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REPORT ON THE INTERNATIONAL CONFERENCE ON APPROACHES
TO HOUSING AND COMMUNAL SERVICES REFORM IN UKRAINE
DURING ECONOMIC TRANSITION

Prepared by the delegation of Ukraine in
cooperation with the secretariat

Introduction

1. The Conference took place in Kiev (Ukraine) from 7 to 9 December 1994. It was organized by Ukraine's State Committees on Urban Development and Architecture and on Housing and Municipal Economy in cooperation with the United States Agency for International Development (USAID) and the ECE secretariat.
2. Representatives of the following countries participated: Belarus, Finland, Germany, Poland, Republic of Moldova, Romania, Russian Federation, Ukraine and the United States. A representative of the ECE secretariat and of the World Bank participated. Representatives of the International Union of Tenants also attended. The delegation of Ukraine was made up of representatives of the Supreme Rada, the Cabinet of Ministers, State Ministries, regional and local authorities, the Academy of Science, State construction corporations, public organizations, the private sector, and financing organizations.
3. The Conference was opened by Mr. A. DRON, Chairman of the State Committee of Ukraine on Housing and Municipal Economy. He welcomed the participants and underlined the key role that the housing sector played in the whole transition process.

4. Mr. O. DYOMIN, Deputy Chairman of the Supreme Rada of Ukraine, reported on Ukraine's housing sector reform. He stressed the importance of stabilizing the standard of living in the country and the role of the housing sector in this process.

5. Mr. V. PLITIN, Vice-Prime Minister of Ukraine, reported on the decline in housing construction in Ukraine, while there was a growing need for housing for those who had been affected by, for instance, the Chernobyl accident, the return of military personnel and migration within Ukraine. He stressed that housing issues had a significant social and political impact and that this sector was a priority for the Ukrainian Government, since an increase in housing construction could be a driving force for the recovery of the whole economy.

6. Mr. W. MULLER, United States Ambassador to Ukraine, addressed the Conference and described housing as a fundamental issue for Ukraine. He stressed that the quality of living conditions characterized the quality of a country and that housing was a key sector of the economy in all societies.

7. The representative of the ECE secretariat briefly reviewed the activities of the ECE Committee on Human Settlements on housing development, modernization and management with particular reference to countries in transition.

8. Mr. A. DRON, Mr. V. GUSAKOV, Chairman of the State Committee of Ukraine on Urban Development and Architecture, and Mr. A. BLACKBURN (United States) were elected Chairmen of the Conference.

9. The participants at the Conference discussed the draft of the State housing policy concept and 37 reports prepared and presented by local and foreign experts. The host authorities indicated their intention to prepare the proceedings of the Conference and submit them to the ECE Committee on Human Settlements.

I. MAIN ELEMENTS OF THE STATE HOUSING POLICY CONCEPT IN UKRAINE

A. Background

10. The weakness of the financial and credit system, the State monopolization of housing construction, rehabilitation and maintenance, the restrictions on the allotment of land for individual housing construction, the lack of incentives for people to solve their housing problems on their own, have all contributed to the country's acute housing problems. Furthermore, the legal framework that currently regulates housing is itself in need of reform.

11. More than 2.35 million families, including priority groups, have been on the waiting-list for housing improvement for a long time. Despite the shortage of housing, housing construction decreases every year.

12. State policy aims to provide high-quality housing, create favourable conditions for new housing development, rehabilitate existing housing and improve its upkeep and maintenance. Construction, rehabilitation and

maintenance of the housing stock are priorities in the socio-economic development of the country. They could help to reduce social tension. The State housing policy concept is designed to outline the general principles which will secure the rights of Ukrainian people to housing.

B. Shortcomings of the current housing policy

13. The need to reformulate the current State housing policy is due to:

- The inconsistency between the current housing system and economic reform in Ukraine, and the need to accelerate the integration of the housing sector into the market economy;
- The reduction in government funding for housing construction resulting from structural changes in national and local budgets; and the inability of State enterprises and organizations to finance housing construction;
- The inadequacy of State support for cooperative and individual housing construction;
- The discrepancy between rent payments and operating costs; the inadequate system of paying for maintenance of the housing stock and the feckless attitude of tenants to their homes, which hastens their deterioration; the unfair treatment of people who build housing at their own expense and continue to pay, through taxes, for the maintenance of the State housing stock;
- The priority which has been given to urban housing construction and which has created a large imbalance between rural and urban housing construction and thereby led to the impoverishment of villages;
- The excessive State control over the construction, rehabilitation and maintenance of housing;
- The inadequate system of housing allocation and the limited choice available between different types of housing and locations.

C. Objectives of the State housing policy

14. The overall objectives of the new State housing policy will be to:

- Create opportunities for every citizen to build, privatize or rent housing according to his or her choice, needs and abilities;
- Provide housing or financial assistance to people who need social protection to solve their housing problems;
- Establish economic and financial incentives for construction, rehabilitation and maintenance of housing;

- Reorient the housing development strategy towards more comfortable housing and single-family homes; promote the development of small and medium-size communities; create favourable living conditions with an appropriate social and cultural infrastructure and amenities;
- Pull down dilapidated and dangerous housing;
- Promote more and better housing development in rural areas; increase the level of amenities and assist in the establishment of housing and communal services in rural areas;
- In conjunction with wage reform, gradually move to a self-sustaining system of payment for housing and communal services, and provide direct subsidies to certain categories of people;
- In line with economic reform, gradually redistribute responsibility between national and local Governments, enterprises and individuals and decentralize the construction, rehabilitation and maintenance of housing.

D. Implementation of the State housing policy

15. The State housing policy will be implemented by:

- Financing housing construction from alternative sources, promoting the use of non-government funds for housing and construction (personal savings, investable business assets, mortgages, etc.);
- Improving the credit system for housing construction and providing subsidies to low-income families;
- Creating incentives for organizations and enterprises engaged in the design, construction and rehabilitation of housing and in the production of building materials and equipment for housing construction and maintenance;
- Establishing stock exchanges, investment funds, mortgage banks and other market structures to finance housing construction;
- Regulating the payment for rent and communal services, taking into account the type of household and the quality of housing;
- Revising master development plans so as to introduce new types and methods of housing construction, including low-rise buildings and single-family homes;
- Making the allocation of land for housing a top priority;
- Providing infrastructure, mechanical services and communal facilities from local budgets and from the funds of developers and investors;

- Developing the network of special housing for temporary residents (hostels, boarding houses, asylums);
- Introducing new methods of housing construction and new energy-saving building materials and equipment; supplying these materials and equipment to consumers, subject to warranties;
- Establishing markets for construction services, building materials, new technologies, architectural services and channelling private investment into construction, rehabilitation and other social projects;
- Redeploying the machine tool and defence industries to produce construction equipment and building materials;
- Privatizing State housing and housing maintenance organizations; establishing a housing market and an alternative maintenance system;
- Making owners and tenants more responsible for the upkeep of housing; clarifying the rights and responsibilities of owners and tenants.

E. Public participation in housing modernization and maintenance

16. Citizens, public organizations (unions, partnerships and other associations of tenants and owners) will have the right to participate in:

- The management of housing to protect their socio-economic rights and interests;
- The choice between enterprises competing to maintain and repair housing;
- The supervision of expenditures and pricing of housing and communal services.

II. OVERVIEW OF THE TOPICS DISCUSSED

A. Approaches to housing policy reform in Ukraine

17. With the deteriorating economic situation in Ukraine the volume of housing construction has declined sharply. The current practice of granting State subsidies for housing construction, maintenance and repair has made tenants negligent about the maintenance and preservation of the housing stock. The absence of an effective housing policy and of legislation that suits the conditions of the transition process further complicates the situation. There is a need to coordinate the housing policy and general economic restructuring in Ukraine.

18. There is a need for a new housing code, including a package of regulations on housing finance, allocation of land, maintenance, real estate and related institutions.

19. Currently, the Ukrainian Interdepartmental Committee together with USAID and the World Bank are preparing projects for reconstruction and new housing construction in several cities.

20. During the discussion it was suggested that: housing construction by the State should be limited, and priority given to private housing construction; owner-occupation should be promoted; land should be made available for private housing development; a legal environment should be created with systems of taxation on real estate; the State should promote an environment that is favourable to private housing development. At the same time it was also pointed out that the State should provide assistance to low-income groups and that in most western European countries the rental housing sector played a significant role in the housing supply.

B. Restructuring the system of payment for communal services

21. Reforms of the payment system for housing and communal services started in Ukraine only in 1994, much later than market-oriented reforms in other sectors of the economy. It is recognized that the sharp increase in prices for housing and services will be one of the most dramatic aspects of the widespread price reforms in Ukraine. It is envisaged that the gradual increase in prices for housing and related services will take effect together with the development of a mechanism for social security and an increase in real income. The target is that households should not spend more than 15% of their income on housing and related services. Without restructuring wages and salaries, the national cost recovery targets will be impossible to meet.

C. Housing maintenance in a market system

22. The existing housing maintenance and repair systems have not undergone any real changes. The major part of the private housing sector, which consists predominantly of one-storey houses, is maintained by the home-owners. The flats in apartment houses which have been privatized are maintained by State enterprises on a contractual basis. Cooperative housing is also maintained either by the owners or by the State enterprises on a contractual basis. Public housing is maintained by local executive bodies, State enterprises and housing associations.

23. There is a need to create a market environment for private and State companies engaged in the modernization and maintenance of the housing stock. The requirements of market relations comprise: (a) competition between firms; (b) opportunity for the home-owner to choose a firm; (c) contractual relations between home-owners and firms; and (d) equal economic conditions for the operation of firms, irrespective of their forms of ownership.

24. The main problems in housing maintenance and repair are the result of the lack of legislation. The existing legislation does not provide answers to many issues relating to the rights, obligations and responsibilities of joint owners in apartment houses, which appeared as a result of housing privatization.

D. Home-owners associations (condominiums)

25. The Decree of the Cabinet of Ministers of 8 October 1992 "Enforcement of the Law on Privatization of the Public Housing" provided for the formation of associations of home-owners to ensure the effective use and management of the housing stock. However, such associations have not been established in view of (a) the absence of evident advantages for the members of such associations as compared to non-members; (b) the failure to understand the necessity of joint maintenance of housing and technical installations; (c) persisting tendencies among the population to depend upon the State and the lack of personal responsibility for housing.

26. The State Committee for Housing and Communal Services in cooperation with USAID worked out the draft law on joint ownership of multi-apartment residential buildings. Its adoption will provide the legal basis for relations between the joint owners of multi-apartment buildings.

E. The role of the State in construction and modernization

27. Housing market reforms promise to change considerably the structure and performance of housing construction and building material enterprises and the distribution of responsibility between the State, local authorities and private sector. At present, however, there are many obstacles to the effective restructuring of the building sector, and one of the most difficult problems is that small building entrepreneurs have to operate in markets still dominated by large State-owned enterprises. Shifting to a demand-driven system is a slow process in Ukraine, and an area where assistance is needed.

28. Experts from some western countries assisted the Ukrainian authorities in drafting tender documentation. It was reported that in western countries the various forms of State housing support could be divided into (i) support given to private households and (ii) support given to the dwelling production. Consumption support lowers housing expenditure for private households to give them better opportunities to raise their housing standard. Tax relief for interest paid on housing loans and housing allowances are examples of such consumption support. Production support tends to be of a general nature, since it is granted regardless of the income of the applicant. In many countries, it is common to link the price and quality of dwellings to production support, especially for government loans.

F. Private housing development and construction

29. Private housing developers in Ukraine face the following main problems:

(a) Low demand for housing as a result of the population's lack of money and the fact that long-term loans are not available to individual households;

(b) Unequal access to scarce materials, building technologies and credit compared with the State enterprises, as a result of the inequality of different forms of ownership before the law;

(c) Lack of appropriate institutions and procedures to operate under the new conditions;

(d) Lack of a legislative framework for the operation of private developers;

(e) Lack of tax incentives for housing development;

(f) Lack of land-titling system and access to land; and

(g) Lack of infrastructure to support new housing development in areas adjacent to cities.

30. Some functions of developers have previously been performed by government agencies in Ukraine, while other functions will be new for the country. Developers have to conduct a market analysis to determine the feasibility of a project, gather financing, arrange for the design of the units and for local permits, supervise construction, and market housing units. It was suggested that as Ukraine moved to a market economy and reduced government expenditure, the role of the Government in developing housing would be phased out and the private sector would take over.

G. Availability of land for private housing development

31. The availability of land for private housing development is a problem in Ukraine. Private ownership of land is prohibited for developers wishing to build more than one housing unit. Furthermore, the current land allocation system does not always make appropriate land available for housing. Decisions are taken without market-based information on land and in the absence of land administration systems, such as cadastre and modern land registration. The lack of investments is a result of the insecurity of tenure.

32. However, certain steps were taken towards land reform in Ukraine. Drafts of a new code on land, a law on titling and registration, and territorial planning were prepared by the special working group under the State Committee on Land Resources. The aim of these legislative acts is to allow for the creation and functioning of private land and real-estate markets. They would accelerate the privatization of land, with the right to possess, use and sell; eliminate existing restrictions on allocation decisions; and improve land registration records providing easy access to market information on supply and demand for land.

H. Financing new housing development

33. In 1990 the mix of the sources of finance for housing construction began to change. Every year State financing is cut and non-centralized sources of funding, including enterprises and commercial structures increase. State finance for housing construction, even for the priority groups who are on waiting-lists for housing in local districts, has been practically curtailed. According to the 1994 economic and social development plan, only 8% of total housing construction is to be financed by the State.

34. Now, as State enterprises are being transformed into stock companies, new approaches to the distribution of profits are being adopted. Stockholders are interested in an equal distribution of the profits, therefore, when collective agreements are signed, proposals to direct part of the profits to housing construction are not generally supported.

35. One of the main unresolved problems of housing construction cooperatives is credit. Although the Law on Housing Cooperation is still in effect, soft credits for housing cooperatives are not readily supplied by the State. To resolve this issue, local administrations, following the Resolution of the Supreme Rada of 22 February 1994 No. 3983-XII on "Invitation of Additional Funds for Housing Construction and Formation of Housing Market", have established a quota of housing for sale by auction at market prices and decided to allocate the funds for financing housing construction.

36. There is practically no mortgage lending in Ukraine. This is the result of a number of factors, including the absence of legislation on property relations and the unprofitability of long-term investments for banks and other financial institutions. Legislative solutions urgently need to be found for issues related to the private ownership of land granted for housing and farm development, preferential taxation of income spent on interest payments and of bank revenue from mortgage lending.

I. Real-estate market and its components

37. A market environment is in place. The main problem of land and real-estate market formation in Ukraine now is the organization of an infrastructure. The activity of real-estate agents, appraisers and other specialists dealing with real estate and land should be modelled on western practices and be regulated by legislation and normative acts.

38. The problems related to the creation of the real-estate market are associated with the special circumstances of the economic transition:

- High inflation and sharp fluctuations in this level;
- Lack of a reliable database;
- Outdated regulations of the banking system and accounting practices, complex taxation system, lack of a system of financial analysis and financial management in enterprises;
- Weak legal framework; and
- Lack of standards for estimating the value of real property.

39. At present the most developed real-estate market in Ukraine is the market for apartments, individual houses, country cottages and garages. The volume of transactions on this market is high enough for buyers and sellers to be able to refer to analogous sales. However, because of the absence of accurate information the use of this method is quite difficult. The shortage of precise information also hampers the introduction of new financial and banking regulations. There are no technical impediments to the establishment of a

universal information system. However, its formation will be unsustainable because some participants in the transactions profit by distorting the real value of property. This situation could change if a tax on real estate is introduced jointly with a mechanism for determining the market value by independent appraisers.

40. Land and real estate undoubtedly are the most important elements of any economic system. To secure the economic transition in Ukraine it is necessary to create a real-estate market that will aggregate the whole variety of market relations. Organizing such a market implies complete transparency and a clear definition of ownership rights and the use of real estate (the right to own, use, grant, lease and mortgage). The formation of a real-estate market will improve economic efficiency and land and real-estate preservation, and will replenish the public purse through property taxes.

41. The problems of evaluating land resources are especially important in the general context of economic reform in Ukraine. Its land resources are its most important reserve of economic growth. Presently, land resources are not sufficiently involved in the economic reform process. The main problems are:

- There is no full-fledged land market;
- The current system of land taxation is exclusively fiscal in character;
- The most important regulating functions and mechanisms are absent; and
- Land is not handed over into private ownership for economic or commercial use, which creates additional obstacles for investors.

42. The creation of legislation, standards and institutional provisions for land and real-estate registration depends on the achievement of at least two goals. The first goal is to guarantee an owner's right to land, real estate and shelter. This guarantee implies the availability of legal documents providing for the right to ownership. The second goal ensures the interests of society and the State by protecting some objective values of land and real estate (ecological characteristics of land plots, physical characteristics of buildings, aesthetic, cultural and historical values, etc.).

43. The State Committees of Ukraine on Urban Development and Architecture and on Land Resources together with other departments and with the active participation of USAID, have worked out proposals for the perfection of land legislation aimed at the creation of a legal basis for a land market, the acceleration of land privatization, and the stimulation of property exchange. A draft law on registration and on the right to land and real estate, which considers land and the buildings on it as inseparable, has been prepared. This law will stipulate the organizational principles of land and real property registration; the nature and levels of competence of the registration organizations; ways of appraising land and buildings; the procedures of registration, control and guarantee of owners' rights and responsibility.

44. The State Land Cadastre was approved in a resolution of the Cabinet of Ministers of Ukraine on 12 January 1993. The creation and maintenance of the Cadastre are entrusted to the State Committee on Land Resources and - subordinate to it - departments on land resources of the executive committees of local radas. It should be financed by State and local budgets.

45. The State housing policy concept is currently being considered for adoption by the Government of Ukraine.

Conclusions of the Conference

46. The Conference approved the main elements of the State housing policy concept in Ukraine and recommended that a programme of action should be drawn up by State bodies in cooperation with public and private organizations and institutions to implement the housing policy concept in Ukraine.
