipality	5	–
Continuation of utility services provision at the expense of the enterprise	3	–
Continuation of utility services provision at the expense of the municipality	3	–
Total number of enterprises in the process of housing divestiture	11	

Source: Enterprise survey.