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Policy Evaluation [PE/03/2021]

# The Ukrainian Housing and Utilities Subsidy (HUS): Targeting and Coverage

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## About Low Carbon Ukraine

Low Carbon Ukraine is a project that continuously supports the Ukrainian government with demand-driven analyses and policy proposals to promote the transition towards a low-carbon economy.

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## Executive Summary

The Housing and Utilities Subsidy (HUS) is a social transfer meant to assist low-income individuals in the payment of housing and communal services. However, and despite its heavy weight on the government budget, many poor households are not awarded the HUS (only 50% of poor households received the HUS in 2018, and only 28% in 2019). Moreover, the wealthiest households often receive the subsidy, and, due to its design, such households also often receive large amounts. More stringent exclusion criteria in 2018 led to fewer households receiving the HUS in 2019, yet such reduction in coverage was achieved at the expense of all households, including the poorest. Several of the exclusion criteria, hinging on debt accumulation and on the presence of individuals without (substantial) declared income, likely harmed the most vulnerable households.

The current payment of the HUS – detached from household specific energy consumption - means price increases, if significant, can incentivize energy efficiency measures, a central goal for Ukraine with short- and medium-term benefits to the most vulnerable. However, not all eligible households apply for the HUS. Easy access must exist for all, without harm to those possibly less informed.

Reduced electricity tariffs actively work against energy efficiency and are also not the answer to assist the poor, given they are regressive: a subsidy to the largest energy consumers, or, in other words, a subsidy for the wealthy. The HUS is as of now a lump-sum transfer to household income, but not sufficiently progressive and leaving out many households in need. In this sense, its heavy burden on the budget could be reformulated into another type of transfer, designed, for instance, on the basis of income directly, which would be able to protect the most vulnerable and still allow market prices to incentivize energy efficiency.

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## 1 Introduction

Introduced in 1995, the Housing and Utilities Subsidy (HUS) in Ukraine is a social transfer whose stated purpose is to help low-income individuals in the payment of housing and communal services to face growing tariffs. Despite its purported limited scope, the HUS is a major part of Ukrainian social policy, estimated to have amounted to 1%-2.5% of the GDP in 2016-2020 (Alberini and Umapathi 2021).

The HUS has co-existed with artificially lower energy prices but ideally would not for much longer. Gas prices are no longer regulated but state intervention is still not ruled out. Household electricity prices have been progressively increased, though a reduction of tariffs, countering the policy of the last decade, is now in store<sup>1</sup>.

Allowing energy prices to reach market levels is crucial to provide incentives for energy efficiency, a policy which is not contrary to protecting the poor. Pursuing energy efficiency has short-term and medium-term benefits for vulnerable households. For instance, it provides incentives to structural improvements to houses and modernization of appliances. If such costs are not borne excessively by poor households, they are bound to benefit more, in terms of comfort, safety, and future lower prices, given their worse starting point. In the medium to long-term, added protection from extreme weather events is invaluable for more vulnerable households.

Given the need to allow energy prices to increase to market prices, subsidies are a powerful tool to ensure affordability in the short term for low-income households. We thus consider whether the HUS is currently providing the necessary protection.

The HUS has undergone numerous reforms, some meant to loosen, others to tighten, accessibility conditions. In 2018, accessibility criteria were substantially tightened. Based on the Household Budget Survey of 2018 and 2019, we analyse how well the HUS targets the poor, and how its targeting changed from 2018 to 2019. We will then take a brief look at how the HUS targeting system worked in previous years and what major changes there have been over time.

## 2 Targeting the poor?

Poor and non-poor households are essentially equally likely to receive the HUS. In 2019, after the reform, while the prevalence of the HUS almost halved, decreasing from 49% to 27%, the poor and non-poor remain in all similar in HUS prevalence (Table 1).

**Table 1: Percentage of households receiving the HUS by type (poor vs. non-poor)**

	2018		2019	
	Non-poor	Poor	Non-poor	Poor
Relative poverty threshold	48.3%	50.4%	27.3%	28.0%

Source: LCU, based on the HBS

Note: Poor households have average equivalent total costs below 75% of the median level of purchase costs.

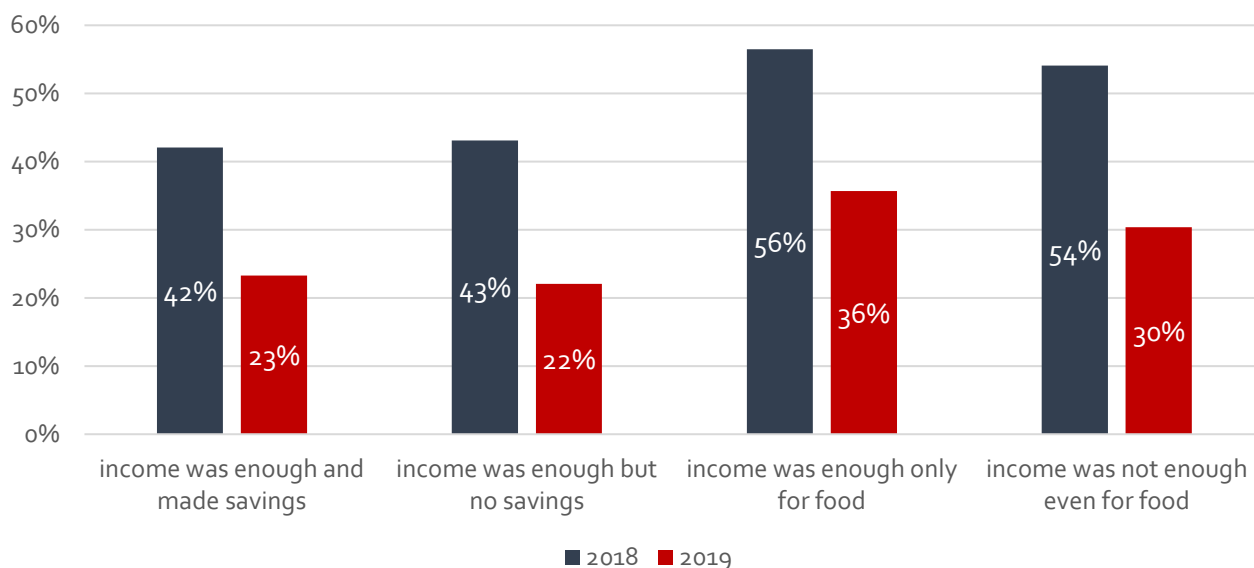
The result is that only about 20% of the HUS was channelled to the poorest households. If we consider self-reported financial security, the HUS is still very prevalent amongst the least vulnerable groups, both in 2018

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<sup>1</sup> Gas tariffs were temporarily reintroduced due to COVID-19 but since April 2021 gas suppliers were allowed to again set their prices.

and in 2019 (Figure 1). Approximately 50% of the HUS expenses were destined to the two least vulnerable groups, who report income was enough for basic expenses.

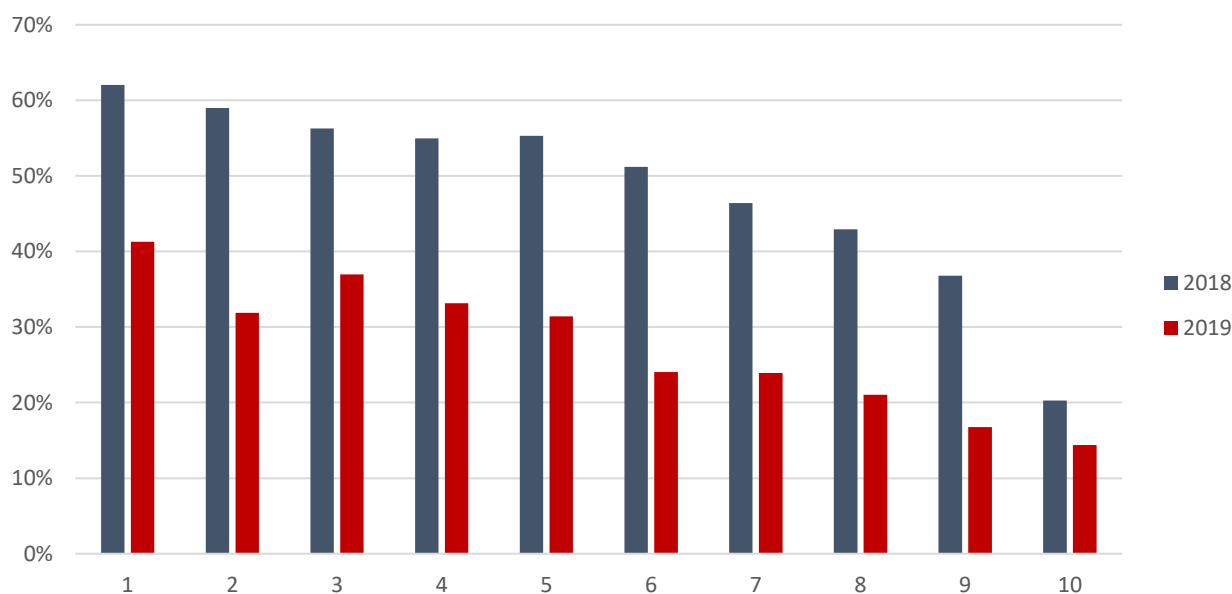
**Figure 1: Percentage of households receiving the HUS by self-reported economic status**



Source: LCU, based on the HBS

While from 2018 to 2019 the subsidy prevalence decreased, this seems indeed to have been achieved at the expense of all socioeconomic groups instead of only the least vulnerable. A breakdown into income deciles shows the least impacted group was actually the top income decile, where only 29% fewer households received the subsidy in 2019 than in 2018 (Figure 2). The income decile breakdown does reveal a somewhat 'progressive' nature of the subsidy, though less steep than one could expect, and less steep in 2019 than in 2018, showing changes might have made targeting worse.

**Figure 2: Percentage of households receiving the HUS by income decile**

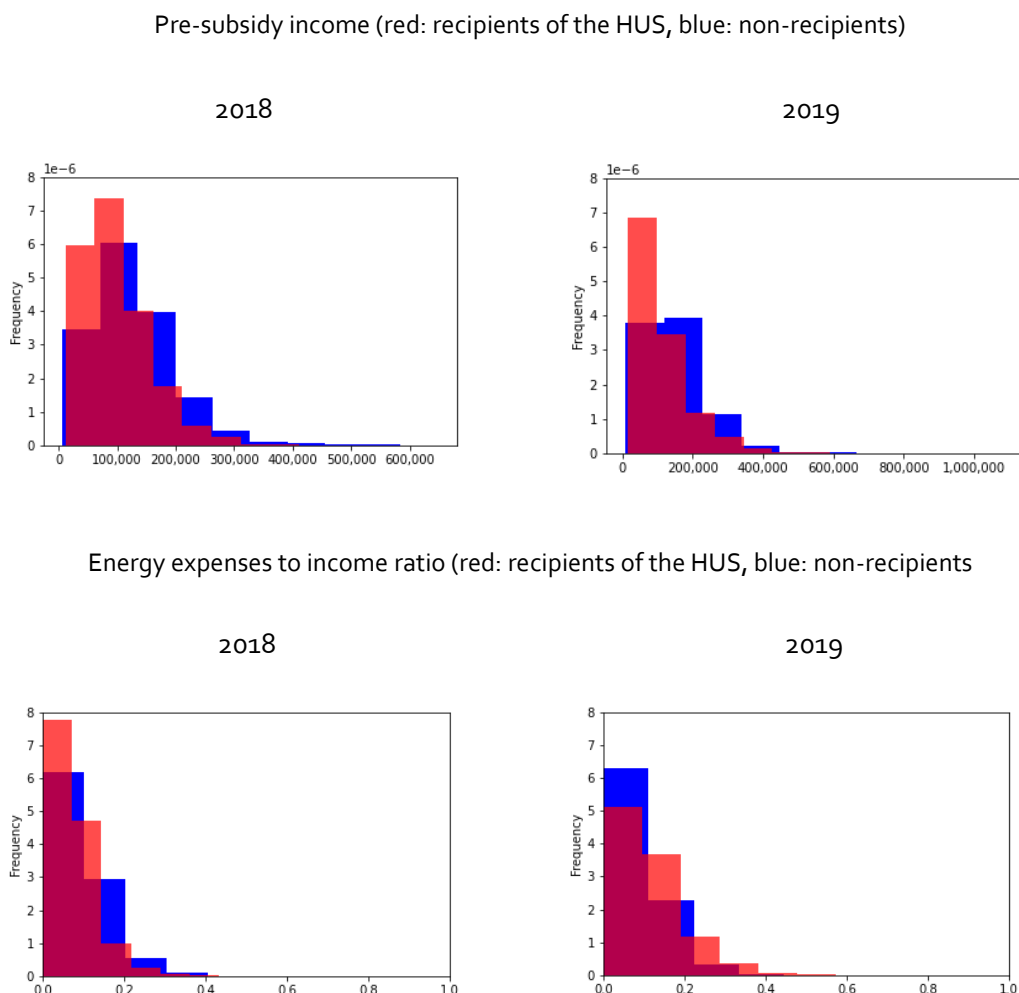


Source: LCU, based on the HBS

Note: Income decile is defined at the household level, for income excluding the HUS (10 – 10% highest incomes, 1 – 10% lowest incomes). Per capita income cannot be calculated for all households due to missing information on household size to protect confidentiality.

Overall, the income distribution of recipients and non-recipients is only slightly different. Recipients and non-recipient households also do not differ substantially in their energy expenses to income ratio, (a ratio which, when exceeding 10%, is considered a sign of energy poverty), showing the HUS is, likewise, not sufficiently targeted to such characteristics (Figure 3). Such as the differences are not statistically significant<sup>2</sup>.

**Figure 3: Distribution of pre-subsidy income and energy expenses to income ratio amongst recipients of the HUS (red) and non-recipients (blue)**

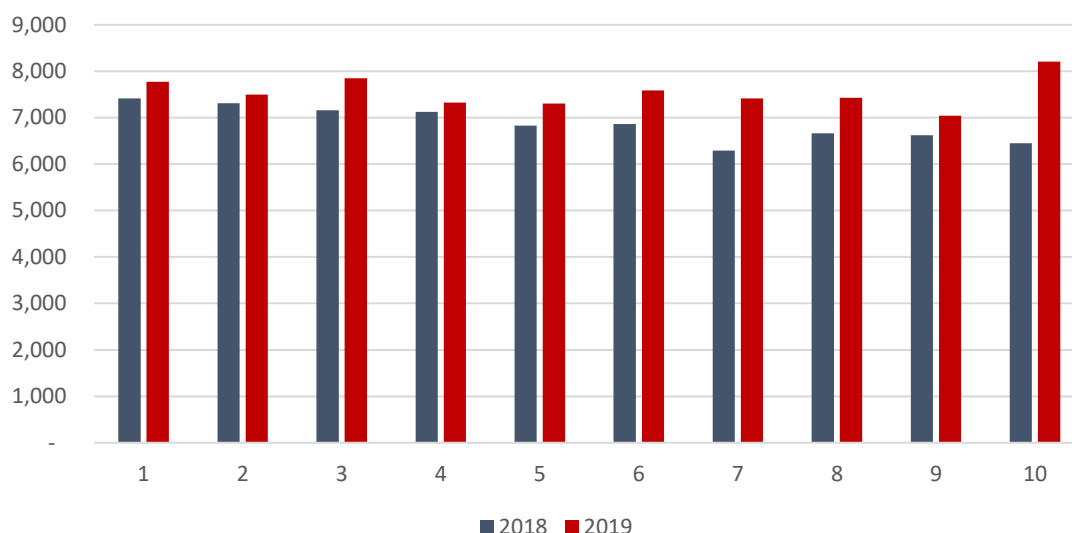


Source: LCU, based on the HBS

We have focused on how much more likely households are to receive the HUS considering their economic status, and not on the monetary values of the subsidies awarded. While the HUS is independent of household-specific energy consumption (since 2013), being attributed based on social norms of energy consumption, higher income groups are still required to pay a larger share of their income. The average subsidy received by HUS recipients decreases only slightly with income per capita levels (see Figure 4). While a part of the subsidy is mechanically lower for higher income per capita households - since the mandatory share is larger -, social norms depend on number of household members and on the type of energy used, which will dampen the differential in subsidy amount between income groups. For instance, social norms are higher in the presence of electric stoves – an extra 40kWh, or 67.2 UAH in 2018/2019, per month in the presence of centralized hot water – whose prevalence is much higher in higher income deciles (amongst those who receive the subsidy, we find that 43% of those in the top income decile have electric stoves, against only 19% in the bottom income decile).

<sup>2</sup> Such differences are not statistically significant as determined by Kolmogorov-Smirnov tests, p-value = 1.0.

**Figure 4: Average annual HUS subsidy for beneficiary households by income per capita decile (UAH)**



Source: LCU, based on the HBS.

Note: Income per capita decile is defined for income excluding the HUS (10 – 10% highest incomes per capita, 1 – 10% lowest incomes per capita). Per capita income was calculated by assuming all households with '5 or more household members' had 5 household members, due to censored information on household size. Calculations based on household income overall lead to the same qualitative findings.

The numbers reported are not comparable with the report by Berlin Economics (2021). Through the HBS, in this paper, we report on the average amount a household received in the year, while the numbers reported in Berlin Economics (2021) averages for the heating season only and are based on monthly information. If we were to divide our annual amounts by 12 for the total population who received the HUS as per our data, we can verify that the average HUS we obtain for 2018 is 579 UAH (6949/12), which is much smaller than 1,639 UAH. If we consider the average amounts reported for every month by the Ministry of Social Policy, instead of the heating season, we obtain a number which is substantially closer to 579 – 859 UAH – but which, by construction, must still be larger than ours<sup>3</sup>. This is because households which received the subsidy for only for half of the year are part of our denominator – our average is annual - but not of the part of the denominator of average monthly subsidies which can be calculated from the Ministry of Social Policy data. The monthly HUS is simply the average HUS amounts disbursed that month divided by total recipients of that same month, not by recipients at any time in the year<sup>4</sup>.

Importantly, we conduct other cross-checks to assess the reliability of our HBS findings, vis-à-vis other sources. When we compare the numbers obtained by LCU from the HBS on other indicators used for the calculations, namely, in terms of the income distribution, our results accurately reproduce numbers reported by Ukrstat. When we consider numbers by the Ministry of Social Policy (2018), average income per capita for different income brackets is again very similar, though both the lower and the higher brackets have lower average incomes than those obtained through the LCU HBS (see Annex). This vouches for the reliability of the HBS for the analysis conducted.

<sup>3</sup> 859 UAH is the average of 12 observations, i.e., the average of the 12 monthly average HUS payments of 2018, where each monthly average HUS payment was obtained by dividing the total assigned subsidies in that month by the number of households assigned a subsidy in that month. The raw data can be found in [https://map.ua-energy.org/system/documents/files/000/003/061/original/2019\\_12\\_subsidies\\_ENG.xlsx?1623920712](https://map.ua-energy.org/system/documents/files/000/003/061/original/2019_12_subsidies_ENG.xlsx?1623920712).

<sup>4</sup> Based on the Ministry of Social Policy, from January to May 2018, on average, 6.5 million households received the HUS each month; from June to December on average 2.3 million households per month received the HUS.



### 3 A look back in time

#### Eligibility

It is not the first time there have been changes to exclusion criteria of the HUS. Between 2012 and 2015, exclusion criteria were tight; in 2015, they were loosened; and, as above discussed, they were tightened in 2018. The next table summarizes the access conditions during these periods, referring to the relevant section of the Cabinet of Ministers Resolution No.848<sup>5</sup>:

**Table 2: Main HUS exclusion criteria as per the Cabinet of Ministers Resolution No. 848**

Period	Exclusion criteria from the HUS
2012-2015, article 5	<ul style="list-style-type: none"> <li>• Able-bodied individuals of working age NEET<sup>6</sup> (sp 1)</li> <li>• Someone earns income from renting housing (sp 2)</li> <li>• More than one house, with large aggregate area (sp 3)</li> <li>• Two or more vehicles (sp 4)</li> <li>• A purchase &gt; 10 times the subsistence minimum (sp 5)</li> </ul>
2016-2018, article 5	<ul style="list-style-type: none"> <li>• A purchase &gt; 50,000 UAH (sp 5)</li> </ul>
2019-on, article 6 (from 01.05.2018), article 7 (from 01.01.2019) or article 14 (from 01.10.2019)	<ul style="list-style-type: none"> <li>• 18+ with low tax income / low social security contributions (sp 3)</li> <li>• Apartment area larger than 120m<sup>2</sup> (or 200 m<sup>2</sup> if house) (sp 1)</li> <li>• Vehicle registered less than 5 years ago (sp 2)</li> <li>• A purchase &gt; 50,000 UAH (sp 4)</li> <li>• Overdue debts for housing and communal services (sp 5)</li> <li>• Alimony debts (sp 7), after 20.10.2018</li> </ul>

*Note: 'sp' stands for subparagraph and refers to the subparagraph of article 5, 6, 7 or 14 of Resolution no. 848. 2016-2018 as defined in the Regulation as of (01.05.2015). 2019-on as defined firstly in 01.05.2018. Not all changes in the period 2012-2021 are listed, but all those affecting the main exclusion criteria.*

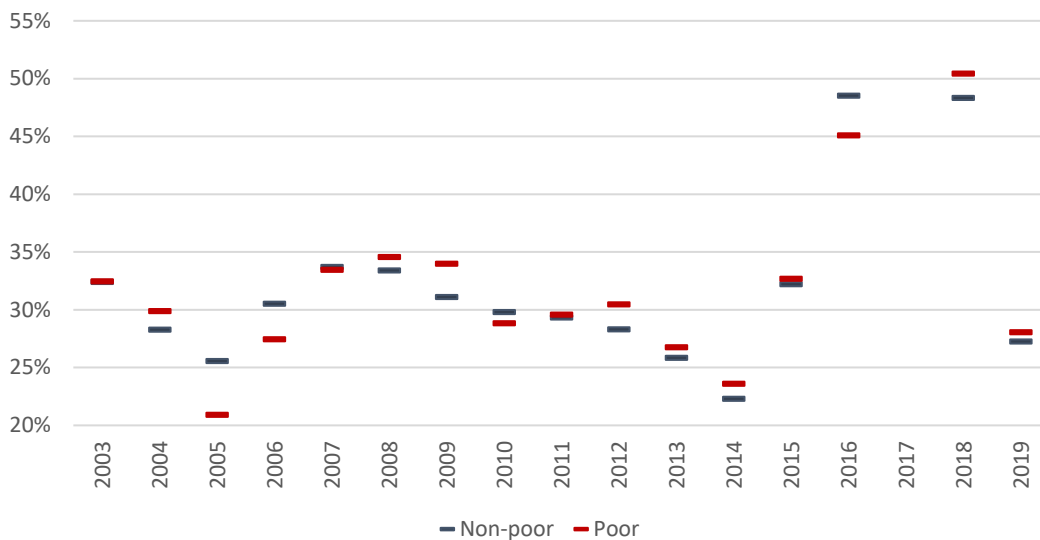
The tight conditions in 2012-2015, followed by loosening (2016 – 2018) and by tightening (2019) is visible in the percentage of households awarded the subsidy – it increases substantially in 2016 and 2018 (no data for 2017), and then decreases in 2019.

Yet, despite these fluctuations, the targeting of the subsidy always had consistent flaws, with little difference between the poor and non-poor in terms of attribution, not only in 2018 and 2019 (Table 1), but also beforehand. Unfortunately, a large share of poor households has historically been left out of the HUS.

<sup>5</sup> <https://zakon.rada.gov.ua/laws/show/848-95-%D0%BF/ed20200101#Text> (Accessed: 30 August 2021)

<sup>6</sup> NEET means Not in Employment, Education or Training.

**Figure 5: Percentage of households receiving the HUS by type (poor vs. non-poor)**



Source: LCU, based on the Household Budget Survey (HBS). Poor households are those with average equivalent total costs below 75% of the median level of purchase costs. \*LCU has not been able to obtain 2017 HBS data.

### Disentangling subsidies from consumption and the monetization process

In addition to the changes in eligibility criteria, important modifications were also made to the way the subsidy was paid. From at least 2012 until 01/01/2014, if the subsidy was not used in a certain year, it would be lost, effectively making the subsidy amount depending on household consumption, creating pernicious incentives for increased energy consumption. During that time, the subsidy was effectively a subsidy to housing and communal services.

The rules were then modified such that households could transfer the unused amounts of the subsidy from one year to the next, and then, not only to the next billing period but to all subsequent periods. Yet, these amounts would remain within the accounts of the suppliers, meaning such amounts could only be used for paying of housing and communal services. In 2016, the rules were again changed and a part of the unused subsidies (that exceeding the social norms) was channelled back to the state budget.

From December 2018, in the process of “partial monetisation”, the Oschadbank (the state-owned savings bank) acted as an operator for settlements of all HUS transactions by making payments to utility service providers for each HUS recipient. Therefore, they used the funds received from the Ministry of Social Policy. That meant that HUS recipients had no direct access to the funds until the end of the heating season, when the excess HUS money was paid to their personal accounts. “Full monetization” of HUS was introduced by CMU Regulation No.62 on February 6, 2019, whereby the whole amount of HUS is to be paid to HUS recipients in cash, with no limits to the usage of the received funds (households are free to choose whether to spend received HUS for utility services or for other purposes). The mechanism of payment of HUS in cash involves the Pension Fund of Ukraine and the state-owned postal service company UkrPoshta.

Both systems (partial and full monetization) have been functioning in parallel for some time, with full monetization becoming the prevailing system. From January 1, 2020, the free migration of households from the system of partial monetization to full monetization was allowed (previously certain restrictions applied). However, in case of overdue debts for housing and utility services for 30 days (exceeding UAH 340 or EUR 10), the household will be transferred back to the partial monetization system. Subsidy amounts remain tied to tabulated social norms – which technically should reflect energy demands –, to surface area (since social norms are multiplied based on area and household size), and to income per member.

## 4 Discussion and Recommendations

The fact that targeting might have become worse from 2018 to 2019 is not surprising. While two of the new exclusion criteria were likely to improve targeting – a ceiling on the size of the residence (heated) surface and having a vehicle registered in the previous 5 years - the others were likely to have the opposite effect. Households were excluded if there was anyone above 18 not in school or training and without (declared) income, and if households had any debt concerning past utility payments. In the meantime, another exclusion criterion was added for any outstanding alimony debts. Even if these do decrease debt accumulation, it might not be due to a deterrence effect but exactly to the exclusion of those with biggest financial difficulties.

According to the 2019 Dixi Report (Dixi Group 2019), information spread on social media in March 2019 reporting that 13% of individuals did not apply for the subsidy despite being eligible. Monetization creates the right incentives for energy efficiency, and it is prudent to further facilitate access and identify where the application gaps are.

As it stands, the HUS does not follow its mission of targeting nor sufficiently covering the low-income or otherwise vulnerable individuals, and reforms enacted from 2018 to 2019 might have made targeting slightly worse. The poorest households are not sufficiently covered, and even the highest income groups receive a substantial proportion of the subsidy. The poor targeting of the HUS is not recent, being present since at least 2003.

While the HUS is not sufficiently progressive, tariffs below market price are regressive, constituting a subsidy to the largest energy consumers, or, in other words, a subsidy for the wealthy. The protection of the poorest thus cannot be achieved through a policy of indiscriminate tariffs below market price. Moreover, any tariffs below market price work against the central goal of energy efficiency. The HUS, having been disentangled from energy consumption, no longer provides said negative incentives for energy efficiency, and price increases, if transmitted through market prices, can trigger energy efficiency measures on behalf of households, which can be assisted in other ways.

In a nutshell, the HUS is as of now a lump-sum transfer to household income, but whose amounts are not progressive, and which does not effectively cover the poor. In this sense, the heavy burden on the budget could be reformulated into another type of transfer, designed for instance on the basis of income directly, which would be able to protect the most vulnerable and would allow market prices to incentivize energy efficiency.

Block tariffs can incentivize energy savings – households might strive to keep within the lower blocks –, but how much they work depends on the elasticity of households to price increases. Especially, to promote energy efficiency, the overall level of the tariffs matters. Once more, artificially low tariffs might not provide incentives for energy savings, even if a block structure is in place. Future research on the elasticity of households to electricity price increases is fundamental to understand how prices can be set to appropriately promote energy efficiency without jeopardizing life quality for the poorest.

## 5 References

- Alberini and Umapathi (2021) 'What Are the Benefits of Government Assistance with Household Energy Bills? Evidence from Ukraine', World Bank Policy Research Working Paper 9669, available at <https://documents1.worldbank.org/curated/en/747101621621225723/pdf/What-Are-the-Benefits-of-Government-Assistance-with-Household-Energy-Bills-Evidence-from-Ukraine.pdf>
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- DiXi Group (2019). 'Реформа субсидій та ринок газу в Україні - від проїдання до підтримки вразливих споживачів'. Kyiv, Ukraine. Available at: [http://dixigroup.org/storage/files/2019-11-27/report\\_dg\\_1-6.pdf](http://dixigroup.org/storage/files/2019-11-27/report_dg_1-6.pdf)

## Annex

**Table 3 Comparison of income distribution between Ukrstat and LCU, 2018**

2018 equivalent income per capita categories	Ukrstat reported	LCU HBS calculations
Up to 3000.1	20.9	19.4
3001 – 4080	27.3	26.9
4080 – 5160.1	22.8	22.1
More than 5160.1	29.0	31.7

Source: [Ukrstat](#) and own calculations.

**Table 4, Comparison of income distribution between Ukrstat and LCU, 2019**

2019 equivalent income per capita categories	Ukrstat reported	LCU HBS calculations
Up to 3000	10.7	10.4
3000.1-4000	19.2	19.3
4000.1-5000	20.6	19.6
5000.1-6000	16.6	16.6
6000.1-7000	10.4	10.5
7000.1-8000	7.9	7.8
8000.1-9000	4.6	4.8
9000.1-10000	3.2	3.2
10000.1-11000	2.3	2.7
11000.1-12000	1.5	1.8
More than 12000.1	3.0	3.3

Source: [Ukrstat](#) and own calculations.

**Table 5 Comparison of average income within income brackets between Ministry of Social Policy and LCU, 2018**

	LCU HBS	Ministry of Social Policy
Up to 0.5 subsistence minimum	659.9735	503.67
0.5 to 1 subsistence minimum	1494.224	1441.71
1 to 1.5 subsistence minimum	2243.416	2135.55
1.5 to 2 subsistence minimum	3049.717	3029.09
2 to 2.5 subsistence minimum	3925.728	3858.08
2.5 to 3 subsistence minimum	4759.621	4710.76
More than 3 subsistence minimum	7214.171	5827.91

Source: [Ministry of Social Policy](#) and own calculations.