

UNITED NATIONS ECONOMIC COMMISSION FOR EUROPE

Country Profiles on Housing and Land Management



Ukraine



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**COUNTRY PROFILES
ON
HOUSING AND LAND MANAGEMENT**

UKRAINE



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Country Profiles on Housing and Land Management are intended to assist Governments to improve the performance of their housing and land management sectors and, at the same time, to promote sustainable development. The Profiles analyse trends and policy developments and make an overall assessment of the political, economic and social framework of the housing and land management sector in a country. This work was initiated by the United Nations Economic Commission for Europe (UNECE) Committee on Housing and Land Management in the early 1990s, in response to requests from UNECE member States.

These studies are requested by member States and carried out by international teams of experts in cooperation with governmental bodies, other international organizations, non-governmental organizations (NGOs), local authorities and the private sector. Through a process of broad consultation, the experts undertake a comprehensive review of the housing and land management sectors and develop recommendations to help policymakers draft strategies and programmes.

This country profile on Ukraine's housing and land management sectors, prepared at the request of the Ministry of Regional Development, Construction, Housing and Communal Services, is the sixteenth in the series. The country profile programme continues to emphasize in-depth analysis and policy recommendations, while also focusing on specific challenges or achievements in the housing and land management sectors that are particularly relevant to the country under review. In the case of Ukraine, these issues are: housing supply and affordability; energy efficiency; spatial planning and land administration; and the legal, institutional and financial framework. This country profile report lays out a set of policy recommendations. Their timely and effective implementation is regarded as crucial to meeting the challenges Ukraine currently faces in the areas of housing and land management.

I would like to thank the international and local experts who contributed to the preparation of this country profile, as well as the Governments that provided funding for its development. I invite all those with an interest in Ukraine's housing and land management sectors — policymakers and legislators, Government officials, academics, NGOs and other national stakeholders, as well as international organizations, lender and donor organizations, technical assistance agencies and private sector investors — to make full use of the information and recommendations contained in the study. It can serve as a framework for future action and can help shape programmes at the national and local levels.

Finally, I would like to stress the relevance of the country profile reviews as unique instruments that allow UNECE countries to share experiences in housing and land management issues, to compare trends and gain knowledge from different practices, to adopt policies and planning tools and to learn about the actions implemented. Our experience has shown that Country Profiles are a practical policy tool that all stakeholders concerned can use to address development-related challenges in the housing and land management sectors, most particularly in countries with emerging economies such as Ukraine.



Sven Alkalaj

Executive Secretary

United Nations Economic Commission for Europe

PREFACE

This country profile on the housing and land management sectors of Ukraine was requested by the Ministry of Regional Development, Construction, Housing and Communal Services and began with a preparatory mission by the UNECE secretariat. A fact-finding mission by the international expert team was carried out in March 2012.

The project's expenses were covered by extrabudgetary funds provided by Governments. The successful conclusion of the project would not have been possible without this generous support.

Previous studies in the series include Bulgaria (ECE/HBP/101, published in 1996), Poland (ECE/HBP/107, 1998), Slovakia (ECE/HBP/111, 1999), Lithuania (ECE/HBP/117, 2000), Romania (ECE/HBP/124, 2001), Republic of Moldova (ECE/HBP/125, 2002), Albania (ECE/HBP/130, 2002), Armenia (ECE/HBP/132, 2004), Russian Federation (ECE/HBP/131, 2004), Serbia and Montenegro (ECE/HBP/139, 2006), Georgia (ECE/HBP/143, 2007), Belarus (ECE/HBP/150, 2008), Kyrgyzstan (ECE/HBP/157, 2010), Azerbaijan (ECE/HBP/160, 2010) and Tajikistan (ECE/HBP/163, 2011).

Six other UNECE publications related to housing may also prove useful to Ukraine and other countries in transition: (a) *Guidelines on Condominium Ownership of Housing for Countries in Transition* (ECE/HBP/123, 2003); (b) *Housing Finance Systems for Countries in Transition: Principles and Examples* (ECE/HBP/138, 2005); (c) *Guidelines on Social Housing: Principles and Examples* (ECE/HBP/137, 2006); (d) *Self-made Cities: In Search of Sustainable Solutions for Informal Settlements in the United Nations Economic Commission for Europe Region* (ECE/HBP/155); (e) *Green Homes: Towards Energy Efficient Housing in the United Nations Economic Commission for Europe Region* (ECE/HBP/159); *Climate Neutral Cities: How to Make Cities Less Energy and Carbon Intensive and More resilient to Climatic Challenges* (ECE/HBP/168).

This country profile and other related publications are available on our website (<http://www.unece.org/hlm/welcome>).

Acknowledgments

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The international experts provided inputs in their above-mentioned areas of expertise. Although this mainly involved drafting one specific chapter, parts of their work also contributed to other chapters for the purposes of clarity. The legal framework has been fully reflected as appropriate. The final publication should therefore be considered to be the result of a joint effort.

The draft publication was reviewed by Virginia Cram-Martos, Director, Economic Cooperation, Trade, and Land Management Division, UNECE; Paola Deda, Chief, Forestry and Timber Section, UNECE; Michael Milligan, Economic Affairs Officer, Housing and Land Management Unit, UNECE; Larisa Burakova, Consultant, Housing and Land Management Unit, UNECE.

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CONTENTS

Foreword	iii
Preface	v
Acknowledgements	vi
List of boxes, figures and tables	viii
List of abbreviations	ix
EXECUTIVE SUMMARY.....	1
INTRODUCTION	5
PART I HOUSING SECTOR	13
CHAPTER I LEGAL, INSTITUTIONAL AND POLICY FRAMEWORK FOR HOUSING	13
A. Legal framework for housing	14
B. Policy and institutional framework	16
CHAPTER II HOUSING CONDITIONS	19
A. General Overview of the Housing Stock	19
B. Housing ownership	19
C. Housing tenure	19
D. Quality of housing.....	21
E. Access to utilities	21
F. Energy efficiency	22
G. Market for maintenance services	23
H. Tariff setting and affordability of housing costs	23
CHAPTER III HOUSING ALLOCATION, NEEDS, DEMAND AND SUPPLY	25
A. Demographic situation	25
B. Housing consumption	25
C. Housing Supply.....	28
D. State supported housing programmes	30
PART II SPATIAL PLANNING AND LAND MANAGEMENT	35
CHAPTER IV SPATIAL PLANNING AND URBAN DEVELOPMENT	35
A. Legal, policy and institutional framework	35
B. System for granting permits for preparatory-construction activities and actual construction work.....	39
C. Urban planning documentation	40
D. Spatial development trends and planning responses.....	40
CHAPTER V LAND MANAGEMENT AND REGISTRATION SYSTEM	49
A. Legal framework for land administration	49
B. Institutional framework for land administration	50
C. Land Reform	52
D. Spatial reference system and topographic mapping.....	53
E. Cadastre	54
F. Real Estate Market.....	56
PART III FINANCIAL FRAMEWORK FOR THE HOUSING AND LAND SECTORS	59
A. Availability of housing finance	59
B. Affordability of housing.....	61
C. Role of central and local executive bodies in housing financing.....	61
RECOMMENDATIONS	69
ANNEXES	81
Annex I - Demography indices, 1990, 1995 and 2000-2012	81
Annex II - Basic indicators on labour market	82
Annex III - Population below relative national poverty line (%)	83
REFERENCES	85

LIST OF BOXES, PICTURES, FIGURES AND TABLES

BOX

1. Geographic coordination of a regional development strategy: The case of Khmelnytskyi oblast	42
------------------------------------------------------------------------------------------------------	----

PICTURES

1. Dnipro River Dnipro River	11
2. House framework	13
3. Soviet-era apartment building and a new construction	18
4. Energy efficiency in housing construction	23
5. A social housing under construction	24
6. Multi-apartments buildings constructed under the State's housing programmes	32
7. Rows of multi-apartment buildings with playground and parking	48
8. An apartment building under construction	58
9. A social housing under construction	80

FIGURES

1. Map of Ukraine	5
2. Governmental structure of Ukraine	9
3. Ukraine's houses by period of construction as of 1 January 2013	21
4. Public sector share in the overall housing output in Ukraine, 2000-2009	29
5. Housing output in Ukraine, 1985-2011	29
6. Number of unfinished construction sites as of 1 January 2013 (by year of commencement of construction)	30
7. Territorial planning in the national system of strategic planning	43
8. From land use planning to spatial planning: securing a spatial integration of different strategies and policies (regional level)	44
9. Kyiv Development Strategy until 2025	44
10. Strategic territorial planning and socioeconomic development strategy of Kyiv	45
11. Egan Wheel for sustainable community	47
12. Structure of the State Agency of Land Resources	52
13. Land use in Ukraine as of 1 January 2011	54
14. Annual capital investments and investments in housing at current prices	60
15. Level of government assistance by target group	74

TABLES

1. Population distribution in urban settlements, 2001	6
2. Population in 1991 and 2001-2013	7
3. Average household size, 1999-2012	8
4. GDP per capita in USD, adjusted by purchasing power parity, at 2005 price levels	10
5. Characteristics of households' housing consumption as of 1 January 2013	20
6. Hostels by ownership type as of 1 January 2013	20
7. Per cent of housing units equipped with basic utilities as of 1 January 2013	22
8. Rates of change for selected population and housing indicators, 2001-2011	25
9. Percentage of Ukraine's households living in one-room dwellings in 2013, in %	26
10. Housing allocation to households in the waiting lists	27
11. Key legislation in place	50
12. Agro-formations in Ukraine as of January 2011	53
13. Average prices for secondary-market apartments in Ukraine's largest cities in 2012	62
14. Assets and deposits of the Ukrainian banking sector	64

LIST OF ABBREVIATIONS

BTI	Bureau of technical Inventory
CMU	Cabinet of Ministers of Ukraine
EU	European Union
EU-27	European Union of 27 Member States
EUREF	Reference Frame Sub-Commission for Europe
FCBU	First Credit Bank of Ukraine
Gcal	Gigacalorie
GDP	Gross Domestic Product
GNSS	Global Navigation Satellite System
GTZ	German Partnership for Technical Cooperation
GVA	Gross Value Added
Habitat II	The Second United Nations Conference on Human Settlements
HOA	Homeowners' association
KMDLR	Kyiv Main Department of Land Resources
kWh	kilowatt-hour
LTV	Loan-to-value
m²	square meters
MBS	Mortgage-backed securities
MFI	Micro-finance institution
MinRegion	Ministry of Regional Development, Construction, Housing and Communal Services
MoAF	Ministry of Agrarian Policy and Food
MoJ	Ministry of Justice
NARDA	National Regional Development Agency
NERC	National Electricity Regulation Commission
NGO	Non-governmental organization
NSDI	National geospatial data infrastructure
PPP	Public-private partnership
ROI	Return of investment
SALR	State Agency of Land Resources
SGN	State Geodetic Network
SLC	State Land Cadastre
SMI	State Mortgage Institution
SSSU	State Statistics Service of Ukraine
UAH	Ukrainian hryvnia
UNECE	United Nations Economic Commission for Europe
UNIA	Ukrainian National Mortgage Association
UNIAN	Ukrainian Independent Information Agency
USAID	United States Agency for International Development
USD	United States dollar

Exchange rate : 1 USD = 8 UAH (March 2012)

EXECUTIVE SUMMARY

This summary provides an overview of the housing and land management situation in Ukraine, covering general characteristics, challenges and policy recommendations.

Introduction – Socioeconomic development

Ukraine is among the richest countries in the world in terms of mineral resources, counting nearly 20,000 deposits of 117 mineral commodity types. The country's agricultural sector has enormous potential for development; it has 30% of the world's black soil (an exceptionally fertile type of soil), a temperate climate and flat topography, which are conducive to crop production. Ukraine is among the world's top exporters of grain, coal and steel.

Impact of the economic crisis on the construction sector

However, Ukraine's economy was among the worst hit by the 2008-2009 global economic crisis, which resulted in a GDP decline of 14.8%. The impact was heavily felt in the construction sector, especially in housing construction, which contracted 15.8% from 2007 to 2008 and 48.2% from 2008 to 2009. Housing prices fell because demand decreased, real estate developments were put on hold and housing construction was reduced. For example, between September 2008 and March 2010, housing prices in Kyiv fell by 40.6%. Mortgage payments and construction costs increased, while households' disposable income decreased.

Demographic trends

Unlike most countries in the region, Ukraine has few medium-sized cities *with almost 55% of the urban population living in either small cities of up to 50,000 inhabitants or in big cities with more than one million inhabitants*. In Ukraine, 68.8% of the population live in urban areas. A diminishing population is the most notable feature of Ukraine's demographic development. The country has lost about 6.1 million people in its 20 years of independence.

The process of urbanization has almost stopped; during the last two decades, the share of urban population has stabilized. In 2006, the Cabinet of Ministers of Ukraine endorsed the Strategy of Demographic Development of Ukraine for 2006–2015, which forecasts that the population aged 65+ will increase to 7.6 million by 2020, compared with 7.0 million in 2011, whereas the population aged 0-64 will fall to 35.9 million, from 38.5 million in 2011.

Legal, institutional and policy framework for housing

The country's legal and institutional framework and housing policies have to address challenges such as poor housing conditions, a high percentage of housing stock requiring major repairs and uneven housing availability.

Ukraine has shifted to a market economy; however, it is still using a Housing Code inherited from the Soviet period containing outdated provisions which, for example, ignore communal properties (such as elevators or lobbies in apartment buildings) or ignore the condominium form of ownership. While new laws regulating particular legal relations in the housing sector have been adopted, corresponding amendments to the Housing Code are not being made. This creates confusion and an ambiguous environment in housing legislation.

Legislation does exist to regulate the activities of condominium associations. However, the joint ownership of common property in an apartment building requires unanimous management decisions, which is very often unlikely. This and the unclear legal status of the land plot on which the apartment building is erected continue to challenge the existing regulations concerning condominium associations. The Ministry of Regional Development, Construction, Housing and Communal Services (MinRegion) has recognized these issues and has included in its agenda the drafting of a law ("On Specifics of Ownership in an Apartment Building") that would establish that the land plot is an element of common property of an apartment building and that would regulate its ownership or usage.

For the time being housing policy of Ukraine is based on resolutions by legislative and executive authorities made with a short- or mid-term perspective. Amendments are needed to the inherited Housing Code to allow for long-term State policy on housing.

The structure of the executive bodies (implementing agencies) dealing with housing policy has been reorganized several times during the last 20 years. Construction, housing and utilities used to be handled by different ministries but at present, the Ministry of Regional Development, Construction, Housing and Communal Services is the leading national executive body among the executive national bodies responsible for the implementation of national policy in the housing sector. The Ministry is also responsible for implementing State programmes in the housing sector. However, some housing programmes are carried out by several other national executive bodies without proper coordination with the State programmes supervised by the Ministry.

Housing conditions

Ukraine's housing stock is 93.7% private, which is mainly a result of the privatization of public housing stock, while 3.4% of households live in private-rental housing. The low share of rental housing in Ukraine does not give the real picture of the housing rental market in Ukraine, as the process is often done informally and outside the official tax system. According to some estimates, the housing rental market accounts for almost 13% of the total residential stock.

The housing stock is relatively old; only 7% of the stock was built after 1991. A typical multi-unit building, therefore, is 30-50 years old and badly in need of repair and renovation.

Low energy prices, together with the overall poor condition of the housing stock, contribute to high energy consumption. Ukraine is one of the most energy-intensive countries in the world; it is 3.7 times as energy-intensive as Germany and three times as energy-intensive as Poland. Housing consumes a significant share of the energy used for heat production and of gas (35% and 43%, respectively).

The Government has taken steps to address energy inefficiency in the housing sector by implementing reforms through its State programmes and through 125 pilot projects for modernizing the housing stock and utility networks. These reforms could result in important savings in energy. The institutional weakness of condominium associations and the irregular financing of the State programmes hamper the improvement of energy efficiency in the housing sector.

Housing allocation, needs, demand and supply

There are quite substantial differences in housing consumption in Ukraine; 9.1% of total households have less than half the national average level of living space per person i.e., less than 7.5 m² of living space; Kyiv has the highest percentage of such households, with 16.5% of households having less than 7.5 m² of living space. Statistics show that 3.6% of households are deeply dissatisfied with their housing conditions, while 15.9% are not satisfied at all.

There are no official records of housing needs in the country; analyses are based either on what is contained in the housing waiting list or on an investigation of housing conditions and allocations. According to 2010 data, 1.139 million Ukrainian households were identified as needing housing, of which 779,700 have already been in the housing queue for more than 10 years. Households in the waiting list have the option to either wait for free public housing, where the average waiting period is currently estimated to exceed 100 years, or participate in State-supported programmes using their own means.

In 2013, MinRegion is planning to launch a Unified State Register of Citizens Needing Improvement in their Housing Conditions. The register will serve as an important instrument to support national housing initiatives; it will stimulate the integration of approaches to needs assessment and housing needs information and establish firm eligibility criteria.

Housing affordability is also of concern to Ukrainians. The current average household income does not match current housing prices. For example, the affordability index of the housing market, calculated by dividing the average house price by the average household annual income, in Kyiv is 13.6. An index of 3 to 5 is usually recognized as providing an affordable housing market. The situation in this area is affected by the rapid increase in housing prices since the 2000s and fluctuating household income, interest rates and maturity of mortgage loans.

The need to set long-term sustainable goals and strategies to address challenges in housing is extremely important. Current housing policy measures are driven by the need to react to the most urgent needs of the sector. Affordable housing initiatives should focus not only on cost efficiency, but also on equally important environmental and social development concerns.

Spatial planning and urban development

Dealing with the impact of socioeconomic and urban activities has been a difficult challenge for the Government; this can be seen by, inter alia, growing regional disparities, unbalanced urban development and environmental degradation. Planning reform has not been given a priority by the Government until recently. The efforts of the Government in strategic socioeconomic planning and financing, and the simplification of urban development control, are expected to remedy the situation, but further steps in the field of regional planning should be considered. For example, there is no clear procedure for dealing with unauthorized constructions or for public hearings in cases of the compulsory sale of properties.

Housing developments are also known to have socioeconomic and urban implications. The fast growth of urban areas has prompted a sharp increase in housing demand and prices, worsening the housing affordability situation in the country. Declining urban areas, on the other hand, are not attractive and do not generate jobs, thus triggering emigration and demographic changes. The migration process has contributed to an increasing deterioration of residential infrastructure in the declining areas and to housing shortages and overcrowding in the fast-growing areas. For example, the boom in housing construction in the mid-2000s has had implications for urban development, including urban sprawl, unbalanced development, a shortage of infrastructure and road congestion.

To ensure an integrated approach to housing, the Government should promote better cooperation between planning and housing. Effective planning for housing based on spatial planning principles and practices should be considered. This approach should help reintegrate housing with socioeconomic and urban tasks and improve the governance of housing delivery.

Land administration and registration system

Land administration authorities face the challenges of completing the registration of land, setting up the State Land Cadastre (SLC) and introducing a healthy land market, particularly in rural areas where there is still a moratorium on sales of agricultural land.

The implementation of legislation remains a major task. The country has made considerable progress concerning land, but the two laws that will serve as the cornerstone of the legal framework for land administration are not yet in force, although one has already been adopted. A law concerning agricultural land, which will improve the legal mechanisms for the further development of agricultural land use and ownership based on generally accepted principles, has yet to be adopted by the Parliament.

The country is still setting up a single cadastre database using a new geodetic reference system. This and the automation of its maintenance system are critical for the appropriate management of resources and taxation and should therefore be given priority. However, its implementation is extremely slow and the creation of an automated maintenance system is hampered by the lack of funding. There have been improvements in this area resulting from a collaborative project between the Government and the World Bank. Currently, Ukraine is using a unified coordinate system that allows public access to information on land through a web portal.

To a certain extent, the currently complicated and bureaucratic registration and privatization processes affect the volume and value of real estate market transactions. Some other factors that contribute to the country's underdeveloped real estate market are: the separate ownership of condominiums and their land; unclear boundaries for land plots on which multi-family housing is located, resulting in difficulties in using real estate as collateral for investments; and the lack of a functioning rural land market due to the moratorium on agricultural land sales.

Financial framework for the housing and land sectors

Since 2009, mortgage payments and construction costs have increased and household income has decreased. Households have thus found themselves unable to finance their housing. Investment in construction, especially in residential housing construction, decreased sharply. The Government adopted a law to help mitigate the effects of the global crisis on the construction industry; however, this is not a sustainable solution. Long-term housing strategies and policies, including financial mechanisms that would support residential construction, are needed.

Although the demand for new and affordable housing is overwhelming, the supply is insufficient due to a lack of financial mechanisms to support construction companies. Today, residential construction is financed mainly from proceeds from the pre-construction sale of housing units.

Policies to increase housing financing are critical in alleviating the housing problems of the country but they should be supported by effective land supply policies. The availability of financial tools is expected to increase the demand for housing and, if land supply does not match this increase, house prices could increase, thus reducing housing affordability.

The Government does not view housing as one of its priorities for socioeconomic development. Apart from those housing programmes developed to address the housing needs of the vulnerable population, the State budget for general housing-related programmes is limited.

Further growth in the mortgage sector is affected by the legacy from the rapid pre-crisis development of the mortgage market, which was fuelled by foreign financial resources. There is a very high proportion of outstanding mortgages in foreign currencies originating from before the property devaluation in 2008-2009. Another problem is the lack of predictability and trust in the stability of the country's economy.

As the interest rates on the Ukrainian currency remain unchanged, a future devaluation of the hryvnia is expected. In this scenario, the Government will have to improve mortgage legislation in order to decrease risks because lower risks would, in turn, lower interest rates. The Government should also ensure an easy and inexpensive foreclosure process, both for the debtor and borrower, supplemented by provisions for social assistance.

Geographical description

Ukraine covers a territory of 603,548 km². It borders Belarus to the north, the Russian Federation to the east and northeast, the Sea of Azov to the southeast, the Black Sea to the south, the Republic of Moldova and Romania to the southwest, Hungary to the west and Poland and Slovakia to the northwest. It is among the richest countries in the world in terms of mineral resources; it has abundant deposits of coal, iron ore, manganese, nickel and uranium and ranks high globally in sulphur, manganese and iron ore reserves. Ukraine is also rich in building materials such as granite, marble, labradorite, chalk, marlstone and sandstone.

types are of commercial value and are accounted for in the State's inventory of mineral reserves.¹

Most of Ukraine's territory is fertile upland agricultural plains; mountains cover only about 5% of the country. The Carpathian Mountains are located in the west and the Crimean Mountains at the southern end of the Crimean peninsula. The country has three major lowland regions: Polissia in the north, the Black Sea Coastal lowland in the south and the Dnipro River lowland on the left bank of the Dnipro River towards the north. Polissia has a high percentage of swampy lands, but much of this marshland region has been drained and cleared for agriculture.

The soil covering Ukraine is diversified black soil, an exceptionally fertile type of soil. Ukraine has 30% of

Figure 1. Map of Ukraine



Overall, nearly 20,000 deposits of 117 mineral commodity types are found in the Ukrainian subsoil. Of these, 8,172 deposits of 98 mineral commodity

¹ 'State mineral resources of Ukraine,' *State Service for Geology and Mineral Resources of Ukraine*, <http://dgs.gov.ua/stan-mineralno-sirovinnoi-bazi.html>. (accessed April 09, 2013).

the world's black soil.² Ukraine's temperate climate and precipitation rate make it generally favourable for growing a wide range of agricultural crops. Overall, Ukraine's flat topography, fertile soil and climatic conditions are favourable for crop farming; this provides a unique opportunity for agricultural development.

The development of commercial and industrial facilities, transport infrastructure and climatic/micro-climatic conditions are taken into account when choosing a land plot for housing construction. According to the State Construction Provisions DBN 360-92 "Planning and Development of Urban and Rural Settlements", the territory of Ukraine is divided into four climatic zones and 10 climatic subzones. The requirements for the planning and development of urban and rural settlements differ, based on a climatic zone (subzone) of the territory.

The Dnipro is Europe's third largest river and it flows through central Ukraine; half the rivers in the country belong to the Dnipro river network. This network has had a strong influence on the territorial development of

- Dnipropetrovsk (population: 998,000) – the hub of metallurgical and aerospace industries
- Donetsk (population: 953,000) – a mining and metallurgy centre
- Zaporizhia (population: 771,000) – a metallurgy centre
- Lviv (population: 730,000) – the historical, cultural and educational centre of Western Ukraine

The population distribution in urban settlements, based on the latest population census data (Census 2001), is shown in Table 1. Unlike most countries in the region, Ukraine has few medium-sized cities; almost 55% of the urban population lives in either small cities up to 50,000 inhabitants or in big cities with more than one million inhabitants. In Ukraine, 68.8% of the population live in urban areas. This is more than in neighbouring countries in Eastern Europe (60.9% in Poland, 52.8% in Romania and 54.7% in Slovakia) and less than in Belgium (97.5%),

Table 1. Population distribution in urban settlements, 2001

Number of inhabitants	Number of settlements	Population (in thousands)	Percentage of the total urban population
up to 49,999	1,246	10,434.6	32.31
50,000 - 99,999	52	3,603.4	11.16
100,000 - 249,999	20	3,235.9	10.02
250,000 - 499,999	16	5,216.6	16.16
500,000 - 999,999	4	2,711.7	8.40
1 million and more	5	7,088.5	21.95
Total	1,343	32,290.7	100.00

Source: Based on the All-Ukrainian Population Census. Available from <http://www.ukrcensus.gov.ua/eng/>.

the country; for example, many big cities are located along the rivers. Rivers are the main source of drinking water; they also supply water for industrial plants and for irrigation. They are also an important source of hydroelectricity.

Ukraine's largest cities are:

- Kyiv (population: 2.845 million) – the country's capital and economic, cultural and educational centre
- Kharkiv (population: 1.451 million) – where engineering expertise, machinery plants and educational institutions are concentrated
- Odessa (population: 1.015 million) – the country's largest seaport

² Ukraine Digest, "Ukraine's Black Soil is Golden for the Economy". Available from <http://ukraine-digest.com/agriculture/21-ukraines-black-soil-is-golden-for-the-economy> (accessed 21 January 2013).

France (85.8%) and Germany (73.9%). For European countries, the average percentage of people living in urban areas is 72.9%.³

The average population density in 2011 was 75.6 inhabitants/km².⁴ This is higher than in Scandinavian and Baltic countries (30.9 in Estonia, 17.7 in Finland, 48.3 in Lithuania), comparable to Austria (102.2), Greece (86.4) and Spain (92), but much lower than in Belgium (364.3), Germany (229) and the Netherlands (494.5) (based on data from 2011). The average population density for the European Union (EU) of 27 Member States (EU-27) is 116.9 inhabitants/km² (based on data from 2011).⁵

³ United Nations, Department of Economic and Social Affairs, Population Division, *World Urbanization Prospects: The 2011 Revision* (New York, 2012), CD-ROM.

⁴ SSSU, *Ukraine in Figures in 2011* (Kyiv, 2012), Table 1.4, p. 19.

⁵ European Commission, Eurostat, Population density. Available from, <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tps00003&plugin=1> (accessed 11 September 2013).

Demographic situation

The diminishing population is the most notable feature of Ukraine's demographic development. Ukraine has lost about 6.1 million people in the 20 years of its independence. The estimated population for 2012 (as of 1 January 2013) was 45.6 million, which is 12.1% less than in 1991 (Table 2). In Ukraine, the process of urbanization has almost stopped; during the last two decades, the share of urban population has stabilized at the level of 67-68% of the general population size. The trend of depopulation of all large cities, except Kyiv, can be clearly observed. For example, the populations of Donetsk decreased from 1,113,000 in 1989 to 953,000 in 2012 (-15%), Dnipropetrovsk from 1,189,000 to 998,000 (-16%), Odessa from 1,115,000 to 1,015,000 (-9%), Zaporizhia from 884,000 to 771,000 (-13%) and Lviv from 791,000 to 730,000 (-8%).⁶

At the same time, some medium-sized cities in Western Ukraine had a population gain. For example, the population of Ivano-Frankivsk increased from 214,000 in 1989 to 226,000 in 2011 (+5.6%), Lutsk from 198,000 to 215,000 (+8.6%) and Ternopil from 206,000 to 217,000 (+5%).

decreased to 15.2 in 2010 (Annex I). Life expectancy in Ukraine is at par with that in lower-middle-income developing countries. Furthermore, Ukraine has one of the highest life expectancy gender gaps in the world; women live 11 years longer than men (Annex I).

Over the last decade the average household size decreased from 2.77 persons in 1999 to 2.58 persons in 2012 (Table 3). There is a clear increase in single person households (from 20.1% in 1999 to 22.4% in 2012) and of three-person households (from 21.4% in 1999 to 25% in 2012). At the same time, the share of households with four persons and more decreased significantly (from 30.3% in 1999 to 22.7% in 2012). This decrease is attributed to two factors: fewer families have two or more children and fewer young families live with their parents. This contributes to the increase in housing need.

In 2006, the Cabinet of Ministers of Ukraine endorsed the Strategy of Demographic Development of Ukraine for 2006-2015 (resolution No. 879 of 28 June 2006). It is forecast that the population of people aged 65+, 7 million in 2011, will increase to 7.6 million by 2020 while the population aged 0-64, 38.5 million

Table 2. Population, 1991 and 2001–2013
as of 1 January

	1991	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Population (million)	51.9	48.9	48.5	48.0	47.6	47.3	46.9	46.6	46.4	46.1	46.0	45.8	45.6	45.6
Urban (%)	67.5	67.4	67.2	67.3	67.5	67.7	67.9	68.1	68.3	68.5	68.6	68.7	68.8	68.9
Rural (%)	32.5	32.6	32.8	32.7	32.5	32.3	32.1	31.9	31.7	31.5	31.4	31.3	31.2	31.1

Source: SSSU, *Statistical Yearbook 2011*, (p. 3) and Ukraine in Figures in 2012, (p. 19). Data for 2002 were based on the results of the All-Ukrainian Census 2001 (as of December 5, 2001).

This demographic development is attributed to the social and economic upheaval of the 1990s. The deep economic recession resulted in non-returning migration to other countries, while worsening social conditions led to a lower birth rate and life expectancy and a higher death rate. The birth rate dropped from 12.6 to 7.7 in 2001 due to economic hardships and increased emigration. Once the economic downturn had been overcome, the birth rate increased, to 11.1 in 2009.

The death rate increased from 12.1 in 1990 to 16.6 in 2005. This increasing mortality has been due to the growing deterioration of population health caused by a drop in living standards and decay of the public health system. With the overall improvement of the social and economic situation in the country, the death rate

in 2011, will fall to 35.9 million. In particular, the population aged 15-64, the biggest contributors to income tax, is expected to decrease by 9.5% during 2011-2020. This shrinking labour force combined with an ageing population will place a large financial burden on the government. In an effort to reduce government expenditures, the Government raised the female retirement age from 55 to 60. It remained unchanged for men, except for male civil servants whose retirement age was raised to 62.

Employment and poverty

Annex II contains official data on labour markets in Ukraine over the last decade. Between 2000 and 2012, the economically active population followed the general trend of depopulation of Ukraine. For example, the economically active population of working age decreased from 21.15 million to 20.39 million; however, the total number of employed

⁶ SSSU, *Population of Ukraine on 1 January 2013* (Kyiv, 2013), Table 1.4, p. 16.

Table 3. Average household size, 1999-2012

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Average household size, persons	2.77	2.76	2.73	2.71	2.62	2.62	2.61	2.60	2.60	2.60	2.60	2.59	2.59	2.58
Distribution of households according to size %														
one person	20.1	20.9	21.0	20.9	22.4	22.4	22.2	24.6	24.0	23.7	23.2	23.5	23.6	22.4
two persons	28.2	27.6	28.1	29.2	29.6	30.2	29.3	27.2	27.1	27.0	28.6	28.3	28.0	29.9
three persons	21.4	22.0	22.1	22.6	23.5	23.3	24.5	23.4	25.0	25.7	25.2	25.4	25.6	25.0
four persons and more	30.3	29.5	28.8	27.3	24.5	24.1	24.0	24.8	23.9	23.6	23.0	22.8	22.8	22.7

Source: SSSU, “Households Characteristics”. Available from <http://ukrstat.gov.ua/> (accessed 4 September 2013).

people of the same group increased by about 200,000. These two factors helped to reduce the number of unemployed by 1 million (from 2.63 million in 2000 to 1.66 million in 2012).

There is a lack of data on the level of poverty and inequality in Ukraine. The country only partly reports to the UNECE Statistical Database on its implementation of the Millennium Development Goals, in particular on the first, to eradicate extreme poverty and hunger. Some key missing indicators to measure the poverty level in the country include:

- Income of the poorest quintile divided by the income of the richest quintile; this is the ration of the share of a country’s national income that accrues to the poorest quintile (fifth) of the population to the share of a country’s national income that accrues to the richest quintile.
- Gini coefficient; this measures the extent to which the distribution of income among households within a country deviates from a perfectly equal distribution. A Gini coefficient of zero represents perfect equality, while a coefficient of one implies perfect inequality.

The available data are shown in Annex III. The share of population below the relative poverty level in rural areas is almost twice as high as in urban areas. The share of population below the relative national poverty line has been stable from 1999-2009. At the same time, the share of population below the relative national poverty line in rural areas increased from 29.2% in 1999 to 38.2% in 2009. In urban areas, the opposite trend is observed: the share decreased from 27.1% in 1999 to 21.5% in 2008. One reason for this is that the young, active population is leaving rural areas and moving to cities where they can earn more, with many retired people with low pensions moving back to rural areas. Overall, the population is aging faster in rural areas due to internal migration.

Political system

On 24 August 1991, Ukraine proclaimed its independence. On 28 June 1996, it adopted a new Constitution, which serves as the fundamental law of the country. Article 5 of Ukraine’s Constitution states that Ukraine is a republic, that the President is the Head of State and that the Prime Minister is the Head of Government. State power is divided into legislative, executive and judicial branches.

Executive power is vested in the Cabinet of Ministers (also referred to as the Government of Ukraine). The President is empowered to suspend decisions of government bodies and veto laws passed by the Parliament (Verkhovna Rada), issue decrees and orders and appoint and dismiss Government officials and executive authorities.

The Cabinet of Ministers consists of a Prime Minister, First Vice-Prime Minister, three Vice-Prime Ministers and 18 Ministers. The members are nominated by the President and approved by the Verkhovna Rada.

The Verkhovna Rada is composed of 450 deputies. It initiates legislation, ratifies international agreements, approves the budget, appoints certain officials and elects judges. The parliamentary electoral system has been constantly altered; therefore, each session of the Verkhovna Rada since independence has been elected under a different set of laws. A fundamental change has been the gradual but consistent transformation from a majoritarian Soviet-era election model to a purely proportional model, which was introduced in 2006 (with parliamentary seats allocated on a proportional basis to those parties that gain 3% or more of the national electoral vote). With the enactment of a new law in 2012, a mixed (proportional and majoritarian) election model was introduced. In the all-national multi-mandate constituency, 225 deputies are elected from the candidates of political parties that gained more than 5% of the vote, while the other 225 are elected on a majoritarian model by gaining a relative

majority in single-mandate constituencies (according to the law “On Election of People’s Deputies”, part 3 of Article 98).

The judicial system in Ukraine consists of the courts of general jurisdiction and the court of Constitutional jurisdiction. The courts of general jurisdiction include local courts, courts of appeal, high specialized courts and the Supreme Court of Ukraine, the highest court in general jurisdiction. The highest judicial bodies of specialized courts are the respective high specialized courts (according to the law “On Judicial System and Status of Judges”).

- That they do not conform to the Constitution of Ukraine.
- That they were considered, adopted or entered into force in violation of the procedure provided for by the Constitution of Ukraine.
- That the constitutional authority at the time of their enactment was exceeded (law “On the Constitutional Court”).

Administratively, Ukraine is divided into 24 oblasts (or regions), 2 special-status cities (Kyiv and Sevastopol) and the Autonomous Republic of Crimea.

Oblasts are divided into smaller administrative units called districts or rayons. Each oblast and rayon has its own elected Council of Deputies and a State administration, the heads of which are appointed by the President. Local councils (oblast, rayon, city, rayon in city and village) and city mayors are elected every four years and exercise control over local budgets and their jurisdictions’ taxes, schools, roads, utilities and public health. A head of administration appointed by the President leads the state administration in each

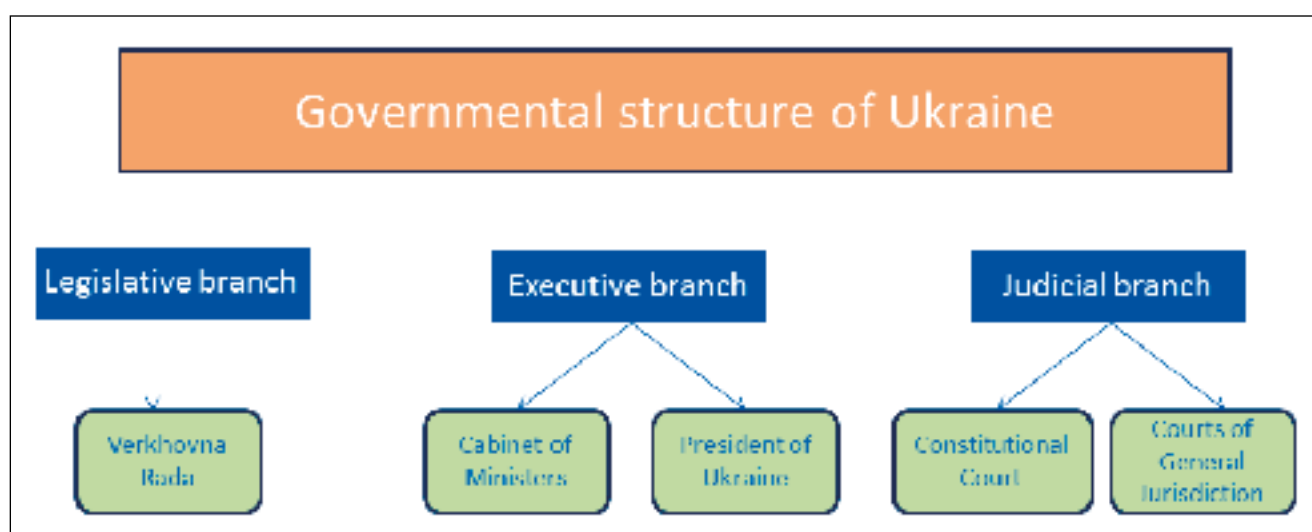
oblast and rayon. The administrations of the cities of Kyiv and Sevastopol operate independently and are responsible only to the national Government. The Autonomous Republic of Crimea has its own constitution, legislature and Cabinet of Ministers but is prohibited from implementing policies that would contradict the Constitution of Ukraine.

Economic context

With its rich farmlands, traditionally well-developed industrial sector, highly trained labour force, good education system and a domestic market of 46 million people, Ukraine has a good basis for a prosperous economy. However, it inherited a Soviet-style industrial-economic system based on heavy industries like steel, chemicals, shipbuilding, coal, machine tools and arms production. With the collapse of the Soviet Union, Ukraine’s economy and production base were hit hard by the loss of traditional export markets. The confusion during the transition process brought with it hyperinflation, currency depreciation, high budget deficits, a deterioration of living standards and even poverty for a large part of the population.

From 1990 to 1999 the country’s gross domestic product (GDP) decreased by 40.8%. The ill-balanced structure of the economy of Soviet Ukraine was one of the main reasons behind such a dramatic change. During Soviet times, the share of the consumer industry never exceeded 29% of the total gross output, compared to 50% or more in developed countries. The economic crisis was also aggravated by hyperinflation, as a result of which households lost the real value of their savings (via the “inflation tax”) and enterprises lost liquidity. Another reason for the GDP decrease was the disruption of economic

Figure 2. Governmental structure of Ukraine



Source: Indiana University’s Parliamentary Development Project (IUPDP) website, www.iupdp.org.

Table 4. GDP per Capita, US\$, at prices and PPPs of 2005

	1990	1995	2000	2005	2010	2011	2012
Belarus	6 460	4 207	5 825	8 541	12 362
Hungary	13 133	11 805	13 794	16 975	16 972	17 301	17 053
Moldova, Republic of	3 974	1 893	1 657	2 362	2 793	2 985	...
Poland	8 180	9 072	11 814	13 786	17 194	17 968	18 299
Russian Federation	12 670	7 845	8 595	11 856	14 182	14 731	...
Slovakia	...	10 817	12 698	16 175	20 159	20 767	21 324
Ukraine	8,108	3 920	3 706	5 605	6 050	6 374	...

Source: UNECE Statistical database. Available from <http://w3.unece.org/pxweb/> (accessed 14 August 2013).

connections with other post-Soviet Republics which led to a serious breakdown of all the post-Soviet economies.

In the 2000s, the GDP grew by 5.9% annually on average, and this positive trend continued until the economic crisis of 2008. The impact of the crisis was heavily felt; Ukraine's GDP declined by 14.8%. The hryvnia, initially pegged to the United States dollar by the national bank at a ratio of 5:1, was devalued to 8:1 and remained at that ratio.

The GDP per capita of Ukraine is the second lowest among it and its neighbours (Table 4). Over the last decade, the Ukrainian economy has been more service-oriented, with service activities representing 62.7% of the gross value added (GVA) in 2010 compared to 49.7% in 2001. In 2010, industry and energy contributed 26.3% to the GVA, agriculture, hunting and forestry and fishing contributed 7.8% and construction contributed 3.2%.

Construction showed its vulnerability to the crisis and contracted 15.8% from 2007 to 2008 and another 48.2% from 2008 to 2009.⁷ The decline was largely caused by the property boom in Ukraine during the pre-crisis period which had been driven by an expansion of debt. In the three years before the crisis, property prices in Ukraine increased by 600%. With rising property prices, people expanded consumption on the back of increasing asset values and pushed domestic demand with the help of external credit. However, this growth-driver evaporated overnight with the crisis. The property market collapsed in the second half of 2008 and continued to fall in early 2009. Between

⁷ Global Property Guide, "Ukraine's Unexpected Rise in House Prices, Amidst Economic Slowdown and Political Tension", 17 May 2012. Available from <http://www.globalpropertyguide.com/Europe/Ukraine/Price-History-Archive/Ukraines-unexpected-rise-in-house-prices-amidst-economic-slowdown-and-political-tension-1241>.

September 2008 and March 2010, housing prices in Kyiv fell by 40.6% in United States dollars (3.2% in Ukrainian hryvnia). About half of the real estate developments in Ukraine were put on hold.⁸

Privatization

The transformation of ownership of housing in Ukraine can be divided into four stages:

- Pre-privatization stage (1988-1992)
- "Manual management" privatization stage (1992-1994)
- Mass privatization stage (1995-1998)
- Individual monetary privatization stage (since the beginning of 1999)

During the second and the third stages, 61,591 housing units were privatized in Ukraine. Non-competitive ways of selling property (a buy-out by a company of purchasers or rent with a right to buy out) dominated the process.

⁸ UNIAN, "Як знизилася вартість житла в Києві за період кризи" (House Prices Fell in Kyiv During the Crisis), 15 April 2010. Available from <http://www.unian.ua/news/372534-yak-znizilasya-vartist-jitla-v-kievi-za-period-krizi.html>.

Picture 1. Dnipro River



PART I – HOUSING SECTOR

Chapter I

LEGAL, INSTITUTIONAL AND POLICY FRAMEWORK FOR HOUSING

The current policy framework is shaped by the following urgent problems and challenges in the housing sector:

- Uneven housing availability and the presence of population groups with inadequate housing consumption and poor housing conditions.
- High percentage of housing stock that is dilapidated and unsafe (amounting to 10% of total housing stock), requiring urgent major repairs.⁹
- Large existing state obligations, including the ones carried over from the period of a centrally planned economy, which exceed the current and projected capabilities of the State. Politically, however, it is almost impossible to declare these obligations void.

Picture 2. House framework



⁹ See more on housing conditions in Chapter III.

A. LEGAL FRAMEWORK FOR HOUSING

Ukraine faces major challenges in the housing sector. Starting from the 1990s, social, economic and legal changes have taken place due to the country's transformation into a market economy. To a large extent, current housing legislation reflects the transitory status of the economy and society.

The following describes the main legislation governing housing-related activities in Ukraine.

1. Ukraine's Constitution

The Constitution of Ukraine (Article 47) establishes the right to housing and determines the main direction of state housing policy: to create conditions that will enable each citizen to build, buy, or lease housing. In addition, for citizens in need of social protection, it creates an obligation for State and local governments to provide these citizens with housing for free or at an affordable price.

2. Ukraine's Civil Code No. 435-IV dated 31 January 2003

Chapter 28 of the Civil Code of Ukraine sets out the fundamental principles regulating property rights. It clarifies co-ownership rights as joint property rights (without setting the shares of owners) on common property in apartment buildings (Article 382). Common property includes premises and equipment required for servicing more than one apartment, whereas the land plot where the apartment building is located is not regarded as common property.

Chapter 59 of the Civil Code of Ukraine contains the fundamentals of housing lease regulation. One of the peculiarities of this regulation is that the tenant has a priority right to buy the housing if the landlord sells it. The tenant also has preferential rights in relation to lease agreement extensions, in particular the right to claim in court the transfer of obligations to the tenant if the landlord refused to extend the lease for a new term, then within a year made a lease agreement with another person. On the other hand, the landlord is entitled to terminate the agreement of the leased premises if the landlord or the landlord's family needs it for housing, with a 2-month notice. Such provisions do not provide incentives to either landlord or tenant to formalize their relations. Also, landlords often try to avoid paying tax on their rental incomes and enforcement in this area is relatively weak. As a result, most lease relations in the private rental sector take place in the informal economy. This makes each of the parties vulnerable in their relevant situations, where, for example, the landlord may raise the rental fee or terminate the lease for no valid reason (giving the tenant much shorter notice), or where the landlord risks receiving no rent from the tenant or proper compensation for damaged property.

3. Housing Code of the Ukrainian Socialist Soviet Republic No. 5464-X of 30 June 1983

In spite of a significant number of amendments made during the last 20 years to the Housing Code of the Ukrainian Socialist Soviet Republic, the structure and main provisions regulating legal relations under a centrally planned economy (during which the State dominated the housing sphere) have been preserved.

Legislators made limited amendments to the Housing Code and at the same time adopted new laws (see below) regulating particular legal relations in the housing sector that are assumed to overrule Housing Code provisions. However, corresponding amendments to the Housing Code itself are not being made.

As a result, the current text of the Housing Code contains a set of obviously outdated provisions such as:

- Ignoring the existence of communal property (property owned by municipalities)¹⁰ as a separate type of property ownership and treating it as a subdivision of state property (Article 4)
- Keeping numerous references to the housing legislation of the Soviet Union and powers of the Soviet legislative and executive bodies in regulating housing relations (Article 14)
- Keeping the concept of apartment building owned by Local Soviets, (Article 24) and ignoring the fact that most apartment buildings, through the privatization of housing units in such buildings, now have, de facto, a condominium form of ownership with state- or municipality-ownership of non-privatized housing units in such structures

The above problems does not result in direct negative consequences as long as the Housing Code is treated by most policy makers and lawyers as a non-working document; however, they create a vague and ambiguous environment in housing legislation. The public status of the document and references to it in housing disputes do not contribute to transparency in housing relations. It therefore remains unclear to the general public which social obligations in the housing sector are still recognized by the State.

4. Law "On Social Housing Stock" No.3334-IV of 12 January 2006

This law stipulates the following very important social housing provisions under market economy conditions:

¹⁰ Municipal housing is described in the document as state housing operated by local authorities; this concept continues to exist in a number of statistical forms as well.

- A separate category of population entitled to social housing (when the average family income per capita, minus the minimum subsistence level, is less than the average market rent in the area). The property value owned by the household is also taken into consideration (Article 10)
- Terms for social housing lease agreements and the conditions under which such agreements are terminated when a household's financial condition improves
- The separate registration of low-income households in need of housing improvements (in addition to creating a housing waiting list as stipulated by the Housing Code)
- Prohibition of privatization or subleasing of social housing

The area of legal relations regulated by the law is very similar to that regulated by chapters 1 and 2 of the Housing Code.

This law is more in line with the country's needs. However, it overlaps with the provisions in the existing Housing Code. In practice, neither this law nor the part of the Housing Code regulating the provision of housing to citizens entitled to social housing actually work. The number of households being put on a waiting list under the law "On Social Housing Stock" does not reflect the actual housing need. This is due to a lack of local funds to finance the construction of social housing.¹¹

5. Law "On Housing and Utility Services" No. 1875-IV of 24 June 2004

This law regulates the terms and conditions of housing and utility service agreements, the fundamentals of tariff regulation and a few types of classification of housing and communal services. In particular, Article 14 contains the following classification of housing and communal services according to the approval process for rates and tariffs:

- Services in which tariffs are approved by authorized central bodies of executive authorities or regulators¹²
- Services in which tariffs are approved by the local government within the framework set forth by Ukraine's Cabinet of Ministers
- Services in which rates or tariffs are regulated according to arrangements made by the parties concerned

¹¹ By the end of 2010, only 615 households throughout Ukraine were put on waiting lists for social housing (according to SSSU).

¹² National Commission on Utility Tariff State Regulation and National Commission on Tariff Regulation in Energy Sector.

Most legislative regulations fail to take into consideration the different nature (monopolistic or non-monopolistic) of services in the utility and housing sector.

6. Law "On Co-owners of Apartment Buildings" No. 2866-III of 29 November 2001

This law regulates the activities of legal entities that are associations of owners of premises in apartment buildings (condominium associations). The most important from the housing policy point of view are the following:

- Ability of the association to engage in commercial activity to satisfy its internal needs either directly or via appropriate arrangements with third party natural or legal persons (Article 26)
- Voluntary establishment of associations, voluntary membership in such an association (Article 14) and the ability to leave such an association at any time
- Legislative regulation of the condominium charter
- Obligation of the former owner of the apartment building (national Government, local government body or enterprise) to participate in the first major repair of the building upon the establishment of a condominium.

The owners of premises and the manager (or management company) must conclude a standard agreement endorsed by the executive body authorized to regulate legal relations in town planning and housing (currently MinRegion). The law on housing and utility services also requires the use of a standard agreement by a contractor for contracts on the provision of housing and utility services. As a result, the principle of contractual freedom is not observed and contracting parties are not able to stipulate the terms and conditions of their contracts based on the requirements and capabilities of both condominium owners and managers or management companies.

The joint ownership status of common property in an apartment building, which requires unanimous management decisions, and the vague legal status of the land plot where the apartment building is erected (the land plot is not explicitly mentioned as an element of common property of an apartment building) continue to challenge the existing regulations concerning condominium associations. MinRegion intends to draft the law "On specifics of ownership in an apartment building", which would establish that the land plot is an element of common property of an apartment building and would regulate its ownership or usage.

There are examples of successful homeowners' associations (HOAs) but as the HOA is not a service provider, communal services may come from a number

of providers (unless the service is available from a monopoly). The association may be a borrower, with homeowners selecting a source of funding to finance capital repairs.

7. Law “On Privatization of State Housing Stock”
No. 2482-XII of 19 June 1992

This law stipulates the regulation of housing stock privatization in two forms: housing with free transfer of ownership, or buyout of “residential space surplus with discount”. The existing law did not state the end date of free privatization, so central or local governments were not encouraged to construct social housing stock. The enactment of the Law “On Social Housing Stock” was an attempt to resolve this problem. Currently, most of the housing stock subject to privatization has already been privatized.

The current housing law of Ukraine is contradictory and fragmentary in nature:

- The law has provisions typical of a centrally-planned economy from Soviet times, provisions to address the transitioning economy and provisions developed to take into consideration future legal relations under a mature market system. All these different provisions are now being applied simultaneously.
- As the main code-setting document regulating housing law, the Housing Code has not been amended significantly to reflect the above changes. The additional laws “On Associations of Owners of Apartment Buildings” and “On Housing and Utility Services” were enacted to regulate housing relations under a market economy.
- Some provisions of the housing laws have considerable contradictions: in particular, the contradiction between the concept of common property in the apartment building and that of an asset holding company is one of the most serious.

In accordance with the Civil Code of Ukraine, unit owners in the apartment buildings own:

- The common premises (based on common ownership rights)
- The building structure and equipment that serves more than one apartment
- Structures providing utility support to all apartment owners and owners of non-residential premises located in the same apartment building

However, the legislation of Ukraine on housing and utility services¹³ stipulates that the asset holder

¹³ The Ukrainian law “On Housing and Utility Services” states that the asset holder is the owner or the legal entity, which, on the basis of an agreement with the owner of

(which could be a condominium association or any legal entity) is the owner of the apartment building and holds the property on the basis of an agreement with the apartment owners.

B. POLICY AND INSTITUTIONAL FRAMEWORK

A review of the fundamentals of Ukrainian housing law shows that there are no clear-cut criteria to form a long-term state housing policy; some provisions reflect a paternalistic housing policy with Soviet-era roots (most provisions are based on the Housing Code of the Soviet Socialist Republic of Ukraine), while there are also provisions aligned with market economy (the law “On Social Housing”).

In such conditions, the housing policy of Ukraine, instead of being a long-term policy, is based on resolutions by legislative and executive authorities made with a short- or mid-term perspective with emphasis on lessening the impact of the global economic and financial crisis of 2008-2009.

The main documents which determine key state interventions in the housing sector at its current stage include the following:

- Decree of the President “On Measures Targeted at Constructing Affordable Housing and Improving Housing Availability in Ukraine” No.1077/2007 of 8 November 2007
- Law “On Prevention of the Impact of the Global Financial Crisis on the Development of the Construction Industry and Residential Construction” No. 800-VI of 25 December 2008 (see Chapter IV for more details)
- Law “On Complex Reconstruction of Quarters of Aged Housing Stock”
- State Programme on Housing and Utility Sector Restructuring for 2010-2014
- State housing programmes, including:
 - State Programme on Housing Provision for Youth for 2010-2012
 - State Targeted Social Economic Programme for Construction (Purchase) of Affordable Housing for 2010-2017
 - State discounted long-term loans for individual house builders in rural areas (the programme “Your Own

the property of the building, structure, housing complex or complex of buildings, shall reflect the property in its balance sheet for the purpose stipulated by the law, including capital repairs. It means that the property in the balance sheet shall have one owner.

House” within the State Programme for Ukrainian Countryside Development till 2015)

With the exception of the State Programme on Housing Provision for Youth, which is currently being implemented through a specially established Foundation, most of the programmes are being implemented directly by MinRegion.¹⁴

There are also state obligations for the provision of housing to particular population groups, either at the full expense of the State or with state support. These are regulated by particular legislative acts¹⁵. The most important of these documents is the State Programme on Provision of Affordable Housing for the period 2010-2017. This programme plans for the State to cover 30% of the apartment price for those who are on the housing waiting list, while the buyer will cover the remaining 70%. In 2012, about UAH 200 million (approximately USD 25 million) was allocated for construction or purchase of affordable housing from the state budget, more than twice the amount allocated from State funds in 2011.¹⁶

With reference to the documents mentioned above, the main priorities of current housing policy are to:

- Provide housing to government officials, veterans of wars and other special categories of citizens
- Provide housing support to young families
- Support individual (self-built) housing construction, especially in rural areas
- Provide incentives for the construction of affordable housing for people on low incomes
- Restrict speculation in the real estate market (introduce an extra tax if the real estate bought is sold within three years)

¹⁴ The Foundation for Support of Individual Housing Construction in Rural Areas is involved as an agent for the implementation of the “Your Own House” Programme. The Foundation reports to MinRegion.

¹⁵ Such categories include, among others: judges; first group invalids of the Great Patriotic War; scientists of the National Academy of Sciences and Academy of Agrarian Sciences; employees in health protection, education and culture; employees in budgetary organizations with labour contracts for 20 years; and state servants. People in these categories inhabit almost one fourth of the housing bought with state support.

¹⁶ According to Yury Serbin, Deputy Chairman of the Verkhovna Rada Committee for Construction and Town Planning, Utilities and Regional, at least UAH 6.5 billion (approx. USD 812.5 million) shall be allocated from the State budget to resolve this problem.

- Support households in need of housing improvements and those capable of co-financing a housing purchase
- Use State demand (purchase of housing for transfer to particular categories of citizens and thus fulfilling existing obligations) to provide incentives for housing construction and the completion of unfinished construction projects
- Promote state and private partnerships in housing construction, including the overall rehabilitation of existing buildings

The following shows the impact of the implementation of the state housing policy:

- About 5,000 households received housing in 2011 through state housing policy programmes and actions, so half of the households on the housing waiting list which improved their housing conditions benefited from state supported housing programmes.
- In 2011, 250,000 m² of housing was built as a result of the implementation of State programmes, making up about 2.6% of the total housing floor space commissioned. State programmes supported 4% of apartment-building and 1.8% of individual (self-built) housing construction. The State Programme on Affordable Housing Construction (Purchase) and the State Programme for Provision of Housing for Youth acted as leverage; the demand supported by the Government assured the commissioning of housing that exceeded five to 10 times the amount of housing purchased under these programmes.
- State financing of housing construction and purchase is irregular; there is considerable variation from year to year (UAH 202.5 million [USD 25.3 million] in 2009, UAH 723.8 million [USD 90.5 million] in 2010 and UAH 496.3 million [USD 62 million] in 2011).¹⁷

The housing programmes supported by the State are further discussed in Chapter III.

MinRegion is the leading national executive body among the executive national bodies responsible for the implementation of national policy in the housing sector.¹⁸ It is worth mentioning that the structure of the executive bodies (implementing agencies) dealing with housing policy has been reorganized

¹⁷ Information on housing financing from State budget in 2002-2011 was provided by the Ministry of Finance.

¹⁸ According to the decree of the President No. 633/2001 of 31 May 2011, article 1 approving the “Regulations of the Ministry of Regional Development, Construction, Housing and Communal Services”.

several times during the last 20 years. For some time, construction, housing and utilities were handled by different ministries. The current arrangement establishes a favourable environment for the sustainable, comprehensive and coordinated implementation of housing policy as an integral part of regional development. In particular, MinRegion carries out systematic activities to revise and upgrade all standards and provisions related to housing and supports the development of legislation on urban development at regional

and local levels. MinRegion is also responsible for the implementation of state programmes in the housing sector. However, there are housing programmes carried out by several other national executive bodies without proper coordination with the State programmes supervised by MinRegion.¹⁹

¹⁹ For example, in 2011 more than 95 million m² of housing was built within the housing programmes of the Ministry of Defense.

Picture 3. Soviet times apartment building (left) and a new construction (right)



A. GENERAL OVERVIEW OF THE HOUSING STOCK

As of 1 January 2013, Ukraine's housing stock consisted of 10.2 million residential buildings with a total surface area of 1,094.2 million m².²⁰ Of this, 64% was located in urban areas. The total surface area of the housing stock during the last five years increased at an average rate of 7.3 million m² annually²¹. The average sizes of urban and rural housing units are 52.2 m² and 60 m², respectively.

The total number of apartments amounted to 19.4 million. About 3% of the total housing stock floor space (31.2 million m²) is unoccupied and these dwellings are mainly located in rural areas (30.5 million m²), where 8% of the floor space is recorded as non-occupied. This indicator reaches as much as 18% of the rural housing stock of Sumy oblast and it is from 12 to 14% in central, less urbanized oblasts (Cherkassy, Chernihiv, Poltava, Khmelnytskyi, Vinnytsia and Zhytomyr).

Ukrainian households are almost equally split between residents of flats in multifamily housing and those in individual housing buildings (Table 5). Individual housing dominates in rural areas with 92.1% of households living in individual houses. In urban areas, 25% of households live in individual houses and 45.5% of these households are in small cities and towns.

The bulk of the housing stock consists of 2 to 3 room housing units, where more than 70% of all households live (Table 5). There are 45.5 million rooms in the occupied housing stock; thus, the deficit of rooms needed to reach a "one room per person" standard of habitation is 100,000 rooms (0.2% of the existing occupied stock of rooms in residential premises).

²⁰ Includes summer additions to housing units (usually, non-heated premises). The floor space of such additions accounts for 19.7 million m² or 1.8% of the total housing stock. Most of the housing stock (98.2% of the total floor space) is located in 10.2 million residential buildings and the rest is housing units in non-residential buildings and dormitories.

²¹ SSSU, *Housing Stock of Ukraine in 2012 (Kyiv, 2013)*, p. 4.

B. HOUSING OWNERSHIP

Ukraine's housing stock is 93.7% privately-owned, 4.9% municipally-owned and 1.4% state-owned.

As of 1 January 2013, there are 9,561 hostels in Ukraine, consisting of 19.8 million m²; 79% of these are publicly owned (Table 6). In addition to publicly owned dormitories, there are 854 buildings with a floor area of more than 3 million m² that were transferred to private ownership due to the peculiarities of the privatization process of Ukrainian enterprises. The legal status of residents of such hostels is unclear and their housing rights are at risk. There have been cases when companies illegally rented or sold hostels or offered them to residents at market value, which is not affordable for most residents.²² The decision to transfer the hostels to municipal ownership has been made, but the process of negotiation with the new owners is difficult as long as the residential building is included in the owner's equity.

The Council of Ministers of Crimea and oblast, Kyiv and Sevastopol city administrations report that permission to privatize rooms were issued to 1,491 of 2,029 communal hostels and privatization was completed in 103 of these.

In order to solve housing problems of the residents of hostels, the law "On the realization of housing rights of residents of hostels" mandated the enactment by the Parliament of Ukraine of "The National Target Programme of Assigning Hostels to Ownership of Local Communities for 2012-2015", which should renovate hostels and create conditions for the privatization of rooms by individuals legally residing in these.

C. HOUSING TENURE

According to official data, as much as 94.7% of households live in dwellings they own (homes acquired either through free privatization or purchase on the free market). Households living in public or departmental housing account for 1.7% and 0.2%, respectively, while 3.4% of households live in

²² Vladyslav Komarov, "In Search of Opportunities: How a More Mobile Workforce Can Propel Ukraine's Prosperity", Housing Market and Labor Mobility Background Paper for World Bank Report No. 68824 ECA (Washington, D.C.: World Bank, September, 2011).

Table 5. Characteristics of households' housing consumption, as of 1 January 2013

	Total	Of which households living :			In rural settlements
		In urban settlements			
		Big cities	Small cities and towns	Urban Total	
Distribution of households by type of housing (%)					
Single flat	48.4	78.9	48.6	67.6	5.1
Communal flat (shared facilities)	0.5	0.9	0.3	0.7	...
Individual house	45.6	12.8	45.5	25.0	92.1
Part of individual house	2.9	2.5	4.0	3.0	2.6
Hostel	2.6	4.9	1.6	3.7	0.2
	100.0	100.0	100.0	100.0	100.0
Distribution of households by number of rooms in housing unit (%)					
One room	13.5	21.1	11.1	17.3	4.7
Two rooms	35.9	39.9	34.8	38.0	31.4
Three rooms	35.0	31.4	36.3	33.3	38.8
Four rooms and more	15.6	7.6	17.8	11.4	25.1
Total	100.0	100.0	100.0	100.0	100.0

Source: SSSU, Social and Demographic Characteristics of Households in Ukraine in 2013 (Kyiv, 2013).

private-rental housing.²³ The low share of rental housing in Ukraine does not give the real picture of the housing rental market in Ukraine as the process is often done informally and outside the official tax system. According to some estimates (e.g. Expert RA cited in R&B Group website, 2012), the housing rental market accounts for almost 13% of the total residential stock.

Table 6. Hostels by ownership type, as of 1 January 2013

Ownership type	Total		Area	
	Number	%	m2	%
Private	2 010	21.0	3 406.9	17.2
Municipal	3 621	37.9	5 464.6	27.6
State	3 930	41.1	10 936.6	55.2
Total	9 561	100.0	19 808.1	100.0

Source: SSSU, "Housing Condition of Ukraine in 2013". Available from <http://ukrstat.gov.ua/>

The rental market is relatively small, given the large number of apartment units that were privatized. The rental sector consists of two segments:

- Unprivatized units in housing stock (totals 7% of the housing stock²⁴);
- Private rental market, which is small although growing and dominated by individuals as landlords. On average, 2.5% of households rent units from private persons.²⁵ This market is clearly concentrated in big cities, where at least 4.2% of apartment units are rented. There are no rent caps established by law, so the owner sets the apartment rent.

²⁴ It is worth noting that, according to the 2011 Household Living Condition Survey, only 2.5% households are reported to be renters of the public housing stock (it is also possible that some of those who reported renting from private persons could be, in fact, sub-renters in public housing), but still the difference between the two indicators deserves special investigation.

²⁵ Based on Ukrstat.org, Household Living Condition Survey. Available from <http://ukrstat.org/>. The data could be interpreted as a conservative estimate, since renters tend to underreport a result of the semi-legal nature of the rental.

²³ SSSU, *Social and Demographic Characteristics of Households in Ukraine in 2013* (Kyiv, 2013), Table I.17.

D. QUALITY OF HOUSING

The housing stock in Ukraine is relatively old (Figure 3 demonstrates a breakdown of Ukraine's residential buildings by period of construction). Only 7% of residential housing stock has been built since 1991; of the remainder, 42% was built before 1960 and therefore requires both major and routine repairs. This includes Soviet-era multifamily houses, which have nearly exhausted their potential use after two decades of widespread mismanagement and disrepair (for further details, see Chapter III).

Most of the housing stock in apartment blocks was built from 1960 to 1980. Close to 20% of multi-unit housing was built before 1960 and only about 10% was built from 1990; therefore, a typical multi-unit building is 30 to 50 years old.

The most serious problem affecting the quality of housing in apartment blocks is deferred maintenance, bad maintenance or both. The condition of buildings throughout Ukraine is poor and getting worse due to the slow pace of capital repairs. According to 2012 statistical data, only 0.1% of the housing stock underwent capital repairs, which were restricted to urgent repairs and did not result in a substantial increase in housing quality and energy efficiency.²⁶ There is also a growing need to save energy and water resources in the residential sector.

As of 1 January 2013 over 93,000 Ukrainians live in substandard²⁷ housing (0.4% of the housing stock by

number of residential houses or 0.3% of the total floor area of residential buildings) and about 25 thousand in housing which could be classed as barely inhabitable.²⁸ However, these statistics are calculated through an administrative procedure and do not reflect the actual magnitude of the problem. About 51.1% of the total housing stock has never had capital repairs.

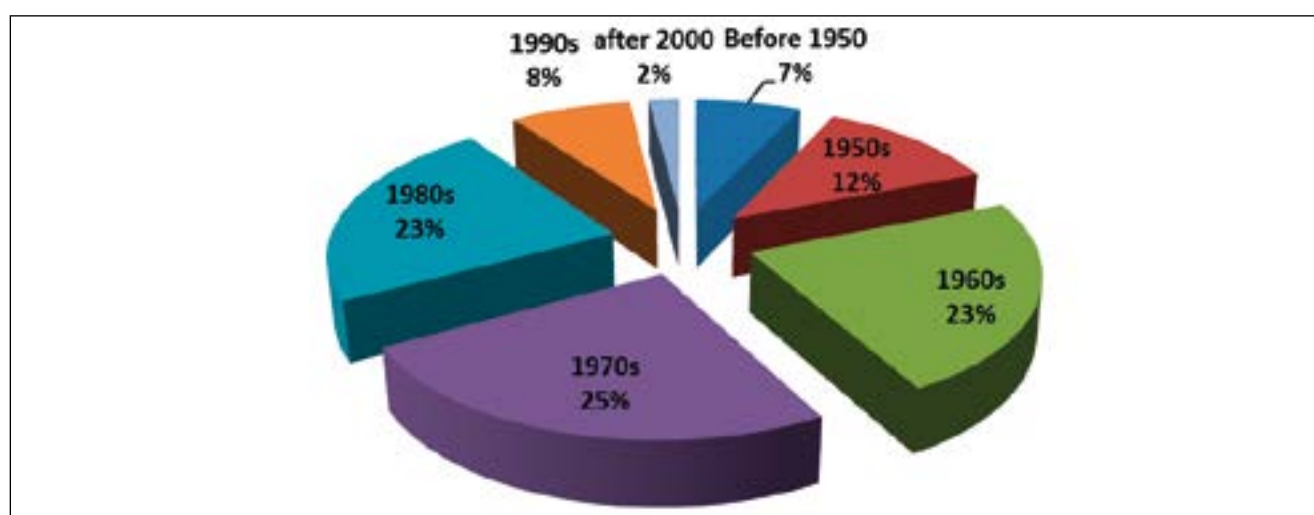
E. ACCESS TO UTILITIES

There is a large disparity in access to utilities between housing units in urban and rural areas (Table 7). More than three fourths of urban housing units are equipped with basic housing utilities like heating, piped cold water, toilets with a sewage system and a bathroom while less than one third of housing units in rural areas have access to the same utilities (except for heating).

There are also significant regional differences in the provision of utilities. In Kyiv, 98 to 99% of housing is equipped with basic amenities while less than 60% of urban settlements in Cherkassy, Chernihiv, Chernivtsi and Zhytomyr oblasts are equipped with baths or showers. In the rural areas of Chernihiv, Khmelnytskyi, Kirovohrad, Vinnytsia and Zhytomyr oblasts, less than 10% of housing units have access to sewage systems, which is two to four times less than the national average for rural areas.

The issue of access to safe water is of particular importance in Ukraine. Currently, 4.4% of household and 11.8% of rural households take water from public wells. Around 70,000 households or 0.4% take water

Figure 3. Ukraine's houses by period of construction, as of 1 January 2013



Source: SSSU, "Social and Demographic Characteristics of Households of Ukraine in 2013". Available from <http://ukrstat.gov.ua/>.

²⁶ The average expenditures for capital repairs account for only UAH 234 (about USD 29) per square meter.

²⁷ According to national technical regulations on shabby or dilapidated housing stock.

²⁸ SSSU, *Housing Stock of Ukraine in 2012* (Kyiv, 2013), p.314. These statistics vary regionally; for example, in Luhansk oblast 20.4% of the housing stock is considered uninhabitable.

Table 7. Percent of housing units equipped with basic utilities, as of 01 January 2013

Utility	Total	Urban Areas	Rural areas
Piped water	59.9	76.9	29.8
Sewage system	57.9	75.8	26.0
Heating	62.8	75.8	39.7
Bath (shower)	54.6	72.2	23.3
Gas (including cylinder gas)	85.3	86.5	83.3
Hot water	43.8	60.3	14.3

Source: Calculations based on SSSU, *Housing Stock of Ukraine in 2012* (Kyiv, 2013), pp. 158, 162 and 166.

directly from rivers, lakes or ponds and around 120,000 households have their source of water located more than 500 meters away from their housing unit.

F. ENERGY EFFICIENCY

The low quality of the housing stock and overall energy inefficiency of the national economy results in low energy efficiency in the housing sector. The Ukrainian economy is one of the most energy intensive in the world. Ukraine's energy intensity is 3.7 times higher than Germany's and three times higher than Poland's (0.44 kg of oil equivalent of energy use per USD 1 of GDP in Ukraine, 0.12 kg in Germany and 0.15 kg in Poland).²⁹ The housing sector consumes 35% of the energy used for national heat production and 43% of the gas.

The overall heat supply in Ukraine amounted to 97.5 million Gcal, including 54.7 million Gcal for domestic use, 22.5 million Gcal for the needs of public utilities, 10.3 million Gcal for production purposes and 9.9 million Gcal to other enterprises. The energy costs of utility production are also high: 1.14 kWh per cubic meter of water and 152.4 kg of equivalent fuel per Gcal of heat.³⁰ The energy consumption of Ukrainian buildings is estimated at 250 to 275 kWh/m², which is at least double that of Western Europe's average of about 120 kWh/m². Losses of heat in utility networks in 2012 were recorded at 13.5 million Gcal, accounting for 13.8% of the total amount of heat supplies.³¹

²⁹ World Bank, *Ukraine – Investment Plan for the Clean Technology Fund* (Washington, DC: World Bank, 2010). Available from <http://documents.worldbank.org/curated/en/2010/01/16281392/ukraine-investment-plan-clean-technology-fund-ukraine-investment-plan-clean-technology-fund> (accessed 7 February 2014).

³⁰ Based on data from MinRegion. Available from minregion.gov.ua.

³¹ MinRegion, *Passport of the Housing and Communal*

The quality of utility service is poor due to chronic underinvestment. It is characterized by high losses due to poor insulation and leakage (about 60% of heat and 30% of water is lost). According to the industry statistics, by January 2012, 43.7% of multi-unit apartment buildings were equipped with cold water meters, 15.9% with hot water meters and 38.3% with heating meters and heat-control units.

The Government is taking steps in order to improve the current situation in energy efficiency in the housing sector. Reforms under the State Programme of Reform and Development of the Housing and Utility Economy for 2009-2014 (hereafter, Housing and Utility State Programme) and 125 pilot projects aimed at modernization of multi-unit apartment buildings and utility networks are being implemented. MinRegion developed its "Programme for Energy Efficiency and Energy Saving in the Housing and Utility Sector for 2010-2014" of 10 November 2009 (N 352), aligned with the objectives of the "Housing and Utility State Programme."

However, low energy prices encourage high energy consumption and create unsustainable imbalances. With tariffs below cost-recovery levels, operation and maintenance expenditures cannot be covered and it becomes impossible to recover investment. In particular, the household heat tariff does not cover the heat production cost of district heating companies. The attempts of the National Electricity Regulation Commission (NERC) to raise natural gas retail prices for households and the ceiling prices of natural gas for the municipal heating companies have failed. As a result of inefficient energy pricing, district heating companies are virtually bankrupt and pay about 55% of their gas bill to the national oil and gas company (Naftogaz). As a result, Naftogaz provides a cross-subsidy to district heating companies.³² The institutional weakness of condominium associations and the irregular financing of the "Housing and Utility State Programme" further hamper the improvement of energy efficiency in the housing sector.

An automated system to inventory and monitor energy consumption in housing units should be introduced as soon as possible to help boost energy efficiency in the housing sector.

Sector of Ukraine in 2013. Available from minregion.gov.ua.

³² World Bank, *Ukraine – Investment Plan for the Clean Technology Fund* (Washington, DC: World Bank, 2010). Available from <http://documents.worldbank.org/curated/en/2010/01/16281392/ukraine-investment-plan-clean-technology-fund-ukraine-investment-plan-clean-technology-fund>.

Picture 4. Energy efficiency in housing construction



G. MARKET FOR MAINTENANCE SERVICES

During the Soviet period, the maintenance of multi-unit apartment buildings was carried out by departments in the national Government called *zheks*. During the transition period, this responsibility was transferred to local governments.

The municipal enterprises' services are characterized by poor quality and the monopolistic structure of the sector discourages efficient service provision.³³ The national housing policy aims to encourage owner associations in multi-unit apartment buildings (condominium associations) to become real holders of the building, acting as a customer for professional competitive management and maintenance services. As of 1 January 2013, 15,731 HOAs in 18,089 multi-unit apartment buildings were set up in Ukraine. In 2012 alone, 1,529 such associations were founded. Municipal management companies maintain over 66% of the housing stock.³⁴ Thus, the maintenance of most multi-unit apartment housing is still overseen by municipal management companies.

In the absence of a competitive market for housing management services³⁵ or a satisfactory municipal company, established condominium associations tend to employ maintenance and repair workers directly. As a result, the differences between condominium associations

³³ Vladyslav Komarov, "In Search of Opportunities: How a More Mobile Workforce Can Propel Ukraine's Prosperity", Housing Market and Labor Mobility Background Paper for World Bank Report No. 68824 ECA (Washington, D.C., World Bank, September, 2011).

³⁴ MinRegion, Passport of the Housing and Communal Sector of Ukraine in 2013. Available from minregion.gov.ua.

³⁵ According to MinRegion, the established condominium associations provide services to more than 18,000 multi-unit apartment buildings, with over 66% managed by municipal enterprises. However, most of them are just transformed former *zheks* and competition in this segment is usually nonexistent.

and former *zheks*, both in terms of structural organizations and performance, are not so evident and the majority of condominium associations appear to lack professional skills and efficiency.

H. TARIFF SETTING AND AFFORDABILITY OF HOUSING COSTS

The decree of the Cabinet of Ministers of Ukraine (CMU) "On Unified Approach to Setting Tariffs for Housing and Communal Services" No. 869 of 1 June 2011 contains a detailed methodology for setting tariffs for particular housing and utility services taking into account the specific features of each service. The decree also established the institutions that will independently regulate utility tariffs.

Currently, all tariffs are approved by two regulators: the National Commission on Utility Tariff State Regulation and the National Commission on Tariff Regulation in the Energy Sector. These recent developments mark important steps towards independent and transparent tariff regulation in the housing and utility sectors. However, the tariff regulation should set tariffs at levels that can cover more than the service providers' operating cost, in order to allow maintenance of the utility infrastructure.

Tariffs for electricity are set at about 2 cents per kWh, whereas in most European countries, it is between 8 and 16 cents per kWh.³⁶ Gas prices for district heating companies and households remain low. If the full cost of transmission and distribution is calculated, district heating companies pay less than half of the estimated cost of gas supply to the National Oil and Gas Company (Naftogaz). As a result, the financial situation of most utility enterprises is dire.

Calculated on the basis of real full cost-based tariffs, households are estimated to receive an implicit subsidy of roughly 1 billion Euros annually (approximately

³⁶ GTZ and MinRegion, *A Concept of Energy Efficient Construction* (Kyiv, 2010), p.5.

1% of GDP). At the same time, the explicit budgetary expenditures for housing allowances (subsidies targeted to low-income citizens) in 2012 amounted to only UAH 292.4 million (about USD 36.6 million).³⁷ Around 14% Ukrainian citizens belong to certain categories of people (such as pensioners and war veterans) which, by national legislation, pay for all or some utilities at a privileged or discounted rate. The system of setting different tariffs for different types of users (commercial, government budgetary units and households) is still in place which means substantial cross-subsidization in the sector (tariffs for commercial enterprises are about two times higher than tariffs for the population). In addition to cross-subsidization, budget subsidies to the sector are being used as well: the level of cost recovery for the population with the existing tariffs to households is around 90%.

The share of housing and utility expenses in household expenditures is 8.4% (9.3% in urban settlements and 5.7% in rural areas).³⁸ This share is fairly similar across low and middle income groups, suggesting a positive relation between household income and volume of housing and utility services consumed.

The current level of tariff collections is quite high at 90-98% depending on the region. The national average for 2010 is 96.6%. At the same time, accumulated debts from previous periods constitute a serious problem as they amount to UAH 11.4 billion, equivalent to four months of tariff collections.

Picture 5. A social housing under construction



³⁷ SSSU, *Ukraine in Figures 2012* (Kyiv, 2013), Table 18.11, p.215.

³⁸ SSSU, *Expenses and Resources of Households in Ukraine in 2012* (Kyiv, 2013).

HOUSING ALLOCATION, NEEDS, DEMAND AND SUPPLY

A. DEMOGRAPHIC SITUATION

The number of households in Ukraine is around 17 million. A selective survey of households' living conditions in 2013 (as of 1 January) showed that 69.3% of Ukraine's households live in urban areas and 30.7% in rural areas. The average size of households is 2.58 persons.³⁹ Households in Ukraine have the following sizes:

- One-person households – 22.9%
- Two-person households – 29.6%
- Three-person households – 25.8%
- Four-person households – 13.2%
- Five- and more person households – 8.5%

Households with children under 18 years account for 37.9% of Ukrainian families, of which 14.1% have children aged 16-17 years. This determines housing needs, such as the adequate number of rooms and social amenities.

More than 40% of households are headed by persons aged 55 years and older. These families may have low propensity to move, especially to apartments located in busy commercial districts. In contrast, younger families (9% of the total) may have more flexibility.

B. HOUSING CONSUMPTION

According to a news article in the Research & Branding Group website, the national average level of housing consumption in Ukraine in 2010 is 23.3 m² of floor space per person or 15.1 m² of living space.⁴⁰ While this is comparable to other Commonwealth of Independent States countries like Belarus (23.6) and the Russian Federation (22.6), and to some EU former socialist countries like the Czech Republic (28.7), Hungary (28.0) and Poland (22.9), it is far less than in other EU countries such as Germany (41.9), the Netherlands (41.0) and Switzerland (44.5).⁴¹

³⁹ SSSU, *Social and Demographic Characteristics of Households in Ukraine in 2013* (Kyiv, 2013), Table 1.1.

⁴⁰ Living space consists of floor space of living rooms with the exception of floor space occupied by built-in wardrobes. The National Statistics Office monitors differentiation of housing consumption using the living space indicator.

⁴¹ R&B Group, "Housing Problem", 3 February 2012. Available from <http://rb.com.ua/eng/company/news/8239/>.

Ukraine's number of apartments per 1,000 inhabitants (425 apartments) is close to EU levels. However, its average dwelling size (55.5 m²) is much less than the average for EU countries (75 to 100+ m²).

Table 8 summarizes the rates of change for some population and housing indicators in Ukraine in the recent decade. While the data demonstrate some improvements in Ukraine's housing situation, many challenges remain such as space-constrained and

Table 8. Rates of change for selected population and housing indicators, 2001-2011

	2001	2011	% changes 2001-2011
Total population, thousand	48 663.6	45 598.2	-6.3
<i>Urban</i>	32 290.7	31 186.0	-3.4
<i>Rural</i>	15 950.2	14 412.2	-9.6
Total households, thousand	18 200.6	17 022.7	-6.5
<i>Urban</i>	12 471.2	11 779.7	-5.5
<i>Rural</i>	5 729.4	5 243.0	-8.5
Total housing stock, millions of m²	1 015.0	1 079.5	6.4
<i>Urban</i>	643.2	693.0	7.7
<i>Rural</i>	371.8	386.5	4.0
Per person total residential floor area, m²	21.0	23.7	12.9
<i>Urban</i>	19.9	22.2	11.6
<i>Rural</i>	23.3	26.8	15.0
Apartments per 1000 people	390.0	424.0	8.7
Total number of apartments, thousand	18 960	19 322.3	1.9
<i>Urban</i>		12 909.5	
<i>Rural</i>		6 412.8	
Total owner-occupied housing units	14 814	17 970	21.0
Occupancy, people per dwelling	2.6	2.4	-7.7
Total floor area per dwelling, m²	54	56	3.7

Source: Calculations based on statistics of SSSU..

deteriorating dwellings, deteriorating residential areas and a growing disparity of access to better housing.

The table shows that there is a considerable (more than 12%) difference between the total number of housing units (19.4 million) and that of households (17 million) which cannot be explained by the magnitude of unoccupied housing (0.6 million units). The explanation may be the unequal distribution of housing consumption, which means that some households have more than one housing unit. According to expert estimates, about 13% of housing units in the private sector are rented out without proper registration.

The statistics on housing and population should be elaborated and enriched with data from different sources to further illuminate the nature of housing needs. To base discussions on housing needs on only local government data can be misleading and lead to misguided recommendations on housing policy.

Cramped living space and housing disparities

Differences in housing consumption are quite substantial; 9.1% of total households have less than half the national average level of living space per capita (7.5 m²). The highest level of overcrowding is in Kyiv where 16.5% of households have less than 7.5 m² of living space.

About 650,000 households, or 28.4% of the 2.3 million households living in one-room housing units, consist of three or more household members and there are approximately 974,000 households with four or more members living in two-room housing units.⁴²

Many people are affected by cramped living spaces and worsening residential conditions. One in three Ukrainians lives in substandard conditions, with several generations living in the same dwelling.⁴³ This kind of housing deprivation is particularly noticeable among families with several children and single parent-led households. In 2013, around 6.6 million (39%) of the country's households have less than 13 m² per capita living space, of which 2.6 million families (15.2%) occupy less than 9 m² per capita living space and 1.5 million families (8.8%) have less than 7.5 m² per capita living space.⁴⁴

Table 9 shows that for households in one room dwellings in 2013, 43.5% were occupied by

⁴² Calculations based on SSSU, *Social and Demographic Characteristics of Households in Ukraine in 2013* (Kyiv, 2013). Tables 1.17 and 1.22

⁴³ Habitat for Humanity, *Country Profile: Ukraine*. Available from http://www.habitat.org/sites/default/files/country_profile_ukraine.pdf (accessed 30 April 2012).

⁴⁴ SSSU, *Social and Demographic Characteristics of Households in Ukraine in 2013* (Kyiv, 2013), p. 35.

single person households, 28.1% by two-person households and the remaining 28.4% by more than three-person households. These families had only 9.2 m² per capita residential floor space on average.

Table 9. Percentage of Ukraine's households living in one-room dwellings in 2013

	All households living in one-room dwellings	Including urban settlements			Rural settlements
		Big cities	Small cities	Urban Total	
1-person	43.5	42.1	40.8	41.7	57.6
2-person	28.1	28.9	30.4	29.3	18.1
3-person	22	22.7	21.7	22.5	18.1
4-and more person	6.4	6.3	7.1	6.5	6.2

Source: SSSU, *Social and Demographic Characteristics of Households in Ukraine in 2013* (Kyiv, 2013), Table 1.22, p. 34.

Income-based variations in housing conditions are common. In 2013, 8.8% of all households in Ukraine had less than 7.5 m² per capita residential space; this was the case for 25.3% of the lowest 10% income group households and for only 3.3% of the highest 10% income group. Households with more than 13.65 m² per capita residential space accounted for about 61% of Ukraine's households, but only 30% of the lowest 10% income group families had such housing conditions, while this was the case for 77% of the highest 10% income group households.

Housing need

There is no official record of housing need in the country. In this section the two concepts of housing need will be analysed:

- The officially recognized housing need which is reflected in the waiting list system and assumes public obligations towards improving living conditions of citizens put on such a list
- The analytical concept of housing need based on investigations of housing conditions and housing allocation

This officially recognized housing need is based on a set of eligibility criteria that include households:

- With housing space below the established norm
- In substandard and unsafe housing

- In overcrowded housing (two and more household sharing accommodation)
- In hostels
- With sublease contracts in state and municipal housing
- Renting private accommodation for more than five years
- Who suffer from severe forms of chronic diseases

The system for the housing waiting list is somewhat complex: it includes “first priority” households (28% of the waiting list) and preferred (extra-priority) households (9.9%). In reality, such a categorization does not reflect the real priorities of the state housing policy: in 2010, housing was provided to 0.9% of households on the housing waiting list, 1.5% to the first priority category and 2.4% to the preferred category.⁴⁵ In addition, judging by the dynamics of housing provision, the households which are allocated housing as a result of resolutions by legislative authorities and executive authorities have a greater chance to obtain housing than other categories of households referred to in the law.

support either “very rich” households who could acquire housing themselves (even if they are on the waiting list) or “very poor” households who clearly would not be able to meet their financial obligations. A household average monthly per capita income should not exceed five times the monthly average wage in the relevant region, calculated according to criteria of SSSU and should not be below the cost of 1 m² of social housing, which is established and annually revised by the State.

Table 10 summarizes the housing provision to people on the waiting list for the two recent decades, including the latest available data (2011). According to 2010 data, 1.139 million Ukrainian households were identified as needing housing, of which 779,700 (68%) have already been in the housing queue for more than 10 years. Less than 1% of households in the waiting list were provided with housing in 2010, which is much lower than the 9% in 1990.

The use of eligibility criteria is often open to the discretion of local registration entities, making it difficult to obtain the kind of consistent picture of needs across the country vital for housing policy formulation.

Table 10. Housing allocation to households in the waiting lists

	1990	1995	2000	2005	2006	2007	2008	2009	2010	2011
Needy households, thousand	2,638	2,411	1,765	1,323	1,300	1,252	1,216	1,174	1,139	1,084
Households provided with housing, thousand	235	82	32	20	20	17	17	11	11	7
Percentage of those on the waiting list (end of previous year)	9.2	3.2	1.6	1.4	1.5	1.3	1.3	0.9	0.9	0.7

Source: SSSU, *Statistical Yearbook of Ukraine in 2011* (Kyiv, 2012), Table 19.2, p. 421.

Households on a waiting list could either wait for free public housing (Table 10 shows that the average waiting period currently exceeds 100 years,⁴⁶ making this procedure practically useless) or participate in state-supported programmes using their own means.

Nowadays, additional criteria are used in defining households on waiting lists who are eligible for the “State Affordable Housing Programme”. In essence, eligibility is based on average monthly per capita income. The logic is that the Programme should not

MinRegion is currently developing a Unified State Register of citizens needing improvements to their housing conditions;⁴⁷ its launch is planned for 2013. The register will serve as an important instrument to support national housing initiatives: it will not only stimulate the integration of housing needs assessment and housing need information, but also establish firm eligibility criteria. The circumstances mentioned above make this initiative important and timely.

⁴⁵ Calculated based data from SSSU.

⁴⁶ Under the assumption that the trend of 1% annually for housing provision for households in the waiting list continues.

⁴⁷ Association of Ukrainian Cities, “A Unified State Register of Citizen Who Need Improved Housing Conditions will be put together by October of 2013”, 8 April 2013. Available from <http://auc.org.ua/en/news/unified-state-register-citizen-who-need-improved-housing-conditions-will-be-put-together-octobe>.

An analysis of housing conditions shows that there are groups of households with inadequate housing conditions deserving special attention within the framework of national housing policy implementation. These⁴⁸ include:

- Households that have neither the financial means to improve their housing conditions nor access to government-supported programmes, including waiting lists
- Households living in overcrowded units (1.5 million households with housing consumption less than half of the national average or the 2.6 million households with housing consumption less than 60% of the national average)
- Households living in hostels or flats with shared facilities (425,000 and 85,000 households, respectively)
- Households living in residential buildings constructed more than 50 years ago, which have never undergone capital repairs (1.3 million households)
- Households lacking access to basic amenities

Public opinion supports statistical data on housing condition. Statistics show that 3.6% households (about 611,000) are deeply dissatisfied with their housing condition, 15.9% (2.7 million) are not satisfied at all and 49.5% are not satisfied in general.⁴⁹

In large cities, 50.5% of households are more or less pleased with their housing situation (50.9% in small cities and 40.8% in rural areas). At the same time, 52.7% of all households with children are not happy about their housing situation (49.8% in large cities and 58.5% in rural areas). Around 54.7% of families with three children are not content with their housing situation. There is also significant inter- and intra-regional variation in housing satisfaction. For example, in Kirovohrad and Zakarpattia oblasts, the share of households dissatisfied with their housing is close to 70%.

Housing affordability

There are no housing affordability indicators at the national level that could be used to devise a mechanism to promote affordable housing. The ratio of average house prices to average household annual income⁵⁰

⁴⁸ A household may belong to several groups simultaneously.
⁴⁹ SSSU, *Social and Demographic Characteristics of Households in Ukraine in 2013* (Kyiv, 2013), Table I.29, p. 41.

⁵⁰ The average dwelling size is 55.6 m² in 2010 (SSSU, "Housing Stock in Ukraine in 2010"). The average price is calculated as an average of prices of 1.2 and 2-room flats. According to SSSU data, the average income in 2011 was UAH 1.788 per month per capita. Assuming that average

ranges from 13.6 in Kyiv to 6.4 in Dnipropetrovsk. Affordable housing markets are usually recognized as those with ratios ranging from 3 to 5.⁵¹ Clearly, there is a mismatch between current housing prices and household income in Ukraine.

The housing affordability index, which takes into account the possibility to partly finance a purchase through mortgage, varies from 54% in Lviv to 63% in Kyiv. This means that the income of a typical household who wants to purchase a 42 m² unit through a typical mortgage⁵² is only about 54-63% of the required amount.

The ratio of annual rent to income varies significantly from 0.42 in Kharkiv to 0.9 in Kyiv. Such high shares are also evidence that demand for rental housing exceeds supply.

Housing affordability in Ukraine is affected by the rapid increase in housing prices since the 2000s and fluctuations in household income and mortgage interest rates and loan periods. Ukraine's housing market performance has been also seriously affected by the post-2008 economic crisis (for further details on Ukraine's housing market performance see Chapter VI).

The policies attempting to charge for utilities and housing-related services are to a large extent driven by political concerns and concerns about the ability to pay. However, data on the share of household housing and utilities expenditures, on the housing allowance programme and on collection rates suggest that, despite the need for additional protection for low-income groups, there is a room for further tariff increase to cover the real economic costs of services.

C. HOUSING SUPPLY

The transition to a market economy in Ukraine was marked by a sharp decline in the volume of new housing construction. Private investment in housing construction did rise to replace public investment, which almost disappeared. The decline in housing output reached its bottom in 2000 at 5.5 million m² (compared to 19.2 million m² in 1985) with only 1.5% of total housing built at public sector expense. The period between 2003 and 2007 was marked by a steady growth in housing construction, followed by another serious slump in 2008 and 2009 when the

household size is 3, average household income is UAH 5.363 per month.

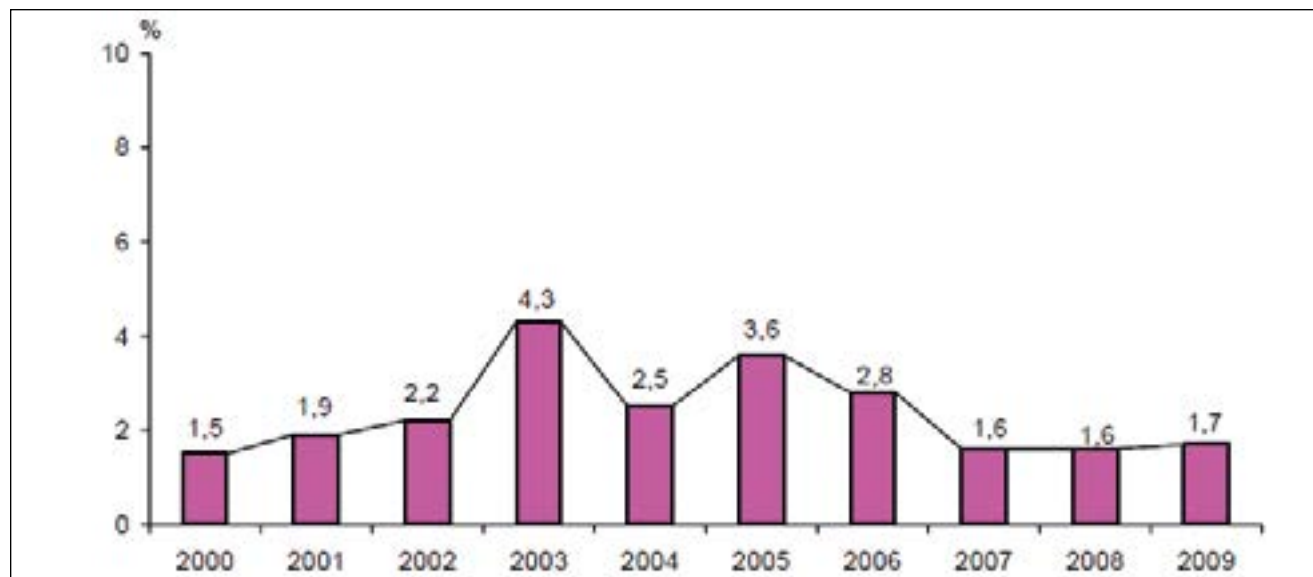
⁵¹ 8th Annual Demographia International Housing Affordability Survey: 2012, www.demographia.com.

⁵² Ukrainian National Mortgage Association (UNIA) methodology assumes that the average dwelling is a 42 m² 2-room flat. A typical mortgage is a 20-year loan at 18% rate with 65% loan-to-value ratio and 50% payment to income ratio.

annual housing output dropped from 10.5 million m² to 6.4 million m². The public sector involvement in housing supply has been low since 2000 (see Figure 4).

units per 1,000 people or 0.4 new units per 100 existing dwellings. Compared to other countries in 2007-2008 (such as Belarus [5.5-6.2/1,000 people], Kazakhstan [3.7/1,000 people] and the Russian Federation [5.1-

Figure 4. Public sector share in the overall housing output in Ukraine, 2000-2009 (%)



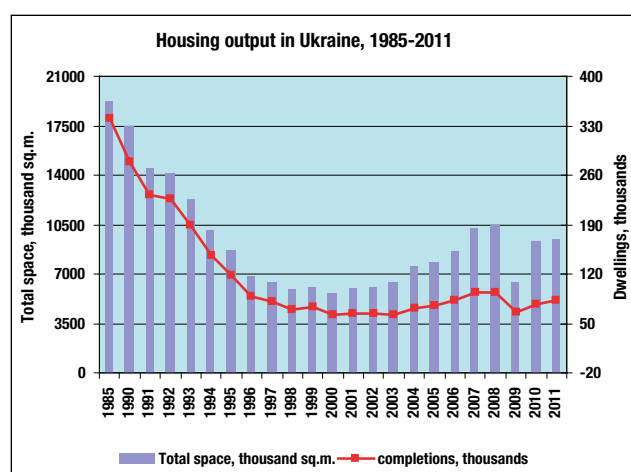
Source: SSSU, "Housing Construction in Ukraine in 2000-2009". Available from <http://ukrstat.gov.ua/>.

Despite recent improvement in new housing construction output, it has remained far below the Soviet era housing output. There has been growth in total housing space output since the 2000s (except for the crisis-related 39% slump in 2008-2009) but the increased space did not translate into more dwellings (see Figure 5).

5.4/1,000 people]) and some EU countries (on average, 5 /1,000 people), the rate of new construction in Ukraine is very low.

The average size of a new dwelling has become twice as large as in the Soviet period, increasing from 56 m² to 110 m²;⁵³ this indicates a trend to meet demand from wealthy customers.

Figure 5. Housing output in Ukraine, 1985-2011



Source: SSSU. *Commissioning of Dwellings in Ukraine in 2011* (Kyiv, 2012).

In contrast to the average annual output of about 200,000 dwellings in the early 1990s, since 1997, only about 74,000 dwellings per annum have been delivered. This means that that there are around 1.7

Most new housing (67% of the total) is built in urban areas. Although in 2012 there was twice as much finished housing in cities as in rural areas (7.5 million and 3.2 million m², respectively), the amount of new housing per person has practically levelled: 242 m² per 1000 people in urban areas and 225 in rural areas. Ukraine's housing suppliers have focused not only on the wealthy in society but also on particular geographical regions. Half of the total housing commissioned in 2012 was concentrated in six urban areas: Kyiv city (14%), Kyiv oblast (10.9%), Odessa oblast (7.2%), the Autonomous Republic of Crimea (6.8%), Lviv oblast (6.8%) and Ivano-Frankivsk oblast (5%).⁵⁴ Volumes of housing construction appear to be lowest in areas with the lowest demand for homes and that have a significant portion of uninhabited housing stock (Cherkassy, Poltava, Kirovohrad, Mykolaiv and Zhytomyr oblasts).

⁵³ Federal Service for State Statistics, *Россия и страны мира (Russia and Countries Worldwide)* (Moscow); SSSU, *Housing Construction in Ukraine in 2000-2009* (Kyiv, 2010).

⁵⁴ Calculations based on SSSU, *Commissioning of Dwellings in Ukraine in 2012* (Kyiv, 2013) page 10.

The construction of new dwellings has not been sufficient to replace deteriorated housing stock nor has it addressed housing need in a reasonable period of time. If the housing conditions of the 1.139 million households on the waiting list are to be improved within a 10-year period, an annual affordable housing output of approximately 4 million m² (43% of the current total production level) should be targeted for this group alone.⁵⁵

An unresponsive housing supply, housing market volatility, high housing prices, slumps in housing output and wider economic instability have reinforced each other. This led to the shock of 2009, when there was a 39% decrease in housing output throughout Ukraine, which involved an almost 61% reduction in individual housing construction. The share of individual housing construction dropped from 55.6% in 2008 to 35.7% in 2009.

Following the 2008 economic crisis and the reduction in construction lending (especially for housing) in Ukraine, unfinished construction became another serious problem for Ukraine's house-building industry. As of January 2010, the share of housing development projects which were either suspended or frozen constituted 66.4% of the total number of unfinished residential buildings.⁵⁶

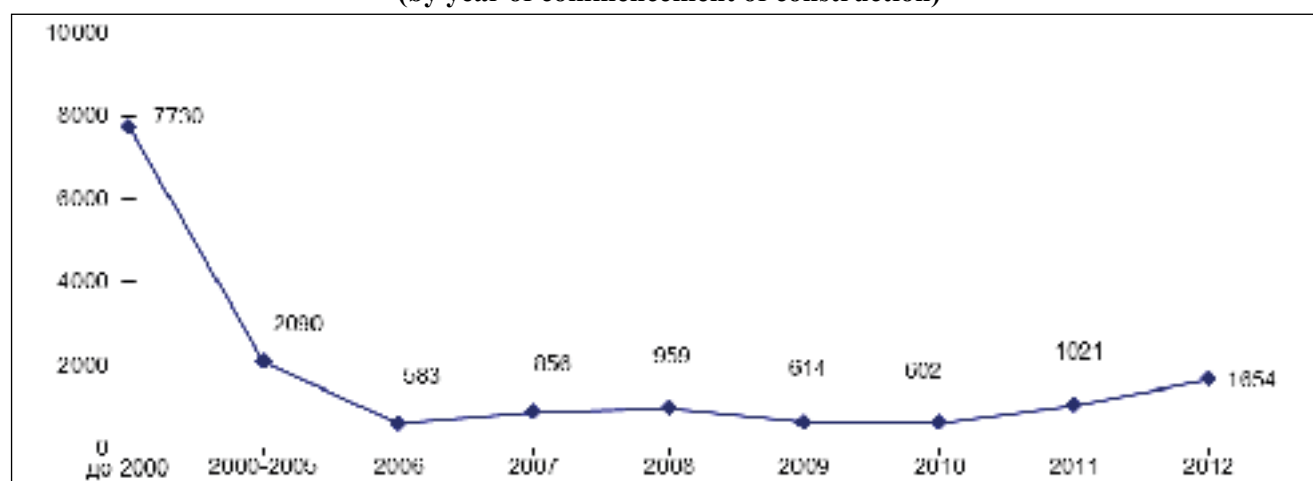
A closer look at commencement dates of unfinished construction projects (Figure 6) shows that half were launched long before 2000. These are the long-delayed projects of the Soviet era and transitional period that must be either completed or abandoned.

D. STATE SUPPORTED HOUSING PROGRAMMES

While commercial housing construction is an important driver of Ukraine's economic development, its social impact remains negligible, as it has largely focused on meeting the housing requirements of high-income households. The social contribution of private house-builders in Ukraine is limited to transferring 5 to 10% of their completed housing stock to the Government. The Government then distributes this stock among the needy population (those on the waiting list).⁵⁷ The transfer is done through negotiations with private builders and taking into account the circumstances of each particular housing construction project. Private builders may instead make a monetary contribution or bear other public expenses like the construction of social infrastructure. State assistance to Ukrainians who are registered as being in need of housing has remained an important socio-political matter. A number of public initiatives target certain social groups; among these are:

- A comprehensive programme on housing provision (purchase) until 2017 for military servants, ranks and officers of interior affairs authorities and the correctional system, customs officials and members of their families, the judiciary, orphans, disabled veterans of World War II (group I) and visually and hearing impaired people, academics of the Ukrainian Academy of Agrarian Sciences and public sector workers with 20-year contracts
- Research and teaching employees and civil servants (mostly aided by subsidized loans)

Figure 6. Number of unfinished construction sites as of 1 January 2013 (by year of commencement of construction)



Source: SSSU, *State of Unfinished Buildings and Constructions in Ukraine* (Kyiv, 2013).

⁵⁵ 2.59 (average household size)*13.65 m² per capita (statutory per capita residential space)*1.1319 million (Ukraine's households)/10 years.

⁵⁶ SSSU, *Housing Construction in Ukraine in 2000-2009* (Kyiv, 2010).

⁵⁷ National Institute for Strategic Studies "Щодо необхідності та шляхів посилення соціальної ефективності житлової політики держави" (Regarding the Needs and Means to Enhance the Efficiency of the State Housing Policy). Available from <http://www.niss.gov.ua/articles/540/> (accessed 30 April 2012).

However, the actual outcome of these initiatives has been limited, probably due to high housing prices and the limited capacity of the Government to accommodate these groups through the private housing market.

Supporting the construction of individual houses in Ukraine's villages has been on the government agenda since at least 1998 (decree of CMU No. 1211 of 3 August; decree of CMU No. 1597 of 5 October; decree of the President No. 222 of 27 March). This was further reinforced when in 2007, the programme "My Own Home" was integrated into the State Programme on the Socioeconomic Development of Ukrainian Villages till 2015 (decree of CMU No. 1158 of 19 September). This initiative aims to increase the quality and quantity of individual residential developments in rural areas, including the construction of houses and infrastructure. The key delivery mechanism provides preferential long-term government loans to individual house-builders for a 20-year period (30-year period for youth) at 3% per annum. There is a limit of UAH 200,000 (USD 25,000) per person and it exclusively targets village residents registered on the housing waiting list. The borrowers can also use agricultural products to repay loans. With the establishment of state funds in almost all Ukrainian villages to assist individual housing construction, some 76,000 rural house-builders have received these preferential state loans, creating a housing output of 1.2 million m²⁵⁸ or more than 6% of the total rural housing output. The initiative aims to contribute to the wider objectives of the Government for rural areas, including:

- Retention of employees;
- Reduction of the rate of migration;
- Stabilization of the demographic situation;
- Creation of new jobs.

Needs-based housing provision for the youth

Improving the housing conditions of Ukrainian youth is part of the framework of the 2002-2012 government programme (decree of CMU No. 1089 of 29 July 2002). This initiative relies on the following mechanisms:

- The provision of state-subsidized long-term mortgage loans at 3% per annum for a 30-year period (with loan write-offs of up to 50% with the birth of children)
- The State Fund for Assistance to Youth Housing Construction to mediate state loans
- A partial state compensation of interest rates on loans from commercial banks

⁵⁸ Bprice.ua, "Развитие сельского строительства" (The Development of Rural Construction), appeared in *Budivelni novini* №18-19 9 May 2011. Available from http://bprice.ua/analytics/construction_news/1678.

- Mortgages (up to 90% of the purchase cost) from the Fund's own resources at 10.75% per annum (until March 2012)

The targeted social groups are young families and single people registered on the waiting list: households with two persons not older than 35; single-parent households with a mother or father not older than 35 with dependent children; and young singles not older than 35.

The Fund originates from a successful Soviet-era social movement of youth housing complexes, which was very strong in Ukraine before the Soviet Union collapsed. During that time there was mass construction of comprehensive youth housing complexes (including multifamily and single family housing, nurseries, schools, sport, entertainment and social amenities) in almost all regions of Ukraine. Reinventing this positive experience is considered as an important step in improving an affordable housing supply for youth in the country. Recently, the equity capital of the Fund was further increased which is seen by its management as a good step towards encouraging private investors to further develop affordable mortgage schemes that could compete with commercial banks.

Despite this progress, further developments to sustain the initiative are required. Some steps were already taken in 2010 when the youth housing construction initiative was integrated into the national Affordable Housing Programme (see discussion in the following section). During its nine years of operations the Fund has managed to accommodate only a limited number of families, especially in rural areas. Affordable mortgage schemes remain out of reach for many young people. Some sources have highlighted the underfunding of the programme, linking it with high housing prices, limited public funds and an unstable and limited housing supply.

Needs-based affordable housing provision

In 2009, Ukraine launched the affordable housing initiative "State Socioeconomic Programme for the Construction (Purchase) of Affordable Housing for 2010-2012". The programme is seen as a key driver in mitigating the influence of the global crisis on construction and house-building activities in the country (law No. 800 of 25 December 2008 and resolution of the Cabinet of Ukraine No. 1035 of 9 September 2009). Affordable housing is defined as "residential buildings (complexes) and apartments that have been built or are being built with the support of the State". Improvement in the provision of affordable housing is being supported by the State through a number of mechanisms. On the demand side, government support at both the national and local levels includes compensation equal to 30% of the cost of purchase of affordable housing, the

provision of subsidized mortgage loans or both (see Chapter VI for details). The Government also buys out risky mortgage loans that were taken by individuals for housing construction and purchase prior to the commencement of the programme. This state assistance is granted to citizens registered on the housing waiting list with gross monthly family income of up to five times the average gross monthly income for a given region.

Compensation is determined by standard per capita residential floor space and housing cost. A household is entitled to 10.5 m² plus 21 m² per person plus. For example, a two person household is entitled to 52.5 m² (10.5 m²+ 2*21 m²), a three person household to 73.5 m² and so forth. The housing cost per m² is set by MinRegion for each oblast of Ukraine (decree of the Cabinet of Ukraine No. 193 of 29 February 2012). For example, with the lowest cost of UAH

provision of 30-year subsidized loans by authorized banks at an annual rate not more than the rate of the National Bank of Ukraine (approximately 2%).

While the economic efficiency of the affordable housing initiative can be praised, given its positive impact on of Ukraine's house-building industry and on middle class housing demand, doubts have been raised about its social efficiency. The programme is seen to be more beneficial for relatively wealthy families, so, since April 2012, the affordable housing programme has undergone further improvements. A household can now take a government-subsidized loan at 3% per annum with a 25% down payment. After having a first child, the family is exempt from paying the interest; 25% and 50% of the loan are written off for having a second and third, respectively. For example, a young family without children that wants to buy a 1-room apartment of 45 m² from a

Picture 6. Multi-apartment buildings constructed under the State's housing programmes



4,934 per m² (USD 613) set in February 2012 for some oblasts, including Chernivtsi, Luhansk and Vinnytsia, the state compensation to a three-person household for the purchase of an apartment of 73.5 m² will be UAH 108,800 (73.5 m² *4934*30%) or USD 13,500. Housing can only be bought from housing developments approved by MinRegion. Most housing projects that are more than 70% completed have already been considered. Another way to improve the access of households to mortgage loans is through the

large developer in Kyiv will need to pay about UAH 405,00 (UAH 9,000 per m² [as declared by one of the large developers in Kyiv]* 45 m²) or USD 49,938. The family can obtain a mortgage loan of up to UAH 303,750 (or 75% of the cost) at 16% per annum for 15 years; of this interest, the Government will pay 13% and the family 3%. For the year 2012, the Government has allocated about UAH 1 billion (USD 125 million), the estimated cost to construct 30,000 dwellings. The income eligibility limits have also

been specified based on Ukraine national incomes: households must earn less than UAH 400,000 or USD 50,000 annually and more than UAH 55,000 or USD 6,785 annually. This new initiative targets households who are on the housing waiting list.

Housing supply through residential regeneration

As Western countries' experiences demonstrate, housing regeneration activities can not only make a substantial contribution to improving housing supply and demand but can also ensure more balanced and resilient urban development and growth.

From 2009 to 2011, the share of reconstruction activities in the total housing output was only 3.5 to 4% of the total.⁵⁹ Yet housing regeneration has been on the national government agenda as early as 2005. In 2006, mechanisms of residential regeneration were approved by the Verkhovna Rada, which took into account the interests of investors and developers. They also provided legal guarantees to residents, for example, guaranteeing resettlement without additional pay to an apartment with no more than a 50% increase of the living area, in the case of compulsory resettlement. However, further developments in housing regeneration initiatives have been slow, partly due to lack of clarity in the sequence of regeneration activities. This has led to various disagreements between the participants, such as resident frustration over resettlement, insufficient public financing, lack of general plans, high risks for investors and lack of a single registry of individuals badly in need of housing. To address the lack of a single registry, a concept design and terms of reference were prepared for the creation of the electronic registry.

Some municipalities (e.g., the cities of Kyiv and Lviv) have also adopted or attempted to initiate housing regeneration programmes since about 2000. For example, in 2008, Kyiv approved a city-wide programme which included demolition of 6.9 million m² within a 1,500 hectare area and new housing construction of about 30 million m². Activities involved sequential demolition of old, poor-quality buildings, but each demolition involved new housing development to resettle the residents. This regeneration project generated up to 60% profit for investors (even more with additional public funding). Some foreign investors have shown interest in this project, but currently no agreement between them and the Kyiv authorities has been established. In other cities, like Lviv, the residential regeneration initiative has been very difficult to promote, largely for social reasons. Many residents are unhappy about the prospects of changing their residences and a community life that is already established.⁶⁰

⁵⁹ SSSU, *Housing Construction in Ukraine in 2000-2009* (Kyiv, 2010); SSSU, *Commissioning of Dwellings in Ukraine in 2012* (Kyiv, 2012).

⁶⁰ Elena Savchenko, "Реконструкция «хрущевок»: беспилотный проект" (Reconstruction of "Khrushchevki":

The attempts of the national and local governments at residential regeneration have been postponed due to political changes, recent financial difficulties in the house-building industry and the backlog of unfinished housing projects. Some attempts to put housing regeneration back on the national agenda have been made more recently, including plans by MinRegion for the reconstruction of "khrushchevki",⁶¹ and the preparation of a new draft law on the reconstruction of decrepit housing stock by the Association of Builders of Ukraine.

Legalizing unauthorised housing

Since 2009, the government has established a procedure to legalize unauthorised individual housing construction completed between 1992 and 2009 (i.e. individual and country houses, utility buildings and structures) (CMU Resolution No. 1035 dated 9 September 2009, CMU Resolution No. 91 dated 24 June 2011, MinRegion Order No. 94 dated 24 June 2011). This involves inviting a competent organization to undertake a technical survey of the building(s) and utilities by the individual house-builder. The survey can advise the house-builder on how to improve construction. This survey serves as a key document in subsequent applications of the house-builder to the local office of the Inspectorate of State Architectural and Construction Control to formally bring the structure(s) into operation and obtain a certificate confirming that the structure(s) meets building standards. This procedure is straightforward if the owner has a document certifying the ownership or right of use of land under the building/structure. After the certificate is received, the owner must register ownership at the relevant state registration office. While the authorization of the buildings/structures is free-of-charge, the cost of the technical survey is covered by the owner and it varies in different regions (e.g. UAH 7-15 per sq. meter in Kharkov region). An administrative penalty for failing to seek authorization is also imposed, which is between 10 and 50 non-taxable minimum incomes or UAH 170-850⁶².

Unfulfilled Project), 16 June 2011. Available from <http://www.ugmk.info/print/art/1307522786.html>.

⁶¹ A type of low-cost three to five story cement-paneled or brick apartment building, which was developed in the Soviet Union during the early 1960s and named after Nikita Khrushchev. These buildings were planned with a life span of 25 years.

⁶² Andrey Medinskiy, "Новые правила легализации самостроя" (New Rules for the Authorization of Structures Built in Violation of Building Regulations), *Sudebno-yuridicheskaya gazeta №105*, 26 September 2011. Available from <http://sud.ua/newspaper/2011/09/26/38427-novie-pravila-legalizatsii-samostroya>.

PART II – SPATIAL PLANNING AND LAND MANAGEMENT

Chapter IV

SPATIAL PLANNING AND URBAN DEVELOPMENT

A. LEGAL, POLICY AND INSTITUTIONAL FRAMEWORK

Legal framework

Spatial planning is regulated by urban legislation. The first urban law was “On the Principles of Town Planning”, which was adopted in 1992. The law was meant to delegate responsibilities for spatial and urban planning between authorities. In 2000, another urban law was adopted, “On the Planning and Development of Territories”, which regulated urban planning documentation at other levels.

Law “On the Principles of Town Planning” No. 2780-XII of 16 November 1992 (latest amendments: No. 3038-VI of 17 February 2011, No. 4220-VI of 22 December 2011 and No.5459-VI of 16 October 2012)

This law regulates land issues in town planning and creates a town planning cadastre for settlements. The law also sets out the liability for violations of laws on town planning.

According to the law, town planning is an activity of state bodies, bodies of local self-government, enterprises, establishments, organizations, citizens and unions of citizens related to the creation and maintenance of a full living environment. Town planning activities include:

- Forecasting the development of settlements and territories
- Planning, building and other use of territories
- Designing and building of town planning objects
- The construction of other objects
- The reconstruction of historical settlements together with the preservation of the traditional character of the environment
- The restoration and renewal of objects of cultural heritage
- The creation of engineering and transport infrastructure

Law “On Architectural Activity” No. 687-XIV of 20 May 1999 (latest amendments: No. 4220-VI of 22

December 2011, No.5459-VI of 16 October 2012 and No.5496-VI of 20 November 2012)

This law defines the legal and organizational framework for the implementation of architectural activities. It aims to create favourable living conditions and ensure reliable, robust and safe houses, constructions and other objects of architectural activity.

The authorized bodies on city planning and architecture are the:

- Central executive body that provides public policy in the field of architecture
- Central executive body that implements public policy in the field of architecture
- State architectural-building control body
- Executive body of the Autonomous Republic of Crimea on architecture
- Structural units of oblasts and Kyiv and Sevastopol city administrations

The law states that entrepreneurial activities related to the creation of architectural objects is subject to licensing. However, citizens who have a qualification certificate to conduct entrepreneurial activity related to the creation of objects of architecture may do so without the license. These certified persons have personal stamps and are liable for the improper performance of works or services. Information about the person who received the qualification certificate is entered in the state register of certified persons.

General Scheme for the Planning of the Territories of Ukraine, adopted by the law No. 3059-III of 7 February 2002 (amendments: No.5459-VI of 16 October 2012)

The General Scheme sets out general land-use and the spatial planning framework. It defines priorities and conceptual solutions to planning and use of state territories. It ensures the sustainable development of human settlements, the development of industrial, social and engineering-transport infrastructure and the establishment of a national ecological network.

The provisions of the General Scheme are in accordance with the principles embodied in the documents of the Second United Nations Conference on Human Settlements (Habitat II) and the corresponding recommendations of the UNECE and Council of Europe.

Law “On Promotion of Development of Regions” No. 2850-IV of 8 September 2005 (latest amendments: No. 3275-VI of 21 April 2011, No. 4731-VI of 17 May 2012 and No. 5463-VI of 16 October 2012)

This law establishes the mechanisms for state support to promote regional development and overcome depression in territories. The mechanisms involve promoting more efficient use of regional resources and combining state and local resources to address local challenges.

According to the law, a depressed territory is a region (or its part, district or city) where the development index is the lowest among territories of similar type. The monitoring of development indices of regions, districts or cities is conducted by the central executive power on economic policy, the Council of Ministers of the Autonomous Republic of Crimea and the oblast or city administrations (for Kyiv and Sevastopol). These three bodies conclude an agreement on the measures that should be taken to stimulate regional development.

Based on the results of this process, the Cabinet of Ministers of Ukraine determines:

- The territories granted the status of depressed and sets their boundaries
- The indicators for which the territory receives the status of depressed
- The measures that the State should take to promote the development of a territory to overcome its depressed state and the procedure for implementation

Law “On Prevention of the Impact of the Global Financial Crisis on the Development of the Construction Industry and Residential Construction” No. 800-VI of 25 December 2008 (latest amendments: No. 3038-VI of 17 February 2011, No. 4220-VI of 22 December 2011 and No. 5459 of 16 October 2012)

This law established guarantees for investors who provide funds for the construction of objects of architecture on the territory of Ukraine which have been halted because of a lack of liquidity.

The Law:

- Stipulates that funds from the state budget will be allocated for the completion of unfinished residential construction

- Establishes a method of providing loans to developers in order to complete housing projects and thereby fulfill their obligations to investors
- Protects loans for financing residential property from increases in interest rates
- Establishes a procedure for the construction of affordable dwellings for lower-income individuals, partially financed by the State

The law also establishes obligations by lessors regarding the renewal of leases of land plots of state and communal property on the terms and conditions of the original lease agreements. This applies to land where residential housing is being constructed and where building and assembly work is occurring.

Under this law, developers are exempt from contributing to the engineering, transport and social infrastructure development of settlements, leading to a decrease in the cost of the construction.

Furthermore, the law provides the right to purchase rental housing. The implementation of this provision is through resolution of CMU No. 274 of 25 March 2009 (amendment No. 1390 of 28 December 2011), which sets the procedure for purchase. According to the lease agreement, one party (the lessor, a company) awards a housing unit to another party (the lessee, a tenant) for a long term payment period of 30 years; once the lease payments have been paid in full, the housing becomes the property of the tenant. A written lease agreement must be certified by a notary and registered with the authorities.

This law primarily aims to solve problems in the residential housing construction sector and does not apply to commercial construction.

Law “On Construction Standards” No. 1704-VI of 5 November 2009 (latest amendments: No. 4220-VI of 22 December 2011, No. 5459-VI of 16 October 2012 and No. 5496-VI of 21 November 2012)

The law defines the legal and organizational principles for the development, approval, registration and application of construction standards. These are compulsory in construction, town building and architecture and are approved by a standardization body.

The law defines two types of construction standards:

- National construction standards, approved by a central executive authority for construction
- Industry-specific construction standards, approved by a ministry in the absence of national construction standards for a certain of building, or where there is need to establish requirements for the construction of certain types of buildings

Law “On Regulation of Urban Planning Activities” No. 3038-VI of 17 February 2011 (latest amendments: No. 5059-VI of 5 July 2012, No. 5459-VI of 16 October 2012 and No. 5496-VI of 20 November 2012)

This law establishes rules and procedures in city planning and is aimed at sustainable development of territories based on the interests of the State, the community and the private sector.

The law changed more than 100 articles of 23 laws, aiming to simplify and improve all aspects of urban planning. The main innovations of the law are:

- Change in the concept of regulation: the developer, not the controller, will be responsible for compliance with urban planning regulations.

The law allows the gradual transition from licensing to certification for certain types of construction. This means that contractors, instead of getting a paper license for every step of the construction, will have the responsibility to assure the stability, reliability and quality of buildings.

- Simplification of urban planning documentation and the process of its approval.

Urban planning documentation was shortened from five levels to three levels, retaining the general plan, detailed plan and zoning.

Some site designs will no longer be subject to urban restrictions. Among these are: designs catering to areas not exceeding 200 m²; renovations of office and commercial premises; replacements of linear structures; restorations of facades of residential and non-residential buildings; and installation of pipelines of low and medium pressure.

Projects are to be developed with the obligatory participation of an architect who has the appropriate qualification certificate. They are then certified by the personal seal of this qualified architect. The project documentation for the construction of objects designed according to urban conditions and building restrictions is not subject to approval by the relevant executive authorities, local self-government authorities, cultural heritage protection authorities, sanitary-epidemiological services or environmental authorities. Such projects are approved by the developer alone.

Project assessment will be done through a “one-stop shop”. One organization, instead of six organizations as before, will be responsible for testing projects for compliance with regulations on, inter alia, energy saving, labour protection, environment and fire safety.

The law defines the categories of construction projects subject to mandatory state expertise: buildings of complexity category IV or V (multi-storied buildings

and buildings with complicated technical solutions); objects built on territories with complex geological and anthropogenic conditions; and real estate constructions that are partially public-funded.

- Reduction in the number of steps to obtain permits and approval for construction from 93 to 23 steps. The procedure for obtaining permits was reduced from 416 to 60 days. The period for the declaration of commencement of construction work and the issuance of a permit for construction work is now set at five and 10 days, respectively.
- Introduction of a new legal framework for building private housing. A residential building with up to two floors and an area of up to 300 m² will be allowed to be built based on a simplified construction passport.

Law “On Amendments to Certain Legislative Acts of Ukraine to Strengthen Accountability and Improve State Regulation in the Field of Urban Development” No. 4220-VI of 22 December 2011 (with amendments No. 5496-VI of 20 November 2012).

This law increased the penalties for violating urban planning and construction regulations. In general, penalties are imposed due to non-compliance and non-fulfillment of requirements set out in legislation, construction regulations and state standards. The penalty will depend on the complexity class of the object constructed. The violator pays a fine equivalent to five to 900 times the minimum wage and pays for any damages resulting from the violation.

The law also defines the procedure for imposing the penalty and the procedure for appealing to the administrative authorities and the court.

The law introduced amendments to the 1994 law “On Liability of Enterprises, their Unions, Institutions and Organizations for Violations in the Urban Planning Sphere” in line with these changes. This law is now “On Liability for Violations in the Urban Planning Sphere”.

The law also amends certain provisions of the “Code of Administrative Offences”, making sanctions tougher for construction-related offences. There will be an administrative liability for failing to keep the unified state register of citizens requiring improvement of housing conditions and for failure to comply with the legal requirements or regulations of officials from the State Architectural and Construction Inspectorate. Moreover, there are some changes in Articles 96 and 96-1 of the Code regarding legislative requirements, construction regulations, state standards during construction and the legislation for building planning and development.

Urban Planning Code (draft legislation)

On 30 June 2010, Parliament adopted the draft “Urban Planning Code” in its first reading. The draft code was listed among the draft legal acts to be prepared and finalized for consideration during the tenth session of the Verkhovna Rada of Ukraine at the Sixth Convocation (resolution of the Verkhovna Rada No.4344-17 of 6 July 2012). However, the draft code was not finalized at the Sixth Convocation and is not even listed among the draft legal acts for consideration by the Verkhovna Rada of Ukraine at the Seventh Convocation (resolution of the Verkhovna Rada No.158-18 of 2 April 2013).

The draft code supersedes the following laws:

- The 1992 law “On the Principles of Town Planning”
- The 1999 law “On Architectural Activity”
- The 2000 law “On the Planning and Development of Territories”
- The 1994 law “On Liability of Enterprises, their Unions, Institutions and Organizations for Violations in the Urban Planning Sphere”
- The 2010 law “On Urban Planning Provisions”

When the Urban Planning Code comes into force, these laws will be repealed.

The Code consists of 9 sections, 23 chapters and 162 articles establishing optimal living conditions for the population, provision of the steady development of settlements and coordination of state, public and private interests.

The Code stipulates that the architectural and urban planning council is formed by: the Council of Ministers of Crimea; oblast, Kyiv and Sevastopol city administration; rayon state administration; and executive bodies of the city council. This council will review urban planning documentation, architectural projects located in historic areas and projects in high-rise buildings.

Once adopted, the Code will establish the general legal and institutional framework for planning and building in Ukraine. It will eliminate urban planning feasibility studies (substantiation, validation and justification), which are major bottlenecks slowing down the updating of town planning documentation. The draft code provides free public access to a digital database of state building standards and approved town planning documentation. The draft regulates not only urban planning documentation by a respective project organization, but also the terms of its approval by the client.

Policy framework

1999 Concept of Sustainable Development of Settlements

The resolution of the Parliament No. 1359-XIV of 24 December 1999, adopted the “Concept of Sustainable Development of Settlements”. The Concept is envisaged for the long term (15 to 20 years). It defines the main directions of state policy on sustainable development of human settlements and legal and economic methods of implementation. The provisions of the Concept are consistent with the principles of Habitat II and the corresponding recommendations of UNECE and the Council of Europe.

There are no reports on the implementation of the Concept.

2001 Concept of State Regional Policy and the 2006 State Strategy for Regional Development for the period until 2015

The “Concept of State Regional Policy” was established in 2001 with the adoption of the decree of the President No. 341. It outlines the national level long-term goals and priorities for regional development. On 21 July 2006, the CMU issued resolution No. 1001 adopting the “State Strategy for Regional Development until 2015” to provide an operational framework for implementing the State Regional Policy. The State Strategy contains regional development policy programmes at national and regional levels with specific strategic objectives long-term priorities and key implementation strategies. The CMU is responsible for coordinating the implementation of the State Strategy and ensuring that state policies are aligned with regional development goals.

Since 2008, the CMU has adopted a yearly action to implement the State Strategy.

Institutional framework

Ministry of Regional Development, Construction, Housing and Communal Services

MinRegion was established on 31 May 2011 (decree of the President No. 633/2011 with amendments: No. 742/2011 of 08 July 2011) by merging the Ministry of Regional Development and Construction and the Ministry of Municipal Economy. It is a central executive body responsible for the development and implementation of state policy in housing, construction, architecture and urban planning, defining the priorities for each area.

In particular, MinRegion is responsible for the formulation and implementation of national policy covering:

- The improvement of territorial distribution of power, the administrative and territorial structure and the development of local self-governance
- Construction, architectural and urban planning activities, the construction materials industry and the preservation of the traditional character of settlements
- The municipal economy, housing policy, landscape planning, floral-decorative seed farming, household waste disposal and the technical inventorying of property
- Architectural and building control and control in housing and utilities
- The provision of technical regulation in the field of construction, municipal engineering, building materials, housing and communal services

State Architectural and Construction Inspection

The Inspection was established on 8 April 2011 by merging the State Architectural and Construction section of the Ministry of Regional Development and Construction and the State Housing Inspection of the Ministry of Municipal Economy (decree of the President No. 439, with amendments No. 633 of 31 May 2011, and No. 742 of 8 July 2011).

The Inspection is responsible for:

- State control over compliance to legislation, standards, regulations, rules, orders on architecture, construction and municipal economy
- Licensing and registration functions in construction and activities related to the creation of architectural objects

Hierarchically, the Inspection answers to MinRegion. The Head of the Inspection is appointed by the President, based on the nomination of the Prime Minister following the proposal of MinRegion.

B. SYSTEM FOR GRANTING PERMITS FOR PREPARATORY-CONSTRUCTION ACTIVITIES AND ACTUAL CONSTRUCTION WORK

The procedures for the approval of construction work are established by CMU through resolution No. 466 of 13 April 2011 (latest amendments, No. 43 of 8 January 2012, No. 148 of 27 February 2012 and No.653 of 11 July 2012).

The resolution approved the:

- Procedure of preparatory works
- Procedure of construction works

- List of facilities, the construction of which is carried out after the notification of commencement of construction works

The procedure of preparatory works consists of two documents:

- Notification on the commencement of preparatory works
- Declaration on the commencement of preparatory works

The procedure of construction works consists of three documents:

- Notification on the commencement of construction works
- Declaration on the commencement of construction works
- Permit to execute construction work (hereafter, construction permit)

These documents authorize construction work and remain valid until the construction is completed, on the condition that a document confirming the property right or management right for the land plot or a superficies agreement exists.

Notification on the commencement of construction works

Prior to construction work, a written notification (the template for which is annexed to the procedure of preparatory works), together with the required documents, should be sent by the customer to a corresponding regional office of the State Architectural and Construction Inspection.

Registration of declaration on the commencement of preparatory works

The declaration shall be registered at the inspection office for constructions belonging to the complexity classes I to III. Two originals of the declaration should be sent by the customer to the appropriate regional office of the State Architectural and Construction Inspection. The customer is liable for the completeness and accuracy of data entered in the declaration.

The inspection office checks the completeness of data entered in the declaration and registers it within five business days from the day it has been received. Following its registration, one original of the declaration is returned to the customer and the other remains with the inspection office.

The procedure for the notification and declaration on the commencement of construction works is much the same. One important difference is that if the inspection

has not registered a declaration of commencement of construction work (or has not decided to decline its registration), the right to perform construction work occurs on the eleventh day from the date on which the declaration was registered or returned. In such cases the declaration is considered as registered.

Construction permit

A construction permit is issued to the customer by the State Architectural and Construction Inspection for construction projects belonging to complexity classes IV and V. This is issued free of charge by the relevant inspection office. For objects located in several administrative or territorial units, it is issued by the Central Office of the State Architectural and Construction Inspection.

The inspection office shall grant a permit or refuse its issuance within 10 days from the day the application was registered. If it is refused, the inspection office must send the applicant a letter explaining the reasons.

If the inspection office has not issued a construction permit (or has not decided to decline its issuance) within the 10 days, the customer can appeal to the inspection office. The inspection office has 10 more days to either issue a permit or decline its issuance. If the inspection office still fails to make its decision within these 10 days, the permit is considered as granted. In this case, the customer has the right to begin construction from the tenth working day after the appeal was registered.

A test version of the automated permit system was developed and is now in beta testing.

C. URBAN PLANNING DOCUMENTATION

There are three levels of urban planning documentation:

- National (the general scheme for territory planning and planning schemes for parts of the country)
- Regional (the scheme of territory planning of the Autonomous Republic of Crimea, oblasts and rayons)
- Local (general city plans, zoning plans and detailed plans)

The procedure for urban planning documentation was approved by resolution of CMU No. 548 of 25 May 2011 (with amendments No. 148 of 27 February 2012). General city plans are approved only after public hearings. The time allocated cannot exceed 60 calendar days for urban planning documentation of national and urban levels and 45 days for general city plans.

The procedure for the development of urban planning documentation was approved by the order of MinRegion No. 290 of 16 November 2011. The Verkhovna Rada of the Autonomous Republic of Crimea and oblast, rayon and city councils are authorized to commission the development of urban planning documentation which can be developed by licensed entities. Urban planning documentation is then approved by the decision of customers and is subject to a positive appraisal by state experts.

D. SPATIAL DEVELOPMENT TRENDS AND PLANNING RESPONSES

Regional impacts of development

Dealing with the impact of socioeconomic and urban activities has been a difficult challenge for the Government. The problem manifests in:

- Growing regional disparities
- Unbalanced urban development
- Rapid physical decline (including infrastructure and housing problems)
- Intensification of uneven urban living and residential conditions
- Environmental degradation

Government efforts since 2005 towards strategic socioeconomic planning and financing and the simplification of urban development control are expected to remedy the situation, but further steps in the field of regional planning should be considered.

Today, regional planning is struggling to address complex socioeconomic challenges (e.g., globalization and increased competition, demographic changes, environmental concerns and social inequalities) and to improve regional development, because planning reform has not been prioritized by the Government until recently. Other European countries are facing a similar situation – they have adopted a spatial-planning approach to improve their systems of regional planning and support their efforts towards strategic and sustainable socioeconomic and urban development.

It is crucial for the Government to achieve balanced regional development or provide a more even distribution of development. A better integration of sectoral actions may be achieved if they are guided towards common objectives for geographic development. Therefore, in undertaking further actions on regional and urban development, greater attention must be given to geographic factors at an early stage. These actions will require clear spatial development guidelines.

The need for regional development mechanisms to support state strategic actions in the country's regions and subregional territories is recognized by some regional development experts working in Ukraine with EU partners. The adoption in 2005 of the law "On Stimulation of Development of Regions" and the "State Strategy for Regional Development until 2015" marked the beginning of systematic thinking on regional disparities. The Strategy states that regional development policy should develop competitive conditions that facilitate dynamic and balanced regional economies. However, the regional strategies that were developed were only declarative in nature and did not include a plan for implementation. In addition, an independent regional coordinating body is needed. The scope of the criteria needs to be widened to assess depressed regions.

Importantly, if evaluated against European regional development practice, the regional strategies represent aspatial attempts involving a set of sectoral programmes with no consideration of how sectoral activities would proceed within regional territories. Neither the Law nor the Strategy considers the overall situation of Ukraine's regions and the development opportunities for individual regions. In other words, the key role of regional planning in coordinating development efforts needs to be better recognized.

Box 1 provides further discussion of regional development in Ukraine and points at recent, successful EU-funded pilot projects at the regional level involving the formulation of more complete and feasible regional strategies, including an essential geographic component.

Ukraine's system of regional planning

Recent, significant changes to the national system of regional planning and urban development are a government response to outdated and cumbersome arrangements. At the heart of this initiative is the plan to attract private investment to the construction industry and bring it out of crisis. The reforms have largely involved legislative and regulatory improvements including new territorial plans: the new 2001 General Scheme of Territorial Planning of Ukraine; new regional territorial plans; and new general plans for some cities.

Ukraine's legal and regulatory planning and development framework now covers the most important areas (see discussion in previous sections of this chapter); however, it requires further development. Subnational planning authorities and professionals point out that the existing multi-tier system of planning documentation, i.e., regional plans, is correct but it remains excessively detailed and prescriptive and therefore very difficult to comply with in practice. There is a need for simplification and

flexibility in decision-making and planning to ensure that the system effectively captures the development dynamics in regional and subregional contexts.

Ukraine has inherited elaborate regional planning, but the preparation of regional plans represents a multilevel physical consideration of land use to meet the country's socioeconomic and urban tasks. Given today's complex development and decision-making situation, this approach to planning allows almost no flexibility or stakeholder cooperation.

Regional planners are not often involved in the preparation of national strategic documents; instead, they use them as blueprints for drawing their plans. Figure 8 considers the place of regional planning in the evolving system of strategic state planning in Ukraine. It shows that the relationship between regional planning and other national development activities goes only one way.

On the one hand, planners are not expected to provide strategic regional development policies and instruments to coordinate the work on national programmes (e.g., to ensure better regional effects). On the other hand, with no understanding of regional development potential, it is also difficult to implement development activities. Planners often say that some socioeconomic programmes are difficult to put into practice due to regional development constraints.

The existing land-use plan-making practice restricts planners' ability to deal with development dynamics within the country's oblasts. The plans often become out of date or ignored. Furthermore, a lack of cooperation among stakeholders on regional development (i.e., cooperation based on some agreed geographic development criteria) generates conflict, contributing to non-compliance with the planning documentation.

For example, at the national level, the 2001 General Scheme of Territorial Planning of Ukraine has lost its relevance in the last two years. This is partly due to the abolition of the Co-coordinating Council on the Implementation of the General Scheme for Territorial Planning, which allowed cross-sectoral cooperation. This has obviously affected the cross-sectoral effect of the national planning document and complicates the location of projects of national interest, like a hydroelectric power plant or national-level logistics centre.

Planning reform in Ukraine is an essential step in reviewing the country's system of regional planning. However, planning authorities and professionals in Ukraine also highlight the importance of changing the planning philosophy and culture and giving better recognition to planning as an effective tool to address the current development situation and deliver

Box 1. Geographic coordination of a regional development strategy: The case of Khmelnytskyi oblast

While almost all of the regions of Ukraine have already formulated their socioeconomic strategies, difficulties remain with their implementation. The strategies remain declarative or advisory documents that provide a policy framework for state funding of regional development programmes; they include a “regional agreement”. In practice, the implementation of the agreement has been difficult due to political and economic reasons.

According to the Khmelnytskyi Oblast Council, since 2008, the National Regional Development Agency (NARDA) of MinRegion, with the technical and financial support of the EU, has been assisting some oblasts with their regional strategies in response to the recent state strategic development initiative. The completed regional development strategy of Khmelnytskyi oblast is seen as a best practice within the framework of NARDA-EU cooperation. In contrast to existing regional strategies prepared since 2005, the strategy builds on EU practices and involves an analysis of socioeconomic dynamics and geographic trends influencing the development of the oblast. It includes a delivery plan and promotes integration and cooperation among government agencies at all levels, as well as sectoral interests on matters pertaining to the region’s development. Most important is the use of integrated place-based approach, which takes advantage of the oblast territorial potential to facilitate and redistribute activities within the region. It involves a number of geographic mechanisms focusing on strengthening the growth centres as engines for driving development, improving the economic and social accessibility of rural peripheries, infrastructure and transport capacity and other goals. In other words, the strategy is based on a continuous assessment what the region can offer and how it can adapt to external opportunities like new markets, international transport corridors and the development of bordering regions. It is also based on a joint effort involving about 120 different stakeholders of the region.

sustainable development. Further reforms in the national system of regional planning will need to focus on shifting land-use planning practice towards more strategic geographic planning and cross-governmental activity. The latter should seek to balance conflicting interests in the triangle of relationships between the economy, the people and the environment. It should go beyond traditional physical planning to integrate physical and land-use planning and the development of policies with other policies, activities and programmes that have a bearing on land-use (e.g., economic development, housing, climate change and social cohesion) and the nature of places and their performance.

National Governments in Europe are adopting a new approach to spatial planning, which focuses on space-mediating and place-making activities. Spatial planning supports the coordination and integration of the spatial impacts of different government strategies and policies in sectors like housing, transport, energy and industry through a regional development strategy (see a schematic representation of such integration at the oblast level in Figure 9). This coordination covers all levels of planning and the interaction among all stakeholders.

Spatial planning operates on different scales through national and regional strategies to improve local systems of urban and rural development. This is achieved through better design and organization of towns, villages and neighborhoods, taking into account environmental considerations. Spatial planning acts within the context of national sustainable development strategies.⁶³ It operates through a set

⁶³ In recent years, the Ministry of Ecology of Ukraine has made attempts to formulate the national strategy for sustainable development strategy.

of instruments and tools, including laws, policies, guidance, plans, procedures, incentives and sanctions, to ensure “effective and fair management of spatial development on the basis of agreed criteria”.⁶⁴

Elements of spatial planning at the local level

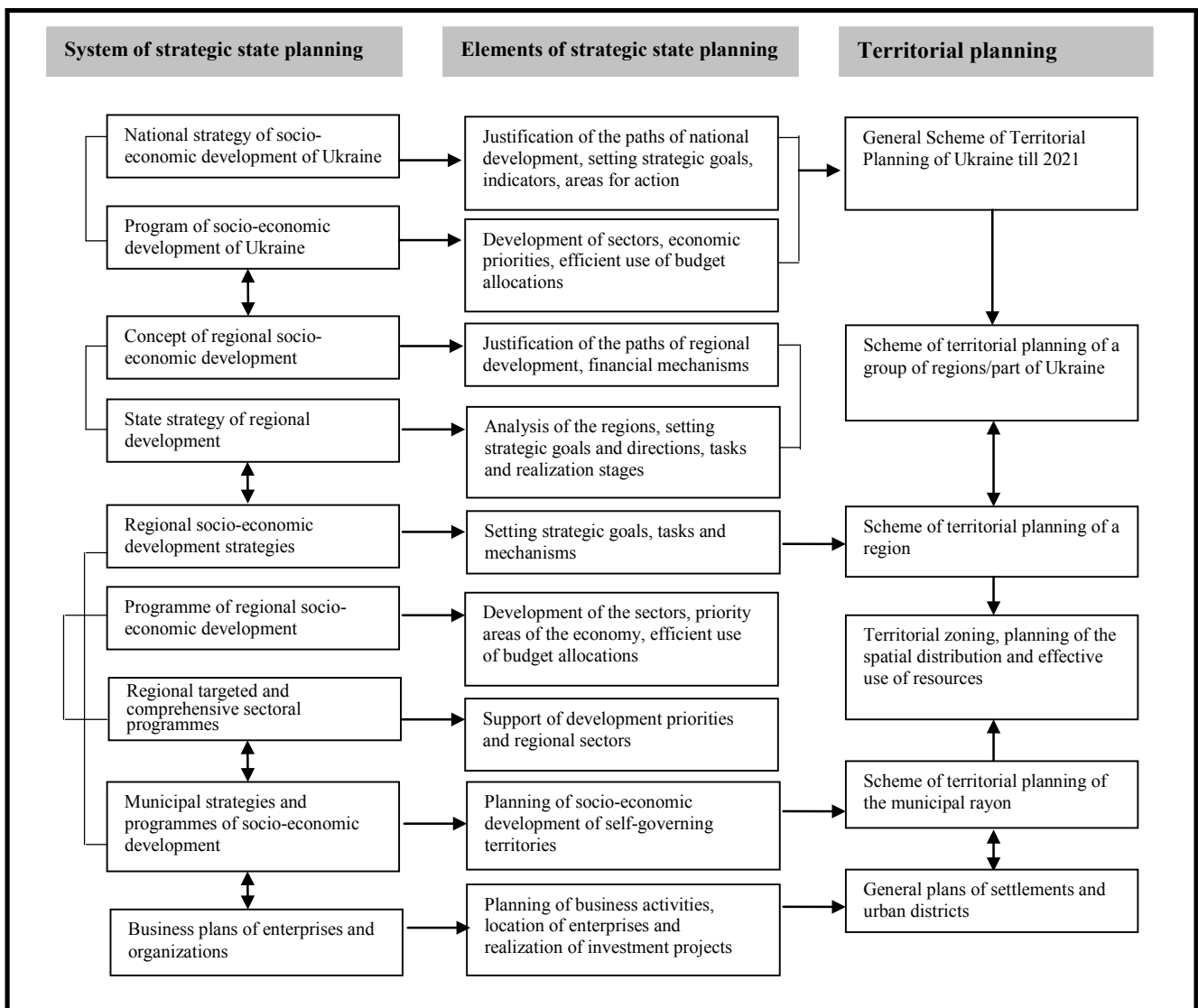
It is crucial for Ukrainian cities to have a new general plan, following the new European practice of urban planning which allows a more dynamic type of urban development to facilitate socioeconomic activity for city development. The Kyiv City Administration has been working on a new general plan for the city since September 2008 to replace the current one, which was ineffective in guiding the city’s development. The new plan is being prepared in cooperation with the Kyiv State Administration, which has been working on a new socioeconomic development strategy for the city. The draft “Kyiv Development Strategy until 2025” provides a visionary strategic document defining the key priorities, targets, actions and budget for socioeconomic development of Kyiv. The prospective general plan of Kyiv is now integrated as a key instrument of the Strategy.

In April and May 2012, the first and second drafts of the new Kyiv general plan underwent public scrutiny until 1 December 2012. The general plan is now being considered for submission to the city council. The plan promotes sustainable regional development and rational use of the city’s limited land resources. In particular, it aims to:

- Address the issue on uneven development of engineering and transport infrastructure

⁶⁴ UNECE, *Spatial Planning: Key Instrument for Development and Effective Governance* (Geneva: United Nations, 2008).

Figure 7. Territorial planning in the national system of strategic planning



Source: adapted from Evgeniy Zhirnel, “Пространственное планирование как фактор оптимизации управления регионом (на примере Республики Карелия)” (Spatial planning as a factor of optimizing the management of the region (the case of the Republic of Karelia), Problems of Modern Economics 2 (22), 2007

- Improve the quality of life, improve the ecological situation and reduce greenhouse gas emissions
- Increase the attractiveness of Kyiv to tourists
- Reduce social inequalities within city boundaries
- Reduce dependence on individual car use

The plan includes a balanced territorial development of Kyiv utilizing a number of sustainability principles and approaches, including compact city, polycentricity and multi-functionality, green city, the city of culture and business, balanced metropolitan development (“from general to specific” spatial organization such as the joint projects between Kyiv city and Kyiv oblast), responsibility to future generations and strategic plan-led urban development. Figure 11 shows the strategic territorial planning and socioeconomic development strategy

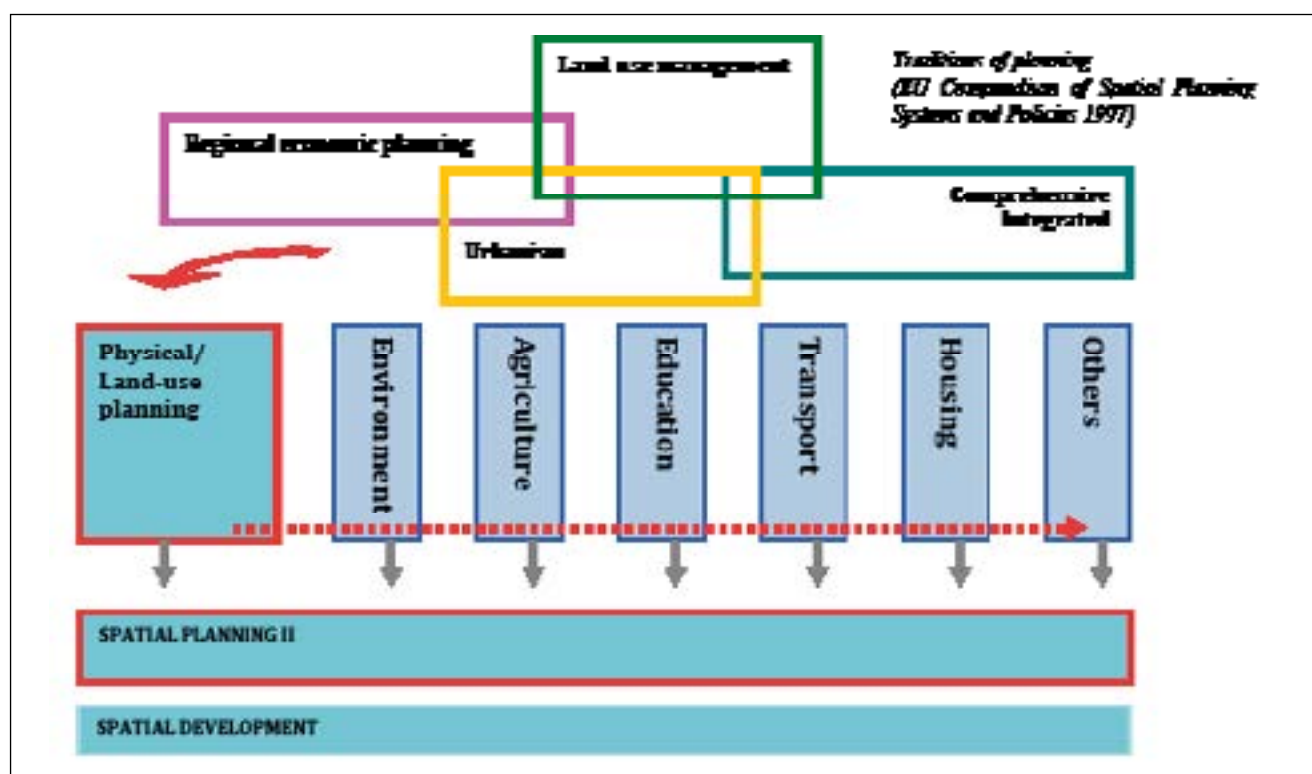
of Kyiv are and their inter-linkages in overall state strategic planning.

Benefits and challenges of the recent planning reforms

The recent changes in planning regulations on development management, control and enforcement (law No. 3038-VI of 17 February 2011) bring many positive effects. In particular, the new provisions:

- Extend the power of local councils to approve urban developments
- Establish personalized liability for damaging results of violation of building regulations
- Allow a substantial reduction in development control procedures (from 465 to 90 stages)

Figure 8. From land use planning to spatial planning: securing a spatial integration of different strategies and policies (regional level)

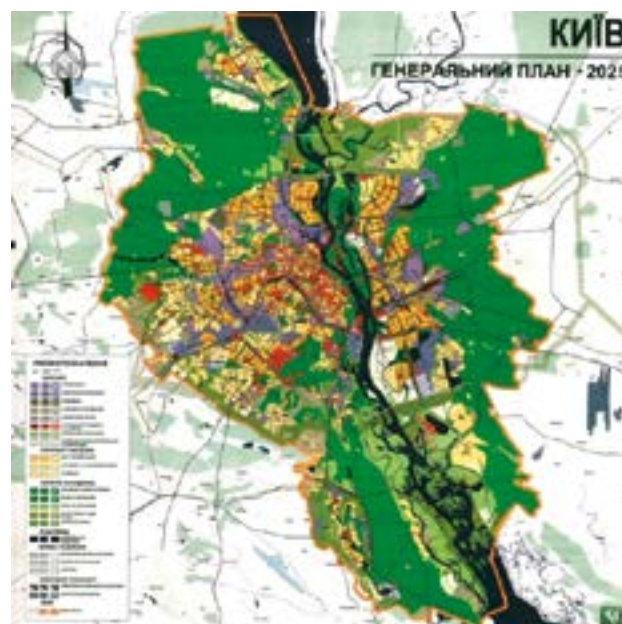


Source: Vincent Nadin, "Spatial Planning and Territorial Development at the Regional Level". Available from <http://www.qub.ac.uk/research-centres/span/FileStore/StrategicPlanning/Fileupload,152838,en.pdf> (accessed 5 February 2014).

- Set the requirement for a unified urban development cadastre and zoning
- Allow declaration-based preparatory and construction works
- Introduce the principles of “silent agreement”, “one-stop shop” and “organizational unity” in the development-permit application system
- Ensure the private sector’s support for social and physical infrastructure
- Clarify the development and approval of general plans as basis for development decisions
- Simplify the commissioning of constructions of categories I to III
- Ensure public access to information on urban development

The new planning regulations still require further development. In particular, there is no clear procedure for dealing with unauthorized constructions or for public hearings in cases of compulsory purchase of properties. Furthermore, the new provisions on plans with indefinite time-horizon involve risks. While this approach may seem reasonable when local authorities have limited funds for preparing new plans, it fails to ensure strategic planning and provides no time framework for implementation. This may support the

Figure 9. Kyiv Development Strategy until 2025



status quo rather than stimulate changes. Indefinite general plans lack clarity on what and when developments will happen. As such, given today’s dynamic socioeconomic situation, indefinite general plans may not be taken seriously.

In general, the new regulations improve development management procedures but their success will depend on further developments in Ukraine's regional planning (e.g., the development of less prescriptive spatial strategies and regional plans as a basis for decision-making and enforcement).

The use of legally binding land use plans or zoning is becoming increasingly popular in Ukraine; they are seen to help make development management more transparent. Zoning helps to avoid an individualistic approach to land development under uncertain and dynamic urban processes; it is increasingly given priority over required work on new general plans. The popularity of zoning in Ukraine stems from what it seems to offer – a regulative tool for planners when old mechanisms become inadequate. However, zoning per se is not sufficient to address the wider scope of development matters. For example, it does not consider issues like social cohesion, economic self-sufficiency and cultural or aesthetic value to ensure more sustainable development patterns. Ukraine has a strong tradition of master planning that needs to be maintained and improved along with zoning activities.

As other countries' experiences show, the development of zoning plans to allocate development rights requires much capacity in the planning system. Zoning plans tend to be rigid and inflexible, although in some cases they remain important, such as in the protection of environmental assets. Zoning

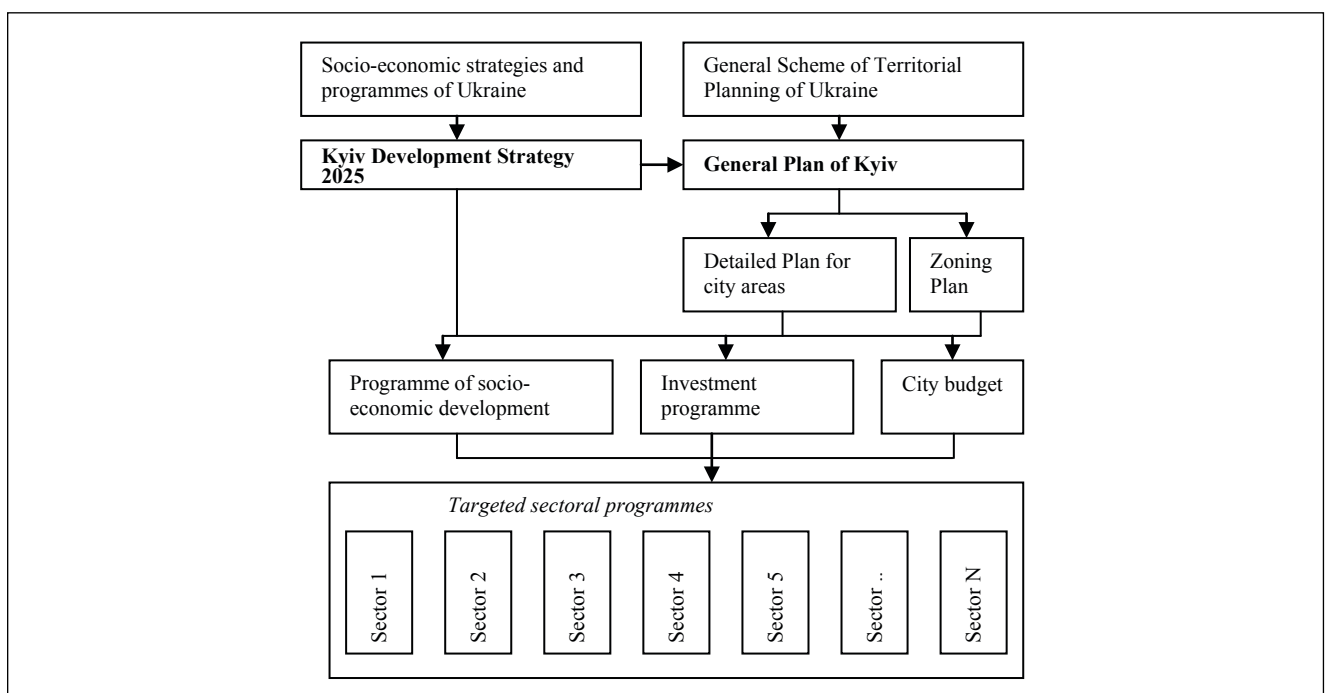
plans are often bypassed by informal agreements or unauthorized developments. A number of other management mechanisms like national codes (energy efficiency regulations or design criteria) are therefore increasingly used in many countries to ensure the quality of development. Less prescriptive guidance, such as control of accessibility and density requirements,⁶⁵ may also be used to allow better coordination between sectoral and land-use activities.

Enforcement of planning regulations can be achieved if based on transparent policies and procedures. This will require the development of strategies, plans and regulations that are not too prescriptive, involve different sectors and are transparent for citizens and investors. Furthermore, firm but legitimate action must be taken concerning unauthorized development (for example, the demolition of illegally constructed buildings). In cases of large illegal developments, there should be a proper evaluation of planning system limitations and the possibility of a retrospective integration of different interests in the process of upgrading service provision to ensure, if possible, more sustainable development patterns.⁶⁶

Planning for housing

The old, integrated approach to housing that linked housing to socioeconomic and urban goals has been abandoned in Ukraine. Yet, contemporary socioeconomic and urban trends and actions in

Figure 10. Strategic territorial planning and socioeconomic development strategy of Kyiv



Source: Draft Development Strategy of Kyiv until 2025.

⁶⁵ Ibid.

⁶⁶ Ibid.

the country affect housing outcomes. Housing developments are also known to have socioeconomic and urban implications. The following are some examples of these important interactions and territorial development effects:

- Ukraine's fast-growing areas have prompted a sharp increase in housing demand and prices. This situation is known to worsen housing affordability and to prompt speculation on the real estate market. Ukraine's mid-2000s housing boom, especially in core areas like Kyiv and the Kyiv, Odessa and Lviv oblasts, has led to housing market volatility and a crisis in the house-building industry and Ukraine's economy as a whole.⁶⁷
- Lack of jobs in declining areas (especially in the east, such as the Dnipropetrovsk, Donesk, Luhansk and Zaporizhia oblasts) has triggered emigration and demographic changes, contributing to mounting disrepair and neglect of dwellings and residential infrastructure in these areas. These trends make it difficult to attract investment, making the areas increasingly dependent on external resources. This situation has exacerbated the polarization of the quality of life in the country and regional disparities.
- People moving out of Ukraine's declining areas put pressure on housing and residential infrastructure in fast-growing areas, contributing to housing shortages and overcrowding in these areas. Overcrowding may have adverse social and psychological effects on people.
- Lack of social housing will have implications for Ukraine's economy and put pressure on salaries.
- If there are social housing projects in the future, social housing in Ukraine is often defined by authorities as one of fairly basic quality and design. However, if social housing is below the average housing quality in the country, it may contribute to social stigmatization and exclusion.
- Housing supply in Ukraine is insufficient to meet the diverse needs of the population. The construction of new dwellings rarely has a wider objective to develop living conditions (by, for example, linking housing to utilities and social infrastructure). Dwellings should be part of self-contained, mixed-use residential areas with good-quality activities and innovative services and infrastructure. The current,

narrow approach will negatively affect residents' well-being.

- Very limited diversity in housing developments in Ukraine has led to the development of 'islands' of good-quality, expensive (and often gated) housing, leading to imbalances in neighborhoods. In discussions of EU urban and social cohesion policy, such practice is widely remarked to exacerbate social inequalities and conflicts.
- The mid-2000s housing construction boom in Ukraine has led to urban sprawl, unbalanced urban development, a shortage of infrastructure and road congestion.

To ensure an integrated approach to housing, the Government should promote better cooperation between planning and housing. The current challenges of the socioeconomic and urban context of housing as well as environmental challenges should be dealt with more effectively. Also, the delivery of housing projects has been somewhat disorganized in Ukraine regarding the instigators' activities and responsibilities. For example, there have been cases where a multi-family dwelling, its utility connections and social infrastructure are finished by the builder, but the local authority refuses to place the utility and social infrastructure on its balance sheet, as such structures are often considered to be very expensive. Local authorities are very reluctant to take responsibility for the structures which were not developed under their control.

Effective planning for housing based on spatial planning principles and practices should be considered by the Government. This approach should help reintegrate housing with socioeconomic and urban tasks, as well as improve governance of housing delivery. In essence, reintegration through spatial planning can be achieved through space-mediating and place-making planning activities⁶⁸ (see also the section "Ukraine's system of regional planning").

Space-mediating actions can help link housing with government initiatives and sectoral interests at different levels through the integration of housing considerations in geographic strategies. This should promote concrete planning and design to achieve an integrated delivery of housing, ensuring well-planned, environmentally-friendly residential areas that meet the diverse housing and everyday needs of Ukraine's population. Figure 12 shows an example of best practice in the EU in using place-making considerations to guide planning towards an integrated

⁶⁷ Global Property Guide, "Ukraine's unexpected rise in house prices, amidst economic slowdown and political tension", 17 May 2012. Available from <http://www.globalpropertyguide.com/Europe/Ukraine/Price-History-Archive/Ukraines-unexpected-rise-in-house-prices-amidst-economic-slowdown-and-political-tension-1241>.

⁶⁸ Royal Town Planning Institute, *A new vision for planning. Delivering sustainable communities, settlements and places. Mediating space - creating place. The need for action* (London, 2001). Available from <http://www.rtpi.org.uk/media/9321/RTPI-New-Vision-for-Planning.pdf> (accessed 5 February 2014).

neighborhood development and deal with the wider socioeconomic and urban context of housing. It considers planning actions along a set of dimensions to achieve a sustainable community.

In adopting EU spatial-planning practices, the Government can calculate and set housing targets as an overarching normative goal for the formulation and implementation of a national spatial planning framework (see Chapter III for the current housing issues in Ukraine). Spatial-planning mechanisms on housing may focus on solutions to problems regarding housing affordability, a housing supply adequate for the population, appropriate location and design, the configuration of new homes and the efficiency of the entire housing development processes. In practice, the national planning framework can support the implementation of housing targets through:

- Good quality housing that is well-designed and built to a modern standard
- A mix of both affordable and market housing (including tenure and price)
- Support for different household types in all urban and rural areas
- An adequate amount of housing to accommodate both needs and demands and improve choice
- Housing developments in suitable locations with good access to community facilities as well as jobs, key services and infrastructure
- A flexible and responsive supply of land which could achieve efficient and effective land use

Spatial planning strategies in many countries are set to achieve not just housing numbers but also to improve the quality of the residential environment, with particular attention given to design policies. This involves not only essential aesthetic considerations (the visual appearance and architecture) but also a better integration between people, places and new developments into the natural, built and historic environment. To ensure a full range of daily activities and services like employment, recreation, schools and shops, housing must be developed as part of mixed-use higher-density area. This approach also helps minimize travel distances while ensuring a healthy environment and greater socioeconomic well-being. Planning for housing should also maintain a neighborhood's identity and develop a sense of place by taking into account the socio-physical infrastructure and historic, cultural and aesthetic value of the place. Improving the accessibility of areas should involve the development of a better transport network, including diverse public transport and energy efficient and alternative modes of transport. The regeneration of high-density inner-city areas should also help bring housing closer to different services and lifestyle opportunities. Existing housing estates may be improved through technological and planning regulatory practices.

Cities and oblasts play a particularly important role in supporting government housing objectives through planning. Regional and local housing strategies should provide a framework within which planning requirements can be evaluated in terms of their capacity to promote housing objectives. Additional planning mechanisms can also be explored, such as

Figure 11. Egan Wheel for sustainable community



Source: The Geographical Association, "Building Sustainable Communities". Available at <http://www.geography.org.uk/projects/buildingsustainablecommunities/onlinecpdunit/stimulus/activity1/> (accessed 10 February 2014).

housing developments for specific groups in need. Planning for housing ensures that all housing issues can be considered at every stage of the planning process, starting from the identification of adequate land to the setting of development controls and the assessment of particular developments against those controls. Planning activities can affect housing outcomes by:

- Governing the availability of land for housing and the location of new housing developments, in relation to transport, services, employment and educational opportunities through land-use regulations
- Influencing the way new housing is designed and configured and achieving appropriateness, affordability and tenure of new developments through development controls
- Preventing the loss of existing affordable housing in major urban renewal processes
- Mitigating the social or environmental impact of approved developments, for instance, through the use of developer contributions to fund neighbourhood infrastructure or potentially affordable housing

Land administration plays an important role in the economy of every country. Efficient land-management practices are beneficial to all aspects of sustainable development (economic, social and environmental).

Ukraine is the second-largest country in Europe. In the past, Ukraine was part of the Soviet Union. During this time, land use rights were granted to either the collective farms (*kolkhozy*) or the state-owned farms (*sovkhhozy*).⁶⁹

⁶⁹ Katja Dells, Maxym Fedorchenko, Oksana Frankewycz and Pieter Steffens, *State Land Management of Agricultural*

In Soviet times, Ukraine was a major food producer, providing one-fourth of the Soviet Union's agricultural products.⁷⁰ After gaining independence in 1991, land reforms were undertaken along with the move to a market economy. Ukrainian land reform was initially based on the resolution of the Verkhovna Rada "On Land Reform" of 18 December 1990, and the Land Code of 1991. Land privatization has been ongoing since then, affecting, in particular, rural areas. However, a restitution process for land did not take place; many international projects were conducted to respond to this need, amongst them the World Bank initiative "Rural Land Titling and Cadastre Development Project", and a number are still being carried out.

Considerable progress has been achieved concerning land; however, the implementation of current and planned legislation remains a major task. Land administration authorities are facing the challenges of completing the registration of land and ownership and setting up the SLC for Ukraine. They also have the task of introducing a healthy land market, particularly in rural areas where there is still a moratorium on the sales of agricultural land, which prevents the introduction of real-estate market structures.

Land in Ukraine (Berlin: GTZ, 2006). Available from http://www.unece.org/fileadmin/DAM/hlm/prgm/cph/experts/ukraine/land_info/land.management.agri.2006.pdf (accessed 6 February 2014).

⁷⁰ Ukraine Digest, "Ukraine's Black Soil is Golden for the Economy". Available from <http://ukraine-digest.com/agriculture/21-ukraines-black-soil-is-golden-for-the-economy> (accessed 21 January 2013).

Picture 7. Rows of multi-apartment buildings with playground and parking



LAND MANAGEMENT AND REGISTRATION SYSTEM

A. LEGAL FRAMEWORK FOR LAND ADMINISTRATION

The basis of property rights in Ukraine can be found in Article 14 of the Constitution of Ukraine, which guarantees the right to own land to its citizens. According to the Constitution, land is Ukraine's main national asset, so it should be under the special protection of the State. The Land Code of Ukraine of 2001 (entered into force on 1 January 2002) addresses fundamental questions related to land and land rights and is the main law that governs land administration in Ukraine. Sections I and II of this code regulate some stakeholders and establish the categories of land, while Section III discusses the rights to land in detail.

The Land Code distinguishes between private (of citizens and legal entities), communal (of local self-governmental bodies) and state ownership (Articles 78 and 80). Ownership rights include the right to use and dispose of owned land plots. Citizens may acquire ownership rights through civil law agreements, the privatization of land that they were already using and inheritance or a free-of-charge transfer of oblast- or rayon-owned land. Foreigners are entitled to acquire own only land that is not for agricultural use.

Since the Land Code was enacted, Ukraine has adopted 58 laws and 59 decrees of the Cabinet of Ministers dealing with land relations and has issued 65 departmental orders registered in the Ministry of Justice (MoJ).

The bill "On Circulation of Agricultural Land" is particularly important as it introduces a national model of agricultural land turnover. This is intended to harmonize private, public and governmental interests and strengthen the State's role as a land consolidator, ensurer of stable and efficient agricultural land use and creator of sustainable social policies in land relations. The bill aims to strengthen the legal mechanisms for further development of agricultural land use and ownership based on principles generally accepted in society.

The adoption of this law and its practical steps in implementation would improve both foreign and domestic agricultural investment climate in Ukraine and encourage public-private partnerships (PPPs). This would be based on a stable rental relationship with government guarantees, the additional inclusion

of leased tracts retained by the owners of public lands and an increased volume of domestic investment from a new emerging class of efficient land owners.

The legality of market land transactions will be ensured through the registration of land plots and rights to them under the laws "On State Land Cadastre" No. 3613-VI of 7 July 2011 and "On State Registration of Rights in Real Estate and their Encumbrances" No. 1952-IV of 1 July 2004.

At the initial stage of formation of a land market, if the supply of land plots exceeds the demand of potential buyers, the Government will act as buffer to absorb excess supply and increase the area of public land for subsequent redistribution between owners and land users on a competitive basis. This consolidation of agricultural land and its inclusion in market circulation will result in increased liquidity of land as an economic asset, attracting additional investment in the agricultural sector.

The current legal framework for land covers a wide array of issues. However, other land issues are governed by laws and regulations such as the Civil Code and the Tax Code of Ukraine.

The law "On State Land Cadastre" was passed by the Verkhovna Rada in 2011 but has been postponed until 2013. This law will create the legal framework for the cadastre and will be the cornerstone for further development of land administration in Ukraine. The law "On Land Market" is currently being drafted and it is possible that its enforcement will also begin in 2013. The moratorium on the sale of agricultural land has not yet been removed. The legal framework is somewhat complex and therefore not easy to understand, which will inevitably lead to contradictions in interpretation.

B. INSTITUTIONAL FRAMEWORK FOR LAND ADMINISTRATION

In 2010, Ukraine adopted the law "On Amendments to the Law of Ukraine on State Registration of Property Rights to Real Estate and Their Limitations". Under this law, the registration of land ownership will be controlled by the newly-created State Registration Service of Ukraine, which is under the leadership of MoJ. The cadastre, on the other hand, will be fully developed and maintained by the State Agency for Land Resources under the Ministry of Agrarian

Table 11. Key legislation in place

Law	Reference	Content
“On land use planning”	22 March 2003 No. 858-IV	Sustainable development of land use
“On the procedure of actual allocation of land parcels to owners of land shares”	5 June 2003 No. 899-IV	Allocation of land parcels to owners of land shares that were formerly in collective ownership
“On land protection”	19 June 2003 No. 962-IV	Land protection, rational land use, environmental protection
“On state control over use and protection of land”	19 June 2003 No. 962-IV	Restoration of natural resources; environmental protection
“On subsidiary farm”	15 May 2003 No. 742-IV	Operating a subsidiary farm
“On farm household”	19 June 2003 No. 973-IV	Establishment of farm households as progressive form of entrepreneurship
“On land lease”	6 October 1998 No. 161 XIV	Use of land plot based on agreement to conduct commercial or other activity
“On land valuation”	11 December 2003 No. 1378 IV	Valuation of land parcels in Ukraine
“On delimitation of land in state and communal ownership”	5 February 2004 No. 1457-IV	Delimitation, ensuring rights of territorial communities
“On the ratification of the loan agreement (Project: ‘Rural land titling and cadastre development’) between Ukraine and the World Bank”	15 June 2004 No. 1776-IV	Establishment of ownership rights to real estate, establishment of an automated system for maintenance of the state land cadastre
“On State registration of rights in real estate and their encumbrances”	1 June 2004 No. 1952-IV	State registration, conditions for the operation of the real estate market
“On amendments to the law of Ukraine on state registration of property rights to real estate and their limitations”	11 February 2010 No. 1878-VI	State registration of property rights under the MoJ and the registration service
“State Land Cadastre”	7 July 2011 No. 3613-VI	Legal, organisational and economic framework for the state land cadastre
“On land market”	Draft	Real estate market of Ukraine

Policy and Food (MoAF). MoAF was responsible for carrying out the registration of land ownership before the amendments.

The Bureau of Technical Inventory (BTI) will no longer be involved in the property registration process. The BTI will no longer register and issue relevant documents by the end of 2012. These functions will be moved to the State Registration Service. The BTI

will continue to maintain technical inventories of buildings, but only for new construction.⁷¹

⁷¹ UKRINFORM, “Lavrynovych Tells about Registration Service and Current Functions of Technical Inventory Bureau”, 23 January 2013. Available from http://www.ukrinform.ua/eng/news/lavrynovych_tells_about_registration_service_and_current_functions_of_technical_inventory_bureau_297024.

The privatization of state land is managed through the “State Property Fund of Ukraine”, directed and coordinated by the CMU and regulated by law “On the State Property Fund of Ukraine” No. 4107-VI of 9 December 2011. The State Property Fund operates both through its central and regional offices. Its mandate is:

- Privatization
- The lease, use and disposal of state property
- The protection of property rights of state-owned enterprises
- The state regulation of property valuation, property rights and professional valuation activities

1. State Registration Service of Ukraine (Ukrderzhreyst) under the Ministry of Justice

The State Registration Service (hereafter, the Service) is preparing to become operational on 1 January 2013. In addition to the registration of persons, legal entities, political parties and the press, it will have full responsibility for the registration of rights to immovable properties and will run 583 registration offices across Ukraine. The notaries of Ukraine will have access to the official register database. The Service is investigating the possibility of notaries acting as registrars themselves if dealing with their own notarized transactions.

Until 2010, the BTI maintained paper documents only; however, registration procedures have since been digitized. The Service is now the body responsible for registration services and is facing a huge challenge in integrating existing paper documents into the register database.

The Service will have to maintain and update the State Information Registration System of Ukraine (of the State Register of Property Rights to Real Estate). The State Register will contain information on who has rights to property and on encumbrances and ownership of the property. These rights will include ownership, possession, use rights and information on mortgages.

The Service will face the challenges of integrating, combining and harmonizing data, which might derive from different sources, in one database.

2. State Agency for Land Resources of Ukraine under the Ministry of Agrarian Policy and Food

The statutes of the State Agency for Land Resources (SALR) are laid down in decree of the President No. 445 of 8 April 2011. SALR is the central executive authority dealing with land resources. Its activities are coordinated by the Cabinet of Ministers through MoAF. This authority is the successor to the State Committee on Land Resources.

The main functions of SALR are:

- Implementation of Ukrainian state policy regulating land ownership
- The maintenance and administration of the SLC
- The establishment and maintenance of an information database on land reform, land administration, land protection and monitoring land
- The maintenance of the SLC
- Valuation activities and land auctions

SALR has about 10,300 staff, including 280 employees at the central level at the time of the research mission for this study.

The structure of SALR includes some state enterprises. The State Enterprise Centre of State Land Cadastre, established in 1997, is the most important for the SLC. The Centre mainly carries out technical functions, such as the administration of the SLC database, including software maintenance and data delivery services.

The tasks of SALR are performed through bodies established in the Autonomous Republic of Crimea, oblasts and the cities of Kyiv and Sevastopol, as well as through district and city offices. In Kyiv, land matters are dealt with by the Kyiv Main Department of Land Resources.

3. Kyiv Main Department of Land Resources

The Kyiv Main Department of Land Resources (KMDLR) has been working on the establishment and maintenance of the cadastre database for Kyiv for the past 18 years. Their well-maintained cadastre index map shows primarily quarters, parcel boundaries, identifiers and house numbers as well as related documents on property rights. Exact building polygons⁷² are not included since KMDLR is not responsible for buildings. Buildings shown on the cadastre map are simply derived from orthophotos.⁷³ The public is allowed access to these data but currently web access to cadastre data is not possible. KMDLR also produces city maps at the 1:15,000 scale. It is still responsible for the registration of immovable property until the end of 2012, after which this function will be handled by the State Registration Service.

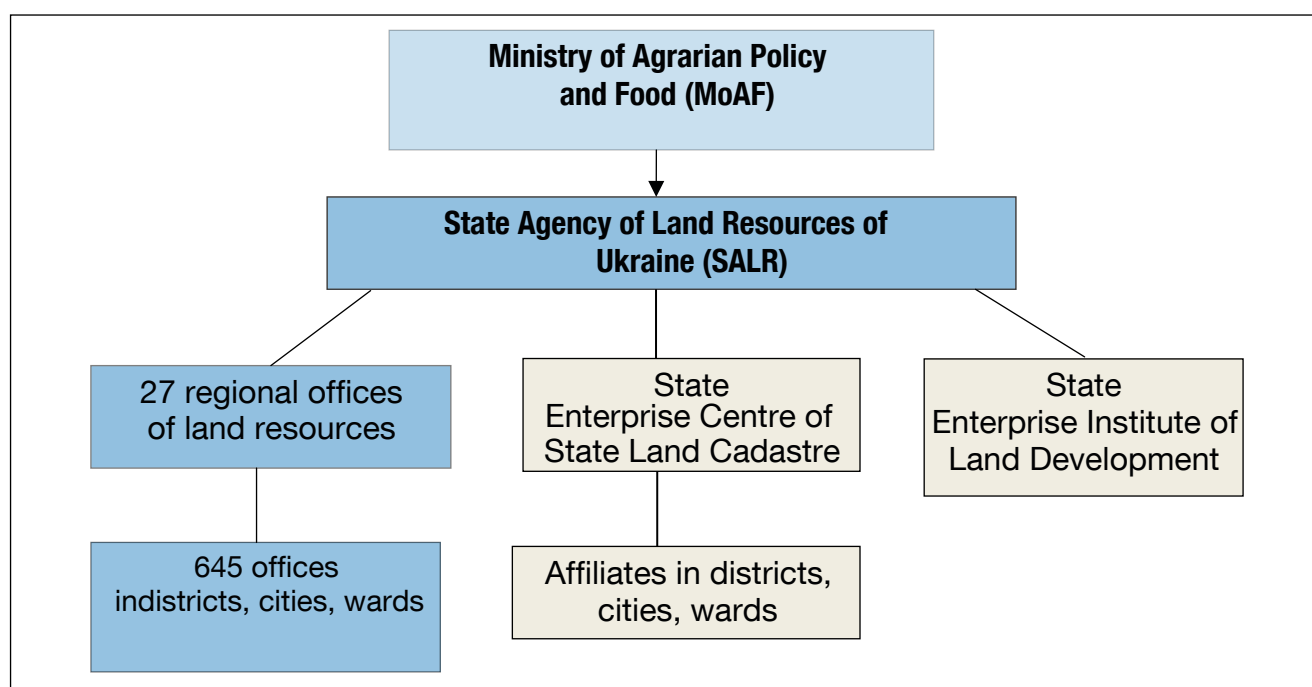
4. Notaries

State or private notaries certify contracts for the buying and selling of land plots, apartments and

⁷² In cadastre, the data on the contours or boundaries of a building are represented by polygons.

⁷³ Orthophotos are aerial photographs geometrically corrected to create an accurate representation of the earth's surface.

Figure 12. Structure of the State Agency of Land Resources



houses in Ukraine, as well as registering mortgages in conjunction with the bank. To be entered in the MoJ notary database, it is compulsory to have Ukrainian citizenship and a higher legal education. According to MoJ, more than 254,500 transaction contracts for apartments and houses were certified by Ukrainian notaries in 2011.

5. State Service for Geodesy, Cartography and Cadastre of Ukraine (Ukrgeodescartographia)

Ukrgeodescartographia, including the Research Institute for Geodesy and Cartography, is mainly responsible for maintaining the national geodetic reference system (UCS-2000), national topographic mapping at standard scale and producing plans for cities and towns. It also plays an important role in setting up the national spatial data infrastructure for Ukraine. At the time of research, the supervising authority of Ukrgeodescartographia was not clearly defined; though it was formerly assigned to the Ministry of Environment, it was planned to assign this service to SALR.

C. LAND REFORM

The first land reforms in Ukraine started in 1990 with the passage of a resolution from Parliament (No. 563-XII) in December 1990 to reform land and land ownership as part of an overall economic shift towards market economy structures. In 1991, with the first Land Code of Ukraine, three forms of land ownership were introduced: state, collective and private. By the end of 1996, with the implementation of this legislation, the State had transferred 3.2% of its agricultural land to private ownership and 36.6% to collective ownership under the SALR. At the same time, the decrees of the

President “On Urgent Activities for Speeding up Land Reform in the Field of Agriculture” No. 666/94 and “On the Procedure for Sharing Land Transferred into the Collective Ownership of Agricultural Enterprises” No. 720/95 permitted the sharing of collective land amongst collective land owners. Land certificates were issued for members of collective agricultural enterprises, allocating plots of a certain size to them. Other citizens living in the area were given household land plots.⁷⁴

The new Land Code of Ukraine of 2001 distinguishes land owned by the State, municipality and private owners. It also introduced a moratorium on the sale of remaining agricultural land.

A third phase, starting with the decree “On Urgent Measures for the Acceleration of Reforms in the Agricultural Sector of the Economy” No. 1529/99 created new agricultural enterprises based on private land ownership. As a result, 27.5 million hectares of land were transferred into private ownership and approximately 6.8 million citizens received certificates for the right to a land share, more than 99% of whom redeemed their certificates for a land title.

Land shares were based on land map borders, resulting in differences between registered and actual land borders. The average land share size is about 4 hectares, ranging from about 1.1 hectares in Ivano-

⁷⁴ Katja Dells, Maxym Fedorchenko, Oksana Frankewycz and Pieter Steffens, *State Land Management of Agricultural Land in Ukraine* (Berlin: GTZ, 2006). Available from http://www.unece.org/fileadmin/DAM/hlm/prgm/cph/experts/ukraine/land_info/land.management.agri.2006.pdf (accessed 6 February 2014).

Frankivsk to 8.9 hectares in Luhansk. Even though the creation of farms was not directly stimulated by the State, the establishment of 34,715 new agricultural enterprises followed (Table 12).

A substantial number of land shares (more than 4.6 million shares, or 17.4 million hectares at the beginning of 2012) were leased to agricultural enterprises, for periods varying from one to more than ten years.

Land is now divided as shown in Figure 14.

The situation in rural areas is a difficult one: a small number of approximately 52 agro-holdings are cultivating areas of 10,000 up to 60,000 hectares, whereas only three million hectares are cultivated by about 43,000 farmers, i.e., an average size of around 70 hectares. The average size of farms is up to 2,000 hectares, rather large compared to the average size in the EU. Unemployment in rural areas is about 50%, and 10% of the rural population are involved in agricultural activities. Some people live solely on the lease revenue that they receive for their land shares.

While land markets for non-agricultural land have evolved somewhat over the last couple of years, the introduction of healthy land markets for arable land is impeded by the moratorium on its sale. The question remains as to how much land should be owned or leased by one person and how the quality of land and the productive use of land for food production can be safeguarded.

The concept of a state land bank to support small and medium enterprises is currently being considered; the bank would buy land from farmers, exchange land and improve the farming and infrastructure in rural areas. Chapter 9 of the draft Law “On Land Market” introduces the state land bank concept to promote

Table 12. Agro-formations in Ukraine as of January 2011

Companies with limited liability	7 934
Joint-stock companies	723
Private (private-lease) enterprises	5 331
Agricultural productive cooperatives	1 022
Farm households	11 946
Other economic agents	7 759
Private households	1 149 300

Source: SALR..

agricultural development and the use of land and real estate to secure loans. A draft law on agriculture is also planned to provide for agricultural cooperation. According to MoAF,⁷⁵ a number of additional

⁷⁵ Petrenko, S. Personal Interview. 22 March 2012.

regulations are being discussed, such as development of regional clusters, subsidies for private agricultural enterprises and the establishment of “production passports” for different climate zones in Ukraine.

In order to assist people in rural areas, the project “Legal Empowerment of the poor: Fostering Full Enjoyment of Land and Property Rights” is being carried out under the United Nations Development Programme. This project is very important, as the above-mentioned laws on cadastre and the land market are expected to be implemented in Ukraine from the beginning of 2013. Transparency and the awareness of property rights and how to legally enforce them are critical to the success of a rural land market.

D. SPATIAL REFERENCE SYSTEM AND TOPOGRAPHIC MAPPING

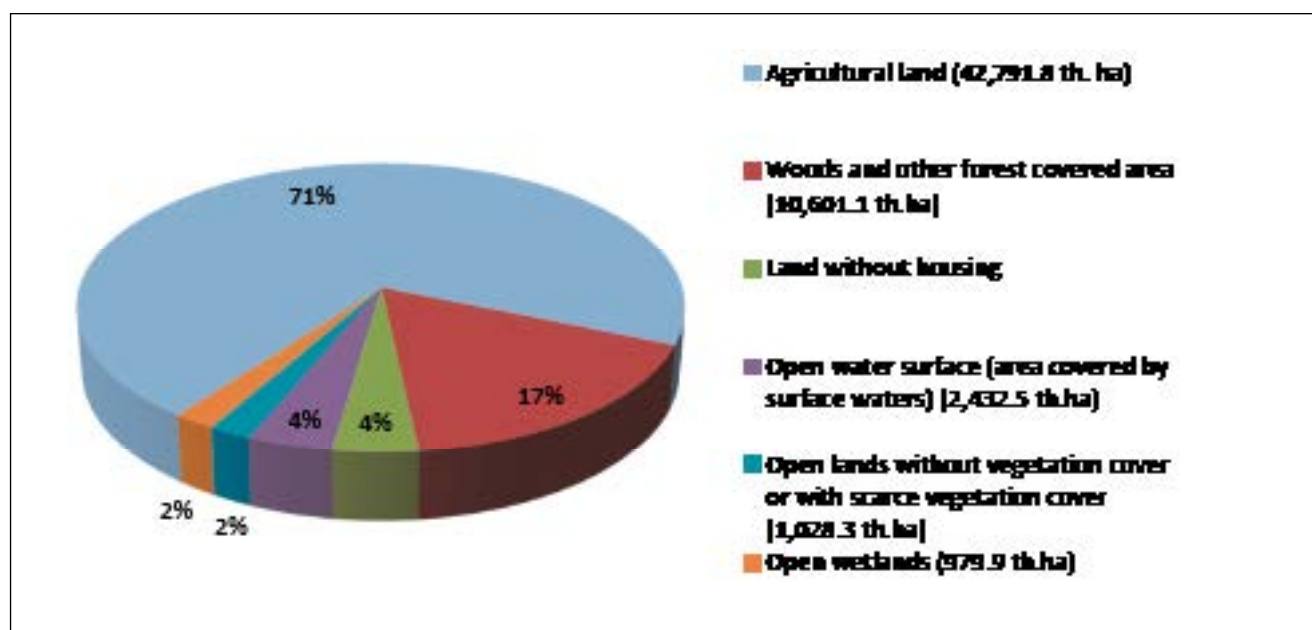
Geodetic coordinates in Ukraine were initially maintained in the Pulkovo horizontal system 1942 (S-42) and the conventional coordinate system SC-63 of 1996. A decree of the Prime Minister in 2004 authorized the Research Institute for Geodesy and Cartography to redefine the system and in 2007 introduced the new official Ukrainian geodetic reference system, UCS-2000. Accurate transformation parameters were decided between the ITRS/ITRF 2005 and ETRS89 coordinate systems and are now available. As the UCS-2000 is rather close to the S-42 system, it is possible to maintain the old topographic maps in the scales 1:10,000 or smaller.⁷⁶ Map scales for Ukraine are 1:10,000, 1:25,000, 1:50,000 and 1:100,000, with digital maps only available as raster data. The quality of topographical data is considered to be poor.

The State Geodetic Network of Ukraine (SGN) consisted of approximately 25,000 points determined through a combined adjustment of the Global Navigation Satellite System (GNSS) and terrestrial observations. Ukraine now has a network of 16 permanent GNSS stations with another 16 being observed on a periodic basis. In order to further improve the SGN, 650 new points were added to the network.

The official vertical reference system of Ukraine is the Baltic 1977 height system. In addition, a connection with the United European Levelling Network was established and preparatory works for the readjustment of the Ukrainian State Vertical Network were carried out. The data obtained from the first- and second-order levelling to neighbored countries were transferred to the Federal Office for Geodesy and Cartography of

⁷⁶ Oleg Kucher, Yuriy Stopkhay, Mike Cheremshynskyi and Ivan Zaiats, *National Report of Ukraine. The Fundamental GPS Network Establishment in Ukraine*. Available from <http://www.euref.eu/symposia/book2002/310-312.pdf> (accessed 6 February 2014).

Figure 13. Land use in Ukraine at 1 January 2011



Source: SALR, “The System of Land Relations in Ukraine: Current Situation and Perspectives of Development”, 2012

Germany.⁷⁷ The GPS-levelling points form is the base of the new quasi-geoid model of Ukraine, which will be finalized in 2013.

Some municipal and local data are still maintained in local coordinate systems, so to his must be transformed to b UCS-2000. In doing this, the parameters needed to transform the data need to be determined; as of 2011, parameters for 12 local systems around different cities were available. For 18 municipal coordinate systems, new observations are necessary to obtain the necessary transformation parameters. Within the pilot project in Kharkiv, transformation parameters are being prepared to support the works of SALR. The city of Kyiv still maintains the old Kyiv coordinate system. However, there is currently a reconstruction of its geodetic network using the UCS-2000.

The State Service for Geodesy, Cartography and Cadastre is striving to complete the tasks involving UCS-2000. One important task is the demarcation of administrative boundaries (including oblast, rayon and village boundaries). The cadastral index maps are still based on the old coordinate system. Once all cadastre maps are available in UCS-2000, SALR will be able to work on gaps and overlaps of cadastral data, particularly in settlement areas. The State Service has been in international cooperation with the Reference Frame Sub-Commission for Europe (EUREF) and EuroGeographics and is seeking experienced international support from countries like Switzerland and the United Kingdom.

A concept for setting up a national geospatial data infrastructure (NSDI) for Ukraine has already been

⁷⁷ Ibid.

planned and was drafted in 2007. Metadata on existing datasets are available.

E. CADASTRE

A sound single cadastre database is the basis for appropriate management of land resources and taxation. The current status of the cadastre does not fully meet the expectations of the administration, businesses, citizens and customers regarding issues such as completeness, currency, data accessibility and reliability.

Legal development

The quality of the cadastre has been strongly influenced by legislative developments over the last three decades. In the 1990s, registrations of property rights and in the cadastre were maintained in separate systems with different agencies carrying out this work. However, the situation changed in the 2000s with a single system for registration of rights and cadastre introduced by decree of the President “On Measures of Creation of a Single System of State Registration of Land Parcels, Immovable Properties and Rights to Them in the State Land Cadastre” No. 134 of 17 February 2003. This was the basis for funding the World Bank project “Rural Land Titling and Cadastral Development”.⁷⁸ Unfortunately, the law “On State Registration of Ownership Rights to Immovable Property and their Encumbrances” of 2004 was never implemented. The original World

⁷⁸ Cadastre Registration in Ukraine, *National Security and Defense* No. 6 (2011): p. 8. Available from <http://www.razumkov.org.ua/>.

Bank Project was amended in 2009 solely because of the slow progress of the project component “Cadastral System Development”.

In 2010, the legal situation changed again with the adoption of the law that amends state registration of property rights to real estate. Responsibilities for registration of ownership rights were shifted to MoJ; the maintenance of the SLC and the registration of land parcels remained under the responsibility of SALR. As a result, the registration of past data involved a number of different authorities at state, oblast and municipal level, including the BTI and State Property Fund. This eventually caused a heterogeneous cadastre and the programme for the creation of an automated maintenance system for the SLC was not fully implemented due to lack of funding.

The law on the SLC in 2011 is considered as a milestone in land administration development and clearly shows that Ukraine has acknowledged the overall importance of the cadastre, as well as the automated SLC system. The cadastre is now defined as a geo-information system run by the State and providing information on land parcels. Both the qualitative and quantitative characteristics of these parcels must be specified, including parcel boundaries, land use, possible restrictions, valuation, administrative boundaries, categories of land, parcel identifiers and distribution of land between land owners and land users. A number of new provisions dealing with procedures and time limits for state registration of land parcels aim to streamline registration and reduce corruption. Registration has to be completed within two weeks after submission of all necessary documents.

The law on the SLC is intended to establish and maintain a multi-purpose cadastre for provision of accurate land information, based on completeness and openness of information; therefore documentation of all information on land parcels is required. The law on the SLC defines the necessary uniform spatial reference with the national coordinate system (the state geodetic network). Documents of the cadastre include cadastre index maps, cadastre maps, records of land quantity and quality and land books (terriers).

The law on the SLC establishes that the SLC shall be operated by state cadastre registrars, appointed by orders of SALR territorial units. As of 25 June 2013, 1,821 cadastre registrars have been appointed.

Under the law on the SLC a regular information exchange between the SLC and the State Register of Property Rights takes place in electronic form. General purpose telecommunication channels are used to exchange cryptographically protected, electronically signed information. Information files on registered land plots are created with help of SLC software and information files on registered property rights to land

plots are created by the software of the State Register of Property Rights to Real Estate. Information files on registered land plots with data on land plots registered on a particular date must be submitted to Ukrderzhreystro no later than the following day. Users maintain electronic logs of sent and received data. To confirm data integrity in electronic format, users use electronic signatures compatible with the Ukrderzhreystro software. Public keys are confirmed by enhanced certification of the public key.

Under Article 36 of the law on the SLC, SLC data is publicized on the official website of the Central Government Authority. Information on land plots reflected in the public cadastre map of Ukraine is updated weekly.

Current status of the single cadastre information system

Since 2008, SALR has been digitizing available graphic material on land arrangements and adding information gathered from exchange files (datasets derived from land arrangements). Through the World Bank, cadastral index maps were produced for 77.2% of the area of Ukraine (about 463,500 km²) and maps for the Zaporizhia oblast (about 27,000 km²) are currently being finalized. The oblasts of Dnipropetrovsk, Donetsk, Luhansk and Kharkiv (about 116,500 km²) are expected to be mapped by August 2012.

The content of the cadastral index maps was approved in 2010 by CMU (decree of CMU “On Identification of Real Property Objects and State Registration of the Rights” No. 1117). The index maps should contain cadastral zones, cadastral districts, their numbers and location of boundaries. The index maps are part of the cadastral map that contains administrative units, cadastral zones, blocks, land parcels and their identifiers and boundaries, boundaries of areas with special conditions for land use and polygons of real estate on the parcels. Both cadastral index maps and the cadastral map are maintained in the conventional coordinate system SC-63 as well as the local coordinate systems being used.

The division of land into state and municipal ownership is required by the Land Code but in practice has never been fully carried out.⁷⁹ Moreover, the exact boundaries of settlements are not always clearly delimited and an electronic cadastre is not available in many cities. The problem of overlapping boundaries or gaps in the cadastre is common but

⁷⁹ Katja Dells, Maxym Fedorchenko, Oksana Frankewycz and Pieter Steffens, *State Land Management of Agricultural Land in Ukraine* (Berlin: GTZ, 2006). Available from http://www.unece.org/fileadmin/DAM/hlm/prgm/cph/experts/ukraine/land_info/land.management.agri.2006.pdf (accessed 6 February 2014).

their extent in the cadastre can only be determined after the transformation of the SC-63 cadastre and all existing local coordinate systems to UCS-2000. There is an ongoing pilot project in Kharkiv aimed at addressing this problem which is hoped will produce feasible solutions.

Additional problems are caused by administrative boundaries of oblasts, districts, cities, townships and villages in disputed territories. The delimitation of these administrative boundaries has direct influence on the boundaries of cadastral districts, so decisions on the boundaries of administrative-territorial units remain a matter of urgency. To facilitate this, the law “On Amendment of the Land Code of Ukraine” and other legislative acts concerning land development related to setting up or changing boundaries have been adopted by the Verkhovna Rada on the first reading. This legislation could address these boundary problems in the near future; however, according to the “Action Plan on Land Reform and Establishment of a Transparent Agricultural Land Market” (decree of CMU No.1072-r of 26 October 2011), the delimitation of state and municipal land will continue until 2015 and the determination of boundaries for 16,738 populated settlements will continue until 2018 (executive order of CMU “On Approval of the Action plan on Land Reform and Establishment of a Transparent Agricultural Land Market” No. 1072-r of 26 October 2011).

Strategic documents relevant to SALR’s work are the “National Programme of Economic Reforms 2010-2014” (including the annual implementation plans) and the “Action Plan on Land Reform and Establishment of a Transparent Agricultural Land Market.” SALR has set as its priorities for 2012 as:⁸⁰

- Enabling the efficient operation of the SLC
- Delimitation of state and communal land
- Increasing transparency of procedures for regulating land relations
- Simplification of the procedure for determining boundaries of populated settlements

SALR have identified the absence of a digital cadastre system for the entire territory as a major problem for Ukraine. USD 12 million are allocated in the budget for 2012 to create a single cadastre system in UCS-2000. In the long-term, SALR is striving for the introduction of agricultural land market, land consolidation, maintenance of the SLC, and the establishment of a state land fund for the management of state-owned land. The single information system of the SLC needs to be established as soon as possible to provide a sound cadastre system.

⁸⁰ SALR, “The System of Land Relations in Ukraine: Current Situation and Perspectives of Development”, 2012.

The implementation of the electronic land cadastre is extremely slow – in this area Ukraine is at least 10 years behind Western Europe.

As a result of the collaboration of Ukraine and the World Bank within the frame of the “Land Titling and Cadastre Development Project”, an electronically-maintained National Cadastre System of Ukraine was launched on 1 January 2013 and is operating in 549 territorial offices with about 12,500 employees (including approximately 2,000 cadastral registrars). Cadastral index maps and orthophotomaps have been created and administrative boundaries have been mapped. Since 2013, Ukraine has also started implementing the unified coordinate system for the country. Public access to information on land is now possible through the “Public Cadastre Web Map Portal”. With these developments, average registration time for the cadastre could be substantially reduced.⁸¹

F. REAL ESTATE MARKET

The real estate market in Ukraine is generally considered to be underdeveloped in terms of transaction volume and value.⁸² To a certain extent, this is related to the complicated and bureaucratic registration and privatization processes. The situation in urban and rural areas differs; for example, the ownership of condominiums and their land are still sometimes separated, although the flat owners have the right to buy the land as well. One reason often quoted for this is that the boundaries of the land with the multi-family housing on it are not clearly determined. Difficulties in using real estate as collateral for investments are one of the consequences.

In 2011, according to MoJ, more than 254,500 transactions involving apartments and houses in Ukraine were certified by notaries, compared to 224,900 transactions in 2010. This is considered to be the first stabilization of the real estate market since 2008.

On the other hand, the rural land market of Ukraine is seriously blocked by the moratorium on agricultural land sales, which does not allow the sale of arable land, although land can still be given away by local authorities. In the absence of a functioning land market, the true value of agricultural land remains unclear and, instead, there is only a “normative valuation” of the land. Normative valuation is based on the rental income from grain crop, with corrections applied to account for soil fertility and the location of

⁸¹ Sergii Tymchenko, “National Cadastre System of Ukraine”, Conference on Land and Poverty (Washington, DC: World Bank, April 2013).

⁸² Timur Bondaryev and Svitlana Teush, “Ukraine’s Real Estate Market: Trends and Significant Developments”, *Real Estate News*, April 2012.

the land.⁸³ This approach has a number of significant shortcomings that limit its reliability;⁸⁴ determined values are often higher than those from other methods of estimation. Normative values are used, for example, for determining land tax and lease rates and technical documentation of valuation has to be approved either by village, town or city councils (within settlements) or by district councils (outside settlements). The economic impacts of the lack of a functioning land market include less growth, reduced structural change and less finance and investment in agriculture.

SALR estimates the starting price for agricultural land at about EUR 300/hectare with prices quickly rising after the removal of the moratorium. This may not necessarily be the case, due to limited numbers of buyers and lessees (mostly new agricultural enterprises and successors to the former collective farms) and land owners with rather limited knowledge of the legal background or the current market conditions. As a result, farmland prices might remain lower than the normative values.⁸⁵

In order to enable civil and legal agreements concerning land rights, property valuation can be carried out by licensed experts, but under the moratorium on sales of agricultural land, requests for expert reports on the market value of agricultural land are practically non-existent (according to SALR). Along with opening the agricultural land market, SALR is planning to establish a database collecting transactions and valuation for future analyses of the rural land market. This should be done for non-agricultural land by the local governments.

A considerable shadow land market set up to evade the obstacles established by the arable land moratorium has evolved. A functioning agricultural land market should therefore be introduced as soon as the necessary pre-conditions are established. It should, however, be accompanied by the appropriate legislation (the laws “On Land Market”, “On State Land Cadastre” and “On Preserving Land Fertility”) and the clear, unambiguous registration of land and real estate ownership and other rights in in the SLC and the State

⁸³ Oleh Nivevskiy and Serhiy Kandul, “The Value of Farmland - Expected Farmland

Prices in Ukraine after Lifting the Moratorium on Farmland Sales,” *Policy Paper Series [AgPP No.32]*, Institute for Economic Research and Policy Consulting, March 2011. Available from http://www.ier.com.ua/files/publications/Policy_papers/Agriculture_dialogue/2011/PP_32_Farmland_prices_after_moratorium_ENG.pdf.

⁸⁴ Ibid.

⁸⁵ Berlin Economics, *Turning Ukrainian Agriculture into an Engine of Growth: A Strategy for the Development of the Grains and Oil Seeds Sector* 23 January 2012 (Berlin: BE Berlin Economics GmbH, 2012) Rep. 2nd revised ed. Available from http://www.berlin-economics.com/download/policypapers/Strategy%20Agriculture%20Ukraine_ACC-EBA_Berlin%20Economics_23%20Jan%202012.pdf.

Information Registration System (land register). This will also be a prerequisite for establishing a mortgage market, using land as collateral and fostering investment in rural areas.

The “Action Plan on Land Reform and Establishment of a Transparent Agricultural Land Market” (decree of CMU No. 1072-r of 26 October 2011) foresees the following developments to improve the situation in the rural land market:

- Simplification of the boundary setting procedure for both urban and rural settlements
- Approval of the national target programme for the development of regulations on land ownership until 2020
- Possible cancellation of free-of-charge privatization of land plots
- Regulations for keeping the SLC
- Expert’s valuation of land parcels
- Use and protection of lands
- Normative valuation for both agricultural land and rural settlements

The Law “On Land Market”

The laws “On Land Market” and “On State Land Cadastre” are important pillars to improve the land market of Ukraine and their application will have a large influence on future market development. A draft of the law “On Land Market” of 9 December 2011, has been produced, but there are still a number of issues being discussed in the Parliament.

The draft limits the area for agricultural production in private ownership of a single person to a maximum of 2100 hectares and one person cannot lease more than 6,000 hectares. Sales prices for agricultural land in state or communal ownership cannot be lower than that determined in an expert valuation. Pre-emptive rights shall be granted to owners of adjacent land parcels, as well as to co-owners of land parcels in joint ownership (draft law “On Land Market”, Article 18). According to Chapter IV of the draft law, land consolidation should be introduced on a voluntary basis, including the unification of separate land parcels, the exchange of land parcels and land arrangement projects (draft law “On Land Market”, Article 23). As the draft law is still under preparation, further details are not outlined here.

Land Taxation

The new Tax Code of Ukraine has been in force since 1 January 2011 and places particular emphasis on property and real estate taxation, increasing the tax rate for land. According to item 286.1 of Article 286 of the Tax Code, the basis for the land tax charge is data

from the SLC. Tax rates and lease payments for state and municipal land are based on a normative valuation of land carried out by SALR. Tax payers apply to SALR for an excerpt in the form of a certificate, which is then submitted to the tax authorities together with

the first tax declaration for their land parcel. The new land tax should be introduced together with the new registration and cadastre systems. The responsibility for the collection of this land or real estate tax lies with local governments.⁸⁶

Picture 8. An apartment building under construction



⁸⁶ Timur Bondaryev and Svitlana Teush, “Ukraine’s Real Estate Market: Trends and Significant Developments,” *Real Estate News*, April 2012.

FINANCIAL FRAMEWORK FOR THE HOUSING AND LAND SECTORS

A. AVAILABILITY OF HOUSING FINANCE

Increased financial instability in 2009 has undermined the ability of households to finance their housing. Both mortgage payments and construction costs increased while households' disposable income decreased. To address the issue of shrinking investment in residential construction and support the construction industry, the Government adopted the Law "On Prevention of the Impact of the Global Financial Crisis on the Development of the Construction Industry and Residential Construction". This allows the Government to stimulate demand for housing through subsidies and cheap loans and to financially support the construction of unfinished residential buildings directly or through state banks and mortgage institutions.

Investment in construction

During the financial crisis in 2009, housing construction investment declined by 50% and total investment dropped by 35%. Public investment in housing at the national and local levels still does not exceed 3.5% of total investment.⁸⁷ The lack of mechanisms to facilitate the construction of affordable housing, including the availability of housing finance, has resulted in only a small increase in the housing stock in recent years.

Residential construction was concentrated in economically developed cities. In 2011, residential construction was 27% of total construction in the Kyiv area and residential construction in rural areas was less than 26% of the total. In this situation, building one's own home becomes the easiest and most affordable way to improve one's housing situation, especially for the rural population. In 2011, individual housing built by owners made up 55% of the total housing output.⁸⁸

Based on market price dynamics and experts' estimates on supply and demand for multi-family housing, the demand for new and affordable multi-story housing is overwhelming. The supply is insufficient due to a lack of financial mechanisms to support construction companies. Residential

construction is financed mainly from proceeds from the pre-construction sale of housing units.

According to legislation, non-government investment in residential construction can be done through only one of four options: residential construction investment funds; funds for real estate operations; institutions of joint investment; and the creation of housing bonds.⁸⁹ The first two schemes are regulated by the law "On the Financial and Credit Mechanisms and Management of Property for Housing and Real Estate Transactions" (law No. 978 of 19 June 2003) and are supervised by the State Commission for Regulation of Financial Services. The two other schemes are supervised by the National Securities and Stock Market Commission. The most common of these schemes are residential construction investment funds and housing bonds, especially for non-professional investors, because they are focused on purchasing residential real estate rather than generating profit from investments.

Residential construction investment funds provide additional external control over the finances of developers to ensure timely fulfilment of obligations.⁹⁰ The fund issues a certificate that gives ownership rights to the bearer for a specific flat in the building to be constructed. The certificates are subject to registration at the supervising agency and are transferable. Although this scheme protects the rights of the investor, the risk of failure for the developer remains high. With this scheme, the developer is required to disclose to the investor information on the financial activities of the fund before the investor signs the investment agreement. As of the end of September 2011, there were 12,200 investors investing UAH 7.6 billion (USD 950 million) in residential investment funds. Moreover, 10,400 units have already been constructed under this scheme with a household financial input of UAH 5.5 billion (USD 687.5 million).

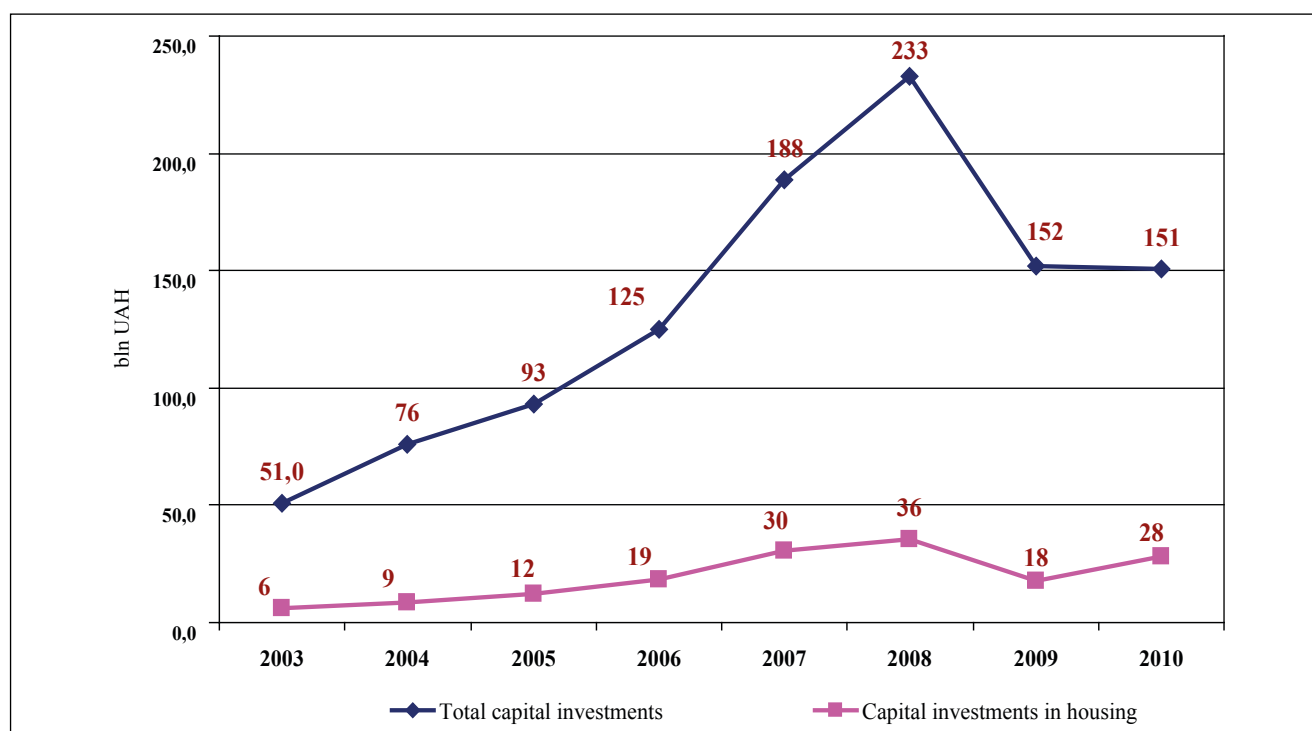
Housing bonds also certify ownership rights but only for a specified area of the dwelling. There is no specific flat assigned to the bonds but they may be

⁸⁷ MinRegion, "Housing Construction", 15 December 2011, Presentation.

⁸⁸ SSSU, *Commissioning of Dwellings in Ukraine in 2012* (Kyiv, 2012).

⁸⁹ Article 4 of the law "On Investment Activities" №1561 dated 18 September 1991.

⁹⁰ Control could be performed by the bank or other financial organization, who must obtain a special license from a supervising agency.

Figure 14. Annual capital investments and investments in housing at current prices

Source: MinRegion, “Housing Construction”, 15 December 2011, Presentation.

exchanged for a dwelling that is equivalent in size to that indicated in the bonds.

Commercial banks do not consider housing construction loans as important components of their business, mainly due to non-transparent financial accounting, the absence of reliable data in the construction industry and a lack of knowledge and experience in residential construction underwriting. Outstanding loans to residential construction companies amounted to UAH 43.4 billion (USD 5.4 billion) in January 2012, representing 7.6% of total outstanding loans, of which 15.2% are delinquent.⁹¹ The loans were mainly provided by banks to associated or controlled construction firms.

The cost of purchasing housing units at the beginning of construction is usually 30 to 50% less than buying them once they are completed. For this reason, buyers tend to purchase at the beginning of construction despite the fact that their rights are not well protected.

Funding for the improvement of existing housing stock

The mass privatization of residential dwellings in the 1990s resulted in significant underinvestment in housing maintenance. The Government’s obligation ceased and most apartment owners cannot afford to maintain their units; moreover, even if flats are

privatized, the Government generally still owns the building (including the roof, walls and common places) and therefore the new owners do not recognize their responsibility to maintain common spaces. This prevents the development of competition among maintenance companies as well as preventing the creation of HOAs. The experience of housing cooperatives in the maintenance of common areas of multi-family dwellings is still limited. Such coops are generally created for new housing construction and their development is limited by legislation (please see Chapter III for more discussion).

To stimulate the process of renovation of residential units, the Government drafted a law “On the First Capital Repair of Multifamily Buildings after Privatization” which provides financial support to HOAs. Moreover, in 2011, the Government spent UAH 35 million (USD 4.4 million) for this purpose. However, limited budgetary resources prevent the widespread implementation of this scheme; in the 2012 budget there is no money for the support of HOAs. Renovations are financed mainly by international donors through energy efficiency and utility modernization projects and by households themselves for privately owned flats within multifamily buildings, but some banks, like ProCredit Bank, offer loans for renovation. In 2012, the Government has reserved UAH 40 million (USD 5 million) to fund housing renovation and plans to provide loans for the technical modernization of housing through the State Fund for the Assistance

⁹¹ Based on data from the National Bank of Ukraine.

of Youth Housing Construction. These loans will be payable in 10 years at 3% annual interest.

B. AFFORDABILITY OF HOUSING

Primary and secondary housing (real estate) markets

As mentioned above, the Ukrainian real estate market was seriously affected by the world financial crisis; the number of real estate sales dropped by 35% from 346,600 in 2007 to 224,900 in 2010. In 2011, the market showed some recovery as the number of real estate transactions increased to 255,000;⁹² this growth represented a housing mobility rate of approximately 1.3%. Of this, an estimated 26% are primary real estate market transactions 26%.⁹³ The most active housing markets are Kyiv, with 9% of total transactions, and the Donetsk (13%), Kharkiv (9%) and Odessa (5%) oblasts. Less than 7% of the housing purchased in 2010 and 2011 was through mortgages.⁹⁴ The development of the housing market is influenced by ongoing government reforms⁹⁵ aimed at increasing transparency in the real estate market.

The Ukrainian housing boom from 2005 to 2008 was fueled by strong economic growth (7% GDP growth per annum), relatively low interest rates and, partly, by Ukraine's wealthy elite and foreign buyers. From 2002 to 2007, house prices in Kyiv skyrocketed by 562%.⁹⁶

Speculative pressure on the housing market declined due to the financial crisis and prices started to adjust to real demand but, for the most part, only high-income households can afford to buy a home. In large cities, housing prices steadily declined and demand shifted towards moderately-priced flats (one and two-room

⁹² UNIAN, "Мін'юст: у 2011 році ринок житлової нерухомості в Україні зупинив падіння" (Ministry of Justice: In 2011, the Residential Real Estate Market in Ukraine Stopped Falling), 6 April 2012. Available from <http://economics.unian.net/rus/detail/124537>.

⁹³ Calculated under the assumption that the number of transactions on primary market is equal to the number of housing units constructed in the urban areas (66,200 in 2011).

⁹⁴ Dengi.ua, "В Києве стали активно раскупать недвижимость" (In Kyiv, They Begin to Actively Buy Up Property), 6 March 2012. Available from http://dengi.ua/clauses/95056_V_Kieve_stali_aktivno_raskupat_nedvizhimost.html.

⁹⁵ Recent reforms include the transfer of some functions related to registration of transactions from BTI to the State Registration Service, new regulation of real estate appraisals, adoption of new Tax code and discussion about new regulation of realtor activities.

⁹⁶ Royal Town Planning Institute, A new vision for planning. Delivering sustainable communities, settlements and places. Mediating space - creating place. The need for action (London, 2001). Available from <http://www.rtpi.org.uk/media/9321/RTPI-New-Vision-for-Planning.pdf> (accessed 5 February 2014).

apartments), which are financed by the simultaneous sale of existing flats (this also referred to as "upgrade with cash payment"). With a loss of confidence in developers and the lack of supply of new, affordable housing, demand in the secondary housing market increased, especially outside Kyiv.

High housing prices have also made the rental sector more attractive for investment; rents increased in Ukraine's largest cities in 2011. The expected return on investment (ROI) in real estate for leasing in Kyiv is 7 to 11.5% per annum (the rent is about USD 500 to 750 per month), while the ROI for United States dollar deposits is 7.7%.⁹⁷ However, existing legislation limits the development of the private rental sector, failing to provide sufficient protection for either the landlord or the renter. Currently, the private rental sector is dominated by individuals who generally avoid the 15 to 17% tax on rental income specified by the Tax Code. In Kyiv, landlords who evade the rental income tax could recoup their investment in eight to nine years.

C. ROLE OF CENTRAL AND LOCAL EXECUTIVE BODIES IN HOUSING FINANCING

The relationship between housing policy and housing finance

The Government does not view housing as one of its priorities in socioeconomic development,⁹⁸ despite this, about 15 housing programmes were developed to meet the housing needs of vulnerable people through free dwellings and assistance in home construction or purchase. A limited state budget, coupled with government spending on more prioritized social services, has left little to fund general housing-related programmes. In 2011, less than 1.5% of total government expenditure went to investments in the infrastructure for utilities used by residential housing and actual financing for these housing state programmes was below that budgeted.⁹⁹ Actual financing from the state budget for the three largest state housing construction programmes, "Affordable Housing",¹⁰⁰

⁹⁷ Dengi, "Недвижимость: закрыто на переоценку" (Real Estate: Closed for Revaluation), no.5 (224), 22 March - 4 April 2012.

⁹⁸ The Annual Message of the President of Ukraine to the Verkhovna Rada of Ukraine in 2011 cited the five socioeconomic development priorities of the government: increased national competitiveness; macroeconomic stability and growth-oriented economy; land reform; modern social policy; and growth of regional economies.

⁹⁹ In 2011, only 90% of scheduled state funding for housing, utility and construction programmes were actually financed (information published on the website of MinRegion).

¹⁰⁰ Decree of CMU "On Approval of the State Target Social-Economic Programme on Construction/Purchase of Affordable Housing for 2010-2017" No. 1249 of 11 November 2009.

Table 13. Average prices for secondary-market apartments in Ukraine’s largest cities in 2012

City	1-room apartment, USD per per m ²	Change per year (%)	2-room apartment, USD per per m ²	Change per year	3-room apartment, USD per per m ²	Change per year (%)
Donetsk	1,249	2.3	999	-18	1,128	-12
Dnepropetrovsk	864	-22	941	-22	978	-20
Odessa	1,346	-7	1,323	-17	1,402	-11
Kharkov	977	-4	1,022	-11	1,179	5.9
Lviv	1,390	11.7	1,308	-2	1,434	-1
Kyiv	1,868	-16	1,967	-14	2,079	-7

Source: Dengi, “Недвижимость: закрыто на переоценку” (Real Estate: Closed for Revaluation), no.5 (224), 22 March - 4 April 2012.

“Subsidized Mortgages for Youth”¹⁰¹ and “Your Own House”¹⁰² was UAH 211.2 million (USD 26.4 million), taking about 21% of the total budget for housing construction programmes in 2011. In 2012, less than 6% of the required state expenditure on housing, utility and construction as estimated by the Government will be financed. There is a lack of cooperation between ministries and departments dealing with housing issues during the budget process and as a result, the Ministry of Finance does not receive the consolidated costs of housing programmes in time to allow for them in the budget.

To increase the number of households that they could serve, these three programmes require financial input from participants, which prevents low-income households in need from participating.

To attract private investment, particularly in the housing sector, the Government established a framework for PPPs.¹⁰³ However, the law limits the possible forms of PPP, making it less attractive for private investors.¹⁰⁴ Moreover, the high risks associated with the Ukrainian economy prevent the spread of PPP projects in the country despite potentially high demand, especially in housing and the renovation of utilities.

State, Local governments and possibilities for generating housing finance

Local governments share the responsibility with local executive authorities for designing and implementing housing policies. Many state programmes require local

¹⁰¹ Decree of CMU “On Approval of the State Programme on Provision of Housing for the Youth for 2002-2012” No. 1089 of 29 July 2002.

¹⁰² Decree of the President “On Approval of the State Programme on Development of Ukraine Rural Areas till 2015” No. 1158 of 19 September 2007.

¹⁰³ The legislative framework includes the law “On Public-Private Partnership” No. 2404 of 1 July 2010 and supporting legislation.

¹⁰⁴ Wolfram Rehbock and Olena Chubukina, “An Overview of Public Private Partnerships in Ukraine”. Available from www.arzinger.ua.

budget participation, but financial resources at the local level are very tight. Local budgets are dependent on transfers from the state budget to cover budget deficits. According to Ministry of Finance estimates, about 70 to 75% of total local expenditures are for public services (such as education and health) and functions delegated by the state to local authorities. However, the formula for calculating the value of the transfers is complex and unclear. Property and sales taxes are the main sources of revenue for the local budgets, especially land sales which contribute up to 15% of local budget revenues.¹⁰⁵ These are accumulated in the local development budget, a special part of the local budget, which is used to finance development programmes; however, local government does not have to use this income for housing purposes. Local authorities could finance their development programmes by external borrowing¹⁰⁶ but, since 2005, only 30 cities have so far issued debt securities because of the complexity of the procedure and the high risks of investment projects.

According to legislation, allocation of land must be done through public tender except for land intended for redevelopment projects and the construction of affordable housing. However, the complexity of tender procedures and lack, by potential bidders, of human and financial resources to prepare documentation, results in a limited supply of land plots for construction.

To increase the soundness and predictability of state and local budgets, in 2012, the Government introduced a mid-term budgeting procedure whereby in addition to the annual budget, the forecast for the next 2 years is also prepared. To increase the efficiency of

¹⁰⁵ National Institute for Strategic Studies, *Reforms of the System of Public Finance in Ukraine: First Results and Further Perspectives* (Kyiv, 2011) (in Ukrainian).

¹⁰⁶ According to the Budget Code, external borrowing is allowed for cities with populations of more than 300,000 and are subject to approval by the Ministry of Finance. Borrowing should not exceed 10% of local budget expenditures. Funding from international donors is allowed for all local authorities.

government spending, the programme-target method for drafting state budgets was recently introduced; however it is yet to be implemented at the local level.

According to the Law “On Regulation of Construction Activities”, the developer is obliged to participate financially in the development of the city’s social, transport and utility infrastructure, except in specific instances such as the construction of affordable housing. Local authorities determine a fee, which cannot exceed 4% of the total construction cost for residential buildings and 10% for other types of buildings, as well as the schedule of payments for the fee. Under the same law, any other types of encumbrance for the developers are illegal. Although the fee is intended to provide financial resources for the balanced development of the area around the construction plot, in practice, there is a lack of transparency in spending. Developers often complain that they have to fully finance infrastructure development and that the costs, including the fee and construction of off-site utility networks can be up to 40% of total construction costs.

Overview of the banking sector

The Ukrainian banking system consists of 176 commercial banks, of which 22 have 100% of the foreign capital. About 42% of the authorized capital of the banks is foreign and about 25% of that is from the Russian Federation.¹⁰⁷ The country has a sovereign rating from international agencies; the rating is unfavourable. A number of leading banks have ratings from international agencies as well. Since 2012, the financial sector has been legally obliged to fully implement International Financing Reporting Standards principles. The banking sector is recovering from the financial crisis in 2009 and total assets increased from UAH 340 billion (USD 42.5 billion) in 2006 to UAH 1,054 billion (USD 131.8 billion) in 2011 (see Table 14). State-run banks control 20% of all assets and 40% of bank-owned capital and mortgage loans currently comprise approximately 7.7% of total banking assets.¹⁰⁸ Ukraine’s banking sector is undercapitalized, vulnerable to even minor shocks from the world economy and liable to a further increase in non-performing loans.¹⁰⁹ The profitability of the banking sector has become highly volatile after the crisis; the average return on equity ranged from -33% in 2009 to 4.8% at the beginning of 2012.¹¹⁰

¹⁰⁷ As of 1 April 2012, based on data from the National Bank of Ukraine.

¹⁰⁸ Calculated using data from the National Bank of Ukraine and the Ukraine National Mortgage Association.

¹⁰⁹ World Bank, *Strategic Choices to Accelerate and Sustain Growth in Ukraine. Country Economic Memorandum*, Report No. 55895-UA, 31 August 2010. Available from http://www.undg.org/docs/RCAR/2010/UKR/World-Bank_Country-Economic-Memorandum_2010-Ukraine.pdf.

¹¹⁰ Based on data from the National Bank of Ukraine.

At the same time, the economic importance of the banking sector has increased; banking sector assets as a percentage of GDP increased from 62.5% in 2006 to 80.1% in 2011. The share of total bank deposits to GDP has been fairly stable over the last six years, while the share of deposits in foreign currency increased from 34% in 2006 to 43% in 2011. The share of long-term (more than one year) deposits decreased from 66% in 2006 to 33% in 2012, but the state deposit insurance system was created in 2001 and performed quite well during the financial crisis. Without sources of long-term capital, mortgages will have high interest rates related to the need to finance long-term credits with short-term deposits.

In 2011, the average interest rate on bank loans for households was 25.6% for local currency loans and 12% for foreign currency loans.¹¹¹ The total volume of credit to households is about 25% of total loans and 15% of GDP. Due to the financial crisis and high interest rates, the volume of credit to households declined by 30% in 2011 (compared to the maximum value of UAH 280.5 billion or USD 35 billion in 2008). The interest rate on deposits was 18.5% for local currencies and 7.2% for foreign currencies. The ban on lending in foreign currencies to borrowers who do not have stable incomes in foreign currencies was helpful in overcoming the consequences of the financial crisis; however, this now seriously limits the ability to lend using foreign capital. The lack of hedging instruments to decrease currency exchange risks also prevents international investors from investing inside Ukraine.

There are about 610 credit unions and many pawnshops operating in the country,¹¹² supervised by Ukraine’s State Commission for Regulation of Financial Services Markets. Unlike banks, credit unions generally do not have the right to accept deposits, so they refinance loans through shareholders’ equity or refinancing programmes offered by international donors. Furthermore, microfinance institutions (MFIs) lack the special legislative environment which could create a more effective framework for their operations. MFIs had about 18,600 active borrowers in 2010 with an outstanding loan portfolio of USD 255,800.¹¹³

One of the oldest MFIs in Ukraine, “Nadezda” (Hope), was established by Hope International in 1998. Since its establishment, it has provided microcredit for

¹¹¹ Based on data from the National Bank of Ukraine. Available from www.bank.gov.ua.

¹¹² Data for the 3rd quarter of 2011 of the State Commission for Regulation of Financial Services Markets of Ukraine. Credit unions provided UAH 2.3 billion or USD 287.5 of loans (outstanding balance) to its 263,700 clients.

¹¹³ MixMarket, “Ukrainian Market Profile”. Available from <http://www.mixmarket.org/mfi/country/Ukraine> (accessed 5 February 2014).

Table 14. Assets and deposits of the Ukrainian banking sector

City	2006	2007	2008	2009	2010	2011
Assets, billion UAH	340	599	926	880	942	1,054
% GDP	63	83	98	96	87	80
Deposits, billion UAH	186	284	360	335	417	492
% GDP	34	39	38	37	38	37
Share of deposits in foreign currency (%)	38	32	44	48	43	43

Source: Based on data from the National Bank of Ukraine. Available from www.bank.gov.ua.

the development of small business, agriculture and improved living conditions. By the end of 2011, it had issued 100,000 loans. In 2007, it cooperated with Habitat for Humanity to offer the poorest segment of the population a loan for housing improvement with a two-year repayment period. A larger MFI, the ProCredit Bank, operates as a commercial bank and also provides home improvement loans up to UAH 25,000 (USD 3,125), payable in 2 years, mainly for energy-saving technologies. The bank does not require collateral for the loans, but the borrower must provide a detailed renovation plan. Most borrowers are middle-age workers whose income exceeds UAH 1,500-2,000 (USD 187-250) per month, which is less than a third of the income of a typical mortgage borrower. By March 2012, 15,600 loans amounting of UAH 213.2 million (USD 26.6 million) were provided, with a default rate of less than 3%.

Mortgage market and participants

The mortgage market started development in 2003 when the law “On Mortgages” (No. 898 of 5 June 2003) was adopted, establishing a legal framework for mortgage lending, including the possibility to use unfinished buildings as collateral. The “Concept of the Development of the National System of Mortgage Lending” (resolution of CMU No. 559-p of 10 August 2004) which establishes the two-tier mortgage lending model as the most effective and outlines the main features of the national mortgage lending system, defines the requirements for successful development of mortgage systems and creates a state mortgage refinancing facility, the State Mortgage Institution (SMI). Law of CMU No. 1330 of 8 October 2004 established SMI.

Before the 2009 crisis, the mortgage market had been growing actively from a low base. The amount of outstanding mortgage loans from banks has

been steadily declining since 2009 according to the Ukrainian National Mortgage Association (UNIA) (1 January 2012) and currently amounts to approximately UAH 72.1 billion (USD 9 billion), which is about 5.5% of GDP and 36.8% of the total loan portfolio. However, about 40 to 45% of the total mortgages are loans for non-housing purposes secured by a real estate. There were approximately 20,000 mortgages issued in 2011, which is about 4% of total housing unit turnover.¹¹⁴

A state-supported mortgage programme launched by SMI created prerequisites for the development of primary and secondary mortgage markets. Under the programme, SMI purchases mortgages that match specified standards from commercial banks and issues mortgage bonds. SMI charges an interest rate of up to 15% to the borrower and pays the banks, in turn, a refinancing rate of 11%. The terms of a mortgage include the five- to 30-year payment period and a loan-to-value ratio of up to 75%. Mortgages are refinanced mainly through SMI’s chartered capital of UAH 2.2 billion (USD 275 million) and are later secured through state-guaranteed mortgage bonds. Due to this limited funding, by January 2012, SMI managed to refinance only 1% of the outstanding mortgages (equivalent to UAH 746 million) and issue UAH 200 million (USD 25 million) of mortgage-backed securities (MBS) and UAH 3 billion (USD 375 million) of corporate bonds. In 2010, the Government authorized SMI to provide funding to overcome the consequences of the financial crisis and the completion of stalled or unfinished residential construction. As of January 2012, 23 construction sites across Ukraine, consisting of 4,000 apartments, were provided funding by SMI.

SMI operates in the mortgage market with state support and, based on international best practices, has implemented consistent procedures for granting, refinancing and servicing mortgages, establishing requirements to borrowers and key creditworthiness ratios (SMI Standards). This allowed it to refinance mortgage banks and creditors with funds generated from mortgage bonds and MBS. Its primary mortgage programme is the acquisition of mortgage loans from partner banks under SMI Standards. In this way, the partner banks obtain from SMI long-term financial assets (up to 30 years) which they then use to grant mortgages. Such mortgages for housing (apartments or individual houses) have five to 30 years terms with at least a 75% loan-to-value ratio and mandatory mortgage insurance. The reference interest rate on such a mortgage, recently 15%, is now 18% due to the increase by SMI of its refinancing rate from 11% to 15.3%. Also eligible for refinancing or acquisition by SMI are mortgage loans to citizens issued under SMI standards to improve housing conditions, that

¹¹⁴ Based on data from the National Bank of Ukraine. Available from www.bank.gov.ua.

is, for the modernization, retrofit and rehabilitation of housing, or to construct housing (both apartments and individual houses).

After the acquisition of a mortgage by SMI, the servicing of the mortgage (collection of payments from borrowers, periodic review of the mortgage and other functions) are carried out by a bank for a fee. The bank's fee for servicing the mortgage loan is the difference between the loan rate and rate of refinancing at 11% per annum. Today, the rate of refinancing is 15.3% per annum due to increased costs of borrowings for SMI.

To achieve its primary operational objective, SMI runs mortgage programmes aimed at financing partner banks to create a portfolio of mortgage loans (for a period up to 180 days) and finance the completion of construction of residential facilities (for a period of up to 2.5 years). The Government anticipated that the outcome of these mortgage programmes would be improved access to and lower interest rates on mortgages for the public. In order to pay SMI for the housing purchased under the 2009 Government programme to provide free housing to certain categories of population, the Government increased SMI's share capital in October 2010 by UAH 2.0 billion to UAH 2.2 billion. As the apartments were handed over from SMI to the citizens, this share capital was adjusted. As a result, SMI's share capital was UAH 0.95 billion in January 2013 and UAH 0.76 billion in June 2013.

Due to government financial crisis measures leading to slowdowns and limited funding in mortgage markets, SMI was able to refinance only 1% of all outstanding mortgages (equivalent to UAH 746 million) and to issue MBS worth only UAH 200 million (USD 25 million) and corporate bonds worth UAH 3 billion (USD 375 million). However, as of January 2013, SMI's portfolio of refinanced mortgage loans amounted to over 5,300 loans worth UAH 904.9 million (USD 113.2 million). It also issued corporate bonds worth UAH 2.0 billion (USD 250.3 million) and mortgage bonds worth UAH 0.5 billion (USD 62.6 million).

In 2010, in order to deal with the effects of the international financial crisis, the Government authorized SMI to complete "frozen" or unfinished construction in the residential sector. As of January 2012, 23 construction sites building a total of 4,000 apartments across Ukraine have received such funding from SMI through partner banks. By 2013, a total of 26 construction sites had received UAH 654 million (USD 81.8 million) in funding, which enabled the finishing of 395,000 m² of housing. Since the beginning of this mortgage programme, 16 houses with a total area of 253,900 m² have been completed.

Thus, as a two-tier mortgage market institution, SMI operates sustainably without reliance on money from the State or local governments.

Today, 42 commercial banks have their own mortgage programmes and another 106 are involved in the SMI mortgage programme. The terms of participation of commercial bank programmes are more complicated compared to the SMI programme: they have an average interest rate of 18.3% in hryvnia (16.0% in United States dollars and 15.7% in Euros), an average tenure of 15 years and an average loan-to-value ratio of 0.65.¹¹⁵ As before, the mortgage is affordable for high income households, although UNIA estimates that since 2008 mortgages have become much more affordable and the 2011 UNIA housing affordability index has doubled compared to 2008. Mortgage market concentration is high; according to the UNIA, 54.7% of outstanding mortgages are concentrated in five major banks and 75.5% are concentrated in 10 banks.

The development of the Ukrainian mortgage sector is hampered by several problems, including high liquidity risk caused by the general condition of the banking sector. The lack of cheap long-term capital and a short-term deposit base creates a situation where the banks have mismatch between the maturities of their assets and liabilities; this leads to high interest rates and medium terms.

Another problem is the lack of predictability and trust in the stability of the Ukrainian economy. Despite recent macroeconomic stability and a significant decline in inflation, interest rates on loans in local currency remain unchanged, which suggests an expectation of future devaluation of the local currency.

In addition, further growth of the mortgage sector is affected by the legacy of rapid pre-crisis development of the mortgage market, which was fueled by foreign financial resources. A high proportion of non-performing loans, originating mainly in foreign currency before devaluation in 2008 and 2009, continue to poison banks' balances. According to UNIA, 16.7% of outstanding mortgages have been restructured due to financial problems of the borrowers. In addition, the National Bank of Ukraine estimates the share of doubtful and non-performing loans at 14% of the total outstanding balance of all loans in Ukraine. Despite the ban on foreign currency lending introduced by the Government to protect borrowers from foreign exchange risk, the proportion of mortgages in foreign currencies is still very high and reaches 77% of the total amount of outstanding mortgages.¹¹⁶

¹¹⁵ UNIA, Available from <http://www.unia.com.ua/>.

¹¹⁶ Ibid.

Another problem is the borrowers' financial illiteracy and the lack of generally accepted reliable industry standards from realtors and appraisals. There have been several attempts to run public awareness programmes and to raise the level of social responsibility within the banking sector (including UNIA activities and a joint project with USAID and Ukraine's Financial Services Authority), but they were not very successful, largely because banks and supervisory authorities were reluctant to participate in them. USAID noted that full development of Ukrainian integrated financial services markets is significantly impeded by a combination of financial illiteracy and a lack of trust.

Legally, in cases of late payment by borrowers, the bank may demand eviction via a judicial or non-judicial procedure. In theory, the extra-judicial eviction procedure is faster and cheaper, but, in practice, all creditors who attempt extra-judicial procedures still have to go through court hearings because of the vague decision-making processes of notaries responsible for foreclosure. This still constitutes a major legal problem.

Evaluation activities are regulated by a special law ("On Evaluation of Property, Property Rights and Professional Appraisal Services in Ukraine" No. 2658 of 12 July 2001) and supervised by the State Property Fund and the self-regulatory organization of appraisers. Under the current law, evaluations must be performed by licensed professionals (appraisers), but the bill that is currently being debated in Parliament delegates the licensing process to a self-regulating organization of appraisers, which does not have uniform skills and standards, leading to varying quality of evaluation services. Moreover, financial responsibility for appraisers' errors and discrepancies is vague in the assessment report. For these reasons, banks prefer to rely on internal estimates or accept evaluation reports selectively.

While realtors are very active in the housing market, banks do not cooperate to promote mortgages, mainly due to realtors' lack of credibility. Ukraine still has no specific law regulating realtors' activity and, although there were several attempts to pass one, all of them failed. Some realtors offer clients advice on mortgages, but at the expense of the customer.

Most banks do not actively use insurance as a tool to mitigate risks of mortgage. The insurance sector is also undercapitalized¹¹⁷ and is unconnected to the nascent residential mortgage industry. Insurance companies working with banks and engaged in mortgage lending primarily offer property insurance, which is mandatory. However, as a rule, borrowers

¹¹⁷ As of October, 2011, the aggregate reserves of insurance companies were about UAH 11.2 billion.

cannot select an insurance company, as banks impose their own choice of insurers.

Debt collectors' activities are expanding due to the increase in non-performing loans, however, there are no regulations for collection or a single supervision institution. This creates problems for all market participants, because according to the law "On Banks and Banking Activity", credit agreements are considered commercial secrets and cannot be disclosed to third parties without the written consent of the borrower.

The law "On Organization of Formation and Circulation of Credit Histories" No. 2704 of 23 June 2005 set up a legal framework for institutions such as credit bureaus. Of the six companies registered today as credit bureaus, three are most active. The leader among them is "First Credit Bureau of Ukraine" (FCBU), founded with support of the National Bank of Ukraine, Ministry of Finance, World Bank, USAID and the Union of Ukrainian Banks. While banks are not required to provide information about loans to credit bureaus, most leading Ukrainian banks cooperate with them. In 2011, the number of inquiries handled by FCBU reached 3 million. The law authorizes credit bureaus to ask for information such as income tax data from public registers, but, in practice, this information is still impossible to obtain.

Financial markets of the country are underdeveloped. The undiversified sector of non-banking financial institutions leaves average Ukrainians with only three savings options: cash, bank deposits and real estate.¹¹⁸ Thus, banks account for almost 96% of the total assets of the financial sector.

Nevertheless, the mortgage market demonstrates quite decent growth potential despite limitations caused by lack of financing on acceptable terms. Currently short-term deposits represent the main source of funding for mortgage transactions. However, some international organizations, such as the International Finance Corporation, are seeking opportunities to provide funding for the implementation of programmes related to the housing sector (e.g., residential energy efficiency programme and the modernization of buildings), but a lack of available tools to minimize associated risks significantly increases the cost of such funding.

Meanwhile, although there is a solid legal basis for MBS (law "On Mortgage-Backed Securities" No. 3273 of 22 December 2005), this market was hit hard by the financial crisis of 2008-2009. Under the law,

¹¹⁸ US AID FINREP Project, *Financial Literacy and Awareness in Ukraine: Facts and Findings* (Kyiv, 2010), 2nd edition, revised and corrected.

institutions may issue two types of MBS (mortgage bonds and mortgage notes). In 2008, SMI issued UAH 200 million (USD 25 million) in MBS and secured bonds, which were completely repaid in 2011. Two other issuances of MBS (UAH 120 million) totaling UAH 120 million were executed by commercial banks in 2008 and were repaid in 2009-2010. Thus, the MBS market in Ukraine is nonexistent, although

SMI is considering issuing mortgage bonds. A few commercial banks have recently established a non-governmental agency on mortgage refinancing, which is currently preparing to issue UAH 400 to 500 million (USD 50 to 62.5 million) in MBS. It is anticipated though that these MBS will be purchased by Oschadbank to clear up its balance of the mortgage, which will be used as collateral.

1. LEGISLATION

1.1 Streamline national housing legislation

The legal framework needs to clarify the State's responsibility for housing provision to different categories of citizens and exclude obligations the State cannot meet in the foreseeable future.

The enactment of laws "On Social Housing Stock", "On Housing and Utility Services" and "On Co-owners of Apartment Buildings", among others, imposes a need to revise or abolish the Housing Code inherited from the Soviet period. The existing duality of housing legislation of Ukraine and the consequent legal uncertainty needs to be urgently resolved. The structure and the volume of the Housing Code (i.e., to what extent it should incorporate norms from the laws "On Co-owners of Apartment Buildings", "On Social Housing Stock" and other legislation) could be amended but, in an environment of proliferating and contradictory legislation, it is recommended to have a single codifying document.

It is also recommended to give up outdated and contradictory provisions. Particular attention should be paid to legal issues such as the status of common property in apartment blocks, including the land plot attached to such a building, balance sheet keeping of apartment blocks and the role of enterprises in housing provision, among others.

1.2 Improve legal environment stimulating housing construction

The Government should create a legal framework to encourage increased residential construction, including review of land legislation, tax regulations and acts pertaining to land allocation for residential construction. The legislative framework should encourage the intensification of construction and development of construction technologies as well as shorten time limits and lower the costs of design and construction. Efforts to identify and simplify administrative barriers in the construction sector should be continued.

1.3 Modernize legislation regulating the rights and responsibilities related to common spaces in apartment blocks and enforce its implementation

The concept of joint ownership of common spaces needs revisiting as it requires unanimous decisions on management issues which is very often unlikely. The concept of common equity ownership is usually used for such type of property. The contradiction between concepts of asset holding and common ownership should be also eliminated.

The participation of housing unit owners in condominium associations in multi-unit apartment buildings should be mandatory and such associations should have more power to act as customers of housing management services and to enforce decisions

Current law enforcement practices regarding fee setting and collection, decisions on capital investment, owner's participation and engagement of homeowners in property management need close monitoring.

Developments in the legal framework, therefore, need to be accompanied by awareness-raising measures directed towards homeowners (see below).

1.4 Consider development of legislation regulating cooperative housing sector and other forms of non-commercial housing

Current civil legislation treats housing cooperatives as transitory; as long as shares are paid, the member of a cooperative becomes the owner of the housing unit and the apartment building turns into a condominium. That was not the case under Soviet legislation, when Ukrainian society got the valuable experience of building and managing apartment blocks as housing cooperatives. Now, housing cooperatives (as well as other forms of non-commercial associations of citizens) could be effective partners of public authorities and targeted for both state and municipal housing assistance programmes. Fostering the non-commercial sector will require the development of adequate legislation.

1.5 Strengthen the role of municipalities in implementing the national housing policy

More power and responsibility in formulating and implementing housing policies should be given to communities, provided they are interested in developing local real estate as a strategic source of their tax base. It is also recommended that earmarked budgetary transfers for housing needs be introduced to communal budgets.

1.6 Streamline and coordinate the development of legal framework for land management

The existing legal framework for land will be substantially improved by the new national law on the SLC and the draft law on the land market. Along with the Land Code of Ukraine, these two laws will be the cornerstone of the legal framework for land administration. The implementation of the law “On State Land Cadastre”, adopted in 2011, was postponed to 1 January 2013 to coincide with the targeted schedule for implementation of the law “On Land Market”. However, in the event that the law would not be ready by 2013, the implementation of the law “On State Land Cadastre” should not be postponed again. The law “On Land Market” should also come into force as quickly as possible, but the impact of restrictions, such as some pre-emptive rights for land acquisition, possibilities for expropriation or the ban on foreign people or companies from purchasing agricultural land should be reconsidered, given Ukraine’s particular circumstances.

1.7 Improve legislation for mortgages

The Government should improve mortgage legislation to decrease risks and thus lower interest rates. This work should be done with the active involvement of mortgage market participants. The Government should ensure an easy and inexpensive foreclosure process, both for the debtor and borrower, but this process needs to be supplemented by provisions for social assistance.

Amendments to existing legislation that will allow the proper functioning of escrow accounts could also facilitate the development of the mortgage market. Escrow accounts are used in established mortgage markets to mitigate risk.

2. STRATEGY AND POLICY

2.1 Develop a long-term sustainable housing strategy

The current set of housing policy measures is driven by the need to react to the most urgent needs and challenges in the sector. It is therefore important

to set long-term goals and strategies for achieving them, linking current policy measures to the strategic agenda. A better-identified group recognized as deserving Government assistance in acquiring adequate housing may be also developed within the Strategy, which would be an important signal to all actors in the housing sector.

This would necessitate an open and transparent process of defining national housing priorities in consultation with different interest groups. The consultation should cover specific topics and, for each topic, involve the appropriate stakeholders. For example, to identify national policy priorities the following stakeholders can be engaged:

- Appropriate ministries
- Representatives of local government and associations of municipalities
- Representatives of national governmental organizations that protect the interests of vulnerable groups and minorities, such as homeless people, disabled people and orphans

A rigorous evidence base to set targets in national and subnational housing strategies should be developed. It is important to undertake a thorough housing survey to identify what type of housing represents the high number of vacant houses and the reasons for vacancy. Oblast or local data could be generated in the form of strategic assessments of oblast and local housing markets. Most of the demand-based data should be based on the Census, which is updated every 10 years (the new census is due in 2013), as well as interim household surveys and expert reports.

Strategic housing market assessment and the formulation of national and subnational housing strategies and related development plans should complement each other to improve and deliver new homes of the right type, tenure and location. A regular five-year review linked to a review of housing strategies and development plans would ensure appropriate long-term responses that take into account changes in some circumstances (e.g., demographics, household composition, housing need and structural changes in the economy).

As a result, a comprehensive system of various forms of support should be developed by central and local governments to citizens depending on their income and financial circumstances.

Priorities of the housing policy or strategy should target vulnerable groups, based on measurable indicators such as:

- Housing conditions (such as how many families are in an apartment, the area per person or if

the housing is dilapidated housing or at risk of demolition)

- Family demographics, such as the number of elderly, young, disabled or orphaned persons
- Economic status, based on income limits

Also, affordable housing initiatives have focused on the cost efficiency of programmes, while equally critical environmental and social development concerns (such as the huge and diverse housing demand, inequality, housing deprivation and environmental inefficiency), as well as broader economic impacts seem to be peripheral or ignored. Ignoring housing sustainability in favour of the short term only leads to the accumulation of housing problems. The proposed approach helps to achieve a win-win-win situation for the environment, economy and society. Measures for different dimensions and levels should be considered; for example, at the national level, the Government may establish a framework for universal, affordable, decent and diverse homes that incorporates energy-efficient, green housing practices and innovations. This would result in a more flexible, diverse and competitive housing market with wider socioeconomic implications (e.g., better health and quality of life, improved labour mobility and employment and increased investment in the housing sector). At the local level, projects may be considered which encourage:

- Affordable energy use
- Green housing design using available local materials
- Access to infrastructure and social amenities that could build a sense of community
- Assistance to community and self-build providers
- Development of domestic economic activities and enterprise

2.2 Develop national spatial policy framework

The Government should develop national spatial planning frameworks to set out planning principles, policies and methods. It will provide clear direction to subnational authorities in preparing their planning documents, addressing the priorities specific to their territories. A national spatial policy is crucial to effectively integrate the actions of government departments, the private sector and communities. Setting up a national spatial framework may involve a report on national spatial development, based on relevant observations and research. However, this requires a comprehensive understanding of spatial trends and their effects and a high degree of political consensus.

The overall objective of a national planning framework should be to contribute to sustainable development. It may consider supporting a set of development priorities through territorial solutions, e.g.:

- Stimulating a strong and competitive economy (by, for example, providing strategic sites for investment, improving poor infrastructure, serving or supporting current businesses and allowing mixed-use development)
- Developing city centres
- Delivering a wider choice of good quality housing (by, for example, identifying development sites and locations, planning sustainable residential areas, providing a mix of housing types and ensuring residential regeneration)
- Planning for prosperous rural areas (including promoting tourism and leisure)
- Encouraging sustainable transport
- Promoting good design

The framework will be more acceptable if developed through consultation and dialogue. It should be compulsory at all levels of planning, while ensuring discretion, if necessary. Some issues, like the protection of critical natural resources or cultural heritage, will be more prescriptive, while others, like housing, may offer more choice.

Regional spatial strategies with implementation plans may be either administrative (for a regional government) or functional (e.g., a travel-to-work metropolitan area); they should set out how a territory will develop within 15-20 years, taking into account its socioeconomic dynamics. Spatial strategies should manage the distribution of development, redevelopment and investment and coordination of matters such as healthcare, education, housing, transport, tourism, leisure, employment and the environment (e.g., waste and energy). They should also be strategic or able to identify the general location of development (if in a settlement or subregion) but not establish unnecessarily detailed boundaries. Spatial strategies should encourage other sectors to understand the spatial dimension of their activities and how they relate to decisions in other sectors. Spatial strategies will receive greater influence over sectoral policy if they are approved by the national government, regional government or both.

Regional spatial strategies should:

- Identify key regional matters and policies on topic areas focusing on how much and the location of development (e.g., identify cities for development and development criteria such as proximity to transportation routes)
- Provide clear rationale for the policies in a supporting text
- Cover a set of key topics in areas such as protection of environment and biodiversity, transport

infrastructure and accessibility, economic development focusing on the growth, scale and distribution of new housing and housing demand and affordability

- Provide a spatial strategy diagram to demonstrate the physical extent of policies in general terms
- Identify the procedures on how it could contribute to the achievement of sustainable development objectives
- Include subregional strategies
- Identify how the strategies will be delivered and a timescale for implementation
- Identify clear targets to monitor the delivery of the strategy

2.3 Stimulate housing supply to relieve housing deficit and improve affordability

Recent government housing initiatives have mostly applied financial mechanisms. In particular, cheaper mortgages have helped stimulate demand that in turn helped in finishing stalled construction and selling the glut of apartments on the market. This approach has, however, a limited applicability and may generate further problems. Only symptoms of housing market weakness have been addressed while the key housing problems (housing shortages and the related affordability crisis) remain unsolved. By providing only financial help, the Government will continue to struggle to match supply and demand and reduce housing price volatility. The Government should consider further measures in its affordable housing initiative to ensure adequate housing supply.

The supply side solutions in the affordable housing initiative involve:

- Grants for delivering high levels of housing output
- Infrastructure support
- Reviews of planning to ensure that housing supply is properly handled in regional and local plans
- The use of public land as well as recycling of existing housing and land
- Better guidance to subnational governments

Other affordable housing solutions that could be considered are:

- Buying unsold housing from private developers facing difficulties in finishing their housing projects
- Simplifying the procedure to gain ownership or usage right to a land plot, change its designed purpose (rezoning) and obtain land allotment documents

- Improving the regulatory mechanism and practical implementation for the reconstruction of old housing stock, thereby creating a pool of social housing (including that available for rent)
- Enhancing the regulatory framework (new architectural, planning and technical requirements for affordable housing being built by including energy efficiency requirements)
- Extending of the state banks' capital base
- Increasing funding available with the UNIA and the State Fund for the Assistance of Youth Housing Construction
- Further coordinating and providing support for the development of regional initiatives for affordable housing

2.4 Promote diverse non-profit housing providers to ensure alternative approaches to housing provision and a more competitive and balanced housing development market

Learning from developed economies, Governments in transition countries have already become increasingly aware of the limited capacity of the private sector to reach the wider population, the need for government partnership with the private sector and the need for alternative non-profit and community delivery mechanisms. With limited public funding available, Ukraine would benefit from non-government and non-profit housing providers as they could serve as vehicles for achieving more cost-effective, high quality and well-located housing. The Government may want to consider a review of its affordable housing initiatives to provide more explicit political, regulatory and financial support for the development of non-profit housing provision, including making non-profit housing development attractive for the private sector. Actions may include, for example:

- Creating a strong case for non-profit housing by advocating it as a critical investment for social economic development
- Channelling public resources to the non-profit and community housing developers
- Establishing a system of grant funding; assisting non-profit housing providers to achieve economies of scale by backing their development and financial risks through a combination of capital and recurrent subsidies
- Helping providers develop their organizational capacity and skills and assisting them to obtain financing from the private sector by subsidizing an interest rate or providing matching or start-

up funds and getting planning and development approval for innovative projects

It is thus recommended to strengthen the institutional, personal and financial capacities of condominium associations and individual homeowners as non-profit housing providers. The Government might consider the option to encourage other organizations, including NGOs, to provide support on this task. Today, there are already a number of NGOs which are active in the field of rendering support to condominium associations. However, these efforts mostly take place on a pilot project basis and have limited impact. Active support to these initiatives from the Government, including the spreading of information on good practice, will help to increase the scope of the impact. It would also be useful to develop financial instruments for state-assisted modernization of multi-unit buildings carried out by condominium associations and professional housing management companies, as well as to provide assistance to such emerging private-sector maintenance firms.

2.5 Support self-building in the single-family housing sector

Encouraging people to build their own homes has been explicitly promoted in Ukraine's housing strategies. It has been formally acknowledged as a key to achieving the Government's wider aspiration for socioeconomic improvement in rural areas. Self-built housing fits into the cultural and community context of Ukraine's villages and could provide a viable alternative to ensure affordable housing for their population. Cooperation between the Government, NGOs and individual house-builders should therefore be established in order to build on successful community-based housing initiatives. The self-help housing action plan should be supported through adjustment of the regulatory environment for self-build activities, integration of self-help principles and procedures into the institutional framework provided by the State, finance and legislation.

The plan should address the following elements of the self-built process:

- Acquisition and development of land with active community participation, including a community development plan in line with local socioeconomic objectives
- Provision of construction materials, on-site assembling and promotion of small local producers of building materials
- Assistance with the construction process, including the use of local building expertise, local materials and design models, local council databases on best

local practices and materials and the organization of building materials fairs

- Regular and transparent flow of funds into the self-built sector including state funds and subsidies based on clearly-defined and widely known criteria, community control over the contribution and allocation of funds and community-based social funds

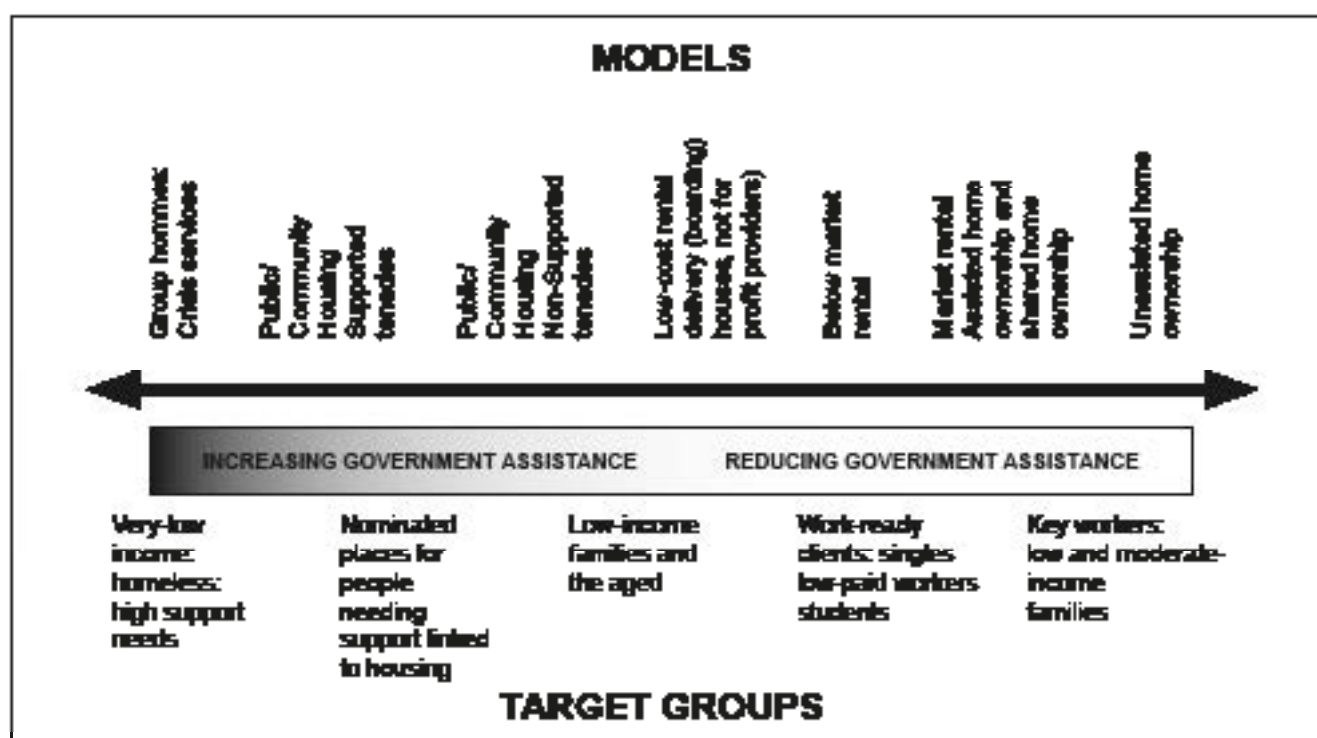
2.6 Support residential regeneration

The importance of residential regeneration has been recognized in Ukraine since at least 2000 and some cities have tried to promote city-wide regeneration programmes; however, these have not been successful for various political, economic and social reasons. At the same time, housing regeneration is widely used as a key instrument to support the Government in realizing its affordable housing objectives, including greater housing supply. The challenge, however, is to ensure that regeneration projects effectively coordinate different tasks and outcomes, i.e., making regeneration attractive for investors, yet beneficial for residents and urban development. There have been many successful examples worldwide which can be adapted to the Ukrainian context. Crucially, as evidence shows, regeneration projects must avoid "gentrification" or promoting the development of socio-spatial enclaves for wealthy people, which affects the welfare of many others within these areas and urban society in general. Centrally located areas are particularly prone to the threats of island-like affluent developments ("golden ghettos"), which bring with them serious sustainability problems and create social tensions. Given difficulties in promoting regeneration initiatives in the country, the Government may consider supporting a transition period for working with and raising awareness among the residents of these areas about the multiple benefits of such projects. For this period, the Government may consider taking more responsibility in terms of funding, negotiation and incentives for developers to participate in such projects. At a later stage, more functions could be delegated to local authorities, the private sector and residents.

2.7 Expand range of affordable housing (types and tenures)

Current housing initiatives on affordable and social housing are limited to needs-based provisions that target families in housing waiting lists; this has generated further problems, given that the registration of housing need is often not a clear-cut procedure. Under inflexible and expensive housing market conditions, even less needy families have gotten on the list for more affordable housing, resulting in an increased number of households on the list. Thus, government resources have been used not to address the backlog of those with real needs but

Figure 15. Level of government assistance by target group



to provide subsidies, although on a limited scale, to households with diverse housing demands. Therefore, government efforts have had very limited effect on the housing market and in addressing housing problems in the country.

Many households remain in a difficult housing situation which may have a wider implication on Ukraine's economy and society given that housing is a key integrative system in the latter (related to demographics, the social challenges of inadequate housing provision, employment opportunities, the economics of households, and other social aspects). The Government should work towards housing policies and funding priorities that advance integrated housing solutions and affordable, competitive alternatives to expensive home-ownership. This multi-tenure approach is pursued by Governments in many countries and is often associated with low house price volatility and good housing market stability. The extent to which each of the options is developed in a given area will depend on the profile of local needs and demands and the performance of a given housing market.

2.8 Stimulate the development of housing construction finance

The Government should assist banks and developers in drafting standard documents for construction loan applications and encourage the construction sector to become more transparent. In particular, it should stimulate construction companies to disclose more information on their activities. This could be done

either by introducing a voluntary code of conduct (jointly with a self-regulated association of developers) or by legal restrictions and incentives.

State and local housing programmes should be targeted and designed not to replace private investment in housing. Given existing economic difficulties and fiscal constraints, the subsidy system has to be targeted to groups in most need of state support. These groups should be able to solve their housing problems through transparent means-tested (income-based) subsidies. The programmes should contain tools for assessing the effectiveness and efficiency of money spent.

2.9 Execute a balanced tariff reform for housing and utilities in order to set rational economic stimuli in the sector

Tariff increases aimed at covering investment costs should be backed up by increased support to low-income households through better targeting of budgetary expenditure. Priority should be given to housing allowances compared to supply-side subsidies or categorical privileges.

2.10 Improve the land administration and policies in land management.

A number of improvements related to land policy issues should be considered:

- Land administration should be an integral part of the framework for good governance in Ukraine.

It should also implement an e-government approach.

- As easy public access to land-related data is critical, a uniform digital data exchange format based on international standards and web-services is required for sharing official land administration data.
- In addition, public services should develop the one-stop-shop principle for citizens, who currently need to complete several procedures with various administrative bodies to get their property and titles registered.
- The State Registration Service has to be strengthened to improve the status of the register database as soon as possible for the benefit of all citizens.
- Transparent state actions and public registers, including easy public access to information, are key to sound land administration and need to be fully introduced.
- A participatory approach to spatial planning should be taken, based on reliable and current cadastre and topographic mapping.

In light of current circumstances, Ukraine has established a dual cadastre and registration system with responsibilities assigned to MoJ and MoAF and their subordinate bodies. However, different institutional responsibilities together with different technical environments and databases require collaboration between all stakeholders at national, oblast or local levels to make the system work properly. Mutual collaboration between institutions, ministries and municipalities should be improved in order to avoid serious compromises on the reliability and timeliness of data in official land records and to guarantee appropriate state services for all stakeholders in land. In order to build trust in the land administration system, mechanisms for avoiding and fighting illegal practices in land administration should be improved. Pro-poor mechanisms for enforcing land rights at low cost, such as out-of-court settlement of land disputes and mediation, should be fostered.

2.11 Improve the real estate market infrastructure

Clear and unambiguous records of land rights are the basis for the sound development of land, be it in rural or urban areas. Both the registration and the automated cadastre need to provide a full range of services to the public as soon as possible to create opportunities for investment. In addition, real estate markets urgently need to be made more transparent. It is recommended to maintain transaction databases in the regional offices of SALR where every sales

contract could be registered and evaluated. This will allow access to the necessary input data for sound valuation of properties (e.g., index rows,¹¹⁹ interest rates in real estate, average prices for different categories of real estate and indicative values for land) that can be used for monitoring the development of the land market and providing the necessary knowledge on land values. This would provide a sound basis for the future development of the land market in rural areas, where reliable and official market information is non-existent. Public access to this data must be guaranteed.

2.12 Support the development of a market-driven banking sector and microfinance institutions

The Government should take measures to increase the banks' confidence in the housing market, particularly in the system of property valuation. The information systems on mortgage finance and real estate markets, including property valuations and prices paid, should be improved; the information should be published regularly and made easily accessible to the public. The role of self-regulated organizations should be increased and industry standards should be developed and effectively adopted and implemented.

Microfinance organizations are quite successful in targeting households with low and moderate incomes, but the terms of classic mortgages require them to substantially increase assets and restructure underwriting and servicing practices. The creation of an encouraging legal framework could help address issues of home improvement or repair, especially in low income areas, enabling people in poverty or depressed areas to gain access to essential financial resources. There should both be a targeted subsidy approach and alternative financial mechanisms to develop social housing as recommended in UNECE guidelines on social housing.¹²⁰

2.13 Encourage private investment in housing

Systematic investment promotion through the simplification of administrative procedures, the creation of a favourable investment climate, the reduction of entry barriers and the provision of incentives, like differentiated tax rates and tax exemptions, should be carried out. Within this framework, private local and foreign investment should not only be directed to new construction, but also to renewal, repair and maintenance of existing buildings.

¹¹⁹ Statistical information for determination of the market value of a property.

¹²⁰ UNECE. *Guidelines on Social Housing: Principles and Examples* (Geneva: United Nations, 2006).

The Government should support existing projects aimed at attracting financial resources for renovation purposes and increasing the energy efficiency of housing stock. This could be done through the creation of an enabling legislative framework and disseminating information about projects and good practices across oblasts and municipalities. One example of best practice is a loan programme of ProCredit Bank, which offers 3-year loans to housing management companies for the energy efficiency renovation of multi-family buildings. The loans are repaid through savings on utility payments without increasing the fees of tenants.

The Government should promote PPPs to potential investors and organize a series of discussions with them to increase the efficiency of existing PPP legislation and decrease risks, using existing materials, when possible.

2.14 Increase and make consistent financial means for housing projects, both on the state and municipal levels

The Government should develop a comprehensive policy framework for the structure and development of a national housing programme. All or a significant share of revenue from real estate, land taxes and the sale of municipal land should be earmarked for housing purposes. On the national and local levels, part of additional tax revenues resulting from economic growth should also be allocated for housing purposes. Municipalities should develop a clear strategy for the infrastructure development of their cities. They should also create an efficient financing mechanism to create all required infrastructure for construction sites on time using fees collected from developers. State and local authorities should also consider partnering with private developers.

The Government and local authorities should make municipal debt securities more attractive, as they could be used to finance development programmes. The National Institute for Strategic Studies has pointed out that issues such as insufficient stock market transparency, limited access to information about issuers and the current macroeconomic conditions of cities, among others, should be addressed.

To increase the quality of existing stock and thus decrease the demand for new housing, a state strategy for housing renovation and repair should be adopted and financed. This strategy should exist alongside housing finance for new housing development.

2.15 Housing finance should be integrated into effective land management practices

Policies that intend to increase housing financing and affect the demand side of the residential market must be supported by effective land supply policies by national

or local governments. If land supply does not match increased housing demand due to availability of financial tools, house prices could go up, resulting in problems in housing affordability.

The availability of land for residential construction should be significantly increased and a balance between the development of greenfield and brownfield sites should be achieved and maintained. The development of a modern system of land use regulation should be completed.

3. INSTITUTIONAL SETTING

3.1 Strengthen coordination between the national executive bodies when implementing the national housing policy

The responsibilities of MinRegion regarding interdepartmental coordination should be specified. In particular, it is recommended that MinRegion be empowered to coordinate the housing programmes of other executive bodies in terms of unification of rules, procedures and standards and coordinate with regional planning documents.

It might also be worth establishing an advisory board on housing comprising of members from the national Government, representatives of regional and local administrations, the private sector, housing associations and academics, among others. This board would serve as a forum to exchange views and experiences on different projects, initiatives and their performance. It is however important that within such a process the leading role will clearly belong to MinRegion.

The comprehensive implementation of housing policy would be more efficient if coordination and cooperation of MinRegion with the following national executive bodies were intensified:

- The Ministry of Economy, in order to better reflect in national and social and economic documents the impact that they have on development of the housing sector as well as the impact of housing sector development on macroeconomic indicators.
- The Ministry of Finance, in order to better support and justify the need for budgetary allocation to national programmes in the housing sector. The significant annual variation in such allocations suggests that, despite general budgetary restrictions and the peculiarities of the budgetary process, there is room to improve the financing situation for state housing programmes

3.2 Ensure the integration of spatial planning in housing policies

Ukraine's housing authorities have initiated programmes to increase housing supply, but a housing shortage remains, indicating a need for an integrated approach to housing development. New dwellings are built with no proper integration with utilities, with no or limited social or green infrastructure and few transport links. New residential developments are poorly integrated with existing residential structures. There is almost no coordination of housing with matters of wide importance such as improving access to job opportunities, reducing disparities in living conditions and improving regional and local economies.

The Government should ensure the integration of spatial planning in housing by adopting policies to promote planning for housing at different levels. This integration would be particularly effective in coordinating housing with other activities and in helping with housing supply.

Housing should be considered at each stage of the spatial planning and development process by:

- Setting housing objectives as an overarching goal for national planning policies and strategies
- Establishing the levels and methods of housing provision for certain locations; this can include identifying growth points and constructing new settlements or renewing or replacing the housing stock in low demand areas. This should be done with spatial strategies to ensure the efficiency of the residential development process (from identifying specific sites to proposal assessment and approval and the provision of infrastructure).

The specific housing outcomes that the planning system should deliver may include:

- The delivery of housing with higher standards and good design
- A mix of housing, including commercial housing and affordable housing, in terms of tenure and price, to accommodate various households in both urban and rural areas
- An adequate amount of and improved choices of housing, taking into account need and demand
- Housing developments in suitable locations with a good range of facilities and good access to jobs, services and infrastructure
- A flexible, responsive supply of land, including recycled land

3.3 Accelerate and coordinate development of the national Cadastre database.

A sufficient budget should be allocated to SALR to allow it to address the huge challenge of setting up the cadastre database for Ukraine in a somewhat short time. The introduction of an automated cadastre is urgent and should be given appropriate attention and priority. In order to have the necessary trained staff, education and vocational training are essential. The private sector should be involved wherever appropriate and possible. The introduction of UCS-2000 for the cadastre of all of Ukraine should be accelerated, as only when the coordinates for all land parcels are entered in the official spatial reference system of Ukraine will it be possible to see the true extent of overlaps and gaps in the cadastral map to be corrected. The proper establishment and delimitation of state and municipal administrative boundaries is also indispensable. Timely completion of this process should be given a high priority. Technical collaboration needs to be improved and strengthened in order to establish a smooth data exchange process between the land register and the cadastre on a daily basis and should be given high priority. Collaboration between the national, oblast and local offices of SALR should be strengthened.

Buildings should be added to the cadastre map where they are missing in order to provide a sound basis for planning, by making use of orthophoto plans and existing mapping material (such as general plans with coordinates and boundaries, when they exist). It is important to make citizens aware of the importance of land registration and educate them about the land registration process.

The cooperation of all land administration authorities in Ukraine with international organizations (such as the UNECE Working Party on Land Administration or EuroGeographics) should be strengthened.

3.4 Improve spatial reference and mapping

The State Service for Geodesy, Cartography and Cadastre (Ukrgeodescartographia) has determined the necessary framework for the uniform spatial reference system of Ukraine. It is recommended to complete the work for transforming all cadastre data in the SC-63 system or other local coordinate systems into the UCS-2000 system as quickly as possible. This also applies to the city of Kyiv, with its cadastre still maintaining a separate coordinate system. This process will require a register of all existing local coordinate systems in Ukraine and determination of the transformation parameters. Experiences gained in pilot projects in, for example, Kharkiv or Sevastopol should be taken into account. The benefit of the orthophotos captured as part of the World Bank Project on Rural Land Titling should be exploited to the greatest extent possible and

topographic mapping should be updated making use of these images.

A concept paper on the establishment of an NSDI for Ukraine was already drafted in 2007 and metadata on existing datasets are available. As Ukraine has an urgent need for planning records based on official geodata both for urban and rural areas, NSDI requirements concerning data architecture or standards should be taken into account from the outset.

Ukrgeodescartographia should play a key role in further discussions on Spatial Data Infrastructures and the relevant steering body that should be established for Ukraine. Close collaboration with the cadastre registration of SALR is necessary to efficiently overcome obstacles related to the cadastre. Ukrgeodescartographia should consider establishing a satellite positioning service for Ukraine, in order to make field survey works more efficient.

3.5 Gain the trust of investors to promote the development of a sustainable financial sector

The objectives of public sector reforms and their linkage to sustained growth should be to:

- Improve citizen and investor confidence in the country's rule of law and economy
- Sustainably attract foreign direct investment that can help modernize the economy, rather than short-term inflows in response to high rents
- Reduce red tape, abuse and corruption in regulatory and control agencies that hamper private sector investment and growth

Institutional reforms are necessary to improve governance and gain the trust of investors and citizens. Red tape, burdensome regulation, allegations of corruption and abuse, insecure property rights, perceptions of a weak rule of law, poor governance of State-owned enterprises and limited accountability are the main issues preventing Ukraine from becoming a good prospect for long-term investments. Solving these problems will require radical reform in the way the Government interacts with businesses (including foreign investors) and citizens.

To develop a viable financial sector, Ukraine needs to establish rules-based, arms-length and transparent regulation of the banking sector as well as the entire financial sector. Bank ownership should be transparent and financial information disclosed. As the World Bank has noted, financial market reforms can only be implemented by independent central bankers and regulators free from any conflict of interest.

3.6 Institutionalize Credit Bureaus

The Government should increase the coverage and reliability of information collected by credit bureaus. Historical information provided by a bureau on the creditworthiness of potential borrowers could decrease credit risks for lenders and make mortgages more affordable. Credit bureaus can play a role in educating potential borrowers on ways to maintain a good credit rating and assess their borrowing capacity. The creation of a "Central Catalogue of Credit Histories" is needed to increase the attractiveness of credit bureaus and foster an exchange of information between existing private bureaus and will also decrease the cost of obtaining information on borrowers for banks. The Government should also facilitate the exchange of information between credit bureaus and state registers (as is assumed by law) to be able to provide banks with up-to-date and reliable information about borrowers.

The Government should also support the development of a secondary mortgage market and SMI activities to develop operational and legislative frameworks for mortgage refinancing. It should further consider the future role of SMI as a state agency and determine its key priorities, such as ensuring the balanced development of mortgage markets in all oblasts, providing mortgage refinancing facilities for banks at market rates and providing affordable mortgages for targeted groups of households.

3.7 Encourage education and training for borrowers

To increase the effective demand for housing finance, the Government should implement training programmes for inexperienced borrowers (commercial developers, municipal enterprises, households) on how to develop proper construction proposals, conduct market analysis and evaluate the possible sources of loan repayment. It is also important to encourage training programmes to improve the residential mortgage lending skills of bank staff, since this will benefit the stability of the whole banking sector.

4. SPATIAL PLANNING AND URBAN DEVELOPMENT

4.1 Strengthen the role of national regional planning to facilitate national development

Ukraine's regional planners are struggling to manage development and support socioeconomic tasks, as manifested in: regional disparities, fast-shrinking cities (i.e., Dnipropetrovsk, Donetsk, Kharkiv, Odessa and Zaporizhia), urban sprawl, unbalanced urban development, the loss of green spaces, insufficient infrastructure, decrepit housing and so on. The Government should undertake further reform in

regional planning, i.e., a move to EU an integrative spatial-planning approach¹²¹ may be considered. Regional planning should be part of a hierarchy of state strategic development activities (i.e., in the sequence of spatial development policy, national strategies and programmes, regional strategies and local development frameworks). This integrated planning should be achieved horizontally across different sectors, vertically among different levels of jurisdiction, and geographically across administrative boundaries.¹²²

A thorough review of national planning instruments will be required, including laws, policies, plans, guidance, procedures, incentives and sanctions. The key is to establish a proper balance between responsibility and flexibility, identifying what must be immediately responded to, what could be addressed within a longer period and what must be addressed at what government scale. There will be a need for complementary actions at different scales: developing national policies to set generic rules for basic legal quality standards, planning spatial strategies and implementation plans at subnational levels and beyond and designing in a more localized way the organization of towns, villages and neighbourhoods. Government may also consider other instruments to support spatial planning, such as economic instruments, the use of existing data and charging systems. The Government should also consider support for territorial planners to develop the necessary skills.

The shift to spatial planning should build on the country's rich experience in regional development while also drawing on the recent successful spatial planning attempts at regional and local levels (see Chapter IV). It should also make full use of the UNECE guidance on spatial planning.¹²³

4.2 Ensure local planning documentation is prepared integrating the multi-level system of spatial planning

The Government should work closely with local authorities on the development of framework and other plans for local areas, for example, city plans, metropolitan plans and plans for river and transport

¹²¹ As described in: European Commission, ESDP: *European Spatial Development Perspective. Towards Balanced and Sustainable Development of the Territory of the European Union* (Luxembourg, 1999). Available from http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/pdf/sum_en.pdf (accessed 5 February 2014).

¹²² Barry Cullingworth and Vincent Nadin, *Town and Country Planning in the UK* (Abingdon: Routledge, 2006), 14th edn., p. 91.

¹²³ United Nations Economic Commission for Europe (UNECE), *Spatial planning: Key instrument for development and effective governance*, (Geneva: United Nations, 2008).

corridors. These plans will guide and coordinate proposals for development and provide a general reference for land-use regulation. They will help a prospective developer evaluate the possibility of gaining development rights as well as the constraints and conditions imposed on such development. Framework plans should demonstrate how development proposals affect stakeholders' interests by locating the projects on a map and indicating the precise boundaries of the proposed development. These plans should be a corporate statement of policy from the planning authorities involved, in partnership with other key delivery agencies. The plans should coordinate the spatial aspects of their policies on economic development, transport, environmental protection and other sectors and link closely with public investment programmes.

Framework plans must be binding for regulation and development management, but the degree of prescription should depend on local circumstances. It should be prescriptive, for example, for areas where local authorities lack adequate capacity for producing more detailed regulations, but a minimalist approach should be adopted, highlighting priorities and key challenges in places where change is anticipated. The framework plan should be a snapshot of how policies and investments fit together at a particular point, but it should also reflect the dynamics of spatial development, highlighting trends and uncertainties. More detailed and binding plans will be necessary where there is some certainty of delivery. Overall, the framework plan will be a mix of detailed and binding proposals and general policies and proposals.

4.3 Support an integrated development management approach to development proposals

The Government has made impressive improvements in development management and future actions should facilitate an integrated development management approach to individual proposals, in line with spatial planning practice. It should establish which development decisions are to be made by national, regional or local authorities and how these decisions are to be made. For example, national decisions may be set through national spatial strategy and regional and framework plans in consultation with local stakeholders. It should determine that development decisions are to deliver agreed plans and are also to be based on agreements reached among different sectoral interests at regional and framework levels. The decisions should be accountable to the appropriate elected body and there should be a procedure to ensure that all developments above certain parameters obtain authorization from the local authority

Picture 9. A social housing under construction



The Government is working to introduce detailed regulations through zoning or binding regulation plans. Additional procedures should be considered to allow flexibility in interpreting the zoning plans (given their technical nature) and in evaluating development projects. Another tool that could help to simplify regulation as well as make it more effective is a set of national building codes. For example, a national building code on energy efficiency or design requirements for new buildings is important when local authorities have limited capacity to deal with the issues. Less prescriptive guidance is another tool and used for coordination matters, e.g., the coordination of transport and land use through control of accessibility.

The Government has already made a step to coordinate various regulators of the development process through setting up a one-stop-shop. Coordination may further be improved if the regulators are involved in the preparation of strategies and framework plans.

Enforcement actions will only be accepted if they are consistent and based on transparent policies and procedures. The first step to facilitate effective enforcement is to ensure that spatial planning documentation is not too prescriptive but a joint effort by different stakeholders and is communicated in a clear, concise manner to citizens and investors.

Annex I. Demography indices, 1990, 1995 and 2000–2012

	1999	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Birth rate (per 1,000)	12.6	9.6	7.8	7.7	8.1	8.5	9.0	9.0	9.8	10.2	11.0	11.1	10.8	11.0	11.4
Mortality rate (per 1,000)	12.1	15.4	15.4	15.3	15.7	16.0	16.0	16.6	16.2	16.4	16.3	15.3	15.2	14.5	14.5
Natural growth (per 1,000)	0.5	-5.8	-7.6	-7.6	-7.6	-7.5	-7.0	-7.6	-6.4	-6.2	-5.3	-4.2	-4.4	-3.5	-3.1
Infant mortality rate (per 1,000)	12.8	14.7	11.9	11.3	10.3	9.6	9.5	10.0	9.8	11.0	10.0	9.4	9.1	9.0	8.5
Life expectancy at birth (years)	70.7	76.2	67.9	68.3	68.3	68.2	68.2	68.0	68.1	68.3	68.3	68.3	70.4	71.0	71.2
Male life expectancy at birth (years)	65.9	61.8	62.4	62.8	62.7	62.6	62.6	62.2	62.4	62.5	62.5	63.8	65.3	66.0	66.1
Female life expectancy at birth (years)	75.0	72.7	73.6	74.1	74.1	74.1	74.1	74.0	74.1	74.2	74.3	74.9	75.5	75.9	76.0

Source: SSSU, *Statistical Yearbook 2010* (Kyiv, 2011). Data for 2012 taken from <http://ukrstat.gov.ua/>.

Annex II. Labour market indicators (annual averages)

	Persons aged 15-70				Persons of working age							
	Economically active		Employed		Unemployed (using ILO methodology)		Economically active		Employed		Unemployed (using ILO methodology)	
	Number (thousands)	Percentage (of total population aged 15-70)	Number (thousands)	Percentage (of total population aged 15-70)	Number (thousands)	Percentage (of economically-active population aged 15-70)	Number (thousands)	Percentage (of total population of working age)	Number (thousands)	Percentage (of total population of working age)	Number (thousands)	Percentage (of economically-active population of working age)
2000	22,830.80	63.2	20,175.00	55.8	2,655.80	11.6	21,150.70	73.7	18,520.70	64.5	2,630.00	12.4
2001	22,426.50	62.3	19,971.50	55.4	2,455.00	10.9	20,893.60	72.6	18,453.30	64.1	2,440.30	11.7
2002	22,231.90	61.9	20,091.20	56	2,140.70	9.6	20,669.50	71.7	18,540.90	64.4	2,128.60	10.3
2003	22,171.30	61.8	20,163.30	56.2	2,008.00	9.1	20,618.10	71.4	18,624.10	64.5	1,994.00	9.7
2004	22,202.40	62	20,295.70	56.7	1,906.70	8.6	20,582.50	71.1	18,694.30	64.6	1,888.20	9.2
2005	22,280.80	62.2	20,680.00	57.7	1,600.80	7.2	20,481.70	70.9	18,886.50	65.4	1,595.20	7.8
2006	22,245.40	62.2	20,730.40	57.9	1,515.00	6.8	20,545.90	71.2	19,032.20	65.9	1,513.70	7.4
2007	22,322.30	62.6	20,904.70	58.7	1,417.60	6.4	20,606.20	71.7	19,189.50	66.7	1,416.70	6.9
2008	22,397.40	63.3	20,972.30	59.3	1,425.10	6.4	20,675.70	72.3	19,251.70	67.3	1,424.00	6.9
2009	22,150.30	63.3	20,191.50	57.7	1,958.80	8.8	20,321.60	71.6	18,365.00	64.7	1,956.60	9.6
2010	22,051.60	63.7	20,266.00	58.5	1,785.60	8.1	20,220.70	72	18,436.50	65.6	1,784.20	8.8
2011	22,056.90	64.3	20,324.20	59.2	1,732.70	7.9	20,247.90	72.7	18,516.20	66.5	1,731.70	8.6
2012	22,011.50	64.6	20,354.30	59.7	1,657.20	7.5	20,393.50	73	18,736.90	67.1	1,656.60	8.1

Source: SSSU, "Basic Indicators on Labour Market (Annual Data)". Available from http://ukrstat.gov.ua/operativ/operativ2007/rp/ean/ean_r/osp_r/rik07_r.htm (accessed 4 April 2013).

Annex III. Population below relative national poverty line (%)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Population below relative national poverty line (%)	27.8	26.4	27.2	27.2	26.6	27.3	27.1	28.1	27.3	27.0	27.0
Rural population below relative national line (%)	29.2	28.7	32.2	34.4	36.7	35.0	35.2	38.4	37.9	38.2	
Urban population below relative national poverty line (%)	27.1	25.4	24.7	23.6	21.5	23.5	23.2	23.0	22.1	21.5	

Source: UNECE Statistical database. Available from <http://w3.unece.org/pxweb/> (accessed 5 April 2013).

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Country Profiles on Housing and Land Management

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