

Individual Consumers of Energy: Ukrainian market experience

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Abstract

This paper is a part of the study on effectiveness of the Ukrainian energy sector. We have based this study on publicly available statistics and data received from the executives bodies in the government of Ukraine. The paper provides a background on the market dynamics in prices for energy resources paid by individual consumers in Ukraine.

1. Introduction

Administrative and territorial structure of Ukraine as well as the number of population living in various types of administrative-territorial units and settlements is reflected in the following Table 1. At the regional level Ukraine is divided into 24 oblasts, one Autonomous Republic of Crimea (ARC), the city of Kyiv and the city of Sevastopol. The oblasts and ARC are divided into 490 rayons. There are more than 490 municipalities, 893 settlements (small towns) and more than 28 thousand villages. Population of Ukraine by January 1, 2002 is below 49 million, with almost 70 percent living in urban areas and the rest – in rural areas.

Table 1. Territorial Administrative Data as of January 1, 2001¹

Oblast/AR/City	Population			Urbani- Zation	Administrative units			
	Urban	Rural	Total		Rayons	Municipa- Lities	Settle- ments	Villages
AR of Crimea	1,315.9	884.8	2,100.7	63%	14	16	56	957
Vinnytsia	877.0	922.1	1,799.1	49%	27	17	30	1,466
Volyn	549.5	504.7	1,054.2	52%	16	11	22	1,053
Dnipropetrovsk	3,074.0	604.0	3,678.0	84%	22	21	47	1,440
Donetsk	4,410.0	483.5	4,893.6	90%	18	51	132	1,124
Zhytomyr	804.0	616.5	1,420.5	57%	23	9	45	1,627
Zakarpattia	499.1	782.9	1,282.0	39%	13	10	20	579
Zaporizhzhia	1,519.1	464.8	1,983.9	77%	20	14	23	921
Ivano-Frankivsk	631.5	822.2	1,453.7	43%	14	15	24	765
Kyiv	1,065.7	744.8	1,810.5	59%	25	25	29	1,134
Kirovohrad	706.9	446.0	1,152.9	61%	21	12	26	1,024
Luhansk	2,251.6	355.8	2,607.4	86%	18	37	109	792
Lviv	1,644.0	1,059.3	2,703.3	61%	20	43	35	1,852
Mykolayiv	849.1	437.7	1,286.8	66%	19	9	17	903
Odesa	1,640.5	851.2	2,491.7	66%	26	19	33	1,138
Poltava	982.3	677.9	1,660.2	59%	25	15	21	1,846
Rivne	563.0	621.4	1,184.4	48%	16	11	16	1,004
Sumy	859.9	458.9	1,318.8	65%	18	15	20	1,498
Ternopil	509.4	641.7	1,151.1	44%	17	17	18	1,017
Kharkiv	2,326.1	614.6	2,940.7	79%	27	17	61	1,684
Kherson	745.4	467.6	1,213.0	61%	18	9	30	660
Khmelnysky	772.3	674.9	1,447.2	53%	20	13	24	1,416
Cherkasy	788.8	646.4	1,435.2	55%	20	16	15	826
Chernivtsi	397.7	531.5	929.2	43%	11	11	8	398
Chernihiv	751.6	516.0	1,267.6	59%	22	15	30	1,498

¹ Source: Statistical Yearbook, 2000

City of Kyiv	2,637.1	0.0	2,637.1	100%		1	1	
City of Sevastopol	365.6	22.8	388.4	94%		2	1	29
Ukraine - Total	33,537.2	15,754.0	49,291.2	68%	490	451	893	28,651

The urbanization increases from west to east with the lowest urbanization ratio of 39% in Zakarpattia oblast to the highest of 90% in Donetsk. The population can be distributed based on city/settlements sizes as shown in the following Table 2². It gives very rough estimate of the population eligible for centralized water supply, sewage, heating etc. The fact is that majority of urban population (especially those living in big cities) has an access to centralized water supply, sewage and heating. Usually cities and towns with less than 100,000 of citizens do not provide an access to these services to all the households. Roughly half of the populations in such cities and towns lives in the housing with centralized systems and half has individual equipment providing access to water, sewage and heating. It should be noticed also that the situation changed drastically and became very uneven across the country. There are small towns with a centralized heating system, water and gas supply, while there are cases of larger settlements that do not have such a system or the system deteriorated so much that people prefer to install individual equipment. Moreover, there is anecdotal evidence that in many cases selected houses refuse to use centralized heating system and install independent heating devices, which are much more efficient and based on energy saving technologies. In general, there is no reliable data on the share of population with an access to centralized housing and communal services and the following Table 2 can give just a very rough estimate of the situation.

Table 2. Breakdown of Ukrainian population by the size of city/settlement, 2001

Type	Size	No.	Population
Mega-cities	> 1,000,000	5	7,298,600
Large cities	500,000 – 1,000,000	4	2,888,700
Medium cities	100,000 – 500,000	40	9,290,000
Small cities	50,000 – 100,000	44	2,963,500
Settlements	20,000 – 50,000		11,096,400
Rural areas	< 20,000		15,754,000
Total			49,291,200

2. Consumer prices for electricity, gas and coal for heating.

Household electricity tariffs differ across rural and urban areas, it is different for consumers with electric ranges and electric heating equipment and without such an equipment. The most recent tariffs (approved by NERC³ regulation of 10.03.99 No. 309) are reflected in the Table 3 below.

² Ukraine National Water Sector Strategy and Action Plan. Interim Report – National Water Sector Profile. COWI, 2002.

³ NERC – National Energy Regulating Commission.

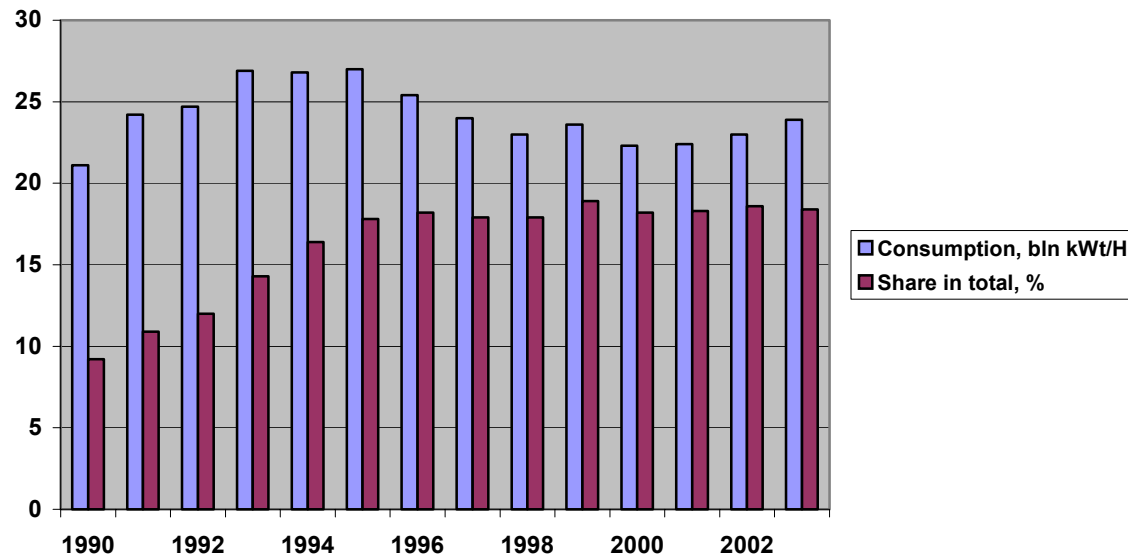
Table 3. Households Electricity Tariffs

Consumers Categories	Tariff, approved by NERC Kop./kWh	VAT, Kop./kWh	Electricity Price with VAT, Kop./kWh
Electricity sold to:			
1. Households	13.0	2.6	15.6
1.1. Rural households	12.0	2.4	14.4
1.2. Household with electric ranges, electric heating equipment (thereof rural)	10.0	2.0	12.0
2. Settlements	12.6	2.5	15.1
2.1. Rural Settlements	11.6	2.3	13.9
2.2. Settlements with electric ranges, electric heating equipment (thereof rural)	9.6	1.9	11.5

Consumption of electricity by population as shown in Chart 1 varied within the range of 21.1 – 27.0 bln kWt/Hout, with the lowest level of consumption in 1990 and the highest in 1995. As a share of total electricity consumption population used electricity within the range of 9.2% in 1990 to 18.9% in 1999. It is clear from the chart below that the consumption was steadily raising from 1990 till 1995 and then after some decline the level of consumption stabilized around 23.0 bln during the period of 1997-2002 with further increase in 2003. Consumption of electricity by population as a share in total electricity consumption was increasing steadily even with a higher speed and lasted until 1999 despite even some decline in absolute level of consumption since 1995. A sharp increase in the level of individual consumption at the very beginning of transition period and later on in mid-90s could be explained by at least three major reasons: (i) tariffs did not react accordingly to the very high inflation rate of that period and lagged behind an increase in prices, (ii) households started to use electricity not only for their personal needs but for some small-scale production or providing services as a survival measure in the period of deep crisis and significant economic decline, and (iii) really cold winters in mid-90s. At the

same time, individual consumption was steadily increasing on the background of the overall economic decline and especially that of industrial production, and this fact explains why its share in total consumption of electricity was increasing with a higher pace.

Consumption of electricity by population, bln kWt/H and % in total



Later on when NERC was established in 1995 with an exclusive rights for licensing, tariff policy and consumer protection the situation changed and the next period of stabilizing economy starting in 1998 was accompanied with a stabilization of energy consumption.

The following Table 4 reflects the level of average electricity prices for various types of consumers, including population during the period of 1998-2003. This Table shows clearly very different trends in evolution of electricity prices for various sectors of economy. Electricity prices for population were far below the average prices for the whole economy throughout the period, while for such sectors as public transportation, agriculture and heating companies the trends were quite opposite. Average prices were steadily increasing for the first two sectors and drastically declined for the last one.

Table 4. Average electricity prices for various types of consumers, kopeks

	1998	1999	2000	2001	2002	2003
Average price of 1 kWt/H of electricity	9.31	11.84	12.28	13.12	13.73	14.98
Average price of 1 kWt/H of electricity, for population	7.22	9.40	10.92	11.44	11.95	12.05
Average price of 1 kWt/H of electricity, for public transportation	10.60	13.79	14.08	15.34	15.85	17.24
Average price of 1 kWt/H of electricity, for agriculture	8.72	12.17	12.94	15.77	17.66	19.53
Average price of 1 kWt/H of electricity, for heating companies	38.57	31.30	36.39	29.37	22.02	14.80

In case of heating companies such a high level of energy prices in 1998 could be explained by the fact that they faced rather low level of payments in cash for their services and majority of transactions were made in the form of mutual settlements with the budget, energy companies, coal mines etc. At the moment there is a very small fluctuation in electricity prices.

3. Subsidies

The system of subsidies for housing and utility services in Ukraine is based on two main pillars: (i) social and occupational privileges granted to various groups of population based on their social status or special merit, (ii) program of targeted housing and utility subsidies granted on the mean-tested basis. The whole system of social and occupational privileges and housing subsidies is described in more detail in Annex 1.

The following Table 5 summarizes results of the calculations based on the Household survey conducted by the Ukrainian Statistics Committee in 1999-2003. More detailed calculations are shown in Annex 2. It is clear from the Table below that the share of households receiving subsidies on housing and utilities has been declining during 1999-2003 from 28% to 12.4%. At the same time, their spending on housing and utilities has been increasing over time from 6% to 8.8%, while share of subsidies declined from 6.3% to 5.2%.

Table 5. Housing and Utilities Subsidies, 1999-2003

	1999	2000	2001	2002	2003 ⁴
Share of HH using subsidies	28.0	25.0	21.6	17.1	12.4
Share of subsidies in	6.3	5.9	6.4	5.6	5.2

⁴ Data available for the first half of 2003.

total HH spending					
Share of housing and utilities payments in total spending	6.0	5.0	5.6	8.1	8.8

4. Gas Consumption

Consumption and gas prices for population of Ukraine are reflected in the following Table 6.

Table 6. Consumption and gas prices, 1999-2003

	1999	2000	2001	2002	2003
Volume of consumption, mln m3		14,778	15,426	15,491	
Value of consumption, mln UAH		2,679	2,823	2,036 ⁵	
Paid in Total, mln UAH		2,372	2,597	1,973	
Paid in Cash, mln UAH		2,151	2,558	1,956	
Approved by NERC wholesale price of gas to be sold by Naftogas company to population, including transportation and supply with VAT, UAH per thousand m3	185.00	185.00	185.00	185.00	185.00
Weighted average actual price, UAH per thousand m3	184.63	184.13	183.33	181.68	180.26

⁵ Transmission and distribution tariffs are taken into account in the value of gas for 2000 and 2001 and not accounted in 2002. Thus, the value of gas is significantly lower in 2002.

Amount of privileges and subsidies for the gas supplied to population, mln UAH	1210.2	1573.2	1038.7	799.0	722.0
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It is obvious from the Table above that volume of gas consumption by the population of Ukraine is pretty stable as well as prices. At the same time, the amount of privileges and subsidies is shrinking.

5. Payments not-in-time

Dynamics of overdue payables of population for the electricity consumed are shown in the following Table 7.

Table 7. Overdue payables of population for electricity, 1994-2003

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Overdue payables of population for electricity, mln UAH	207	1260	2603	3344	5113	6652	7858	8420	9571	10549

6. Dynamics of gasoline prices for individual cars

Gasoline prices for individual cars were increasing steadily during the period of 1998-2000, then dropped in 2001 and started to increase since then. The situation is very uneven across the Ukrainian regions with higher prices observed in Crimea, eastern regions and the city of Kyiv.

Table 8. Regional profile of gasoline A-95 prices for individual consumers, 1998-2003

UAH per 1 liter, min-max

	30.12.98	30.12.99	30.12.00	30.12.01	30.12.02	30.12.03 (Average)
AR Crimea	1.20-1.50	1.65-1.90	1.95-2.20	1.35-1.70	2.00-2.20	2.15
Vinnitsia	1.45	1.74-1.84	1.89-2.00	1.40-1.65	2.05-2.15	2.08
Volyn ⁷	1.15-1.50	1.50-1.60	1.85-2.10	1.25-1.45	1.90-2.00	1.94
Dnipropetrovsk	1.35	1.70-1.75	1.95-2.20	1.10-1.25	2.10-2.30	2.18
Donetsk	1.20-1.30	1.70-1.80	2.10	1.30-1.40	2.00-2.25	2.18
Zhytomyr	1.20-1.25	1.65-1.80	1.80-2.05	1.34-1.45	1.90-2.00	2.02
Zakarpattia	1.45	1.80	2.15	1.40-1.50	1.95-2.02	2.11
Zaporizhzhia	1.30-1.40	1.70-1.80	2.10-2.15	1.20-1.35	2.10-2.20	2.15
Ivano-Frankivsk	1.32-1.35	1.70	2.08-2.10	1.40-1.45	2.00-2.05	2.05
Kyiv oblast	1.20-1.30	1.60-1.80	1.92-2.05	1.45-1.60	1.92-2.05	2.08
Kirovohrad	1.15-1.30	1.70-1.85	1.90-2.15	1.35-1.60	1.90-2.00	2.00
Luhansk	1.15-1.35	1.65-1.85	2.05-2.10	1.43-1.75	2.05-2.15	2.05
Lviv	1.25-1.35	1.70-1.85	2.05-2.25	1.36-1.45	1.95-2.00	2.00
Mykolaiv	1.15-1.30	1.60-1.82	1.85-2.05	1.20-1.50	1.90-2.10	2.07
Odesa	1.25-1.27	1.92-2.00	2.04-2.10	1.49-1.55	2.11	2.04
Poltava	1.30-1.40	1.80	1.75	1.55-1.60	2.00-2.05	2.06
Rivne	1.35	1.60-1.65	1.93-1.95	1.38-1.40	1.95	1.99
Sumy	1.25-1.30	1.75-1.85	2.00-2.11	1.66-1.75	2.00-2.05	2.14
Ternopil	1.40-1.50	1.70-1.80	1.95-1.98	1.35-1.45	2.10	1.98
Kharkiv	1.10-1.15	1.70-1.80	2.00-2.10	1.25-1.45	1.85-2.10	1.93
Kherson	1.25-1.35	1.70-1.80	2.00-2.10	1.38-1.55	1.90-2.05	2.10
Khmelnysky	1.20-1.40	1.70-1.85	1.85-2.00	1.23-1.45	1.95-2.05	2.00
Cherkasy	1.20-1.30	1.70-1.90	2.00-2.05	1.30-1.45	1.80-1.89	2.03
Chernivtsi	1.40	1.75-1.87	2.05	1.35-1.40	1.95-2.05	2.01
Chernihiv	1.18	1.68-1.82	1.90-1.95	1.43-1.58	1.85-2.10	2.00
City of Kyiv	1.25-1.30	1.70-1.75	1.99-2.09	1.45-1.93	1.85-2.15	2.18
City of Sevastopol	1.30-1.40	1.83-1.90	2.05-2.09	1.35-1.40	2.08-2.15	2.06
Ukraine	1.15-1.50	1.50-2.00	1.75-2.25	1.10-1.93	1.80-2.30	1.93-2.18

Description of the System of Social Privileges and Housing and Utilities Subsidies

*(Based on the Report of the World Bank **Improving Safety Nets and Labor Market Policies to Reduce Poverty and Vulnerability**)*

Ukraine has four types of safety net programs: (i) privileges that are not targeted to the poor; (ii) housing allowances that are designed to help families with high housing and utility costs (limited by norms); (iii) targeted family benefits; and (iv) social assistance explicitly designed to reach the poorest of the poor. This section describes eligibility, administration, and funding requirements for each safety net program.

Privileges. Like so many other former-Soviet countries, policymakers now see the need to both streamline and dismantle the extensive and complicated system of social privileges instituted during the 1990s. Privileges were started as non-income related programs to assist and reward specific groups in society. More than 20 different types of social privileges existed in 1999, based on laws, presidential decrees and government resolutions. Privileges can be divided into two types: (i) those for war veterans and labor veterans of war and (ii) those for members of particular occupational groups. Privileges cover a panoply of in-kind benefits including subsidies for rent and housing maintenance, transportation, renovation of residences, home ownership, credit, phone lines, free or subsidized drugs and medical services, free or subsidized automobiles, free legal services, and tax exemptions.

Occupational privileges are provided for civil servants and other professional groups such as the military, police, deputies, judges, attorneys and customs officials. These provide non-cash compensation for workers who are not generally living at or near the poverty line. Public opinion is not very favorable to occupational privileges, but those who hold them are unwilling to let them go. As such, they are better placed within the budgets of the respective employing agencies and ideally should be cashed out as wage and salary compensation, higher compensation is needed for worker retention and quality.

Privileges to war veterans have been expanded from benefits initially provided to veterans of the Second World War to non-military participants in combat operations, family members of servicemen who died in action, and individuals who were close to combat during the Second World War. Privileges are also provided to other war veterans, for example, those of the Afghanistan war and those who served in Bosnia under the United Nations. To a great extent the privileges for World War II veterans help supplement old-age pension income and raise the standard of living of numerous elderly persons, although many recipients are nowhere near the poverty line. In theory, war-veteran privileges should be part of the defense budget. Nonetheless, the population regards these benefits favorably. The primary concern from a fiscal point of view is their expansion beyond the limits set today.

Occupational privileges were suspended under the 2000 and 2001 budgets, as an interim step towards their abolishment. However, they reappeared in the 2002 budget as the Supreme Rada refused to continue their suspension at that time. Since then Government has been developing plans to incorporate occupational privileges into the social welfare system, with stiffer guidelines for eligibility for the more important privileges such as housing. In addition, Government has been drafting plans to have individuals register for their privileges at social welfare offices rather than at the local municipalities of Zheks (housing offices). Agreement on these issues is a benchmark for the World Bank's PAL II, under which compensation would be substituted for occupational privileges and war-related privileges would be cashed-out.

Chornobyl Benefits. The Chornobyl accident caused extreme damage to the population and the environment. Chornobyl benefit eligibility⁶ is granted to four groups: (i) Category I -- disabled due to the accident; (ii) Category II-- evacuated from the 30 kilometer zone; (iii) Category III -- resettled from the zone of 'unconditional alienation' and (iv) Category IV --neighboring residents remaining close to the site of disaster. Those in Category I and II are obvious victims, and Ukrainians are strongly in favor of these benefits. But it is common knowledge that the program is designed to be subject to abuse, as the conditions for eligibility are generally lax for other categories. The most important reform of these benefits was the substitution of budgetary financing for an inappropriate and high payroll tax. The reform most needed now is the tightening of benefit eligibility and the substitution of funding to address the health impacts of the disaster, which are likely to increase in the coming years, as research on these issues has been modest at best.

Housing Subsidies. The Housing and Municipal Service Allowance program was launched in May 1995. In June 1995, subsidies for liquefied gas and solid fuel were added, and in November 1995, subsidies for electric power. The original objective of the program was to shield families from the impact of rapidly rising fuel costs, as tariffs increased to reflect world market prices. The state sets the consumption standards for services to residential customers. The blast state administrations set the standards for the duration of the heating period and gas and fuel consumption standards

Housing allowances are means tested for eligibility. In November 2001, a unified methodology for income testing was adopted including both earned income from earnings and self-employment and benefits such as state aid to families with children, monthly cash allowances to low-income individuals, and allowance for taking care of a disabled child.⁷ Before a subsidy is provided, households must pay up to 20 percent of their average monthly income (mean income of the six months preceding the application) or up to 20 percent of their annual income (income over the twelve preceding months adjusted for wage growth) if they consume liquefied gas, solid and liquid furnace fuel. Subsidies are based on actual consumption,

⁶ The law is named the Law on the Social Protection of Citizens That Have Suffered from the Chornobyl Catastrophe of April 26, 1986.

⁷ As of November 2001, a unified methodology was adopted to calculate aggregate income for all of social assistance covers housing subsidy; state aid to families with children; monthly cash allowance to low-income individuals, including those sharing residence with a disabled person, Group I or II due to mental illness; burial allowance; and allowance for taking care of a disabled child.

within the standards set if metering is in place and based on consumption norms if metering is not available. Local governments then pay service providers for the difference in billing. Subsidies are authorized for six months and can be renewed upon application.⁸

An auditing system was introduced to check actual entitlements against subsidy claims. Individuals and businesses submitting false data are liable for twice the cost of the subsidy paid. Businesses providing false information can be subject to administrative and criminal fines and individuals may be deprived of the right for renewal. Unfortunately, the introduction of auditing and punitive measures, however, did not significantly improve targeting. And, well-to-do households are not rare among housing subsidy applicants and beneficiaries.⁹

All too often, heating and utility subsidies have created unfunded mandates for municipal heating and electricity companies. As municipal heating could not be cut off, losses would be covered by cross-subsidization out of business account payments. In 2000, subsidies for fuel and natural gas purchases were cashed out, with recipient families now receiving cash transfers, as suppliers could more easily hold back these purchases. Government is committed to cashing out all housing subsidies so that funds go directly to families rather than to municipal housing authorities and energy suppliers.

Procedure for Granting Social Privileges

The procedure for granting social privileges is subject to regulation by Ukrainian legislation that includes over 40 legislative acts (Laws of Ukraine, Presidential Decrees, Cabinet of Ministers Resolutions, departmental regulations, some legislative acts of the former Ukrainian Soviet Socialist Republic, etc.)

Determining the right to privileges. Privileges in payment for housing and communal services are a state social guarantee. In accordance with Law of Ukraine No. 2017-III "On State Social Standards and State Social Guarantees" dated 10/05/00, privileges and criteria for their granting are determined exclusively by laws of Ukraine. Privilege legislation also includes a series of normative and legal acts regulating certain areas of privilege granting.

Over the past ten years, 25 laws have been passed setting various privileges in payment for housing and communal services. Besides, prior to 2000, privileges, set by former Ukrainian Soviet Socialist Republic, for families with many children (introduced in 1928) and street cleaners (introduced in 1988) were in effect.

⁸ In early 2000 an asset test had been added to improve targeting. Housing allowances, burial allowances and one-time childbirth allowances are included as income for other benefit programs.

⁹ In fact, such program abuses have been widely reported in the media. News coverage reports the following types of incidents: an owner of a private business appears to apply for a housing subsidy, driving an expensive car and submitting an income statement reporting family income of 20 UAH per month. Once rejected, the individual threatens court proceedings.

However, over this time no by-law had been adopted to determine *a unified procedure* for granting privileges for housing and communal service payment. The lack of a systematic legislative and regulatory framework results in controversies in the practical application of privileges.

Individuals that have the right to privileges under several laws (for example, an individual who is granted privilege as a war veteran and as a politically repressed person who was later rehabilitated) can select one, more attractive, privilege.

Mechanism for granting privileges. Privileges are granted on the category-based principle, i.e. in accordance with affiliation of an individual with a certain privileged category determined by legislation. Income and the financial status of a privileged individual and his/her family are not taken into consideration. This is one of the major differences between privileges and housing subsidies. Privileges are granted in a non-cash form by means of a reduction of or exemption from the charge for services, while costs of housing and communal service enterprises associated with privileges are covered by the state budget.

Granting privileges to family members of privileged individuals. Legislation stipulates privileges to family members of a perished privileged individual: spouse, children, parents, and disabled family members who were supported by this individual. This right is stipulated for family members of individuals who had special merits (work merits) to the Fatherland, Chernobyl disaster liquidators of 1, 2, 3 categories, military personnel, police staff, firemen.

For almost all categories of privileged individuals privileges also cover members of their families. Earlier, this term was not sufficiently detailed and prior to 1999 privileges were granted to all members of a household of a privileged individual who were registered in his/her premises.

In June 1999, the Constitutional Court issued an explanation specifying that, in determining the right to a privilege in payment for housing and communal services, a family member of a military man, policeman, fireman is an individual having a bloodline relationship or a marriage relation; permanently residing with him/her; keeping joint household. At that, family members of a privileged individual include his/her spouse, their children and parents. With respect to them, keeping joint household applies only in cases specified by law.

Other persons, permanently residing and keeping joint household with a privileged individual, can have the status of a family member of such privileged individual, i. e. not only his/her direct relatives (brothers, sisters, grandchildren, grandparents) but also other relatives or persons who are not in direct family relation to the privileged individual (brothers and sisters of indirect blood relationship; son-in-law, daughter-in-law; step-father, step-mother; custodians, step children, etc.)

As far as family members of military personnel are concerned, privileges are granted to family members who are fully supported by a privileged individual or receive assistance from him/her that is a permanent and main source of their means of existence. These include persons without own income, or persons whose pension, stipend or other aggregate average monthly income is below the legislatively set level of minimum wages.

Family members have been defined for the first time in the Law of Ukraine "On the National 2000 Budget of Ukraine." The law setting privileges included definition of "*a member of a privileged individual's family*" in 2001 for the first time. However, it contained a detailed description with respect only to families of Chernobyl accident victims. For instance, it has been set forth that members of families of individuals who had suffered from the Chernobyl accident included a spouse and minor (under 18 years) children.

Each enterprise directly providing housing and communal services to residential customers grants privileges (determines the eligibility for privileges and calculate the "privileged" cost of services) on its own. Privileges are granted in accordance with the application-based procedure, meaning that privilege-based payment is made as of the application filling date. A customer is obligated to provide documents proving his/her affiliation with a legislatively determined category enjoying privileges. There is no requirement to confirm the right to privileges over a certain period of time. This results in cases of granting privileges to individuals who have already lost the right to them.

The practice of every enterprise checking the legitimacy of privileges results in a possibility of material inaccuracies in determining the actual number of customers enjoying privileges and amounts of privilege reimbursement from the budget.

Size of privileges. Depending on the category of a privileged individual, privileges are set in the following sizes (Tables 1 and 2):

1. Housing and communal service payment discount - 100, 75, 50, 30, and 20 percent. Some laws contain provision that a discount is given within the established consumption rates, while other laws do not have this condition.
2. Exemption from charges for the entire volume of services consumed, with the unlimited consumption rate, for individuals who, for instance, have special merits to the Fatherland.
3. Free-of-charge use of the dwelling, heating and lighting - these privileges are set by the Housing Code and the laws for, particularly, specialists working and residing in rural areas. Teachers and police staff are granted privileges within the scope of legislatively determined rates. The Instructions on the Procedure for Providing Free-of-Charge Apartments, Heating and Lighting Included, to Pedagogical, Medical, Veterinary, Cultural and Educational Professionals, and Cinema Projectionists, approved 09/21/99 by the Finance Ministry of the Ukrainian SSR, Education Ministry of the Ukrainian SSR, Health Care Ministry of the Ukrainian SSR, Culture Ministry of the Ukrainian SSR, the State Agriculture and Industry Ministry of the Ukrainian SSR, effective as of 01/01/89, determine communal service consumption rates in cases of granting privileges to the aforementioned professionals.

Table 1. Privileges, Which Are Granted Based on Individuals' Social Status

Category	Privileges	Charge Discount, %	Granting Privileges to Family Members of a Privileged Individual	Authority
Disabled war veterans	Privileges are granted irrespective of the type of dwelling and the form of ownership Payment for using the dwelling (rent) within rates stipulated by legislation; Payment for using communal services (natural gas, electric power, and other services) within average consumption rates; for households consisting of disabled individuals only – the discount for using natural gas is double of average consumption (delivery) rates for occupied area or detached house;	100	Family members of privileged individuals residing with them	Law of Ukraine No. 3551-XIII “On the Status of War Veterans and Guarantees of their Social Protection”, dated 10/22/1993
Participants in military operations	Cost of fuel (including liquefied) within rates set for the population, for individuals residing in detached houses without centralized heating.	75		
War participants		50		

Persons covered by the Law “On the Status of War Veterans, Guarantees of their Social Protection”		50		
Persons with special merits to the Fatherland: Heroes of the Soviet Union, full holders of the Glory Order, persons rewarded with four or more “For Courage” medals, Heroes of Socialist Labor who received this award during the GPW (including Heroes of Ukraine starting from 2001)	Privileges are granted irrespective of the type of dwelling and the form of ownership. Rent; Payment for communal services (water supply, water disposal, natural gas, electric power, hot water supply, centralized heating, other services);	Exemption	Family members of privileged individuals residing with them Spouse, parents of the deceased persons with special merits (labor merits) to the Fatherland.	Law of Ukraine No. 3551-XIII “On the Status of War Veterans and Guarantees of their Social Protection”, dated 10/22/1993, Decree of the Cabinet of Ministers of Ukraine No. 37-93 “On Privileges to Heroes of the Soviet Union and Full Holders of the Glory Order”, dated 04/23/1993

Chornobyl NPP disaster victims:	Payment for using dwelling (rent) and communal services (water supply, natural gas, electric power, heating and other services) in dwellings (apartments) of all ownership forms, within rates stipulated by legislation;	50	Family members of privileged persons – spouse and underage children (under 18 years);	Law of Ukraine No. 796-XII “On the Status and Social Protection of Chornobyl NPP Disaster Victims”, dated 02/28/91, (with changes and amendments
Categories 1 and 2	Cost of fuel purchased within rates set for the population; Dormitory rent		Spouse of a deceased person whose death was caused by the Chornobyl disaster, or a custodian (at the time of custodianship) of the deceased person’s children	introduced under Law No. 2400-III, dated 04/26/2001)

Category 3	Cost of fuel purchased within rates, set for the population, for persons residing in premises without centralized heating, located in radioactively polluted areas, subject for resettlement	50	Privileges in payment for housing and communal services and fuel, stipulated for Category 1 individuals, are granted to a spouse of a deceased participant in liquidation of Chernobyl disaster consequences of Category 3 whose death is caused by the Chernobyl disaster, or a custodian (at the time of custodianship) of a deceased person	
Category 4	Cost of fuel purchased within rates set for persons residing in premises without centralized heating at the time of permanent residence or permanent employment or study in the area of reinforced radio-ecological control.	50		

<p>Children who suffered from the Chernobyl disaster with resulting disabilities</p>	<p>Payment for using dwelling (rent) and communal services (water supply, natural gas, electric power, heating and other services) in dwellings (apartments) of all ownership forms, within rates stipulated by legislation.</p> <p>Cost of fuel purchased within rates, set for the population, for families with physically disabled children residing in premises without centralized heating</p>	<p>50</p>	<p>Family with a physically disabled child, if a child resides with the family.</p>	
<p>Families with many children: 4 dependants</p>	<p>Rent</p>	<p>20</p>		<p>Resolution of the All-Ukrainian Central Executive Committee and Ukrainian SSR People's Commissar Council, dated 02/28/1928, "On Rent and Regulation of Dwelling Use in Cities and Urban Villages"</p>
<p>5 and more dependants</p>		<p>30</p>		

Table 2. Privileges based on occupational status

<i>Privileges</i>	<i>Charge Discount, %</i>	<i>Granting Privileges to Family Members of a Privileged Individual</i>	<i>Authority</i>
<p>Payment for using dwellings (rent) and payment for communal services (water supply, natural gas, electric power, heating and other services) in dwellings of all ownership forms within rate stipulated by effective legislation.</p>	<p>50</p>	<p>Family members dependent on privileged individuals.</p> <p>Parents and family members of military personnel killed, deceased, lost in action, or incurred physical disability at the time of military service.</p>	<p>Law of Ukraine No. 2011-XII "On Social and Legal Protection of Military Personnel and their Family Members", dated 12/20/1991,</p> <p>Law of Ukraine No. 1770-XII "On Border Guard Troops of Ukraine", dated 11/04/1991,</p>

	<p>A widow (widower) of a killed or deceased military person, as well as a spouse of a military person who was lost in action, if the spouse has not re-married, and her/his underage children.</p>	<p>Law of Ukraine No. 2229 "On Security Service of Ukraine", dated 03/25/1992</p> <p>Law of Ukraine No. 2235-XII "On Internal Troops of the Ministry of Internal Affairs of Ukraine", dated 03/26/1992,</p> <p>Law of Ukraine No. 3341-XII "On Organizational and Legal Grounds for Fighting Organized Crime", dated 06/30/1993,</p> <p>Law of Ukraine No. 2974-XII "On Civil Defense of Ukraine", dated 02/03/1993,</p>
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			Law of Ukraine (rendered ineffective) No. 1774 "On the National guard of Ukraine", dated 11/04/1991
<p>Payment for using dwellings (rent) and payment for communal services (water supply, natural gas, electric power, heating and other services) in dwellings of all ownership forms within rate stipulated by effective legislation,</p> <p>Or a reduction of the cost of fuel, including liquefied, within rates established for sale to the population, for persons residing in detached houses without centralized heating</p>	50	Family members of a privileged individual residing with this individual	Law of Ukraine No. 203/98-VR "On the Status of Military Service Veterans and Internal Affairs Agency Veterans, and their Social Protection", dated 03/24/1998.
Payment for living area, communal services and fuel	50	Family members of a privileged individual.	Law of Ukraine No. 565-XII "On Police Service", dated 12/20/1990
Dwelling with heating and lighting at established rates	free	Children of a policeman who was killed or died while performing his duties until they reach 18 years of age, as well as disabled family dependants.	

Payment for dwelling, communal services (water supply, natural gas, electric power, and heating)	50	Family members of a privileged individual	Law of Ukraine No. 1789-XII "On Public Prosecutor Office", dated 11/05/1991, Presidential Decree No. 414/95 "On Improving Social Protection of Prosecutor Office Employees", dated 06/02/1995
Payment for dwelling, communal services (water supply, natural gas, electric power, and heating)	50	Family members of a privileged individual	Law of Ukraine No. 2862-XII "On the Status of Judges", dated 12/15/1992
Payment for living areas, communal services, as well as fuel	50	Family members of a privileged individual. Children, until they reach 18 years of age, of the deceased, as well as physically disabled family dependants	Law of Ukraine No. 3745 "On Fire Safety", dated 12/17/1993

Use of living premises with heating and lighting	Free		Housing Code
Use of living premises with heating and lighting	Free		Law of Ukraine No. 180-XIV "On Plan protection", dated 10/14/1998
Use of living premises with heating and lighting within established consumption rates	Free		Law of Ukraine No. 1060-XII "On Education", dated 05/23/1991

			<p>“Instructions on Providing Free-of-Charge Apartments with Heating and Lighting...” No. 10-07, dated 09/21/1998</p>
Use of living premises with heating and lighting	Free		<p>Law of Ukraine No. 2117-XII “On Principles of Ukrainian Legislation on Culture”, dated 02/14/1992</p> <p>“Instructions on Providing Free-of-Charge Apartments with Heating and Lighting...” No. 10-07, dated 09/21/1998</p>
Use of living premises with heating and lighting	Free		<p>Law of Ukraine No. 2498-XII “On Veterinary Medicine”, dated 06/25/1992</p> <p>“Instructions on Providing Free-of-Charge Apartments with Heating and Lighting...” No. 10-07, dated 09/21/1998</p>

Use of an apartment with heating and lighting	Free		<p>Law of Ukraine No. 2801-XII "On Principles of Ukrainian Legislation on Health Care", dated 11/19/1992</p> <p>"Instructions on Providing Free-of-Charge Apartments with Heating and Lighting..." No. 10-07, dated 09/21/1998</p>
<p>Consume electric power at privileged tariffs.</p> <p>The amount of electric power paid for at privileged tariffs is determined by the government</p>			<p>Law of Ukraine No. 400-XII "On Priority of Social Development of Villages and the Agricultural Industry", dated 01/17/1990</p>

Payment for electricity in the amount equal to that applied in rural areas			Law of Ukraine No. 56/95-VR "On the Status of Mountainous Villages in Ukraine", dated 02/15/1995
Establishment of a privileged electric power consumption conditions			Law of Ukraine No. 39/95-VR "On Using Nuclear Power and Radiation Safety", dated 02/08/1995
Rent for using the apartment and communal services	Free		Regulation on Street Cleaners in Cities and Villages of Ukrainian SSR, approved by Minzhylnkomunhosp of the Ukrainian SSR 06/28/1988

Annex 2.

Share of housing, communal and energy subsidies in household (HH) income, 1999-2003

		1999		2000		2001		2002		6 months 2003	
		HH receiving subsidies	HH, total number	HH receiving subsidies	HH, total number	HH receiving subsidies	HH, total number	HH receiving subsidies	HH, total number	HH receiving subsidies	HH, total number
Number of HH, th.		4971,96	17747,80	4420,99	17679,56	3804,39	17637,47	3013,38	17609,18	2190,56	17612,95
Cumulative HH annual income (average per 1 HH), UAH		3616,13	3869,88	4476,47	4773,51	5211,96	6004,72	5649,53	6999,05	2782,41	3787,83
Cumulative HH annual spending (average per 1 HH), UAH		4768,92	5118,75	6148,11	6495,42	6482,84	7284,46	6670,28	7899,46	3448,94	4313,23
Subsidies (on average per 1 HH per year), UAH	On housing and utilities, including:	300,37	78,24	361,66	95,55	416,42	87,94	376,41	62,01	178,72	21,45
	Housing							84,15	7,56	34,26	2,45
	Water							45,26	5,32	20,66	1,84
	Sewage							28,83	2,48	12,36	0,81
	Natural gas							182,06	26,31	80,66	8,75
	Hot water							89,07	4,05	45,05	1,55
	Central heating							202,07	15,94	93,15	5,89
	Waste disposal									5,62	0,07
	Other							24,33	0,35	11,60	0,07
	Subsidies on liquid gas, solid and liquid fuel, in cash							253,08	3,66	245,31	1,90
Subsidies on liquid gas, solid and liquid fuel, (non-cash)	106,25	4,33	143,24	2,13	117,54	1,27	39,70	0,04			
Cash HH spending (per 1 HH annually on average), UAH	On housing and utilities, including:	285,60	283,09	307,70	300,39	361,11	390,66	539,15	680,71	305,19	384,85
	Housing							298,86	67,74	81,14	30,09
	Water							50,57	49,09	27,36	27,32
	Sewage							31,14	19,22	17,11	11,27
	Natural gas							188,90	148,51	106,11	86,40
	Electricity					77,49	109,22	84,44	118,18	42,70	66,18

Hot water, heating, ice							250,46	149,58	145,42	92,93
Waste disposal services							10,72	0,11	5,88	0,76
Other services related to housing							26,28	2,34	12,89	1,06
Subsidies on liquid gas, solid and liquid fuel, in cash	151,49	42,96	161,38	30,99	173,71	37,24	303,77	51,45	210,25	17,50