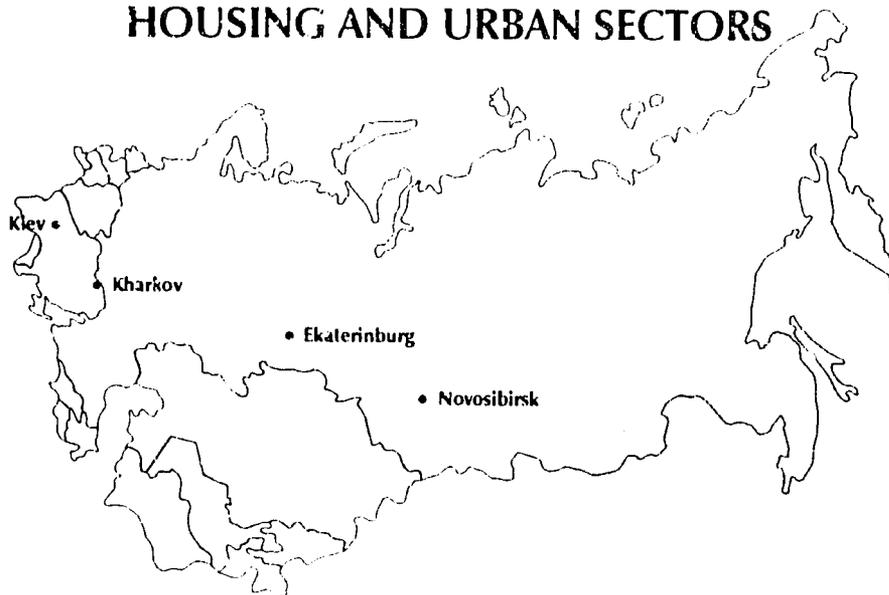


PLANNING AND DEVELOPMENT COLLABORATIVE INTERNATIONAL

STRUCTURAL REFORM OF THE NIS

HOUSING AND URBAN SECTORS



Working Paper Series

Prepared for the Office of Housing and Urban Programs (A.I.D.)

FINAL REPORT

HOUSING INDICATORS: UKRAINE

Working Paper No. 10

**Prepared for
Office of Housing and Urban Programs
Agency for International Development
Washington, DC 20523**

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CCS-0008-C-00-2057-00, T.O. #14

April 1994

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INTRODUCTION

These indicators were compiled with the help of Vladimir Nudelman, Member of Ukrainian Academy of Architecture; Tatiana Krischtov, Chief Scientific Worker, NIITAG Institute; Nicholas G. Braden, graduate student, Harvard Russian Research Center, Harvard University; Laurie B. Saroff, graduate student, Kennedy School of Government, Harvard University; and Alexander Kucherenko of the Dipromisto Institute in Kiev.

During the writing of this report, the authors benefited from discussions with Anders Zeijlon of the World Bank's office in Kiev.

Data was obtained from the following sources:

1. Ministry of Statistics' statistical annuals "People's Economy of Ukraine" for 1985, 1990, 1991; Short Statistical Reference Book "Ukraine in Figures for 1992".
2. Reports of the State Committee on Housing and Communal Services.
3. Annual statistical bulletin titled "Housing Stock of Ukraine" for 1985, 1990, 1991, and 1992.
4. Anatoly V. Okhrimchuk, former Chief of Housing Department, Ukrainian State Committee on Housing and Communal Resources.
5. Gennady Anatolyevich Shakh, Deputy head of Financial Statistics Department, Ukrainian Ministry of Statistics.

A few introductory remarks are in order regarding the report:

Currency: On January 10, 1992 coupons ("kupyony") worth one karbovanets were introduced as a parallel currency. On November 12, 1992, Ukraine officially stopped using the ruble as currency, and the only legal currency became the Ukrainian karbovanets. Initially, there was 1:1 parity between the ruble and the karbovanets. Since then, the karbovanets was freed to find its own level, and has fared worse than the ruble. As of September 1993, it is worth about 1/7 of a ruble. Where the abbreviation "rub/krb" is used in this study, it indicates that figures before the official change are expressed in rubles, and after that date, are expressed in karbovanets.

Years covered: In general, these indicators include data for 1990, 1991, and 1992. Where 1993 data to date are available, they have been included. In addition, 1985 data are provided for comparison purposes, as 1985 was the last year before "perestroika," the fundamental restructuring of the Soviet economy. However, special care should be taken in using the graphs and tables. It must be remembered that the intervening years of 1986-1989 are omitted, and that the 1985-1990 trend is therefore an aggregation of five years.

Urban vs. Rural: It has been the Soviet practice, still followed in Ukrainian official statistics, to divide the country rigidly into urban and rural areas. Although our emphasis is on the urban situation, wherever possible, both urban and rural data have been provided.

For this report, we have relied extensively on existing data. In some cases, the data are flawed, and such problems are noted as they occur.

EXECUTIVE SUMMARY

The purpose of this report is primarily to provide statistical measures relevant to the Ukrainian housing sector. Such information can be used to measure changes in the housing sector over time, and for country to country comparisons. In addition, it is hoped that the discussion contained in this report will be a useful to anyone interested in the Ukrainian housing sector.

This report is divided into four sections: general housing sector indicators, general municipal government indicators, program-specific indicators, and republic-level program milestones.

- The general housing sector indicators can be used both to measure changes over time in the Ukrainian housing sector and to compare the Ukrainian housing sector with those of other countries.
- The municipal government indicators can similarly be used to measure changes over time, and for comparison with other countries.
- The program-specific indicators are indicators which can be expected to reflect the influence of AID's shelter sector reform program, and to provide for comparisons among the four geographic areas of the program.
- The republic-level program milestones are specific to the implementation of AID's assistance program at the national level.

The principal findings and conclusions of this report can be summarized as follows:

1. Much of the housing stock is already in private hands.

One of the most surprising statistics is the extent of private housing already existing in Ukraine. Approximately 65 percent of the total housing stock is in private hands. This includes 4 million single-family detached houses in urban areas, 6 million in rural areas, some 800,000 units of the State-owned urban apartment stock which has been privatized, and some 740,000 units of cooperative housing stock, which is essentially private.

2. There is a general reduction in the amount of new housing being built, but with some interesting exceptions.

Most new construction in Ukraine is suffering setbacks. A notable exception is certain collectives, shown as "other collectives" in the statistics, which have shown steady increases over the period we have examined. Another exception to the general drop-off is the widespread private construction of single family homes in non-urban areas, which are not reflected in any official statistics.

Seventy years of central planning have left their mark. There is a deeply ingrained habit of thinking that the government can or should control many things that are left to private

markets in other countries. This has the predictable consequence of distorting costs and pricing.

3. Official prices for housing and communal services are very low.

The clearest conclusion is that in both absolute and relative terms, housing and communal services are very inexpensive. The average urban Ukrainian spends less than 1 percent of his or her income on housing and utilities. People can and do pay more for special arrangements such as larger apartments or apartments in desirable locations.

Such extra payments do not accrue to the State, but to the official tenant (or, increasingly, the private owner) who is sub-leasing his or her place.

According to data provided by the State Committee on Housing and Communal Services, an average of only 12 percent of the costs of providing housing and communal services to residents is recovered through charges to residents. The remaining costs are directly subsidized by the State, or indirectly subsidized by large State- and communally-owned industries.

As the relative costs of housing have fallen, people have channeled the savings into food, rather than discretionary expenditures. This, combined with incomes that are falling in real terms, suggests that any attempt to merely raise housing prices would force people to choose between food and housing.

4. There is a tremendous range in housing prices.

As to both rentals and sales, there is a tremendous range of prices. As to rentals, the low end is the official monthly rate of 40 karbovanets per square meter (less than .24¢ US at the mid-October, 1993 rate of 17,000 karbovanets/dollar), while the high end is free market rental rates, which can easily top \$20 per month per square meter.

As to purchases, a person can privatize his or her State apartment essentially for free, or he or she can buy an apartment in the secondary market for not less than \$6,000 in Kiev. A desirable apartment in the center can cost up to \$240,000.

Given the ratio of sales prices to income it is essentially impossible for someone earning an official salary to afford to purchase housing on the open market. The purchase market is the domain of the new entrepreneurs, black marketeers, mafia, and foreigners.

5. Much of the data are flawed or unavailable.

During the Soviet period, objective statistics were not valued. Planning decisions were often made on the basis of ideology rather than actual needs or capacities. Such statistics as were available were surrounded by secrecy. Knowledge was power, and people did not share power.

Ministries and agencies continue to profess a lack of the kind of statistical data we would take for granted in many countries. It is never clear whether they really don't have it, or simply that they aren't anxious to share it. Such data as are available should be used with caution.

In addition, the hyperinflationary economy distorts much of the data.

HOUSING INDICATORS: UKRAINE

1 General Housing Sector Indicators

The indicators described in this section are intended to be used both to measure changes over time in the Ukrainian housing sector and to compare the Ukrainian housing sector with housing sectors of other countries. As it emerges from a centrally-planned economy, the Ukrainian housing sector will be increasingly driven by market forces. It is therefore desirable to measure factors that can affect supply and demand for housing.

1.1 Characteristics of Existing Stock

This section is intended to provide a base-line description of the status of the existing housing stock. It provides basic information about where people live, about who owns the housing stock, about the size of typical units.

1.1.1 By Type of Dwelling

Table 1A shows urban dwelling units in existence in Ukraine, both by number of units and by total floor area. Table 1B provides the same information for rural housing. The data comes from the Ministry of Statistics of Ukraine. These figures will reveal changes in the housing stock over time. In the case of hostels and communal apartments, the concept of "dwelling units" is difficult to apply, so that the "dwelling unit" category in fact shows the number of hostels and number of communal apartments. The abbreviation "SFD" refers to single-family detached housing. The abbreviation "SFA" refers to single-family attached housing.

Table 1A: Urban Housing

SFA	1985	1990	1991	1992	1993
# of Dwelling Units	6,230,598	7,244,193	7,663,224	7,274,803	
Floor Area (sq. m.)	302,612,652	355,024,284	359,984,627	356,370,323	

COMMUNAL APARTMENTS	1985	1990	1991	1992	1993
# of Dwelling Units	116,713	131,972	120,346	115,578	
Floor Area (sq. m.)	6,652,658	7,551,830	7,156,411	7,007,230	

HOSTELS	1985	1990	1991	1992	1993
# of Dwelling Units	6,266	7,076	7,047	7,239	
Floor Area (sq. m.)	23,117,988	26,109,860	26,644,295	26,837,906	

SFD	1985	1990	1991	1992	1993
# of Dwelling Units	3,543,959	3,733,704	3,819,202	4,048,509	
Floor Area (sq. m.)	166,566,100	176,591,861	183,421,300	195,755,627	

Table 1B: Rural Housing

SFA	1985	1990	1991	1992	1993
# of Dwelling Units	739,410	668,619	625,783	515,203	
Floor Area (sq. m.)	37,721,631	34,114,272	31,895,009	25,871,520	

COMMUNAL APARTMENTS	1985	1990	1991	1992	1993
# of Dwelling Units	1,010	804	616	567	
Floor Area (sq. m.)	37,918	30,184	21,992	20,294	

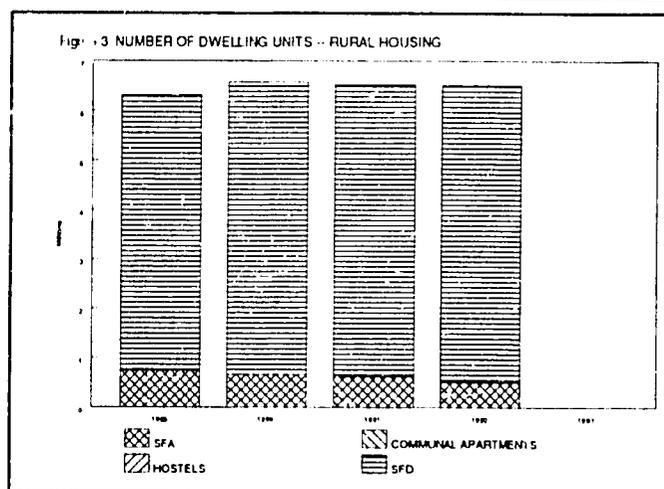
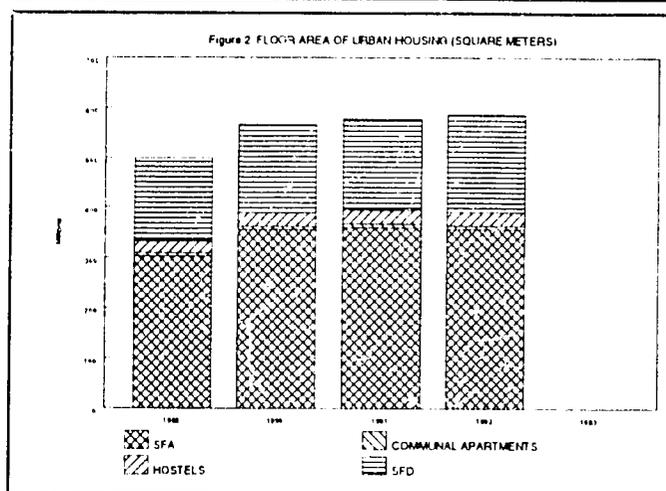
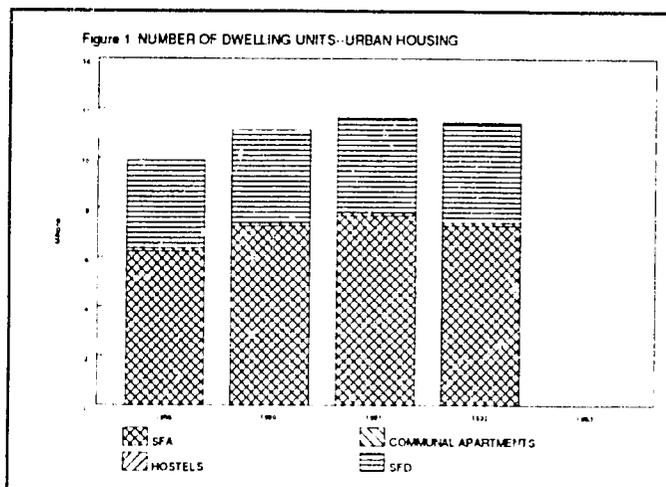
HOSTELS	1985	1990	1991	1992	1993
# of Dwelling Units	3,890	3,159	2,269	2,662	
Floor Area (sq. m.)	3,480,985	2,826,846	2,813,878	2,839,150	

SFD	1985	1990	1991	1992	1993
# of Dwelling Units	5,568,789	5,899,739	5,897,776	5,992,190	
Floor Area (sq. m.)	291,700,000	306,786,472	311,013,456	320,099,138	

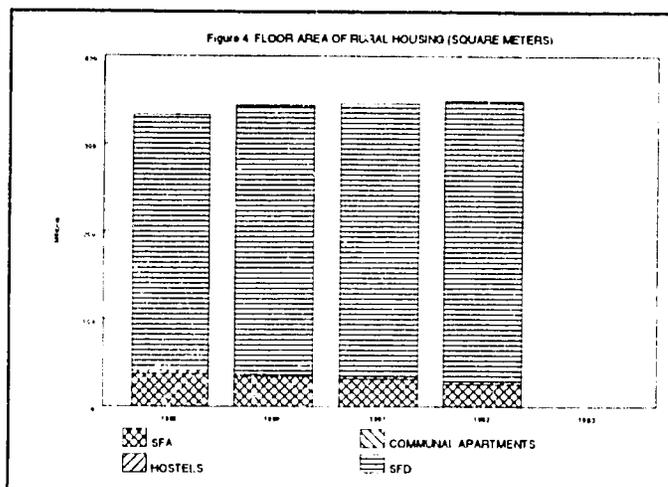
Figures 1 and 2 show the relative make-up of urban housing, by number of dwelling units and by floor area respectively. Although both graphs are similar, a clearer idea of where people actually live can be had from the floor area data than from the dwelling unit data. This is because each dormitory or hostel is counted as only one dwelling unit, regardless of the number of rooms or beds. In the case of hostels, for instance, the number is small enough that the graphic representation in Figure 1 is indistinguishable, while in Figure 2 the share for hostels shows up clearly. In any event, it is obvious from Figures 1 and 2 that nearly three fourths of the urban housing stock is in single-family attached housing, with single-family detached making up the bulk of the remainder.

Figures 3 and 4 present the same graphic information for rural housing. In contrast to the urban situation, Figures 3 and 4 show that over 90 percent of rural housing is in single-family detached units, with single-family attached making up most of the rest.

We can conclude that in Ukraine, urban living usually means apartment living, and that rural living almost always means living in a detached structure. The official statistics do not include a "suburban" classification.



The many new homes which are being built in Ukraine tend to be built in what are classified as "rural" areas (although they may be near urban centers), on 600 square meter plots which are made available for individual agricultural use. Such construction is widespread, and represents a significant trend. However, because it is done largely by private parties with private funds, such construction is not reflected in any official statistics that we have been able to locate.



1.1.2 By Type of Ownership

Table 2 shows the number of dwelling units by type of building ownership. Table 2A shows urban units, while Table 2B shows rural data. This does not necessarily reflect ownership of individual units within the building. As discussed below, there is great variety in ownership of structures. The data for this table was provided by the Ministry of Statistics of Ukraine.

Table 2A: Number of Urban Dwelling Units by Ownership

	1985	1990	1991	1992	1993
I. STATE, SOCIAL & COOPS (A+B+C)		7,376,165	7,483,570	7,390,381	
A. State Housing (Nos. 1-4)		6,626,740	6,718,636	6,615,048	
1. Local Radas		4,268,061	4,333,508	4,271,345	
2. Self-Supporting Organizations		2,243,305	2,268,811	2,233,763	
3. Sovkhozos		69,703	70,119	63,429	
4. Budgetary Organizations		45,671	46,198	46,511	
B. Social Housing		44,777	42,346	37,328	
C. Housing Construction Coops & Housing Coops		704,648	722,588	738,005	
II. PRIVATE HOUSING*		3,733,704	3,819,202	4,048,539	
TOTAL (I+II)		11,109,869	11,302,772	11,438,920	

Table 2B: Number of Rural Dwelling Units by Ownership

	1985	1990	1991	1992	1993
I. STATE, SOCIAL & COOPS (A+B+C+)				515,770	
A. State Housing (Nos.1-4)				389,943	
1. Local Radas				22,411	
2. Self-Supporting Organizations				115,458	
3. Sovkhozes				235,773	
4. Budgetary Organizations				16,301	
B. Social Housing				125,447	
C. Housing Construction Coops & Housing Coops				380	
II. PRIVATE HOUSING*				5,992,190	
TOTAL (I+II)				6,507,960	

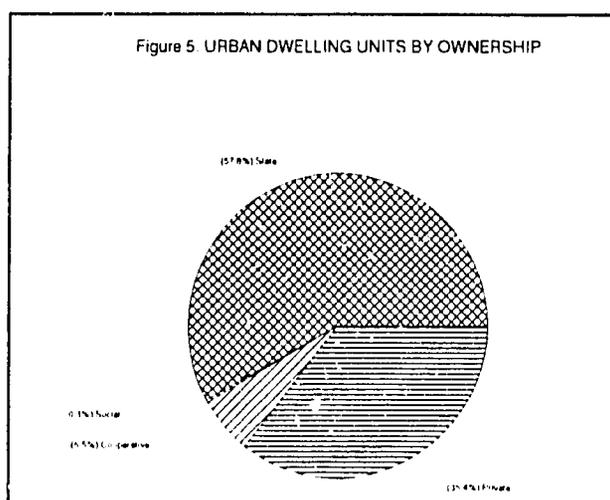
*NOTE: "Private housing" as used in these tables does not include privatized units in state and social housing.

In the Soviet period, housing in Ukraine was either public housing (which includes state, social, and cooperative components, described below) or individual housing. The limited quantity of individual housing was viewed by Soviet law as personal property, like a sweater or a car, since theory did not permit private real property. This individual housing was the only real private sector housing, and consisted only of detached houses.

Within the public housing stock were three basic categories:

- state housing
- social housing, and
- cooperative housing.

State housing was further subcategorized based on the entity which had the legal power to use and dispose of it. This power was close to the western notion of "ownership." Potential "owners" included local councils, theoretically self-supporting organizations and enterprises (including sovkhozes—State-run farms), and budgetary organizations and enterprises (i.e. entities that were fully state-subsidized).



Social housing included housing "owned" by cooperative organizations and enterprises such as CentroSoyuz (the all Union Central Union of Consumers' Associations), kolkhozes (the collective farms), and certain inter-organizational entities.

Cooperative housing consisted mainly of housing construction cooperatives, made up of citizens' groups created for the specific purpose of funding, building, and using housing. As distinguished from State and social housing, members of housing construction cooperatives paid the costs of housing construction via a down payment and subsequent repayment to the State of the credits which initially funded construction. According to the 1991 "Law on Property," cooperative members who have fully repaid the initial loan actually own their units, much like a western condominium.

By and large, the Soviet system remains in place, and the foregoing statistics use this basic structure.

Figure 5 shows the 1992 breakdown of urban building ownership into the four major categories: State, social, cooperative, and private. The large size of the State housing sector is no surprise, but the fact that a third of all housing is in private ownership may come as a revelation to anyone who thinks there is no private sector housing in Ukraine. It should be noted that the private units reflected in the tables and in this graph are almost exclusively single-family detached housing. Privatized apartments are not separately shown on this chart, because the data are based on building ownership, not unit ownership.

If one considers cooperative housing, the state housing units that have been privatized, and the private single-family detached houses in both urban and rural areas, it is clear that Ukraine has a substantial private housing sector. Something like 65 percent of the total housing stock is in private hands. This includes 4 million single-family detached houses in urban areas, 6 million in rural areas, some 800,000 units of the State-owned urban stock which has been privatized, and some 740,000 units of cooperative housing stock, which is essentially private.

In the cities, only about 5.5 million of the 11.4 million units, or 48 percent of the housing, is in private hands. In rural areas, some 92 percent of the housing is in private hands.

It also must be noted that the rights and privileges associated with tenancy in State housing come close to the western concept of ownership. Tenancies can be passed to one's offspring. Tenants cannot easily be removed from State housing, even if they do not pay the rent. Tenants can, and if they want it done, must maintain and remodel their apartments (even to the extent of closing in balconies to get extra rooms). In fact, the extensive rights of tenants is probably one factor for there not having been more of a rush by tenants to privatize.

1.2 Housing and Housing Finance

1.2.1 Household Incomes and Expenditures

Income

To determine affordability of housing, it is necessary to start with an understanding of income. In Ukraine, as in other countries, income can be divided into (1) official income, including both official wages and other officially reported income, and (2) unofficial income— income from the “hidden economy.” The tables shown below consider only official income, and are derived from government statistics.

Tables 3A and 3B show per capita monthly official income for the 1985 reference period and for 1990 to 1992, while Tables 4A and 4B show monthly household income for the same period. The data are taken from the annual statistical publications of the Ministry of Statistics entitled “People’s Economy of Ukraine” for 1985, 1990, and 1991, and from the Ministry of Statistics’ short reference book entitled “Ukraine in Figures for 1992.” Neither table is adjusted for inflation. The household income data is a calculated figure based on an average family size of 3.2 persons for urban areas, and 3.3 persons for rural areas, per the 1989 census.

Table 3A: Urban per Capita Monthly Income (rub/krb per Capita)

	1985	1990	1991	1992	1993
Wages	109.56	142.14	239.41	3,159.23	
Other income	31.44	39.86	109.59	1,115.77	
TOTAL INCOME	141.00	182.00	349.00	4,275.00	

Table 3B: Rural per Capita Monthly Income (rub/krb per Capita)

	1985	1990	1991	1992	1993
Wages	72.00	101.57	150.52	1,679.93	
Other income	53.00	69.43	172.48	1,925.07	
TOTAL INCOME	125.00	171.00	323.00	3,605.00	

Table 4A: Urban Household Monthly Income (rub/krb)

	1985	1990	1991	1992	1993
Wages	350.58	454.85	766.12	10,109.52	
Other Income	100.62	127.55	350.68	3,570.48	
TOTAL INCOME	451.20	582.40	1,116.80	13,680.00	

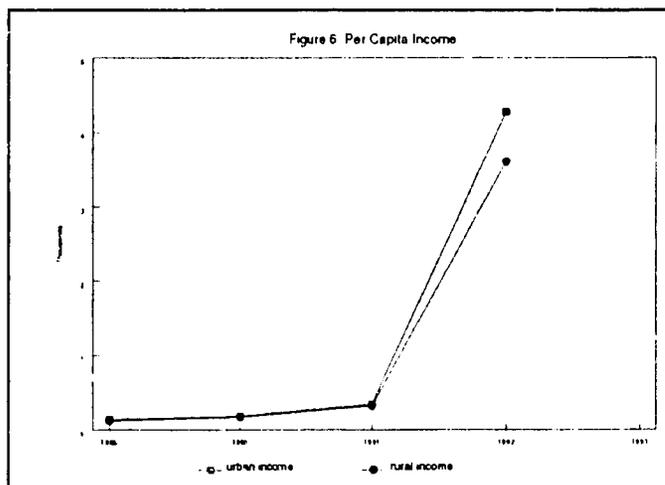
Table 4B: Rural Household Monthly Income (rub/krb)

	1985	1990	1991	1992	1993
Wages	237.60	335.19	496.71	4,818.08	
Other Income	174.90	229.11	569.19	7,078.42	
TOTAL INCOME	412.50	564.30	1,065.90	11,896.50	

Attempts are underway by other organizations to identify the relative size of the “hidden economy” which is not shown on these tables. This is different from the “other income” shown on the tables, which is income that is not reported for tax or other reasons. If possible, such firm data as become available should be considered in future updates of these tables. The International Financial Corporation (“IFC”) estimates the “hidden economy” is currently 30 percent of the official economy. Anecdotal evidence suggests that the “hidden economy” may in fact be several times larger than the official economy. Failure to consider the “hidden economy” can make housing seem more relatively expensive than it actually is.

Another complicating factor is the existence of parallel kupon and hard currency economies. Although the kupon is currently legal tender for all transactions, in practice many transactions are conducted in dollars, and to a lesser extent in German marks, Austrian schillings, and other hard currencies.

At first, it might appear that per capita income is increasing exponentially (see Figure 6). However, the severe inflation Ukraine has been experiencing means that real purchasing power is declining significantly. Reliable long-term measures of inflation are not currently available. In any event, structural differences in the economy in 1985 as compared to the current situation might make long-term comparisons meaningless. Short-term inflation estimates are available. For



1992, it is estimated that inflation was approximately 2,000 percent (official Ukrainian figures) to 2,500 percent (independent estimates). For 1991, inflation was perhaps half of the 1992 rate. In the aggregate, this means that prices have increased over 200-fold over 2 years, while the 1990 to 1991 increase in urban incomes was less than two-fold, and 1991 to 1992 urban monthly income increased only twelve-fold. Real (constant-unit) income appears to have plummeted dramatically.

The gap between rural and urban incomes was wider in 1992 (rural incomes were 84 percent of urban for individuals and 87 percent for households) than in any prior year we examined.

One aspect of the current Ukrainian situation worth noting is the tremendous range of incomes. Typical official salaries amount to less than \$10 a month. It is not uncommon for people active in the dollar economy, such as those working for foreign firms, or for firms which cater to foreigners or to the homegrown "nouveau riche" to earn \$100 to \$1,000 a month. Because of the tax consequences, and the lack of an effective system of collecting such information, few people report hard currency incomes. Since hard currency earners are probably entirely excluded from the available data, the important effect that they have on the housing market is not reflected.

Expenditures

After considering income, it is necessary to consider the existing demands on income—how are people spending their money? In Ukraine and other countries of the former Soviet Union, rents and utilities have traditionally been heavily subsidized by the State. This is more the case than ever. Food prices, once all centrally determined, are now partly determined by the central authorities and partly by free-market mechanisms. The result is that rents, utilities, and state food prices increase in fits and starts, and do not keep up with inflation, while market-driven prices for food and other items rise relatively smoothly and rapidly. As costs rise at their various rates and tempos, the use of available income for various purposes is likely to undergo significant shifts.

Tables 5A and 5B show the allocation of household income to its various uses. The sources of data are the Ministry of Statistics' statistical annuals and reference book referred to above.

Table 5A: Urban Household Expenditures as a Percentage of Income

	1985	1990	1991	1992	1993
Housing	3.0	2.8	1.6	0.8	
Food	33.6	30.2	35.6	37.2	
Non-Food	31.0	34.3	35.0	35.1	
Other	32.4	32.7	27.8	26.9	
TOTAL	100.0	100.0	100.0	100.0	

Table 5B: Rural Household Expenditures as a Percentage of Income

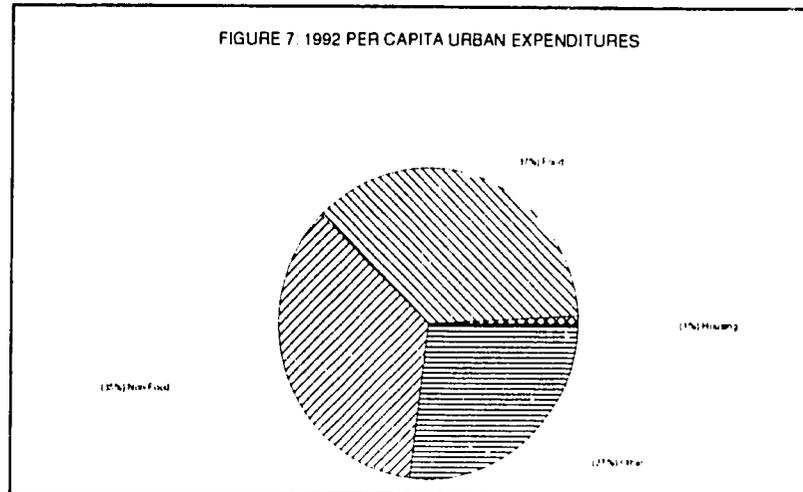
	1985	1990	1991	1992	1993
Housing	2.0	1.7	1.1	2.6	
Food	37.0	32.8	42.1	44.4	
Non-Food	30.1	27.4	29.4	29.4	
Other	30.9	38.1	27.4	23.6	
TOTAL	100.0	100.0	100.0	100.0	

The "housing" category shown in the foregoing tables includes not only apartment rent, but also utilities, and maintenance charges for apartment buildings. For urban dwellers, the percentage of income needed for housing-related expenses has dropped dramatically, from the already low figure of 3 percent in 1985 to 0.8 percent in 1992. This is because the State does not raise these prices regularly, and even when the prices are raised, they lag behind inflation.

Food spending has claimed a bigger chunk of the pie over time, while non-food spending has increased only modestly. The "other" category, which includes most discretionary and service expenditures, has shrunk. In fact, it is fair to say that discretionary expenditures have been reduced in favor of food. Most of the drop in the relative price of housing has also gone to pay for food. Although no hard figures are available for 1993, the share of income spent for food has probably increased drastically, as food prices have increased faster than pay. Some newspaper articles have estimated that 70-80 percent of income is now being spent on food.

For rural dwellers, by contrast, both the proportion of income devoted to housing expenses and to food has increased over the last three years. The increase in food spending in rural areas is counter-intuitive (considering the gardens and farm plots available to rural dwellers). In considering these figures, we must also be mindful of the widespread bartering arrangements that allow many Ukrainians to withstand some of the effects of food price increases.

Figure 7 shows dramatically the negligible portion of income associated with housing expenses. Less than 1 percent of an urban family's income goes for housing-related expenses. Attempts to further privatize the housing sector need to recognize that for Ukrainians, their current living situations are at least cheap. Of course, in many cases the structures are not of high quality or well-maintained.



This means that they may require extensive repair and maintenance. The tables and figures above do not reflect individuals' expenditures for repair and maintenance. Even so, by any measure, housing costs for Ukrainians in State-owned apartments are very low. Attempts to increase the required expenditures for housing will be unpopular, and with discretionary spending being diverted to buy food, it simply may not be possible for the typical Ukrainian to pay much more for housing right now.

1.2.2 Housing Prices and Relation to Income

The aim of this section is to further explore the affordability of housing for Ukrainians. One measure of housing affordability is reflected in the percentage of household income spent on housing, discussed immediately above. As was noted, housing expenditures in Ukraine consume a very small proportion of household income. Subsections below look at sales prices, rental prices, and the relationship of these prices to income.

Sales Prices

As Ukraine moves towards more private ownership of housing, it is appropriate to ask how affordable the purchase of that housing will be. A good measure of the affordability of housing for purchase is the ratio of median sales price of dwelling units to income.

With regard to initial privatization, Ukrainian citizens are offered the opportunity to acquire their existing apartment units at little or no cost. The privatization standards allow the privatization of a greater area per person than exists on the average. However, citizens may only buy the apartment in which they are officially registered. As a practical matter, these rules favor people who are already living in big apartments. Such people (often from the privileged "nomenklatura") are afforded an opportunity to solidify their claim on large apartments. By contrast, where several people live in one crowded apartment (e.g. parents and married children), more housing may be desired than can be acquired through initial privatization.

People desiring more private housing than can be acquired through initial privatization, or desiring to change the location or quality of their unit are increasingly resorting to the emerging real estate market. The market cost of housing is thus relevant for sales and resales subsequent to the initial privatization.

The sources of the sales price information shown in Table 6 are real estate exchange journals and expert estimates provided by an official of the State Committee on Housing and Communal Services. Table 6A shows urban sales prices by size of apartment or single-family detached unit. Table 6B shows the prices for single-family detached housing only (in rural areas, essentially all housing is detached dwellings, so that no meaningful data was available for apartment units).

Table 6A: Urban Sales Prices (rub/krb)

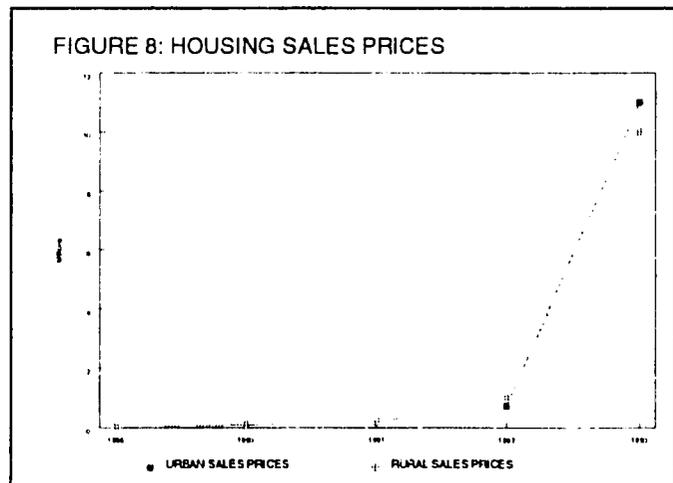
ROOMS	1985	1990	1991	1992	1993
One	6,700	32,000	90,000	400,000	6,000,000
Two	9,000	45,000	130,000	550,000	8,000,000
Three	11,900	63,000	200,000	750,000	9,500,000
Four	14,700	85,000	240,000	950,000	11,500,000
SFD	25,000	150,000	350,000	1,000,000	20,000,000
AVERAGE	13,460	75,000	202,000	730,000	11,000,000

Table 6B: Rural Sales Prices (rub/krb)

ROOMS	1985	1990	1991	1992	1993
SFD	10,000	100,000	200,000	1,000,000	10,000,000
AVERAGE	10,000	100,000	200,000	1,000,000	10,000,000

Both urban and rural prices have increased at a geometric rate, as depicted graphically in Figure 8.

The difficulty of creating an accurate index to adjust for inflation has already been discussed. However, if we assume an estimated 1000 percent inflation in 1991, and estimated 1992 inflation of 2000 percent, we would be led by these figures to believe that in real terms, housing prices are actually becoming



more affordable, since the rate of increase is less than 400 percent per year, i.e. less than inflation.

Appendix B describes one method of adjusting prices by using the dollar exchange rate to discount hyperinflated kupon costs. This is not the same thing as indexing for inflation. An inflation index attempts to measure the price of a constant market-basket of goods or services, and reflects only actual changes in the price level. A dollar index adds in the additional factor of expectations for the future course of the two currencies. However, it happens that the average urban sales prices shown in Table 6A above track very closely the change in the price of the dollar. This may be coincidence, or it may reflect the effect of the very real parallel dollar economy in Ukraine. Housing sales prices are usually set in dollars as a way of dealing with inflation.

In any event, the conclusion that prices are falling in inflation-adjusted terms, or stable in dollar-adjusted terms, does not entirely square with the anecdotal evidence. The highest end of the market continues to increase, even in dollar terms. Readily available listing sheets from local brokers now routinely include apartments for over \$100,000 (900,000,000 karbovanets as of this writing). In May of 1993, one agency's listing sheet for the city of Kiev showed 306 units for sale. Of these, the lowest-priced unit was \$6,000, and the highest asking price was \$240,000. The mean was \$39,368, and the median asking price was \$25,250.

Some housing sales prices, expressed in dollars, are now reported to be 15 to 20 times what they were just a few years ago. The private sector housing market, which operates at levels that would be considered fantastic by those earning official incomes, is largely the domain of citizens with large incomes from the hidden sector of the economy. None of the official statistics captures these prices or documents changes therein.

Rental Prices

Table 7A shows the officially established apartment payment prices. As shown graphically in Figure 9, these official prices have increased dramatically. Nevertheless, the rate of increase is significantly less than the rate of inflation. This means that in real terms, the cost of official housing is decreasing.

Table 7B shows urban market rental prices. These are for private rentals. The dramatic increase in these prices is illustrated graphically in Figure 10.

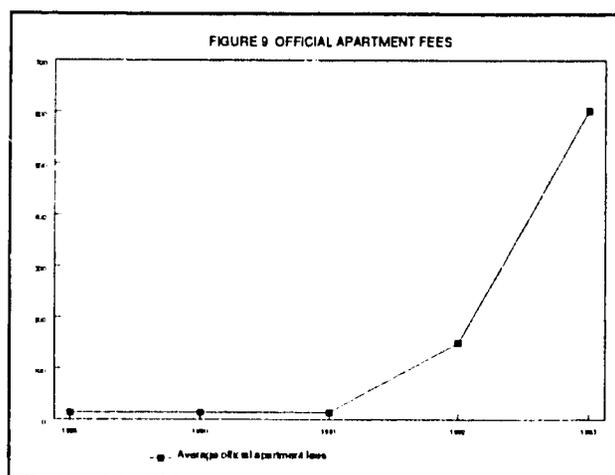


Table 7C shows market rental prices as a percentage of official "kvartplata."

Table 7A: Official Apartment Payment Prices (rub/krb)

ROOMS	1985	1990	1991	1992	1993
One	7.0	7.0	7.0	90.0	360.0
Two	10.5	10.5	10.5	132.5	530.0
Three	14.7	14.7	14.7	162.5	650.0
Four	18.2	18.2	18.2	192.5	770.0
SFD	15.0	15.0	15.0	170.0	700.0
AVERAGE	13.1	13.1	13.1	149.5	602.0

Table 7B: Urban Market Rental Prices (rub/krb)

ROOMS	1985	1990	1991	1992	1993
One	70	350	1,000	3,000	30,000
Two	100	700	2,500	7,000	90,000
Three	200	800	3,000	8,000	100,000
Four	250	900	3,500	9,000	100,000
SFD	300	1,000	4,000	12,000	200,000
AVERAGE	184	750	2,800	7,800	104,000

Table 7C: Market Rental Prices as a Percentage of Official Payments

ROOMS	1985	1990	1991	1992	1993
One	1000%	5000%	14286%	3333%	8333%
Two	952%	6667%	23810%	5283%	16981%
Three	1361%	5442%	20408%	4923%	15385%
Four	1374%	4945%	19231%	4675%	12987%
SFD	2000%	6667%	26667%	7059%	28571%
AVERAGE	1337%	5744%	20880%	5055%	16452%

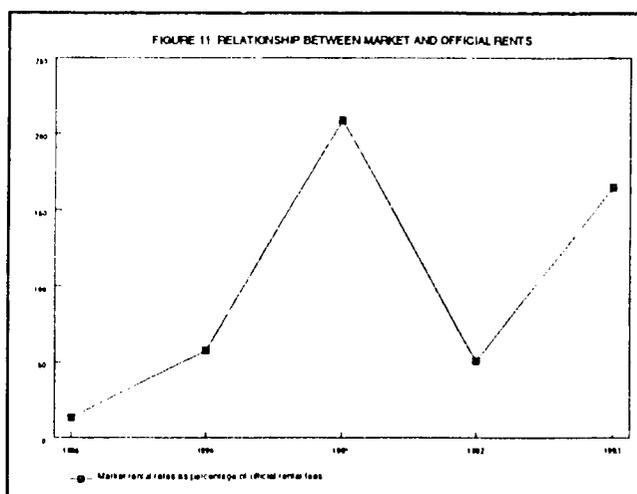
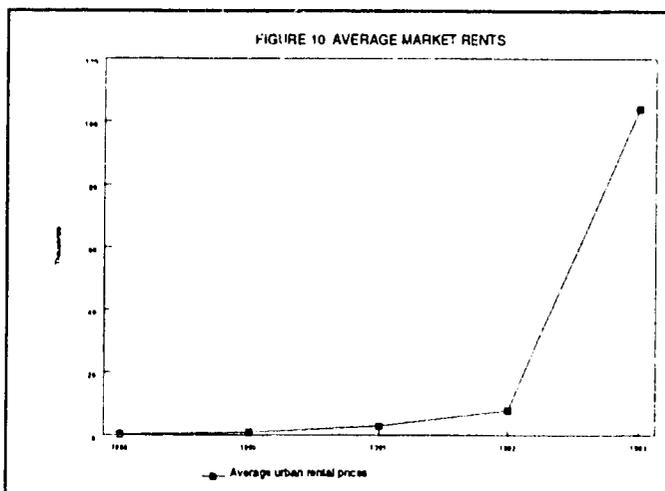
Tables 7A, 7B, and 7C reflect rental prices in two parallel markets. To understand these two markets, a brief explanation of the context is necessary.

Local vocabulary distinguishes between “kvartrplata,” an acronym for the words meaning “apartment payment,” and “aryenda,” meaning “rent.” The former applies in the case of rental from a state or public landlord. These “kvartrplata” rates are set nationally, and there is no difference between urban and rural areas.

Although these payments are essentially rent, the vocabulary distinction reflects a real difference in how people think of these payments, as compared to private “aryenda.” The latter applies in the case of a private landlord. The concept of private rent is not new—even under the Soviet system, people would pay 10 to 20 times the official rent for an apartment of their choosing.

As shown graphically in Figure 10, the percentage differential peaked in 1991. This was because in 1991 official “kvartrplata” rates had not been increased since at least 1985. That static situation, at the same time there was a rapid increase in private rental prices, led to more than a 20,000 percent differential in 1991. In 1992 and again in 1993, official “kvartrplata” rates rose dramatically, but with subsequent inflation in the private rental markets the differential appears to be again heading for the stratosphere.

Private rents are much higher than the official “kvartrplata”—from 10 to 30 times higher. The urban rental market includes both rental of privatized apartments and the sub-rental of state tenancies. In the past, although private rental arrangements were made, there was a degree of nervousness on the part of the lessor, as it was almost impossible for the state tenant to later evict the sub-tenant if he or she failed to pay the rent or to move out at the end of the tenancy. This was because the sub-tenant had to be provided alternative housing before they could be moved out. In this old model, the sub-tenants paid an official sub-tenancy rate (linked to the kvartrplata, so as to prevent profiteering) and “key money” which was unofficial and often several times higher. Because the “key money” was unofficial and unreported, it is not clear



to what extent it is reflected in Table 7B, which may therefore understate actual rental prices under the old system.

A similar problem exists under the new system, since most apartment rentals are unreported (due to a 50 percent tax on income from such rentals). For both of these reasons, the data on Table 7B should be used with caution.

Moreover, as shown on Table 7C, despite repeated increases in the official payment rates, the gap between State prices and market prices is widening.

Relation to Income

Tables 8A and 8B show the ratio of sales prices to average household income. These are derived figures, arrived at by using the figures in preceding tables.

Table 8A: Ratio of Average Urban Sales Prices to Average Household Income

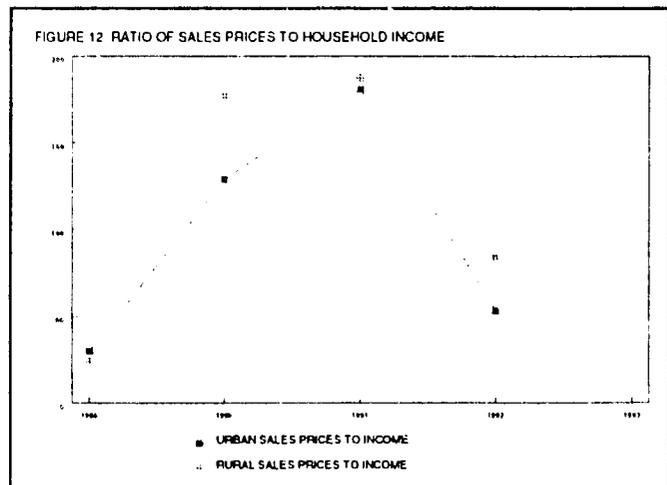
	1985	1990	1991	1992	1993
Price/Income	29.8	128.8	180.9	53.4	

Table 8B: Ratio of Average Rural Sales Prices to Average Household Income

	1985	1990	1991	1992	1993
Price/Income	24.2	177.2	187.6	84.1	

Although it would have been preferable to use median household income rather than average household income, median figures were not available. The difference is not critical since unusually high "outlier" incomes which might distort a mean are certainly not reported or included in the official statistics. As shown graphically in Figure 12, urban and rural sales prices in relation to income have tended to move together over time. Both ratios peaked in 1991, and are down again in 1992. It will be interesting to see what becomes

of this trend in 1993. One explanation is that as more units have come on to the market, the pent-up demand has started to be satisfied. The good news is that if the trend continues, the purchase of housing will become more affordable over time.



However, in absolute terms, the ratios remain very high. In the United States, a family earning \$50,000 can probably afford a \$150,000 home. Comparable ratios are therefore in the low single digits, whereas Ukrainian ratios are in the double or triple digits. In 1991, for example, it would have taken almost 181 months (15 years) of average income to buy a home. This is clearly untenable. Ukrainians who are able to afford homes have very untypical incomes.

Tables 9A and 9B show the ratio of rents to income. The underlying figures are found in Tables 4 and 7. Table 9A shows official "kvartplata" rents, which are the same in rural and urban areas. Table 9B shows market rates for private rentals in urban areas. There are reportedly not enough private rental statistics in rural areas to be meaningful.

However, despite the lack of data as to the phenomenon, dacha rentals may be of increasing importance. These "rural" dachas are privately owned and can be freely rented to city dwellers looking for week-end get-away properties. As with other statistics, the problem is that these rentals are almost entirely undeclared, have traditionally been arranged by word of mouth, and may be repeated or passed from friend to friend for decades. They are therefore not reflected in any official statistics.

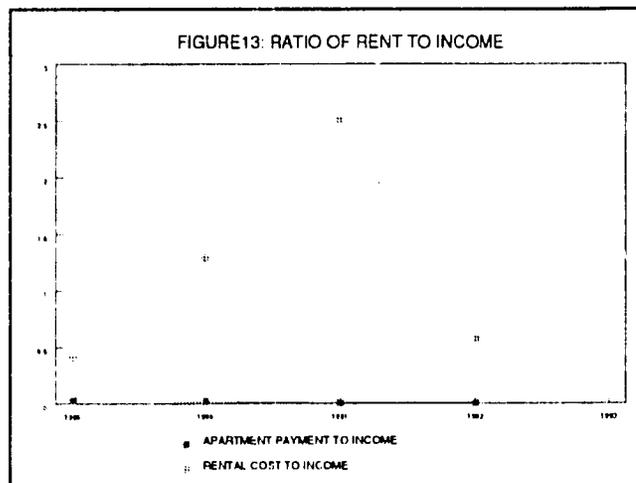
Table 9A: Ratio of Average Official Apartment Payment to Average Household Income

	1985	1990	1991	1992	1993
Price/Income	0.03	0.02	0.01	0.01	

Table 9B: Ratio of Market Rental Cost in Urban Areas to Average Household Income

	1985	1990	1991	1992	1993
Price/Income	0.41	1.29	2.51	0.57	

As shown in Figure 13, official “kvartrata” rents have always been low in relation to income, and are getting still lower, while market rents peaked in 1991, and may be on their way down. As with sales, this peak in private rentals, followed by a decline may represent partial satisfaction of pent-up demand. Private rents remain quite high (at 57 per cent of average income for 1992), but at least not so untenably high as housing for purchase.



Moreover, considering the likely magnitude of unreported income, there is potentially a substantial class for whom housing is quite affordable. As the growing number of imported luxury cars testifies, there are many people (albeit a small proportion) in Ukraine who have the resources to buy what they want.

1.2.3 Housing Construction

Tables 10A and 10B show how much urban and rural housing is being built, categorized by the type of entity which provides the funding. The data apparently relates to housing units completed during the year in question, not housing starts. The source of the data is the Ministry of Statistics of Ukraine.

Table 10A: Urban Housing Construction

AREA (1000 sq. m.)	1985	1990	1991	1992	1993
State	10,060	9,623	7,465	7,742	
Private	2,464	2,539	2,146	1,980	
Cooperatives	1,647	1,513	1,077	1,280	
Other collectives	280	349	505	706	
TOTAL AREA	14,451	14,024	11,193	11,708	

NUMBER OF DWELLING UNITS	1985	1990	1991	1992	1993
State and other collectives	202,540	180,040	143,310	126,520	
Private	37,400	36,800	29,500	25,690	
Cooperatives	29,260	25,060	17,290	20,540	
TOTAL NUMBER	269,200	241,900	190,100	172,750	

COST (millions of rub/krb)	1985	1990	1991	1992	1993
State and other collectives	4,407.0	5,694.1	7,264.0	4,994.2	
Private	602.9	985.5	764.0	646.4	
Cooperatives	500.5	454.4	531.0	322.4	
TOTAL COST	5,510.4	7,134.0	8,559.0	5,962.9	

Table 10B: Rural Housing Construction

AREA (1000 sq. m.)	1985	1990	1991	1992	1993
State	869	830	609	633	
Private	2,714	1,858	1,936	1,265	
Cooperatives	2	7	0	3	
Other collectives	1,157	728	715	516	
TOTAL AREA	4,742	3,423	3,260	2,417	

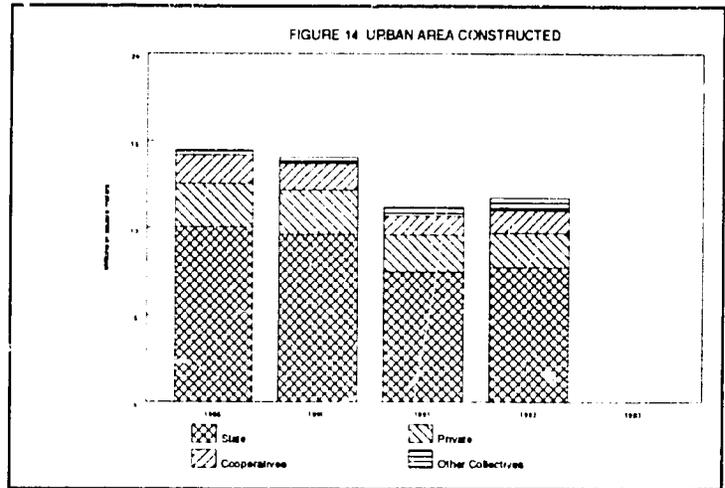
NUMBER OF DWELLING UNITS	1985	1990	1991	1992	1993
State and other collectives	35,065	25,284	20,100	18,152	
Private	36,700	21,700	21,809	13,914	
Cooperatives	35	116	0	48	
TOTAL NUMBER	71,800	47,100	41,909	32,114	

COST (millions of rub/krb)	1985	1990	1991	1992	1993
State and other collectives	445.0	829.9	634.0	864.8	
Private	724.1	703.5	710.0	386.6	
Cooperatives	0.5	2.6	0.0	0.7	
TOTAL COST	1,169.6	1,536.0	1,344.0	1,252.1	

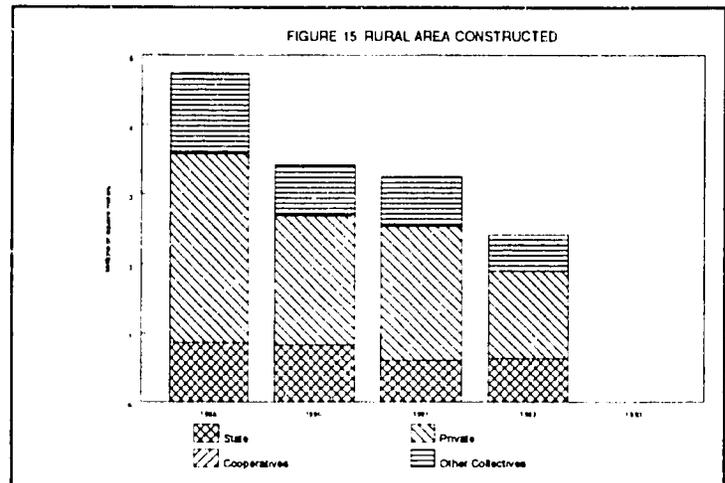
Overall, the conclusion we draw from these data is that housing construction is falling significantly.

As shown in the tables above, and reflected graphically in Figure 14, the total floor area of urban housing construction fell off significantly in 1991, and picked up only slightly in 1992. Within this overall trend are some interesting sectoral indicators:

- In 1992, state construction of urban housing picked up slightly, but not significantly.
- Private construction, at least as reflected by these statistics, continued to fall.
- Construction by cooperatives increased, though not to its prior levels.
- The most interesting sector is the “other collectives” category, which has shown steady increase over the period we have examined. One explanation for this trend is that there is increasing use of new forms of property ownership and use in Ukraine. New collective entities are formed which, e.g. lease a state-owned, and formerly state-managed factory. New management typically runs the factory better than the old centrally-controlled regime, and thus makes more money. Because they have more freedom in deciding how to spend their income, the new board of directors can invest the profits in housing for employees. In addition, some of the growth in this category may be attributable to collectives formed specifically for the purpose of building housing.

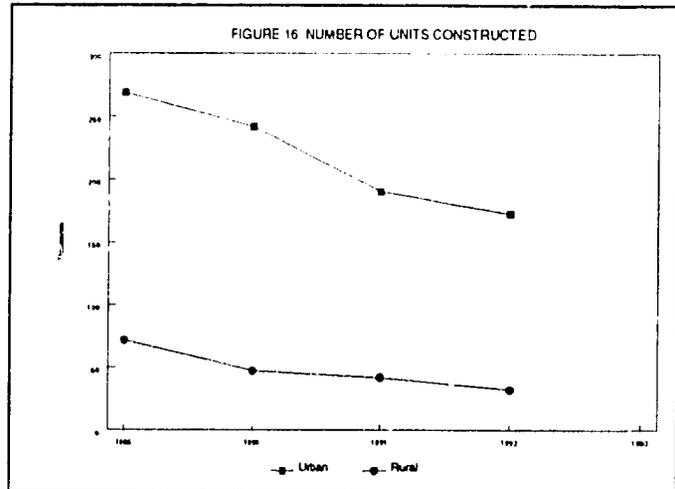


From Figure 15, we see that the trend for rural collectives is the opposite of the trend for urban collectives: in rural areas the proportion of construction conducted by “other collectives” was always larger than in urban areas, but is shrinking over time, rather than growing. The apparent explanation is that this category includes the “kolkhozy,” or collective farms. The same trend is evident for rural cooperatives. Rural State-funded construction closely resembles the urban pattern, hitting a low in 1991, and showing a slight increase in 1992. Private rural construction appears to be insignificant in the official statistics. However, this may have changed, or may be in the process of changing, and the official statistics may be lagging



behind. Although construction materials are far more expensive than in the past, any drive into the countryside will reveal an astonishing number of private houses being built throughout the country. The new laws allowing land plots to be allocated for housing encourage this trend. Most of this building is done privately, indeed personally, and often on weekends. Such construction is therefore outside the realm of government statistics.

Figure 16 uses the Table 10 data to compare the relative magnitude of urban and rural construction in terms of number of units, as opposed to area. Rural construction is historically a small proportion of the total. In terms of units, even the modest upturn shown in the floor area statistics does not appear, and both urban and rural construction is still declining.



1.2.4 Status of Housing Construction

Table 11 is an exploration of housing starts, completions, units in process, and abandoned units. Because no projects are officially abandoned, no specific data was available for this category. In practice, housing projects stretch out for years, and small chunks of work are done as financing permits, but they are merely “delayed,” never abandoned.

The source of the data for Table 11 is the Ministry of Statistics’ “Forms of Statistical Accounts No. 1-KC.”

Table 11: Housing Construction

	1985	1990	1991	1992	1993
Planned floor space (sq. m.)	10,675,827	10,006,825	n/a	9,890,741	11,114,470
Total put into operation (sq. m.)	10,786,720	10,037,688	7,979,300	9,053,525	3,363,552
Percent of plan fulfillment	101.0%	92.2%	n/a	91.5%	30.3%
Compared to Corresponding Period of Previous Year	n/a	n/a	n/a	107.9%	97.0%

The first row of Table 11 shows the amount of floor space that should have been put into operation in that year. Typically, this was housing that was begun during the preceding year. The second row shows the total actually put into operation. For 1993, the data is as of the

end of June, and is not necessarily proportional to the second half of the year. That is, more projects are typically completed in the second half of any year than in the first half.

The third row of Table 11 shows the floor space put into operation as a percentage of the plan for the year. In the pre-perestroika days of 1985, the planning quota was reported to have been exceeded. For at least 1990 and 1992, the plan has not been met. No data on the 1991 plan was available. Therefore, it is not possible to compare 1991 completions with the plan, but it seems unlikely that the serious drop in actual completions was planned. The fourth and final row compares each year with the prior year (and in the case of 1993, with the prior year to date). Based on 1993's decidedly optimistic planned floor space, and the fact that 1993 construction is actually running slightly behind last year's rate, it seems likely that the 1993 short-fall will be higher than either 1990's or 1991's.

Compounding the problem is that these annual shortfalls accumulate. For example, some of the intended 1990 completions may have been completed in 1991 or 1992, but that would mean that the 1991 and 1992 plans fell even shorter of meeting their targets than the data would suggest at first glance. Using round numbers, four successive years of 90 percent completion ratios, on a 10 million square meter annual planning base would mean that there are now 4 million square meters of unfinished housing "in process." The actual number, considering backlogs from earlier years and an incentive system that has historically rewarded starts rather than completions, is probably significantly higher.

Unfortunately, the data in Table 11 are not entirely consistent with Table 10, although both sets of data are from the Ministry of Statistics. Both tables show a substantial drop in 1991 construction, but Table 11 seems to show a greater recovery than does Table 10. One possible explanation is that Table 10 shows the area constructed, while Table 11 shows the area actually put into operation for the intended purpose. It is possible that units are built but, for varying reasons, not put into operation. It is suggested that the reasons for the differences between these two sets of data be pursued further prior to the next iteration of this report.

1.2.5 Verified Families on Waiting List

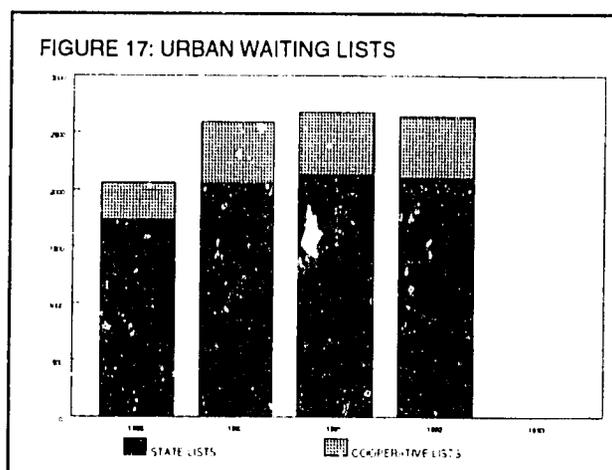
Table 12 shows the number of distinct households on the two different types of waiting lists for housing. The data is taken from the annual statistical publications of the Ministry of Statistics entitled "People's Economy of Ukraine" for 1985, 1990, and 1991, and from the Ministry of Statistics' short reference book entitled "Ukraine in Figures for 1992." There are reportedly no rural waiting lists for housing. In fact, there is a general surfeit of rural housing as people migrate to the cities.

Table 12: Urban Waiting Lists (thou. of families)

	1985	1990	1991	1992	1993
State	1,731.90	2,055.90	2,122.40	2,102.70	
Cooperative	327.80	537.00	557.90	544.90	
TOTAL	2,059.70	2,592.90	2,680.30	2,647.60	

Of the total number, there were some households on both lists—about 149,600 in 1990, and 164,600 in 1991. No data was available on duplication for 1985 or 1992.

Figure 17 graphically illustrates the number of individuals or families on waiting lists, both urban and rural. Although both lists are somewhat longer than in 1985, they are relatively stable over the last three years.



The waiting list system is part of the old Soviet system for housing allocation. Eligibility to be on the waiting list has never been a guarantee that housing would eventually be provided. Average waits in Kiev are now reported to be between twenty and thirty years. People are eligible to be on waiting lists for a variety of reasons, as defined in special regulations established by the government and trade unions. These regulations provide that the following categories of citizens are eligible for improvement of their housing conditions:

- Those having a living space less than the level specified by the local city councils. This level is periodically revised. In Kiev, since April 30, 1991, it is 7.5 square meters per family member.
- Those residing in premises that do not meet the specified sanitary and technical standards;
- Those suffering from chronic diseases that make it impossible for them to live in a communal apartment or in one room with other family members. The list of such diseases is approved by the Ministry of Health of Ukraine.
- Those living under private sub-rental agreements in public housing stock or in buildings belonging to housing construction cooperatives.
- Those residing no less than 5 years under private sub-rental agreements in houses owned by citizens as their private property.
- Those residing in hostels.
- Certain of those residing in one room: 2 or more families irrespective of kinship, or persons of different sexes older than 9 years except married couples.

Some cities establish more favorable conditions for inclusion in a waiting list. In Kiev, for example, additional grounds for being included in the list are:

- Residence in a 2-room apartment of 2 or more families, or in a 3-room apartment of no less than 2 families, if there is no isolated room for one of them.
- Residence for no less than 5 years in office premises or in a communal apartment irrespective of its size.

Unfortunately, citizens at the bottom of these lists have little chance of ever receiving housing through the lists. Priority lists exist for “jumping the line” for a number of reasons, and the responsible officials reportedly charge for joining priority lists. In practice, such payments may provide the fastest route to new housing. This results in lists which grow from the front, not the bottom. Another difficulty with the lists is that they are kept based on a citizen’s registered residence, which may have little or nothing to do with his or her actual residence.

Cooperative lists are more expensive than the regular State lists. People join a cooperative list by agreeing to make a down payment when they reach the head of the line and to pay their pro rata share of the cost of construction. Despite the extra cost, this has been a popular approach, since unlike the regular State lists, cooperative lists do move. However, the cooperative mechanism is now being threatened by hyperinflation. As costs rise, the estimates for completion, and thus prospective owners’ periodic payments, are adjusted upwards. Some projects stall out when enough prospective owners can no longer afford the costs of completion. Unfortunately, no statistics exist to document the extent of this phenomenon.

1.2.6 Floor Area per Person

Tables 13A and 13B show average floor area and usable living space per person. The source of the data is the annual statistical bulletin titled “Housing Stock of Ukraine” for 1985, 1990, 1991, and 1992. For the purpose of these tables, floor space is defined as the total area occupied by a single family. Living space is this area minus the area of the kitchen, bathroom, toilet and hall.

For reference, the following legal standards apply in Ukraine. Members of families with less than 5 square meters living space per capita are entitled to be on the State waiting lists for new housing. Seven and a half square meters per capita living space is the minimum official housing norm, while the maximum official housing norm is 13.65 square meters per capita living space. The average living area, according to official statistics, thus falls between the minimum and maximum official norms.

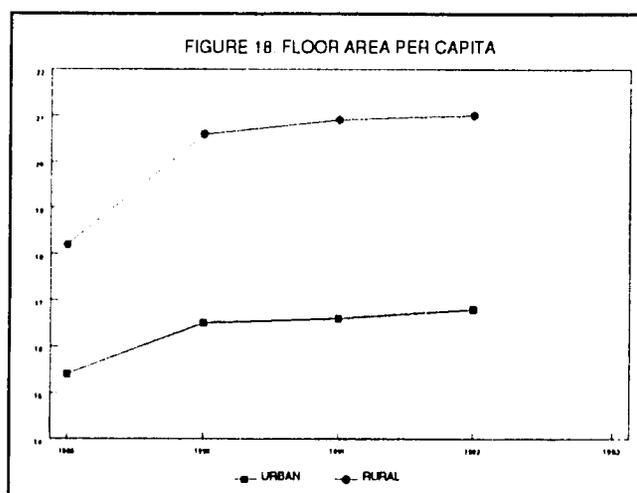
Table 13A: Urban Floor Area and Living Area (square meters)

	1985	1990	1991	1992	1993
Floor area per capita	15.4	16.5	16.6	16.8	
Living area per capita	9.6	10.3	10.3	10.5	

Table 13B: Rural Floor Area and Living Area (square meters)

	1985	1990	1991	1992	1993
Floor area per capita	18.2	20.6	20.9	21.0	
Living area per capita		14.3	14.5	14.5	

As can be seen from the tables and from Figure 18, the trend is towards slightly more floor area per capita. However, the absolute figures seem barely adequate by western standards, at 16.8 square meters per person in urban areas, and 21 square meters per person in rural areas.



1.3 Infrastructure/Environment

1.3.1 Extent and Cost of Amenities

Tables 14A and 14B show the percentage of urban and rural dwelling units with each of six basic amenities. The sources are the annual statistical bulletin "Housing Stock of Ukraine" for 1985, 1990, 1991, and 1992.

Table 14A: Percentage of Urban Living Units with Indicated Amenity

STATE HOUSING	1985	1990	1991	1992	1993
Electricity	100.0%	100.0%	100.0%	100.0%	
Gas	85.3%	86.9%	87.0%	94.3%	
Water	91.9%	94.0%	94.5%	94.9%	
Central Hot Water	67.2%	76.9%	77.4%	84.6%	
Sewer	89.7%	92.6%	93.2%	93.4%	
Central Heat	86.1%	89.2%	89.9%	90.2%	

SOCIAL	1985	1990	1991	1992	1993
Electricity	100.0%	100.0%	100.0%	100.0%	
Gas	77.0%	80.1%	79.7%	78.2%	
Water	76.9%	70.9%	73.1%	78.4%	
Central Hot Water	40.0%	42.5%	43.6%	50.2%	
Sewer	71.5%	66.0%	68.2%	73.7%	
Central Heat	67.2%	60.0%	62.6%	69.4%	

COOPERATIVE	1985	1990	1991	1992	1993
Electricity	100.00%	100.00%	100.00%	100.00%	
Gas	93.60%	91.50%	90.90%	90.20%	
Water	99.90%	99.96%	99.95%	99.96%	
Central Hot Water	94.30%	96.80%	97.10%	96.80%	
Sewer	99.90%	99.96%	99.95%	99.95%	
Central Heat	99.80%	99.80%	99.75%	99.76%	

PRIVATE	1985	1990	1991	1992	1993
Electricity	100.0%	100.0%	100.0%	100.0%	
Gas	55.2%	63.4%	64.4%	68.0%	
Water	15.9%	20.3%	22.1%	26.3%	
Central Hot Water	3.1%	5.3%	6.3%	9.2%	
Sewer	12.7%	18.0%	19.7%	23.6%	
Central Heat	16.7%	22.9%	24.5%	27.4%	

Table 14B: Percentage of Rural Living Units with Indicated Amenity

STATE HOUSING	1985	1990	1991	1992	1993
Electricity	100.0%	100.0%	100.0%	100.0%	
Gas	68.7%	76.6%	77.8%	65.3%	
Water	43.6%	50.9%	52.1%	55.5%	
Central Hot Water	13.0%	18.0%	19.4%	5.7%	
Sewer	33.5%	40.4%	42.1%	46.0%	
Central Heat	33.6%	38.6%	40.7%	19.3%	

SOCIAL	1985	1990	1991	1992	1993
Electricity	100.0%	100.0%	100.0%	100.0%	
Gas	70.6%	79.4%	81.7%	79.8%	
Water	32.3%	33.5%	35.5%	39.4%	
Central Hot Water	9.3%	8.1%	10.0%	13.0%	
Sewer	21.9%	22.8%	25.2%	29.5%	
Central Heat	18.1%	17.0%	19.1%	24.8%	

COOPERATIVE	1985	1990	1991	1992	1993
Electricity	100.00%	100.00%	100.00%	100.00%	
Gas	100.00%	100.00%	100.00%	100.00%	
Water	100.00%	100.00%	100.00%	100.00%	
Central Hot Water	87.50%	93.50%	86.30%	86.30%	
Sewer	100.00%	100.00%	100.00%	100.00%	
Central Heat	87.50%	96.40%	89.30%	89.30%	

PRIVATE	1985	1990	1991	1992	1993
Electricity	n/a	n/a	n/a	n/a	
Gas	n/a	n/a	n/a	n/a	
Water	n/a	n/a	n/a	n/a	
Central Hot Water	n/a	n/a	n/a	n/a	
Sewer	n/a	n/a	n/a	n/a	
Central Heat	n/a	n/a	n/a	n/a	

The tables show that electrification is universal. In general, we can see that urban areas are better served with other utilities than are rural areas. The hierarchy within each area can be generalized as follows:

- Cooperatives are best served, with ninety to one hundred percent of units having each utility.
- State housing is second. In urban areas, units are still generally well served, with central hot water displaying the widest gap compared to cooperatives. All utilities drop off dramatically in rural areas.

- Collectives other than cooperatives are third, with more than half of units still receiving most utilities in urban areas, but low levels of water, sewer, and (understandably) central heat and hot water in rural areas.
- Privately owned housing is the worst served. Remember that this data does not include privatized units in State or social housing. Although the data are for urban areas, it reflects detached, privately owned dwellings. Only about one such detached dwelling in four has water and sewer service. In rural areas, no data was available for private housing.

Of course, it costs more per dwelling unit to provide services to detached buildings than to apartment units. The fact that so many private detached houses are under-served probably reflects this financial reality, but it also reflects a policy preference to encourage apartment-style living in the cities. In the Soviet period, remaining single-family neighborhoods in cities were routinely slated for urban renewal, i.e. razing of single-family neighborhoods to permit the construction of more efficient apartment blocks.

Unfortunately, we have not been able to locate any data regarding the costs of providing utilities.

1.3.2 Repair and Maintenance Expenditure by Ownership

Tables 15A and 15B show the amount spent on repair and maintenance of housing, categorized by building ownership. The data are taken from reports of the State Committee on Housing and Communal Services.

Table 15A: Urban Repair and Maintenance Expenditure (rub/krb per sq. m.)

	1985	1990	1991	1992	1993
State	3.06	3.80	7.20	24.50	250.00
Private	0.40	1.20	1.80	8.00	140.00
Cooperative	2.50	2.50	5.00	20.00	150.00

Table 15B: Rural Repair and Maintenance Expenditure (rub/krb per sq. m.)

	1985	1990	1991	1992	1993
State	1.50	1.50	3.00	10.00	100.00
Private	0.30	1.00	1.50	6.00	100.00
Cooperative	1.50	1.50	3.00	10.00	100.00

The data do not include reconstruction (“remont”) expenses, but only routine repairs and maintenance. The increase in actual rubles/karbovanets looks large, but in real terms, the amount spent has not been keeping pace with inflation. Our ballpark estimates of inflation are 1000 percent in 1991 and 2000 percent in 1992, respectively. The only increases that approach these triple digit levels are the 1992-1993 changes. This implies a growing problem of deferred maintenance.

Cooperative housing is generally believed to be better built and in better shape than State-owned housing. The lower repair and maintenance costs shown in the previous table may reflect this higher quality and corresponding lower maintenance burden. On the other hand, it may reflect a policy decision to spend more on State housing, perhaps on the theory that anyone who can afford a cooperative unit can also afford to pay for maintenance. A similar rationale has been used to justify higher utility costs for cooperatives than for State-owned housing.

1.3.3 Environmental Impact/Encroachment of Urban Development

Tables 16A and 16B attempt to measure the effects of the environment on housing, and of housing on the environment. The data shown represent an expert estimate of the situation. Because land for housing often has multiple environmental problems—soil contamination, air and water pollution, solid waste problems, etc.; unsafe engineering development conditions (undermining, unstable soils, steep slopes, etc.); or other problems, columns may add to more than 100 percent.

Table 16A: Urban Environmental Problems and Encroachment

PROBLEMS	1985	1990	1991	1992	1993
New Construction on Unsafe Land	45%	55%	60%	65%	
New Construction on Land with Environmental Problems	60%	60%	55%	55%	
New Construction on Land with Other Problems	10%	12%	12%	15%	

ENCROACHMENT	1985	1990	1991	1992	1993
New Construction Encroaching on Agricultural Lands	60%	65%	70%	75%	
New Construction Encroaching on Other Designated Uses	8%	6%	4%	3%	

Table 16B: Rural Environmental Problems and Encroachment

PROBLEMS	1985	1990	1991	1992	1993
New Construction on Unsafe Land	5%	8%	12%	15%	
New Construction on Land with Environmental Problems	15%	15%	12%	10%	
New Construction on Land with Other Problems	12%	15%	15%	15%	

ENCROACHMENT	1985	1990	1991	1992	1993
New Construction Encroaching on Agricultural Lands	90%	90%	85%	85%	
New Construction Encroaching on Other Designated Uses	5%	4%	4%	3%	

As can be seen from these tables, the majority of urban land being developed has unsafe engineering conditions, environmental problems, or both. In rural areas, the problem is much less severe. In both urban and rural areas, there is an increasing tendency to build on unsafe land, but a decreasing tendency to build on land with environmental problems.

Both urban and rural development encroaches significantly on agricultural lands, with 75 percent of 1992 urban construction encroaching on agricultural uses, and 85 percent of 1992 rural construction doing the same. The trend is increasing in urban areas, but may be decreasing in rural areas. Encroachment on other designated uses is not frequent, and is decreasing.

1.4 Qualitative Measures

This section will describe the current legal and administrative environment that affects private land and real estate markets. This information should be updated periodically to reflect changes in the laws and their application.

1.4.1 Basic Laws Authorizing Private Ownership of Land and Housing

The right to own land privately was formally introduced in Ukraine on January 30, 1992 with the adoption of the "Law on Forms of Land Ownership." The Law consists of two parts. The first one states that its purpose is "to introduce in Ukraine, along with the State form of ownership, the collective and private forms of land ownership." The second part states that "land ownership in Ukraine has the following forms: State, collective and private. All forms of ownership enjoy equal rights".

However, the right of private land ownership was only fully legalized on March 13, 1992 when the Supreme Rada of Ukraine approved new wording for the "Land Code"—the main law of Ukraine on issues of land use. The Land Code prohibits the privatization of certain lands: lands in common use; lands owned by government, communication, and defense establishments; environmentally sensitive lands; lands used for health or recreation purposes; and lands of historical and cultural importance—totalling about 40 percent of urban areas. No formal restrictions on the privatization of other urban lands exist.

However, under the Land Code, the only lands specifically authorized to be privatized are plots on which private houses are located and lands occupied by gardens, dachas, and garages—about 300 thousand hectares in total (approximately 23 percent of urban areas). Plots currently in use for these purposes are given free to those to whom these plots were previously allocated, and to those who had expressed their desire to get such plots from the land reserve. Citizens can also acquire such plots by inheritance, division of marital property, sale and purchase, gift, and exchange.

The following sizes of plots to be privatized are established:

- For the construction and maintenance of a private house—up to 0.15 hectare in urban type settlements and up to 0.1 hectare in cities.
- For gardening—up to 0.12 hectare.
- For dacha construction—up to 0.1 hectare.
- For individual garages—up to 0.01 hectare.

The right of private ownership does not carry with it the right to change the stipulated use of the parcel.

In addition, citizens of Ukraine have the right to a plot for a farm and a subsidiary small-holding. The latter are privatized free of charge. Plots for farms are given free of charge only up to the average plot size. Land in excess of the average may be privatized for a fee. The Land Code specifies the size of farmers' plots. The size of the plots to be converted into private property for farming is not to exceed 50 hectares of agricultural land and 100 hectares of total land. The specific size of such plots is determined by a local council with consideration for regional peculiarities, specialization, and whether or not the land will be cultivated mostly by the members of a farm.

The size of a plot for members of collective agricultural enterprises, agricultural cooperatives, workers of agricultural enterprises desiring to keep a farm not from the land reserve but from the land of these enterprises (cooperatives) is set at the average land share of a member of the collective agricultural enterprise or agricultural cooperative. In this case the valuation of the converted plot is to be generally at the level of the average for a corresponding enterprise.

1.4.2 Existing Barriers to Private Ownership of Land and Housing

The main barriers to private ownership of land are:

- Legal restrictions on land privatization: only citizens of Ukraine can privatize, and lands occupied by industrial enterprises and public utilities are not to be privatized.
- A now repealed 6-year moratorium on selling land after its initial privatization (see recent changes, below).
- Delays, especially in cities, in inventorying and valuation and the necessity of large expenditures for carrying out this work.
- Lack of concern on the part of local government bodies.
- Inadequacy of organizational, legal, personnel, scientific, and material resources.

These obstacles have resulted in the practical failure to fulfil the Decree of the Supreme Rada of Ukraine of March 13, 1992 "On Speeding Up Land Reform and Land Privatization" which, it was hoped, could speed up the privatization process.

1.4.3 Current Tax Laws Affecting Private Ownership of Land and Housing

Tax policy in relation to private land is regulated by the law, "On Payment for Land," adopted by the Supreme Rada on July 3, 1992.

This law establishes average tax rates for land of different uses (agricultural, urban, etc.). Moreover, average tax rates for agricultural land in each oblast are established. Average tax rates for plots within the limits of towns are differentiated in accordance with their population and administrative status. The tax rate for plots occupied by housing, by garage construction, dacha construction, and garden cooperatives, individual garages and individual dachas is set at 3 percent of the land tax rate established for the appropriate town. Local councils can vary the tax rates in accordance with the quality of soil and whether a plot is within the limits of a town.

There is also a provision for tax credits. For instance, newly created farms are relieved from payment for land for three years after their transfer into private property. Pensioners and other privileged groups are completely relieved from payment for land. A minimal land tax is established in the amount of 20 karbovanets for one hectare of agricultural land. The average tax rate for one hectare of arable land and perennial plantations varies between 86 karbovanets in Zakarpattya oblast and 235 karbovanets in Kiev. The average tax rate for plots within the limits of towns ranges from 0.5 karbovanets for 1 square meter in settlements up to 200 population to 21 karbovanets in cities over 1 million population.

1.4.4 Recent Changes in Relevant Laws

The law, "On State Budget of Ukraine for 1993," adopted by the Supreme Rada in April 1993 imposed a 30-fold increase in the land tax rates previously established by the law, "On Payment for Land," to reflect inflation.

The law, "On the Introduction of Amendments and Supplements into Certain Legal Acts of Ukraine." adopted in May 1993 excludes garden cooperatives from the list of those who enjoy the right to be charged land tax at the rate of 3 percent of the average land tax rate. From now on, they will pay the same tax as for agricultural land.

In December 1992 the Cabinet of Ministers of Ukraine adopted the decree, "On Land Plot Privatization," which cancelled the six-year moratorium on land sales. The decree obliged city and town government bodies to privatize in 1993 plots which had earlier been allocated to citizens. Citizens may now sell these plots, provided they do not change their stipulated use. The sale is to be at the price determined by agreement of parties but not less than the normative land price. Subsequently, the Supreme Rada in January 1993 recommended to the Cabinet of Ministers excluding the right of sale from this Decree.

In May 1993 the Cabinet of Ministers adopted the decree, "On Foreign Investments." This decree considers foreign ownership of land as a kind of foreign investment and stipulates the right of a foreign investor to purchase real and movable property which is not prohibited directly by Ukrainian laws, including land plots. However, it is stated in Article 42 of this decree that the purchase by foreign investors of proprietary rights for land is regulated by the Land Code of Ukraine. Hopefully, this contradiction will be removed during correction of the Land Code which is now underway.

2 Municipal Government Indicators

2.1 Municipal Government in Ukraine

This section will introduce the complicated hierarchy of Ukrainian government. This report uses the terms "oblast" and "raion" rather than any translation, since translations vary and can cause confusion.

Except for the cities of Kiev and Sevastopol, there are three levels of sub-national government in urban areas. In Kiev and Sevastopol, which are referred to as cities of "republic subordination" there are only two, since the city administrations (first level) are directly subordinate to the national level. As with other large cities, Kiev and Sevastopol are then divided into raions (second level). The Republic of Crimea operates as an oblast for many purposes.

Generally, in descending order of size, the sub-national urban scheme includes oblasts, raions, and cities, but the hierarchical relationships vary, as discussed below. In every case, the 25 oblasts (as well as the cities of Kiev and Sevastopol and the Republic of Crimea) are directly subordinate to the national level.

Traditionally, one system of urban regulation relates to the 156 larger and more important cities of "oblast subordination" in which cities are subordinate to oblasts, and cities (as well as non-urban areas of the oblast) are divided into raions.

The other traditional system relates to the 283 smaller cities of "raion subordination." These cities are subordinate to the raions in which they are located, and the cities are not generally divided further.

Thus, there are large raions, which are divisions of oblasts, as well as small raions, which are divisions of cities.

Questions about how to finance infrastructure and local government services go to the very structure of local governments and their relationship with the national government. Historically, there was no independent local structure: administratively and financially, each local administrative unit was a part of the next larger unit. Organization and lines of command and control followed the Leninist theory of "democratic centralism."

In general, structural questions are now governed by the "Law on Local Radas and Local Self Government" (hereafter "Law on Local Radas"). The law was adopted in 1991 and revised in 1992. Although the law is intended to vastly enlarge the authorities of local governments, it is conceptually constrained by the viewpoints and laws of the former Soviet Union. One interpretation of the law is that the role of the oblasts has been substantially diminished, in favor of the raions and cities. There is a new draft Ukrainian constitution under discussion which is generally consistent with this law as to local government powers and responsibilities.

Under the Law on Local Radas, subnational governments are divided into two groups, each with different structures, and somewhat different functions:

- The regional (i.e. oblast and raion) level, and
- The local (i.e. cities, towns, and villages) level.

The regional level includes elected oblast radas. Prior to the latest revision of the Law on Local Radas, these radas had real executive powers. However, the newest version of the Law instituted an executive body called the "Local State Administration" which is an arm of the central government and which controls operations at the oblast level. It is headed by the Presidential Representative, who is appointed, rather than elected. The result is that the oblast radas have little power, and may be eliminated by future legislation. Although the oblast rada adopts the oblast budget (proposed by the Local State Administration), and although the departments of the oblast are funded through this budget, the Local State Administration itself is funded through the republican budget.

The local level also features elected radas, but with more real power. The executive powers of cities, towns, and villages are exercised by an Executive Committee, appointed by the rada. Although the departments of municipal government are all answerable to the Executive Committee, some of them are funded by the municipal rada, and some by their corresponding national departments.

Unfortunately, the Law does not draw clear distinctions between what subject matter areas are within the competence of local radas, and what within the competence of the oblast and raion level regional state administrations.

2.2 Use of Elections

Each level of government has a council, known as a "soviet" in Russian and a "rada" in Ukrainian. These councils are all popularly elected by election district. The election districts are larger for the oblast councils, smaller for the city councils. Each district elects "deputies" from that district. There are no at-large deputies.

The city councils are headed by a chairman (roughly equivalent to a mayor), who is by law also the chair of the executive committee. He or she is elected by the council from within its membership, rather than standing for election directly.

2.3 Tax Revenues

Local government tax revenues are divided into "regulating revenues" and "fixed revenues":

2.3.1 "Regulating Revenues"

These are national taxes to which the share of the local governments can be changed at the will of the Cabinet of Ministers. They include:

- The enterprise tax on "state property" enterprises
- Excise taxes
- The value added tax

Slightly more than half of local governments' tax revenues come from these three taxes.

The percentage of revenues from these taxes that are retained by each oblast vary from year to year and from oblast to oblast, based on the Ministry of Finance's perception of needs. Table 17 below shows the oblasts' percentages retained for each of these three taxes for 1992.

Table 17: Regulating Revenue Percentages for 1992

	St. Ent. Tax	Excise Tax	VAT
REPUBLIC OF CRIMEA	100	100	100
VINNITSKA	100	50	89.7
VOLYNSKA	100	100	100
DNIPROPETROVSKA	25	10	24.3
DONETSKA	25	10	22.1
ZHYTOMIRSKA	100	100	100
ZAKARPATSKA	100	100	100
ZAPORISZSKA	50	50	60.3
IVANOFRANKIVSKA	50	50	68.9
KYIVSKA	100	100	100
CITY OF KIEV	50	50	36.1
KIROVOGRADSKA	100	50	95.7
LUGANSKA	50	50	35.7
LVIVSKA	50	50	38.6
MYIKOLAIVSKA	100	50	62.1
ODESSKA	50	50	41.1
POLTAVSKA	25	10	35.6
RIVNENSKA	100	100	100
SUMSKA	100	100	100
TERNOPILSKA	100	50	90.7
KHARKIVSKA	25	50	27.1
KHERSONSKA	100	100	74.2
KHMELNITSKA	50	100	63.6
CHERKASKA	50	50	76.5
CHERNIVETSKA	100	100	100
CHERNIGIVSKA	50	50	23.1
CITY OF SEVASTOPOL	100	100	100

Tables 18A, 18B, and 18C below show, by oblast, the revenues collected from these three taxes within each oblast (and the cities of Kiev and Sevastopol, and the Republic of Crimea), and the amount retained by each oblast based on the foregoing revenue sharing percentages.

Table 18A: State Enterprise Tax Collections and Retentions for 1992 (karbovanets)

	COLLECTED	RETAINED
REPUBLIC OF CRIMEA	18,650,000	18,650,000
VINNITSKA	13,880,000	13,880,000
VOLYNSKA	5,920,000	5,920,000
DNIPROPETROVSKA	158,690,000	39,672,500
DONETSKA	209,520,000	52,380,000
ZHYTOMIRSKA	16,200,000	16,200,000
ZAKARPATSKA	8,430,000	8,430,000
ZAPORISZSKA	43,490,000	21,745,000
IVANOFRANKIVSKA	30,400,000	15,200,000
KYIVSKA	21,140,000	21,140,000
CITY OF KIEV	85,860,000	42,930,000
KIROVOGRADSKA	19,650,000	19,650,000
LUGANSKA	67,320,000	33,660,000
LVIVSKA	56,640,000	28,320,000
MYIKOLAIVSKA	15,710,000	15,710,000
ODESSKA	79,620,000	39,810,000
POLTAVSKA	66,310,000	16,577,500
RIVNENSKA	14,200,000	14,200,000
SUMSKA	11,980,000	11,980,000
TERNOPILSKA	9,360,000	9,360,000
KHARKIVSKA	64,250,000	16,062,500
KHERSONSKA	21,210,000	21,210,000
KHMELNITSKA	13,600,000	6,800,000
CHERKASKA	17,740,000	8,870,000
CHERNIVETSKA	7,740,000	7,740,000
CHERNIGIVSKA	15,810,000	7,905,000
CITY OF SEVASTOPOL	2,860,000	2,860,000

Table 18B: Excise Tax Collections and Retentions for 1992

	COLLECTED	RETAINED
REPUBLIC OF CRIMEA	27,049,900	27,049,900
VINNITSKA	57,432,200	28,716,100
VOLYNSKA	13,436,700	13,436,700
DNIPROPETROVSKA	27,408,100	2,740,810
DONETSKA	23,558,900	2,355,890
ZHYTOMIRSKA	12,891,300	12,891,300
ZAKARPATSKA	7,162,300	7,162,300
ZAPORISZSKA	29,562,900	14,781,450
IVANOFRANKIVSKA	11,459,500	5,729,750
KYIVSKA	21,562,200	21,562,200
CITY OF KIEV	57,534,500	28,767,250
KIROVOGRADSKA	25,416,100	12,708,050
LUGANSKA	9,608,400	4,804,200
LVIVSKA	56,060,100	28,030,050
MYIKOLAIIVSKA	11,413,000	5,706,500
ODESSKA	34,285,500	17,142,750
POLTAVSKA	68,907,400	6,890,740
RIVNENSKA	14,471,000	14,471,000
SUMSKA	13,138,000	13,138,000
TERNOPILSKA	40,247,800	20,123,900
KHARKIVSKA	55,218,200	27,609,100
KHERSONSKA	5,935,600	5,935,600
KHMELNITSKA	33,912,800	33,912,800
CHERKASKA	71,248,800	35,624,400
CHERNIVETSKA	9,555,300	9,555,300
CHERNIGIVSKA	64,609,200	32,304,600
CITY OF SEVASTOPOL	5,017,500	5,017,500

Table 18C: Value Added Tax Collections and Retentions for 1992

	COLLECTED	RETAINED
REPUBLIC OF CRIMEA	66,988,000	66,988,000
VINNITSKA	44,114,500	39,584,225
VOLYNSKA	22,805,300	22,805,300
DNIPROPETROVSKA	263,861,800	64,188,578
DONETSKA	325,691,300	72,017,388
ZHYTOMIRSKA	40,367,000	40,367,000
ZAKARPATSKA	27,215,000	27,215,000
ZAPORISZSKA	68,993,900	41,622,024
IVANOFRANKIVSKA	46,886,400	32,321,131
KYIVSKA	24,423,400	24,423,400
CITY OF KIEV	152,296,900	54,973,195
KIROVOGRADSKA	25,399,000	24,315,137
LUGANSKA	119,292,000	42,542,484
LVIVSKA	94,344,600	36,452,728
MYIKOLAIVSKA	27,514,700	17,098,911
ODESSKA	125,613,900	51,661,028
POLTAVSKA	88,934,300	31,667,851
RIVNENSKA	15,774,900	15,774,900
SUMSKA	34,324,600	34,324,600
TERNOPILSKA	30,221,600	27,420,936
KHARKIVSKA	142,850,100	38,782,703
KHERSONSKA	47,569,000	35,296,995
KHMELNITSKA	20,111,500	12,785,469
CHERKASKA	47,681,700	38,025,813
CHERNIVETSKA	20,199,500	20,199,500
CHERNIGIVSKA	53,857,200	12,415,481
CITY OF SEVASTOPOL	15,894,300	15,894,300

Each oblast decides what percentage of these tax revenues goes to cities and raions subordinate to it. Based on instructions from the appropriate authorities, the national banking system divides the tax revenues proportionally and credits them to the appropriate oblast, raion, or city accounts.

Similarly, each raion of a city gets a specified share of each tax revenue stream. For example, in 1993, the city of Kiev will get 36.1 percent of national VAT receipts within its borders. It then decides how much of that 36.1 percent should go to each of the raions within its borders. Some of them—typically bedroom communities consisting of large blocks of apartments, and thus with schools and other services to support—get a higher percentage. More industrialized raions get a lower percentage of the VAT. In making these allocations, there is a conscious policy of subsidizing some areas of the city with revenues from other areas.

Each tax is allocated separately, so that one raion could get all of the excise tax and none of the VAT tax, while a neighboring raion gets all of the VAT and none of the excise tax. However, in the current unstable situation, it is considered better practice to see that each raion gets some of each tax.

The only local authority over these regulating taxes (other than allocating revenues within its borders) is a negative rate option. That is, local bodies can and do negotiate away some or all of their share of regulating revenues for the benefit of enterprises they want to favor. These tax “privileges” are widely believed to be determined by cronyism rather than sound policy considerations.

2.3.2 “Fixed” or “Affixed” Revenues

These are taxes of which the local governments keep 100 percent of what is collected within their territory. They include:

- Payments on land (also known as the land tax)
- Fourteen new minor taxes from the Law on Local Taxes and Fees
- Various other taxes as described in the Law on Local Councils, the most important of which is the personal income tax
- The enterprise tax on “communal property” enterprises

These taxes make up the smaller half of local government budget revenues. Currently, the income tax is the most significant, followed by the enterprise tax on communal property enterprises.

There is no real property tax per se, and currently no legislative authority for one, other than the payments on land provided for by the Law on Payments for Land.

Fourteen specific new taxes were recently authorized by decree of the Cabinet of Ministers to be levied by local governments. The decree spells out the possible taxes and sets

a maximum rate for each tax. Examples include taxes on advertising, horse racing, transport, automobile registrations, and a head tax on residents of one raion working in an enterprise in another raion.

Table 19 below shows the total fixed revenues for each oblast, the Republic of Crimea, and the two cities of republican subordination.

Table 19: Total Fixed Revenues by Oblast (karbovanets)

	TOTAL	PER CAPITA
REPUBLIC OF CRIMEA	48,412,130	19,919
VINNITSKA	36,386,262	18,943
VOLYNSKA	18,563,954	17,540
DNIPROPETROVSKA	223,461,308	57,743
DONETSKA	238,706,668	44,939
SZYITOMIRSKA	29,192,378	18,986
ZAKARPATSKA	16,728,902	13,430
ZAPORISZSKA	78,180,824	37,696
IVANOFRANKIVSKA	26,357,858	18,651
KYIVSKA	43,614,564	22,547
CITY OF KIEV	101,376,052	39,412
KIROVOGRADSKA	34,163,970	27,819
LUGANSKA	108,927,008	38,126
LVIVSKA	67,828,460	24,869
MYIKOLAIIVSKA	51,917,036	39,085
ODESSKA	60,903,740	23,208
POLTAVSKA	51,194,800	29,276
RIVNENSKA	24,714,206	21,228
SUMSKA	29,068,532	20,363
TERNOPILSKA	22,465,860	19,301
KHARKIVSKA	121,446,118	38,254
KHERSONSKA	34,105,248	27,571
KHMELNITSKA	33,647,482	22,113
CHERKASKA	34,536,742	22,613

CHERNIVETSKA	13,790,894	14,659
CHERNIGIVSKA	33,317,380	23,583
CITY OF SEVASTOPOL	9,616,918	25,645

No data were available as of this report on the extent to which people are paying the current taxes. It is widely believed that most taxes find their way into the pockets of individuals, rather than being used for their intended purposes. It is suggested that payment rates be pursued further, if relevant data can be obtained for analysis.

2.4 Local Budgets

Under the current system, cities do not know from year to year how much of the regulating taxes will be allocated to them. It depends on the Supreme Rada and other levels of government superior to the city in question.

For 1993, the republican budget was adopted only in April of 1993. Until then, the cities did not know what revenues to expect, and could not begin work on their budgets. In 1992, the republican budget was not adopted until June. In this environment, it is practically impossible for local governments to plan their budgets in any meaningful way.

Once the national budget is adopted, the oblasts and cities of republican subordination develop a budget based on the indicated revenues and planned expenditures, and submit it to the Ministry of Finance. At the same time, each of the Cabinet ministries prepares its budget, and submits it to the Ministry of Finance.

Using the applications from all of the local levels and ministries, the Ministry of Finance then works out a draft consolidated budget for all levels of government. As might be expected, each entity asks for more than they expect to get. Inevitably, the revenues are not adequate for all of the applications, and the Ministry of Finance and Cabinet of Ministers must decide how to prioritize the applications. There is often a negotiation process in which the local governments try to defend their requests.

A similar process is replicated at each level. The oblasts and cities of republican subordination take applications from the levels under them and consolidate them into an application to the center. They then allocate available funding to the cities and raions subordinate to them, and the cities and raions in turn allocate to the raions and cities subordinate to them (remember that there are raions of cities and that smaller cities are subordinate to oblast raions).

Local budgets are considered part of the budget of the next larger level of government, and ultimately all local budgets are considered part of the national budget. All local budgets are approved by the Ministry of Finance or its oblast representatives. This is a manifestation of the Leninist principle of "democratic centralism."

In addition to budget funds, however, local governments have substantial “nonbudgetary” revenues and expenditures. These funds and their expenditure are subject only to annual reporting to the local rada.

A draft program under discussion by the Cabinet of Ministers would take a different approach. Financing of governmental functions would be divided into matters of nationwide concern and matters of local concern. Under this approach, for example, higher education and technical and vocational education would be financed by the State, while lower levels of education would be financed locally. The State would finance the military, scientific research, nationwide social welfare programs, and other programs of demonstrably national concern. All other expenditures, and some responsibility for raising the appropriate revenues, would be devolved to the lower levels of government.

The proposed system for revenues under this draft proposal would give the State budget 50 percent of the income tax and excise tax revenues, and 70 percent of the VAT. In addition, the State would get whatever income it could raise from foreign businesses operating in Ukraine. All other revenues would be passed on to local governments. Even so, the Cabinet of Ministers expects that some cities would not have enough to pay for the services they would be expected to provide, and so would have to receive additional subsidies from the central government.

This draft proposal would be a big change for Ukraine. The current vertically integrated system entails no real division in responsibilities between the various levels of government. Each level of government merely receives and administers funds from the next higher level, in all spheres.

Currently, the draft proposal is being circulated among various oblasts for analysis and comment. This particular proposal may never be adopted, due to ongoing philosophical differences between the Cabinet of Ministers and the Supreme Rada. Even so, the contrast between the current system and the draft proposal is illuminating. It sheds light on a more fundamental debate over the proper structure and function of the various levels of government. Should each level be merely an administrative division of the next higher level? Should specific functions be assigned to specific levels? Should all revenues be collected nationally? Should the national government prescribe the specific types of taxes and other revenue mechanisms that local governments are authorized to use? Should local governments be given authority over taxes, or at least over tax rates?

2.5 Inter-Governmental Transfers

Table 20A shows the net effect of transfers from the national budget to oblast authorities, and from local authorities to the national budget. More work needs to be done to understand exactly what these transfers include, and their significance.

Table 20A: Intergovernmental Transfers (1,000 rub/krb per year)

NATIONAL	1985	1990	1991	1992	1993
Inflow	27,050,366	41,219,725	40,812,270	643,714,212	
Outflow	2,317,245	2,292,578	25,417,151	319,650,281	

OBLAST	1985	1990	1991	1992	1993
Inflow	10,585,924	29,233,824	46,612,971	587,090,038	
Outflow					

2.6 Municipal Associations

There are emerging national and sub-national organizations that reflect the common concerns of cities. There is, for example, the "Association of Democratic Councils of People's Deputies of Ukraine and Democratic Blocs in Councils" which participates actively in drafting proposals on urban development, and which is planning a wide range of future activities, hoping to become essentially a national league of cities.

In December 1992, the Association held a conference on land regulation at the local level. Following the conference, it made an appeal to the Cabinet of Ministers which contains concrete proposals for the improvement of land legislation related to problems of urban development. These proposals are now being considered by a special committee of the Supreme Rada.

Another national association that fulfills some of the functions of a municipal association is the Union of Chief Architects of Ukrainian cities.

The "Law on Local Councils and Local Self Government," adopted in December, 1990, envisions the possibility of associations of local councils for the purpose of more efficiently executing their rights and interests. This law appears to envision both national and local associations. One example of this law's implementation on the local level, is an Association for the Socio-Economic Development of Lugansk and Vicinity, which was created as provided for in the Lugansk master plan, recently approved by the oblast and city councils. Another example involves the oblast councils and state administrations of Donetsk, Lugansk, Dnepropetrovsk, and Zaporozhe, which have developed a unified program of socio-economic development.

2.7 Status of General Plan

Here we are concerned with two questions. First, are general or master plans locally developed? Second, does the public have a full opportunity to participate in the development of the master plan?

Under the Soviet regime, general plans for municipal development were often prepared by planners with little or no local background, and with little or no public involvement. General plans were developed by State urban planning institutes, were reviewed only by a small circle of officials, and were approved by city councils, oblast executive committees, or the Council of Ministers (depending on the size and importance of the city). Coordination with relevant ministries was also required. For big cities, coordination with all-union agencies (i.e. USSR agencies in Moscow) was required.

During the Soviet period, public participation was virtually non-existent. In fact, design and planning materials were generally considered highly secret. The chief staff of the main industrial enterprises and scientific institutes in Kiev did have access to the Kiev general plan materials, but even this degree of openness was considered unusual.

In the late 1980s, the situation began to change. General plans began to be discussed by local bodies of the Union of Architects and other public organizations. In one instance, presentation materials for the Odessa general plan were even exhibited at the city museum in Odessa. The drafters of the Odessa plan staffed the exhibit and answered public questions regarding the plan. Citizens' opinions and suggestions were collected with the help of the media. A special group held a public meeting to discuss the planners' reactions to the public input. Every public comment received an individual response. All public comments, and the planners' responses and analysis were considered by the city council during the plan's approval process.

There are two questions to be considered relevant to general plans. First is the question of whether the local plan is developed locally or not. The Soviet view, which to some extent persists in Ukraine today, is that it is bad practice to have a locally developed plan, because local planners may be too much influenced by special interests, such as enterprises. This view is now changing, but the preference for independent planners, as opposed to city planners, continues. Currently Kiev, Sevastopol, Kharkiv, and Lviv all have locally developed general plans, while Zaporozhe, Dnepropetrovsk, and Odessa do not.

The second question is the extent of public involvement in the plan. Currently, no city has achieved full public participation in which the public takes part in the whole process of development of a master plan. The Odessa experiment described above goes about as far in this direction as any city has gone to date.

In most cities in Ukraine today, there is some public participation, i.e. professional organizations take part in the discussion of a completed master plan. This is the case in Kiev, Kharkiv, Dnepropetrovsk, Odessa, and Lviv.

In Sevastopol and Zaporozhe, however, there has been substantially no public involvement in the master plan.

3 Program-Specific Indicators

3.1 Generic Indicators

Land Privatization

Prior to 1993, no land was allocated for private ownership. In 1993, in accordance with the decree of the Cabinet of Ministers entitled "On Privatization of Land Parcels," the process of transferring land, which had been previously allocated, for private use began. As of yet, there are no national statistical data on the results of this process.

Housing Privatization

Table 21 shows the area privatized to date. There was no privatization in 1985. In 1990 through 1992, the "area allocated" category reflects sales of apartments from the state and social ownership categories. Beginning in 1993, the "area allocated" category reflects free allocations. This results in the indicated sharp decline in cost per square meter, which in a hyperinflationary economy would not otherwise be expected. All that citizens must now pay are the charges for areas in excess of the law's already generous allotments.

Table 21: Housing Privatization

	1985	1990	1991	1992	1993
Housing		0.55%	1.95%	5.25%	4.10%
Number of Dwellings		37,000	131,900	349,332	286,118
Area Allocated		1,899,200	6,866,200	18,143,400	13,432,700
Cost per square meter (krb)		83.56	112.24	166.89	500.00

SOURCE: Reports of the State Committee on Housing and Communal Services as of July 1, 1993

Note that if one adds the total number of units privatized from 1990 through 1993, one sees that some 804,000 units have already been privatized. This is some 11.5 percent of the total State and social housing stock.

3.1.1 Cost Recovery

The State Committee on Housing and Communal Services is in charge of more than 20 kinds of communal services, including water, sewer, energy, housing maintenance, elevators, green spaces, and solid waste disposal.

The introduction to a conceptual plan prepared by the State Committee on Housing and Communal Services indicates that in the first quarter of 1993, payments from residential users cover an average of only 12 percent of the cost of providing services. Only 7.3 percent

of housing maintenance expenses are recovered, only 11.5 percent of water utility costs, only 12.7 percent of waste water disposal costs, and only 8.6 percent of heating costs. Obviously, this requires extensive state subsidies to make up the gap. The same report estimates that 50 percent of the 1993 Ukrainian budget deficit is attributable to housing and communal service subsidies.

In Kharkiv and Kiev, and probably in other cities as well, the water utility manages to be self-financing by overcharging state and communal enterprises for the water they use. These overcharges more than make up for the undercharges to the residential sector.*

This kind of misplaced cost recovery is ultimately a dead-end. In the short run, it leads to price increases on finished goods. In the long run, these over-charged enterprises will not be able to compete in a private market. They may close down, or they may look for alternatives to state-provided communal services, but in the long run they will not be able to continue paying these high charges. This will leave the communal services sectors in crisis unless ways are found to increase the share of costs paid by the residential sector. Naturally, any such program should be accompanied by an adequate social safety net to protect citizens whose incomes are already stretched.

3.1.2 Housing Finance

At this writing, no statistical data are available regarding housing finance. This area should be explored in the next iteration of this report.

Credits for construction are provided from various official sources, but western-style construction and mortgage finance do not exist. This is due to a lack of legal structures, a lack of capital markets, and the severe political and currency instability.

The interest on such credits, which are government-approved, is typically well below inflation. Availability of credits may be based more on relations between the borrower and the lender than on risk assessment or ability to pay.

3.2 Housing Development Checklist

The following is a list of legal and administrative hurdles that are required to successfully navigate the development approval process. Although many legislative and administrative restrictions on private housing development have been eliminated, restrictions continue to be imposed indirectly, usually when an attempt is made to purchase a plot for development.

Problems that have persisted are due to the lack of a functioning land market and the lack of legislation providing for private property or private housing development, except for individual house construction. In addition, most of the old master plans allocate too little, if

*One study done by the State Committee reportedly discovered that 44 percent of the costs of a sausage producer was attributable directly to water and sewer charges.

any, area for individual housing development. Therefore, detailed development and improvement plans for individual construction districts are also lacking. However, citizens' applications for plots for private houses must be submitted for review by local architectural departments. Since architectural departments cannot verify compliance of the application with these inadequate or non-existent urban planning designs, approval is often withheld.

Even if a master plan does provide for the conversion of land from "personal plots" to be used instead for construction of new individual houses, no efficient mechanism for doing so has been created.

Moreover, although, according to Article 31 of the Land Code, village and town councils have the right to withdraw land outside their municipal limits from other uses for transfer into private property for individual houses, city councils do not have this right.

Finally, even if plots are included within the boundaries of a city or a town, that does not entail (according to Articles 63 and 64 of the Land Code) cessation of the right to own and use these plots until they are converted to private property. As concerns such conversion, or "land withdrawal," based on Article 31 of the Land Code, approval is required from the land's current user and the local council. In case of their refusal, this issue may only be resolved in court. However, in fact such legal recourse does not exist as yet.

It should be mentioned that the lack of a land market results in local councils having absolute power over issues of land use (particularly in allocation of plots for individual houses), while providing ample opportunity for bribery, corruption, and other abuses. Such opportunities are also presented by a complicated administrative system of plot allocation.

This current system includes the following steps (in case of a positive solution):

1. Reception and registration of a citizen's application and other essential documents by a local council's executive committee.
2. Preparation of a local architectural department conclusion as to compliance with the master plan.
3. Drafting of the council's decision and its coordination with the appropriate departments.
4. Adoption of a decision by the local council.
5. Allotment of a parcel, and surveying (the physical fixing of its boundaries, determination of the house location on the parcel, and delivery of a plot layout to a developer).
6. Obtaining the right to ownership, certified in a government act registered by the local council.

7. Drafting a development plan which specifies alignments, terms of improvement and landscaping, standard or individual house design.
8. Designing fencing of the parcel from the street.
9. Concluding an agreement with the local council's executive committee on development.
10. Getting a building permit based on the above conditions.
11. Actual construction.
12. Approval of the construction by a state approval committee appointed by the local council.

4 Program Milestones

At the all-Ukraine level, the following key benchmarks are to be achieved:

4.1 Framework for Private Land and Real Estate Markets

1. Preparation of program on legal and institutional framework (an initial draft has been done, and we are now in the process of finalizing).
2. Submission of program to Ukraine's Cabinet of Ministers and/or Parliamentary commission.
3. Adoption of program by Cabinet of Ministers and/or Parliamentary Commission.
4. Implementation of program by relevant actors.

4.2 Privatization of Housing

1. Preparation of draft of condominium law within drafting committee (a third draft has been done).
2. Observational tour for senior officials to prepare them for implementation of private land and real estate markets (done).
3. Half-day meeting on draft law.
4. Finalization of draft law and submission to a standing commission in Parliament or to the Cabinet of Ministers (we are now in the process of finalizing).
5. Submission of draft law to Ukraine's Cabinet of Ministers and/or Parliamentary commission.

6. Adoption of law by Cabinet of Ministers and/or Parliamentary Commission.
7. Implementation of law by relevant actors.
8. Ongoing educational and training efforts, including media and publications.

4.3 Privatization of Land

1. Conference on Privatization of Land (done).
2. Formation of working group to draft new code on land (done).
3. Observational tour for senior officials to prepare them for implementation of private land and real estate markets (done).
4. Preparation of final draft of law and submission to a standing commission in Parliament or to the Cabinet of Ministers (drafting process is now underway).
5. Submission of draft law to Ukraine's Cabinet of Ministers and/or Parliamentary commission.
6. Adoption of law by Cabinet of Ministers and/or Parliamentary Commission.
7. Implementation of law by relevant actors.
8. Ongoing educational and training efforts, including media and publications.

4.4 Local Government Finance

1. "Conference on Local Government and Infrastructure Finance in Ukraine" (done).
2. Formation of working group on local government finance reform (subject to outcome of overall AID strategy discussions).
3. Observational tour for senior officials in local government and infrastructure finance (done).
4. National level:
 - Identification of barriers and disincentives to effective local government financing.
 - Preparation of strategy for removal or mitigation of barriers and disincentives.
 - Definition of necessary changes to powers and structures of local governments.
 - Support for creation of institutions and capabilities that will enable the creation of private capital markets for municipalities.

- As necessary, adoption of laws or regulatory changes by Cabinet of Ministers and/or Parliamentary Commission.
 - Implementation of law by relevant actors.
 - Assistance to national level municipal associations for education, training, and advocacy resources for local governments.
 - Support for budget reform.
5. Local level demonstration projects in one or more cities, including Kharkiv. Possible projects include:
- A general municipal services pricing project, including user charges and impact fees.
 - A project aimed at making a water or sewer enterprise self-financing, eliminating the need for direct subsidies.
 - A Zhek privatization and/or budget autonomy project. Zheks are enterprises which provide (1) operation and maintenance services, and (2) utility distribution and fee collection services for groups of apartment buildings. The operation and maintenance function may be the easiest to privatize.
 - A transportation pricing and/or privatization projects.
6. Ongoing educational and training efforts, including in-country seminars, US-based training, media and publications.

APPENDIX A

Suggestions for Future Indicators Work

These are other indicators or information that it may be worth pursuing in future iterations of this indicators work. These can be divided into three groups:

1. General background information: this is information that would be useful for a more complete understanding of the Ukrainian context. Some relevant data would be:
 - demographic data
 - urbanization/population density data
 - further exploration of the political system
 - a discussion of the basic legal system
 - a chart or table summarizing the basic jurisdiction of key government bodies
 - an analysis of budget flows
 - a full listing of all relevant laws

2. Additional specific indicators: these are additional indicators that might be useful for a fuller understanding of the dynamics of land and housing in Ukraine:
 - statistics regarding land leases (length, allocation, costs, conditions)
 - costs of materials, labor, machinery in construction
 - numbers of unoccupied residential buildings
 - information on the housing exchange market
 - number of conversions from residential to business use
 - an analysis of how targeted subsidies are currently used
 - statistics on the extent of, and services provided by, private housing management firms
 - the extent of utility metering
 - a comparison of the quality of owner occupied vs. tenant-occupied housing

3. Attitude and experience surveys: these surveys could help uncover basic problems of conceptualization that could stand in the way of developing private land and real estate markets. The following is an outline of some of the questions that could be developed in such a survey.
 - 3.1 Attitude towards:
 - privatization generally
 - privatization of housing
 - privatization of enterprises

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3.2 Biggest perceived risks of:

- privatization generally
- privatization of housing
- privatization of enterprises

3.3 Biggest perceived potential benefits of:

- privatization generally
- privatization of housing
- privatization of enterprises

3.4 Do you know someone who has a private home?

3.5 Do you know someone who has private land?

3.6 What would encourage you to privatize your home or other property?

3.8 What would scare you the most about privatizing your home or other property?

APPENDIX B

An Exchange Rate Index

In the USSR until 1987 the ruble/US dollar rate was officially fixed at the level of 0.55 to 0.60 ruble for \$1.00 and did not reflect any real value. This artificial rate was used in all Soviet official sources until July 1992.

In 1987 a so-called "special rate" was introduced to be used for currency exchange by individuals (including both Soviet and foreign citizens). This rate was ten times the official rate. This approach was used until April 1991 when the first bids for dollars appeared on the new Moscow Exchange Market. Since then, official sources regularly publish exchange bid results which are more or less representative of the value of the ruble in dollars. In April of 1991, a dollar was worth 27.6 rubles. By September, 1991 it had jumped to 170 rubles.

Since 1992, Ukrainian official sources publish official rates for the US dollar based on the Ukrainian karbovanets, (krb) which was introduced on January 10, 1992 as a parallel currency in Ukraine. While initially the rate of krb to ruble was 1:1, very soon it started falling.

The official rate of the National Bank of Ukraine during 1992 was representative in general of the private markets, though it lagged behind the black market rate by 15-20 percent on average. This trend continued during 1993, except for a few months from March to July when the rate of the National Bank was higher than the black market rate.

The following table is an attempt to determine an exchange rate index as one way to measure inflation. A better way, of course, would be a "market-basket" approach, in which a fixed and representative set of goods was monitored over time. Some recent work has been done in this area, but is not available for the years covered by this report.

A market-basket approach measures the purchasing power of a currency over time. The suggested dollar index is complicated by the additional factor of relative expectations about the future performance of the two currencies. Even so, with the dominant role of the dollar in the Ukrainian market, it is worth considering an exchange rate index. Prices for housing, cars, electronics, and many other items are routinely expressed in dollars.

Data for 1990 and 1991 are taken from the official information of the USSR State Bank published in "Izvestia" (for April-December 1991 the bid results at the Moscow Exchange Market are presented). The rates for 1992 and 1993 represent the official rate of the National Bank of Ukraine taken from "Holos Ukraini" and "Uryadovy Kuryer". The year of 1990 is used as the base year.

For each year, the monthly rates were averaged to give an annual rate, which was then indexed to the base year.

	1990	1991	1992	1993
Average rub/krb rate to \$1	5.84	52.90	213.49	2,207.19
Inflation index	1.00	9.06	36.56	377.94

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