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FRAMEWORK FOR FINANCING SOCIAL HOUSING: EUROPEAN BEST PRACTICES

The article analyzes various mechanisms used in European countries to finance social housing. Social housing is one of the methods of state assistance to vulnerable groups of the population. It allows to stimulate the development of certain regions, and also ensures the attraction of personnel to critical infrastructure facilities. It has been established, that European countries use different mechanisms for financing social housing. The choice of mechanisms depends on the GDP of the country itself, the structure of revenues and expenditures of the state and local budgets, and the availability of funds in individual territorial communities. It has been found that, depending on the social policy pursued by the country, social housing can be financed at the expense of local budget revenues, grants from individuals and corporations, and a combination of these sources.

It is established that the concept of social housing in the country is developing gradually. This is due to the fact that at the initial stages, the state uses social housing to stimulate certain regions and attract specific specialists in urgent need. With the growing demand for social housing, territorial communities are increasingly facing problems with available resources, so they are beginning to look for other mechanisms to attract funding. In particular, other financing mechanisms involving private capital have recently been actively developing in European countries, which will partially cover the population's housing costs and speed up this process without additional costs for local authorities. It is found that the situation in Ukraine requires the creation of a fundamentally new mechanism that will help different segments of the population affected by the aggression, direct efforts to rebuild the destroyed regions and attract external resources to optimize this process.

Keywords: social housing, financing mechanism, municipal social housing, grants for social housing, support for vulnerable groups of the population.

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МЕХАНІЗМИ ФІНАНСУВАННЯ СОЦІАЛЬНОГО ЖИТЛА: ДОСВІД ЄВРОПЕЙСЬКИХ КРАЇН

У статті проаналізовано різноманітні механізми, що використовуються в країнах Європи для фінансування соціального житла. Соціальне житло є одним з механізмів допомоги вразливим верствам населення з боку держави. Воно дозволяє стимулювати розвиток певних регіонів, а також забезпечує залучення кадрів на об'єкти критичної інфраструктури. Встановлено, що країни Європи використовують різні механізми фінансування соціального житла. Вибір механізмів залежить від величини ВВП самої країни, структури доходів і видатків державного та місцевих бюджетів, забезпеченості коштами окремих територіальних громад. Було виявлено, що залежно від соціальної політики, що проводить країна, соціальне житло може фінансуватися за рахунок доходів місцевих бюджетів, грантів з боку приватних осіб і корпорацій, а також поєднання цих джерел.

Встановлено, що концепція соціально житла в країні розвивається поступово. Це пов'язано з тим, що на початкових етапах держава використовує соціальне житло для стимулювання окремих регіонів і залучення конкретних спеціалістів, в яких існує нагальна потреба. Із зростанням запитів на соціальне житло територіальні громади все виразніше стикаються з проблемами наявних ресурсів, тому починають шукати інші механізми залучення фінансування. Зокрема, останнім часом в країнах Європи активного розвитку набувають інші механізми фінансування із залученням приватного капіталу, що дозволять частково покривати витрати населення на житло, дозволять пришвидшити цей процес без додаткових витрат з боку місцевих органів влади. Виявлено, що ситуація в Україні потребує створення принципово нового механізму, що дозволить допомогти різним верствам населення, що постраждали від агресії, спрямувати зусилля на відбудову зруйнованих регіонів і залучити зовнішні ресурси для оптимізації цього процесу.

Ключові слова: соціальне житло, механізм фінансування, муніципальне соціальне житло, гранти на соціальне житло, підтримка вразливих верств населення.

Formulation of the problem in general and its connection with important scientific or practical tasks

In the contemporary socio-economic panorama, the issue of social housing stands as a pivotal and pressing concern, particularly within the context of the European Union (EU). As we navigate the intricate tapestry of societal needs, economic fluctuations, and urbanization trends, the significance of ensuring adequate, affordable, and inclusive housing has never been more pronounced. Against the backdrop of a rapidly evolving global landscape, characterized by urbanization, migration, and economic disparities, the question of providing secure and accessible housing for all citizens has risen to the forefront of public policy discussions. The problem became crucial in Ukraine as a lot of people lost their housing to destruction by the Russian invaders. Considering that most of the budget revenues at the moment are allocated for the defence and armed forces, it's not possible to finance the complete renovations of the residential properties. Still, the government needs to offer at least an alternative to help the citizens. It can be social housing until the victory is achieved and more money could be dedicated for those purposes. As this concept is relatively underdeveloped in Ukraine, we should analyse the best practices offered in the European countries.

Analysis of research and publications

Among the researchers analyzing the issue of social housing financing, its purposes, criteria and economic impact we should mention A. Reisenbichler, A. Granath Hansson, B. Lundgren, J. King, J. Ryan-Collins, M. Friesenecker, Y. Kazepov, G. Wijburg, D. Czischke, G. van Bortel, B. Christophers, A. Todes, J. Robinson, M. A. Adabre, A. P. C. Chan, C. Whitehead, K. J. Scanlon, H. Pawson, J. Lawson, V. Milligan, D. MacLennan, A. More, K. Gibb, M. Oxley, J. C. Driant, M. Li, M. P. Eastaway, I. San Martin for their contributing to the theories of social housing financing.

Highlighting previously unresolved parts of the general problem, which is devoted to the article

The call for a sustainable funding mechanism at the European level underscores the urgency of addressing the financial constraints faced by social housing providers, especially in the wake of reduced government funding in certain countries. However, the feasibility of such a mechanism remains a subject of debate, with questions surrounding the utilization of the EU single market and the role of institutions like the European Investment Bank.

Despite the significance of the topic, there is a noticeable scarcity of literature comprehensively addressing the diverse facets of social housing in the EU. Given the pivotal role social housing plays in supporting vulnerable populations and fostering social cohesion, there is a clear need for more extensive research.

Formulation of the goals of the article

The purpose of the article is to analyse various mechanisms used in European countries to finance social housing and establish the best practices to implement in Ukraine.

Presenting main material

The European Union, renowned for its commitment to upholding fundamental rights and fostering social cohesion, grapples with the challenge of addressing housing inequalities and guaranteeing a basic standard of living for its diverse population. As such it is paramount to delve into the multifaceted dimensions of social housing within the EU, unravelling the complexities associated with its provision, distribution, and impact on communities, as well as financing and investing. The financial sustainability of social housing initiatives directly influences the scope, scale, and effectiveness of policies aimed at providing secure and inclusive housing for all citizens. Recognizing the importance of this nexus between finance and social housing is essential not only for policymakers but also for researchers, advocates, and communities impacted by housing disparities.

Within the EU, the challenge of financing social housing is further compounded by the diversity of economic structures and policy frameworks across member states. Disparities in fiscal capacities, coupled with varying degrees of public and private sector involvement in housing provision, contribute to a complex landscape that demands careful analysis. Understanding the financial intricacies of social housing is crucial for devising targeted and sustainable strategies that can navigate these diversities, ensuring that financial mechanisms align with the overarching goal of fostering inclusive and resilient communities.

The financial viability of social housing initiatives is not merely an abstract concern but holds direct implications for the realization of broader societal objectives. As we grapple with the aftermath of the COVID-19 pandemic and cope with the consequences of a violent war started by Russia against Ukraine in a form of refugees forced to flee in European countries to seek shelter, the role of social housing in economic recovery and community well-being becomes even more pronounced. A nuanced exploration of financing mechanisms is paramount to identifying innovative solutions that not only address immediate housing needs but also contribute to long-term economic stability and social cohesion.

Social housing is a term that refers to a system of providing affordable and long-term housing to households with limited financial resources. The main features of social housing are: (1) a distribution system that ensures that the housing is allocated to the target group based on their income and/or need; (2) a subsidy mechanism that enables the provision of housing at below-market rents or prices; and (3) a long-term tenure that guarantees the security and stability of the occupants. Social housing is not a uniform concept but varies across countries and regions depending on the historical, institutional, and political contexts. In one article authors examine the definition, characteristics, and examples of social housing in different European countries, with a focus on Sweden and Germany. They also compare and contrast the social housing systems in these countries and discuss their advantages and disadvantages. The article proposes universal definition which states that social housing is actually a system that provides long-term housing to a group of households specified only by their limited financial resources, by means of a distribution system and subsidies [1; 2].

Social housing is an important dimension of social welfare policy and affordable housing provision in Europe, representing more than 28 million dwellings and about 6% of the total housing stock in OECD and non-OECD EU countries as of 2020. However, there are significant differences across countries in the definition, size, scope, target population and type of provider of social housing. For instance, social rental housing accounts for less than 10% of the total dwelling stock in most EU countries. That being said, in countries like Austria, Denmark and the Netherlands it is considered as key “third sector” in the housing market making up more than 20% of the total stock [3; 11].

The ownership structure of social housing within the European Union (EU) exhibits significant variability, reflecting diverse national approaches to housing policy and governance (Fig. 1). In countries such as Hungary, Sweden, and Ireland, the predominant model involves municipal ownership, with local authorities directly managing the majority of social housing stock. In contrast, Denmark and the Netherlands stand out for their distinctive reliance on housing associations as the primary proprietors of social housing. It is noteworthy that this represents a shift from historical practices. Traditionally, social housing in these countries was guaranteed and directly managed by municipalities. However, evolving housing policies and changing socio-economic landscapes have prompted a transition in ownership structures. In the contemporary context, housing associations have assumed a more prominent role in the provision and management of social housing. There are also cases like England’s where the landscape of social housing ownership occupies an intermediary position within the European Union, characterized by a relatively balanced distribution between municipal and housing association ownership. This divergence underscores the complex interplay of historical, political, and cultural factors shaping housing systems across the EU member states. It is important to understand these ownership patterns as it can help policymakers and researchers seeking to formulate effective strategies that align with the specific contextual dynamics of each nation [4; 12].

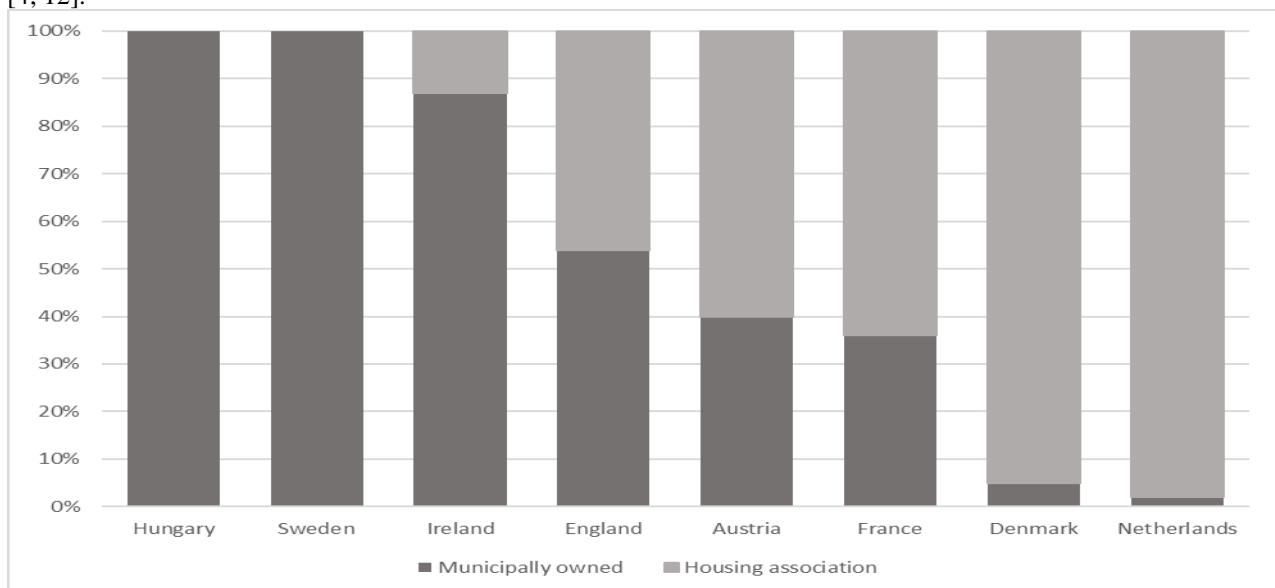


Fig. 1 Different ownership of social housing in EU countries

Source: [12, p. 9]

Across the European Union, there is a discernible trend marked by a transition from municipal to private housing ownership and financing. This shift is substantiated by a decline in the percentage of social housing expenditures relative to the total Gross Domestic Product (GDP). While the actual expenditures on social housing have remained relatively stable over the years, the proportional decrease in the context of an expanding GDP signifies a significant transformation in housing finance dynamics (Fig. 2). This trend implies that, despite sustained investments in social housing, the economic growth experienced by many EU member states has outpaced the rate of public spending on housing initiatives. The evolving landscape underscores the increasing role of private financing mechanisms and a changing emphasis on market-driven solutions, posing both opportunities and challenges for policymakers striving to balance the imperative of affordable housing provision with the realities of a dynamic economic context [5; 13].

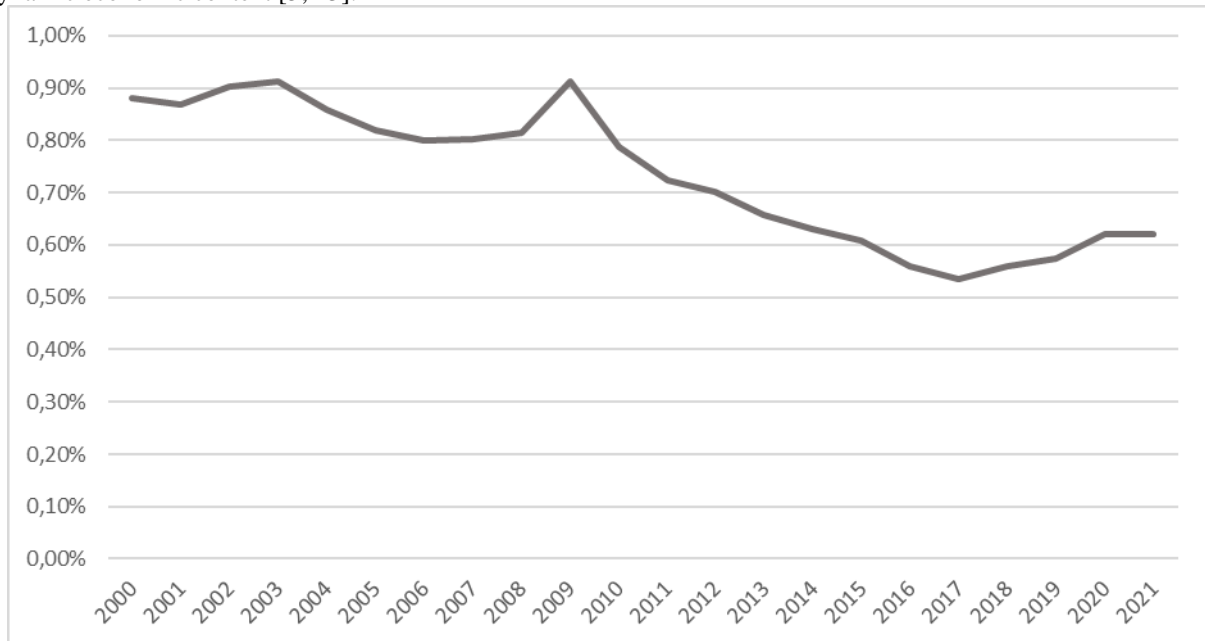


Fig. 2. EU percentage of total GDP of government expenditure on social housing and community amenities

Source: [13]

To facilitate the production of dwellings, social housing organizations in the European Union rely on a diverse array of financing mechanisms to secure the necessary capital. This capital flow is often sourced through a combination of channels, encompassing direct public expenditure in the form of grants or loans, government intermediaries providing loans, and engagement with private financial institutions. Each financing avenue is accompanied by specific conditions that shape the overall investment package and guide resources toward designated projects. Authors of one article analysed the extensive range of financing mechanisms in play that influence the broader regimes of capital accumulation within the social housing sector [14].

Amongst the main ones being grants as they constitute a direct means of influencing housing supply, with their efficacy contingent upon available funds and political commitment to housing initiatives. Often utilized to catalyze and secure additional funding sources, grants play a crucial role in leveraging resources for social housing projects. Another one is discounted land prices which have traditionally been instrumental in steering urban development outcomes, particularly in instances where governments hold substantial land assets. This mechanism can be specifically tailored to advance affordable housing objectives, contingent upon the availability of land and prevailing market conditions. Public loans have also historically served as the primary financing strategy for social and affordable housing programs. There are also government-secured private investments which involve the provision of government-backed guarantees to mitigate risks for financial institutions investing in affordable housing, resulting in a reduced cost of finance. This is where both government and private institutions unite in order to help with construction of social housing. And of course, the utilization of own reserves and surpluses. Such strategy is very common in countries with prevalence of established housing organizations who leverage their financial standing to invest in additional housing. Raised funds can be consolidated to support less robust organizations or to foster innovation and competition within the housing sector. This multifaceted financing landscape underscores the complexity of housing finance in the EU, reflecting the diverse strategies employed to meet the evolving demands of affordable and accessible housing for diverse populations [6; 14].

Authors of another study underscore the need to detach social housing from direct reliance on the financial market, especially post the financial crisis. Instead, a system of intermediation is recommended to shield housing organizations from market volatility. Direct engagement with the financial market poses challenges in securing affordable credit, while systems involving financial intermediaries, backed by state support, offer stability. The

financial crisis prompts a reevaluation, emphasizing the importance of financial intermediaries in stabilizing social housing financing [7; 15].

Gibb K. in his work delves into the array of financial mechanisms and public interventions available to social housing providers in the European Union, focusing on funding, pricing affordable housing, and ensuring revenue streams for debt repayment and long-term maintenance. It can be generalized that in EU social providers, particularly not-for-profit entities, primarily raise private sector loans secured by housing stock, with financial oversight from local authorities or dedicated public agencies. The classic model involved significant public commitments, but the growth of market instruments, housing allowances, and capital grants has altered funding dynamics. The shift towards private funding sources, while introducing diverse financial instruments, has increased risks and prompted the professionalization of the voluntary housing sector. Author emphasizes the need for social housing to adapt to reduced public spending by collaborating with the private sector and enhancing risk management skills. The importance of preserving the essential role of social housing in supporting low-income households is highlighted [10; 16].

Multiple authors representing different countries came to a conclusion that on a European scale currently one of the main discussions should be enhancing the sustainability of social housing funding. Suggestions include considering a shared financing mechanism at the European level. The proposal emphasizes the need for a funding vehicle that enables European social housing providers to navigate the fluctuations in capital markets. That being said, reflecting on the feasibility of this European-level funding, there are questions about optimizing the EU single market amid diverse systems that may hinder the use of instruments like European bonds. Notably, the European Investment Bank is seen as a key intermediary between the financial market and the financing of social housing activities in EU Member States. Its is particularly significant in the financing system of social housing in New Member States [8; 9; 17; 18].

In conclusion, the examination of literature and statistics about social housing and its funding in the European Union reveals an imperative and complex topic that necessitates nuanced consideration. With vast differences observed across EU countries, ranging from varying ownership structures to disparities in funding mechanisms, the challenges and opportunities within the social housing sector are manifold. The evolving trends showcase a decline in traditional social renting in some nations, contrasting with a potential resurgence in others. In general, more and more countries begin to shift away from municipal control toward housing association dominance in a market [19].

Conclusions from this study and prospects for further research in this direction

It has been established, that European countries use different mechanisms for financing social housing. The choice of mechanisms depends on the GDP of the country itself, the structure of revenues and expenditures of the state and local budgets, and the availability of funds in individual territorial communities. It has been found that, depending on the social policy pursued by the country, social housing can be financed at the expense of local budget revenues, grants from individuals and corporations, and a combination of these sources.

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Future studies should delve into the intricacies of country-specific challenges, innovative financing models, and the evolving landscape of social housing across the European Union. This underexplored yet crucial subject demands more scholarly attention to inform policy decisions and ensure the continued provision of affordable and accessible housing for diverse populations within the EU.

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