

State Housing Policy: European Funding Practices and Realities of Ukraine

KOSTIANTYN V. ILLIASHENKOⁱ, TETIANA O. ILLIASHENKOⁱⁱ,
OLEXANDER V. TOVSTUKHAⁱⁱⁱ

The problem of citizen housing providing as a key prerequisite for sustainable development of Ukrainian cities has become especially relevant in the last decade, given a number of factors and objective circumstances. Such circumstances include both the global trend of urbanization and the challenges of today, which are the result of military aggression in the east of the country and the COVID-19 pandemic. All this raises the question of the need to intensify the state housing policy and finding non-standard models and additional reserves and funding sources for housing construction in Ukraine. The authors analysed the main approaches of European countries in the field of social housing. The existence of national peculiarities of the implementation of the state housing policy has been established, as well as the common features of the relevant public service provision by the governments of the EU member states to their citizens have been determined. The authors found that European countries, as a result of a long evolutionary path of development, mostly rely on the model of social housing sector support, which provides subsidies to both the developer during the construction of such housing and the citizens who find themselves in difficult circumstances. At the same time, social housing for the needy is not sold, but rented on preferential terms. The authors of the article on the basis of the Ukraine legislation analysis, according to the results of the proposed funding schemes effect assessment of social housing construction identified the main areas of optimization and further research. It is clearly illustrated that one of the ways to ensure the availability of such housing for those who need it is to reduce the cost of construction through the use of tax privilege for housing cooperatives, the benefits of small business taxation preferences and innovative methods of combining original organizational legal forms of doing business in combination with the use of modern financial instruments, such as derivatives.

Keywords: social housing, state support, funding scheme, sustainable development, derivative.

Abbreviations:

AMC – asset management company
IDP – internally displaced persons;
TCU – tax code of Ukraine;
VAT – value added tax;
IE – individual entrepreneur.

УДК 336.77

JEL Codes: E22, G18, G31, H25, H41, R11

Introduction. Mankind's awareness of the essence and nature of the global ecological crisis, which was especially acute for humanity at the end of the last century and the possible

ⁱ Kostiantyn V. Illiashenko, C.Sc. (Economics), Associate Professor, Department of Finance and Entrepreneurship, Sumy State University;

ⁱⁱ Tetiana O. Illiashenko, C.Sc. (Economics), Associate Professor, Department of Finance and Entrepreneurship, Sumy State University;

ⁱⁱⁱ Olexander V. Tovstukha, Post graduate student, Department of Finance and Entrepreneurship, Sumy State University.

© K. V. Illiashenko, T. O. Illiashenko, O. V. Tovstukha, 2021.

<https://doi.org/10.21272/mer.2021.91.10>



consequences for the planet as a whole, led to the search for ways to overcome it. And one of such approaches became the ideas of sustainable (sustainable) development, which were proposed by scientists in the twentieth century, and during the last decade have become especially important [1].

The Verkhovna Rada of Ukraine in order to ensure the implementation of the basic provisions and principles of the concept of sustainable development in our country in December 1998 approved the "Concept of sustainable development of settlements of Ukraine" [2]. At the same time, the main directions of state policy to ensure sustainable development of settlements included, among others, increasing the level of housing for citizens, based on the needs and capabilities of different segments of the population and guaranteed housing for socially vulnerable citizens.

Problem statement. The issues of clarifying the essence of such a phenomenon as social housing and the identification and classification of affordable residential real estate has been studied in the works of many leading foreign scholars and researchers, including T. Poggio and K. Whitehead [3], P. Bergman and E. Chetty [4], H. Botton and B. Wats [5; 6], as well as E. Liu and K. Marin [7]. The work of S. Green, W. Wilson, G. Young [8] and many other scientists are devoted to the problem of determining the degree of affordability of social rent, the relationship between housing and poverty, substantiation of the optimal amount of rent in the affordable housing sector.

Significant scientific work on this topic in the form of theoretical and applied research on various aspects of housing construction funding in Ukraine belongs to such well-known domestic scientists and economists as: T. Yevtukh [9], V. Bazylevych, O. Stashchuk [10], V. Kravchenko, I. Kucherenko, and others.

At the same time, despite the large number of scientific publications that comprehensively cover the issues of social housing financial support and funding, there is a real need to systematize and analyze current international experience in this area to clarify possible problems and prospects for its implementation in the conditions of Ukraine. Special attention should be paid to the assessment of the possibility of implementing foreign practices and theoretical achievements during the state and local housing policy formation and realization.

The purpose of the research is to systematize and analyse modern European practice of financing the social housing construction. The obtained results allow to assess the prospects and expediency of applying the best world experience in the conditions of Ukraine in order to create appropriate impulses and incentives for optimization and intensification of the state housing policy. An equally important task of scientific research is to find out the availability of internal reserves to reduce the cost of social housing in order to make it much more accessible to those who need it. According to the authors, tax payments can be a source of such savings

Results of the research. Today the population of Ukraine is 41.9 million people, which is exactly the same as lived in the country in 1959, but if then the population of cities was 45.8%, today this figure is 69.5% [11]. The war in eastern Ukraine has led to a huge number of IDP whose families need housing. Today, there are about 1.3 million families in Ukraine who need to improve their living conditions. All this raises the issue of intensification of state housing policy and the need to find additional reserves and sources of housing construction funding in Ukraine. A study of the European experience in implementing programs to provide the population with social and affordable housing can be very useful in this regard.

In this regard, it may be very useful to study the European experience of implementing programs to provide the population with social and affordable housing.

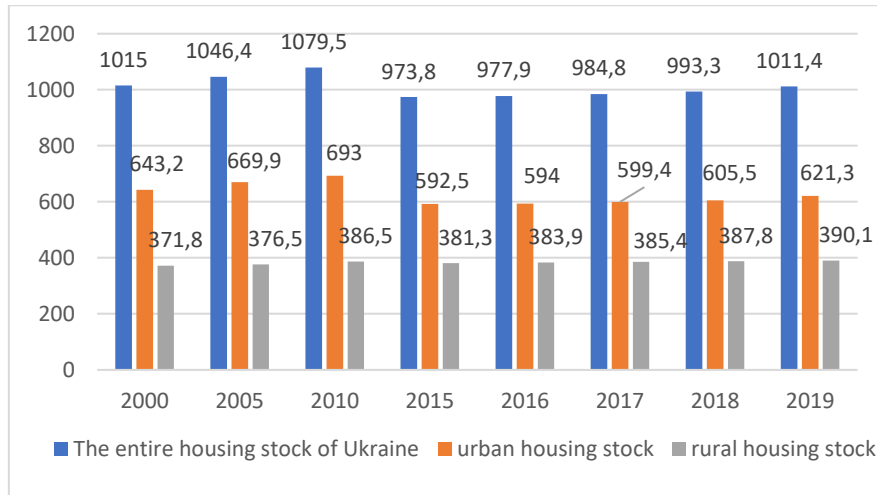


Figure 1. Housing stock of Ukraine [11]

Despite all the efforts of the Government of Ukraine, no qualitative changes have been made in providing the population with housing in the country over the last decade, the housing stock remains almost unchanged. The average housing provision in Ukraine is 2 - 2.5 times lower than in European countries. Regional statistics confirm the existence of serious disparities in the level and dynamics of regions' socio-economic development, reflected in the pace of housing commissioning in some regions (figure 2).

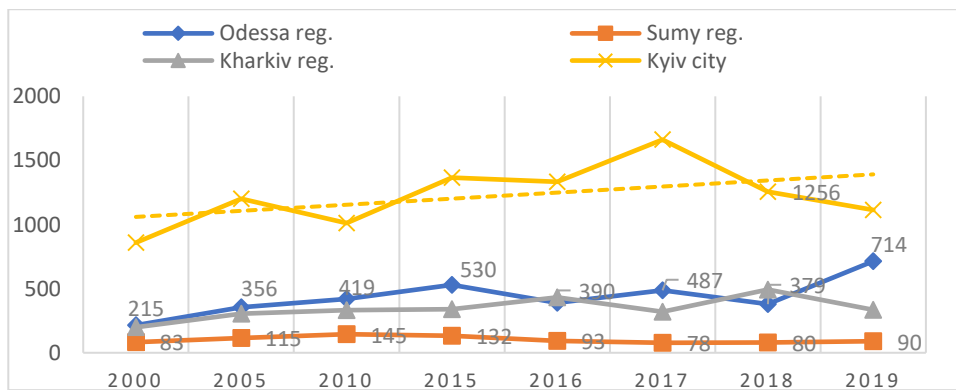


Figure 2. Total area of residential buildings put into operation in urban areas by region (thousand sq.m.) [11]

In the EU member states, social housing includes more than 28 million houses and apartments, which is from 0.5% for such countries as the Czech Republic, Estonia, Lithuania and others. up to more than 20 percent (Austria - 20%, Denmark - 22%, the Netherlands - more than 37%) of the total housing stock, but there are significant differences between countries in the definition, size, volume, target set of contractors and types of providers and operators of social housing [12; 13].

As it was demonstrated in our previous papers the national citizens social support systems in European countries in general and the housing policies of the governments of individual EU member states are very different. At the same time, there is one feature that is inherent in most of them: the governments of almost all countries are trying to build and maintain a system of motivation for citizens, aimed at encouraging tenants to make every effort to improve their living conditions by themselves: housing for the needy is leased, not sold. This makes it possible to provide assistance to the widest possible range of people who need such assistance.

Unlike European countries, in accordance with the historical traditions and customs that have developed in most countries of the former Soviet Union for decades, the Ukrainian government has almost always directed all its programs to support the future owner of the apartment, not its landlord.

According to the State Statistics Service of Ukraine, the structure of sources of financing for housing construction in recent years is relatively stable and has the following form: 55% - funds of the population; 18% - funds of business entities; 15% - borrowed resources; 7% - government budget funds; 5% - developers' own funds.

Our analysis of the structure of sources of financing the construction of residential real estate, as well as the volume, forms and methods of such financing led to conclusions about the need for immediate changes in this matter. On the one hand, the state does not have enough funds to build housing for all citizens who need it, and on the other hand, the state too severely restricts potential developers in choosing legal forms and methods of financing housing construction without creating any preferences and incentives for the construction of social and affordable housing. The above determines the relevance of our proposed approaches to expanding the range and ways to organize the interaction of potential participants in the process of housing construction and, in particular, the forms and methods of its financing, which differ from existing ones.

Business model 1: The construction customer is a housing cooperative, and its contractors are Single Taxpayers who have chosen the third group of the special taxation and reporting regime at a rate of 5%.

The essence of this mechanism is to replace the direct relationship between private investors and the developer with a more complex scheme, when investors at their own expense share in financing the costs of the construction cooperative as its associate members, and housing cooperative only orders housing construction services from subcontractors, which in turn are legal entities that pay the Single Tax at a rate of 5% and are not value added tax payers.

The advantages of this scheme are obvious, because, firstly, they allow, unlike the "classic conventional schemes" such as financing through the issuance of target bonds, usage construction financing funds and mutual investment institutions to raise funds long before all conciliation and land allocation procedures will be completed, as well as much earlier than the working design documentation for housing construction will be developed and duly agreed.

The key advantage of our proposed scheme, however, is that its participants will be able to save significantly on taxes and associated costs, which are mandatory in the implementation of the mechanisms provided for in Art. 4 of the Law "On investment activities". Tax savings will arise in terms of minimizing the income tax that the developer previously had by "transferring" it to the Single Taxpayer, where it will already be taxed at a rate of 5% (of revenue), instead of 18%, as it was before. Another important component of the reserve for lower prices for social housing is the savings on VAT.

Thus, previously carrying out construction work on the construction of residential real estate for investors' money, the developer actually carried out the first supply of housing within the

meaning of paragraph 197.1.14, paragraph 197.1 of Article 197 of the TCU, which would inevitably lead to a VAT liability for the entire cost works. According to the scheme proposed by the authors, the Housing Cooperative must purchase (including VAT) materials directly from suppliers or from a contractor who performs construction work with a minimum markup, thus reducing to almost zero both the profit of the company and the VAT payment to the budget, and other costs under the basic scheme of business organization (salaries with accruals, depreciation, etc.) as well as the expected profit of the cooperative, which previously formed the full cost of its construction work is now planned to concentrate with subcontractors who have chosen the third group of the special taxation and reporting regime at a rate of 5%. Thus, subcontractors are not VAT payers, and therefore do not have to accrue and pay this tax when supplying house construction services, despite the fact that such works are the first supply of housing.

Business model 2: An agreement on joint activities in construction between investors and the developer. The agreement of joint activity is not included in the list of instruments of financing of housing construction established by Art. 4 of the Law of Ukraine "On Investment Activity", however, the current legislation does not prohibit the construction of housing facilities by concluding an agreement on joint activities, because by concluding an agreement the parties turn their "counter" interests into "parallel". It does not have the party that gives its money as an advance to the developer in order to pay in full for the purchased housing in the future. There are equal partners who their combine efforts and money to achieve a common goal - a non-profit activity that is to build housing. Under such conditions, the parties to the contractual relationship do not sell residential real estate, and therefore there is no need to pay taxes.

Business model 3. Public-private partnership in construction using forward contracts.

The main disadvantage of all existing schemes and mechanisms for financing housing is that the profit remains with a private developer, and the state is virtually deprived of any opportunity to influence the price per square meter of housing, buying ready-made real estate.

European experience shows that the model needs to change. The model of state support of the social housing sector in Ukraine will be absolutely economically justified, which will either allow to accumulate profits in a state institution that is the operator of the relevant social service, or will allow this operator or any other authorized body to remain the owner of social housing, for rent to the needy. Such a hybrid financing scheme could be a scheme involving asset management companies that manage mutual funds and the use of tools such as forward contracts as derivative securities, in which primary assets are social housing.

The main advantage of forward contracts in terms of the financial condition of the enterprise is to minimize the tax burden. The essence of minimizing the payment of taxes is that the forward contract is a derivative - a document that regulates the relationship between seller and buyer of intangible, tangible assets or securities, but not now, but in the future (Article 14 TCU). And according to Art. 196.1 TCU transactions conducted with derivatives are included in the list of transactions that are not subject to VAT.

In judicial practice, there are cases that show that tax authorities often do not accept the position of the taxpayer, making incorrect conclusions based on inspections, but the courts do not agree with this position of regulatory authorities and recognize forward contracts (derivatives) - the property of joint investment institutions. In this way, the courts confirm the right of collective investment institutions to tax relief, as stated in particular in the Decision of the Second Administrative Court of Appeal in case № 440/214/19.

The results of the comparative analysis of possible savings of the developer in the case of using the business models proposed by the authors of the study are shown in table 1.

Table 1

Proposed alternative financing methods and business schemes effectiveness assessment

Indicator	Basic scheme 1	Basic scheme 2	Business model 1	Business model 2	Business model 3
	Developer-buyer	Target bonds	housing cooperative + IE (5%)	joint activity agreement + IE (5%)	asset management company, property rights, derivatives
Profit	3117,87	5274,35	14660,96	13129,51	13974,75
Profitability, %	8,30	14,04	39,02	34,95	37,2

All calculations were made using a complete set of budget documentation for the construction of an apartment building in Sumy at 43 Prokofieva Street in accordance with the tender application, which was officially posted in 2019 on the site of public procurement of Ukraine Prozoro.gov.ua [14].

The key idea of the public-private partnership is that the asset management company accumulates profits from construction activities (the profits that previously remained with the developer), concentrated in it as a result of the sale of forward contracts to «external» investors. This income is used to provide financial support for the purchase of social housing by housing associations – NGO, accredited by the state.

Conclusions and prospects of further research.

In the conditions of the permanent economic crisis of recent years in Ukraine, almost all the instruments proposed by the state in the framework of social housing policy to support economically vulnerable groups of the population demonstrate their low efficiency. The right to social protection guaranteed to all citizens of Ukraine by the forty-seventh article of the Constitution, including by receiving housing from the state and local self-government bodies for a fee available to such segments of the population, is mostly declarative in nature. None of the state initiatives has been able to significantly reduce the number of people in need of better living conditions, and due to the huge number of IDPs in Ukraine, the problem of providing social housing is becoming the most important and priority in the government's socio-economic policy.

In the conditions of the economic crisis, the volumes of capital investments in development of settlements and housing construction decrease, indicators of commissioning of new and repaired apartment houses fall. At the same time, there is a tendency to increase the total area of settlements. In this case, the land is used irrationally. Significant areas are occupied for storage of industrial waste (dumps, sludge), landfills and more. Most of the land used for industrial, transport, energy, and recreational lands is used inefficiently.

Under the above conditions, the authors of the article focused on finding internal sources for financing social housing in Ukraine. Such sources may be found in savings on taxes and usage of business organization innovative schemes. At the same time, the possibility of obtaining additional profit, confirmed by calculations, should be aimed at the purchase of social housing by non-profit public organizations - housing associations. It is possible to positively change the situation with the provision of social housing in Ukraine and one of the tools to achieve this goal is the interaction of state operator of social housing with the asset management companies, which in turn will be able to properly organize the circulation of property rights to social housing and derivatives.

References

1. Gordeyev, O. Providing Sustainable Local Development: Approaches, Principles, Components [Electronic resource]. Mode of access: <http://www.kbuapa.kharkov.ua/e-book/db/2012-2/doc/4/04.pdf>.
2. About the Concept of Sustainable Development of Human Settlements: Resolution of the Verkhovna Rada of Ukraine dated December 24, 1999 No. 1359-XIV [Electronic resource]. Access mode: <https://zakon.rada.gov.ua/laws/show/1359-14#Text>.
3. Poggio, T., & Whitehead, C. (2017). Social housing in Europe: Legacies, new trends and the crisis. *Critical Housing Analysis*, 4(1), 1-10.
4. Bergman, P., Chetty, R., DeLuca, S., Hendren, N., Katz, L., & Palmer, C. (2019). Creating moves to opportunity: Experimental evidence on barriers to neighborhood choice. <https://doi.org/10.3386/w26164>.
5. Botton, H. et al. (2020), Note d'analyse - Quelle évolution de la ségrégation résidentielle en France?, France Stratégie, URL: www.strategie.gouv.fr/sites/strategie.gouv.fr/files/atoms/files/fs-2020-na92-segregation-juillet.pdf.
6. Watts, B. and Fitzpatrick S. (2018), Fixed Term Tenancies: Revealing divergent views on the purpose of social housing, URL: https://ihurerblog.files.wordpress.com/2018/07/ftt_report_july2018_web-2.pdf.
7. Liu E., Martin C. and Easthope H. (2019), Poor-quality housing and low-income households: Review of evidence and options for reform, URL: www.sheltersnsw.org.au/uploads/1/2/1/3/121320015/poor_quality_housing_report_2019.pdf.
8. Young, G., Donohoe, T. (2018). Review of Strategic Investment Plans for Affordable Housing. https://assets.ctfassets.net/6sqqr111sfj/5z9KbD26oLmZkBc4Gu0XVY/b9f8181d2e46312de00d405e125a341f/Shelter_AffordableHousingReport_Feb18.pdf.
9. Yevtukh T. (2009) World experience in using standards in mortgage lending. *Bulletin of the UABS. Sumy*, № 2. p.37-39.
10. Stashchuk O. (2019) Forms and methods of financing housing construction: characteristics and prospects of application. *World of Finance*. #3. pp. 99–107.
11. Statistical Yearbook of Ukraine for 2019 / State Statistics Service of Ukraine / ed. IE Werner; Resp. for the release of O.A. Vyshnevskaya. - K., 2020. - 465p.
12. Nielsen, R. and C. Haagerup (2017), “The Danish social housing sector: recent changes and future challenges”, *Critical Housing Analysis*, Vol. 4/1, pp. 142-149, <http://dx.doi.org/10.13060/23362839.2017.4.1.333>.
13. Gurría Angel (2020), Social housing: a key part of past and future housing policy, 32p., OECD 2020, <https://www.oecd.org/social/social-housing-policy-brief-2020.pdf>.
14. New construction of a 10-storey apartment building at the address: Sumy, st. Prokofiev, 43, Retrieved from <https://prozorro.gov.ua/tender/UA-2019-02-12-003155-b>.

Manuscript received 27 November 2020

Mechanism of Economic Regulation, 2021, No 1, 120–128
ISSN 1726-8699 (print)

**Державна житлова політика:
європейські практики фінансування та реалії України**

КОСТЯНТИН ВІКТОРОВИЧ ІЛЛЯШЕНКО*,
ТЕТЯНА ОЛЕКСІВНА ІЛЛЯШЕНКО**,
ОЛЕКСАНДР ВОЛОДИМИРОВИЧ ТОВСТУХА***

* кандидат економічних наук, доцент, доцент кафедри фінансів і підприємництва
Сумського державного університету,
вул. Р.-Корсакова, 2, м. Суми, 40007, Україна,
тел.: 00-380-66-1462009, e-mail: k.illyashenko@finance.sumdu.edu.ua

** кандидат економічних наук, доцент, доцент кафедри фінансів і підприємництва
Сумського державного університету,
вул. Р.-Корсакова, 2, м. Суми, 40007, Україна,
тел.: 00-380-66-1462008, e-mail: t.illyashenko@finance.sumdu.edu.ua

*** аспірант кафедри фінансів і підприємництва
Сумського державного університету,
вул. Р.-Корсакова, 2, м. Суми, 40007, Україна,
e-mail: spec.ssu@gmail.com

Проблема забезпечення житлом громадян як ключова передумова сталого розвитку міст України стала особливо актуальною в останнє десятиліття з огляду на низку факторів та об'єктивних обставин. До таких обставин належать як загальносвітова тенденція урбанізації, так і виклики сьогодення, які є результатом військової агресії на сході країни та пандемії COVID-19. Все це порушує питання про необхідність активізації державної житлової політики та пошуку нестандартних моделей та додаткових резервів і джерел фінансування житлового будівництва в Україні. Авторами проаналізовано основні підходи європейських країн у галузі соціального житла. Встановлено наявність національних особливостей реалізації державної житлової політики, а також визначено спільні риси надання відповідних державних послуг урядами держав-членів ЄС своїм громадянам. Було виявлено, що європейські країни здебільшого покладаються на модель підтримки сектору соціального житла, яка надає субсидії як забудовнику під час будівництва такого житла, так і громадянам, які опинились у складній ситуації. При цьому соціальне житло для нужденних не продається, а здається на пільгових умовах в оренду. Авторами були визначені основні напрямки оптимізації житлової політики держави та чітко проілюстровано, що одним із способів забезпечення соціальним житлом осіб, які потребують покращення умов проживання є зниження вартості будівництва за рахунок використання податкових пільг, встановлених законодавством для житлово-будівельних кооперативів, переваг податкових преференцій для малого бізнесу та інноваційних методів поєднання оригінальних організаційно-правових форм і моделей ведення бізнесу із застосуванням сучасних фінансових інструментів.

Ключові слова: соціальне житло, державна підтримка, схема фінансування, сталий розвиток, дериватив.

JEL Codes: E22, G18, G31, H25, H41, R11

Table: 1; Figure: 2; References: 14

Language of the article: English

Література

1. Гордєєв О.К. Забезпечення сталого місцевого розвитку: підходи, принципи, складові [Електронний ресурс] / О. К. Гордєєв // Державне будівництво. - 2012. - № 2. -Режим доступу : <http://www.kbuara.kharkov.ua/e-book/db/2012>.
2. Концепція сталого розвитку населених пунктів, затверджена Постановою Верховної Ради України від 24 грудня 1999 р. № 1359-XIV // Офіц. вісн. України. - 2000. - № 1. - Ст. 6.
3. Poggio, T., & Whitehead, C. (2017). Social housing in Europe: Legacies, new trends and the crisis. *Critical Housing Analysis*, 4(1), 1-10.
4. Bergman, P., Chetty, R., DeLuca, S., Hendren, N., Katz, L., & Palmer, C. (2019). Creating moves to opportunity: Experimental evidence on barriers to neighborhood choice. <https://doi.org/10.3386/w26164>.

5. Botton, H. et al. (2020), Note d'analyse - Quelle évolution de la ségrégation résidentielle en France?, France Stratégie, URL: www.strategie.gouv.fr/sites/strategie.gouv.fr/files/atoms/files/fs-2020-na92-segregation-juillet.pdf.
6. Watts, B. and Fitzpatrick S. (2018), Fixed Term Tenancies: Revealing divergent views on the purpose of social housing, URL: https://ihurerblog.files.wordpress.com/2018/07/ftt_report_july2018_web-2.pdf.
7. Liu E., Martin C. and Easthope H. (2019), Poor-quality housing and low-income households: Review of evidence and options for reform, URL: www.sheltersnsw.org.au/uploads/1/2/1/3/121320015/poor_quality_housing_report_2019.pdf.
8. Young, G., Donohoe, T. (2018). Review of Strategic Investment Plans for Affordable Housing. https://assets.ctfassets.net/6sqf111sfj/5z9KbD26oLmZkBc4Gu0XVY/b9f8181d2e46312de00d405e125a341f/Shelter_AffordableHousingReport_Feb18.pdf.
9. Євтух Т.О. Світовий досвід використання стандартів при іпотечному кредитуванні // Вісник УАБС / УАБС. Суми, 2009. № 2. С. 37-39.
10. Сташук О. Форми та методи фінансування будівництва житла: характеристика та перспективи застосування // Світ фінансів. 2019. № 3. С. 99-107.
11. Статистичний щорічник України за 2019 рік / За редакцією І.Є. Вернера. – Київ: Державна служба статистики України, 2020. – 465с.
12. Nielsen, R. and C. Haagerup (2017), “The Danish social housing sector: recent changes and future challenges”, *Critical Housing Analysis*, Vol. 4/1, pp. 142-149, <http://dx.doi.org/10.13060/23362839.2017.4.1.333>.
13. Gurría Angel (2020), Social housing: a key part of past and future housing policy, 32p., OECD 2020, <https://www.oecd.org/social/social-housing-policy-brief-2020.pdf>.
14. Нове будівництво 10-ти поверхового багатоквартирного житлового будинку за адресою: м. Суми, вул. Прокоф'єва, 43: [Веб-сайт]. 2021. URL: <https://prozorro.gov.ua/tender/UA-2019-02-12-003155-b>