



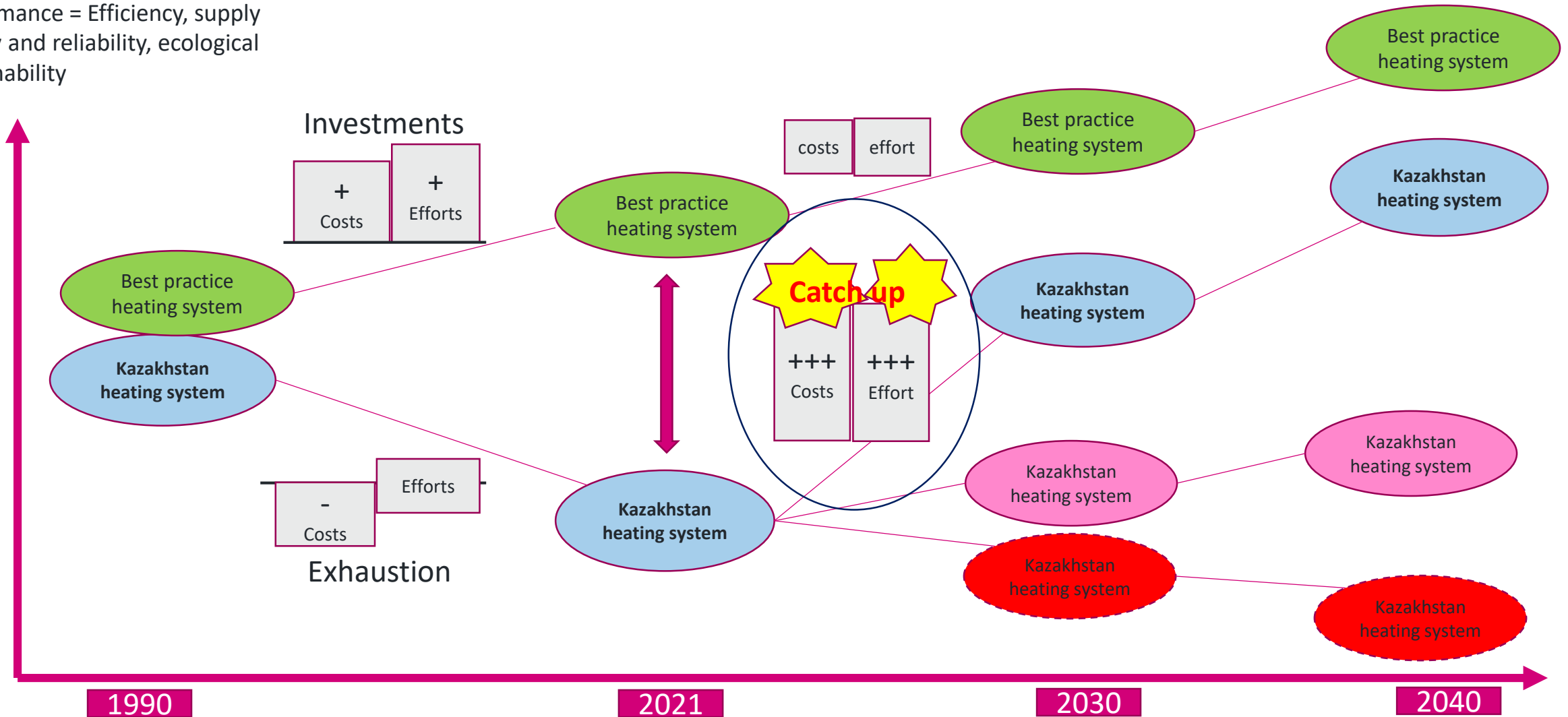
### 3.3. Support of vulnerable customers

**Dr. Ilka Lewington, Dr. Oleksandr Rogozin, Sabyrzhan Amangaliev**

**Modern heating sector - international trends and challenges for the Republic of Kazakhstan. Webinar Course in connection with the preparation of the “Law on Heating”**

# Context – the tariff problem – the tariff task

Performance = Efficiency, supply quality and reliability, ecological sustainability



- The term "vulnerable consumers" - from the documents of the European Union, refers to a group of consumers who need to be especially taken care of - for various reasons, including (but not only!) due to low incomes
  - The measures proposed in the EU context are broader than just "financial" and the term "vulnerable consumer protection" is considered more appropriate than "social protection"
  - Nevertheless, today's seminar is mainly devoted to how to make the **transition of the heating sector of the Republic of Kazakhstan to adequate financing**, taking into account the **real possibilities** of citizens.
1. Economic efficiency, social fairness, support methods
  2. Specifics of supporting vulnerable customers in the heating sector
  3. Case study Ukraine
  4. Development of a support mechanism for vulnerable customers in the heating sector of Kazakhstan

# The welfare of a country depends on the correct price signals

As per economic theory, subsidies are harmful to the country's welfare

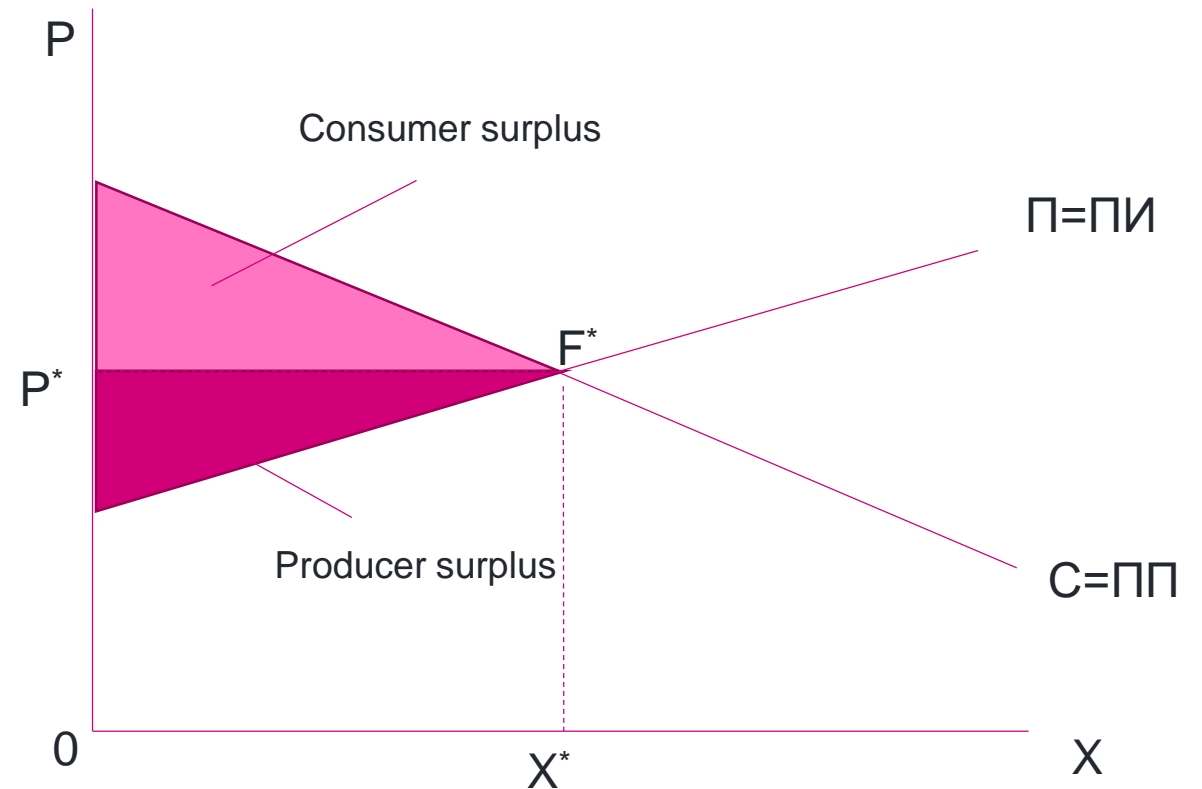
**Subsidies** in the form of artificially low prices for products, such as energy, lead to:

- Excessive consumption
- Higher emissions
- Additional burden for the state budget.

**Cross subsidies** – when the price for one group of customers is lower than what would be an economically justified price for this group, and for other groups the price is higher.

Note, prices for different customer groups may be different for objective reasons.

Allocative efficiency is based on the combination of price and output that maximizes the potential benefit to consumers and producers. This equation must be fulfilled in general, as well as for each group of consumers with similar consumption characteristics.



# Social responsibility of the state – an important additional factor

- Alignment of the level of economic and social development by regions of the country, types of heating, segments of the population ...
- "Social justice" is a real factor for the effective development of the economy and society
- Affordability of vital goods and services for all residents is a matter of state security

**The support system for vulnerable customer should be based on appropriate principles**



Cost  
Minimisation



Targeted support



Efficient  
structure



Transparency



Social fairness



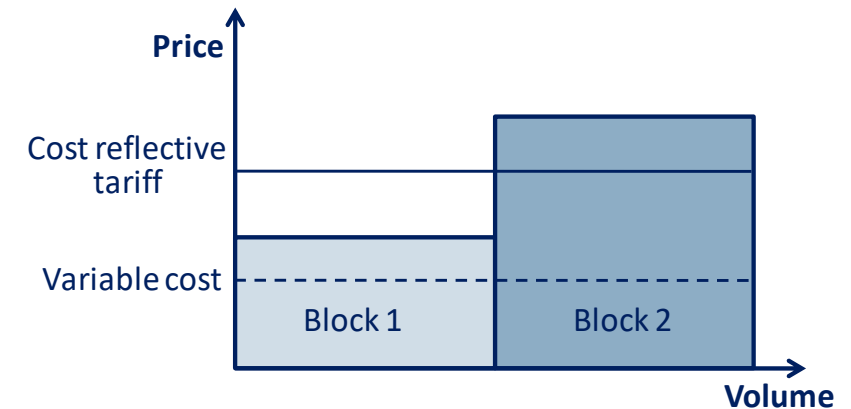
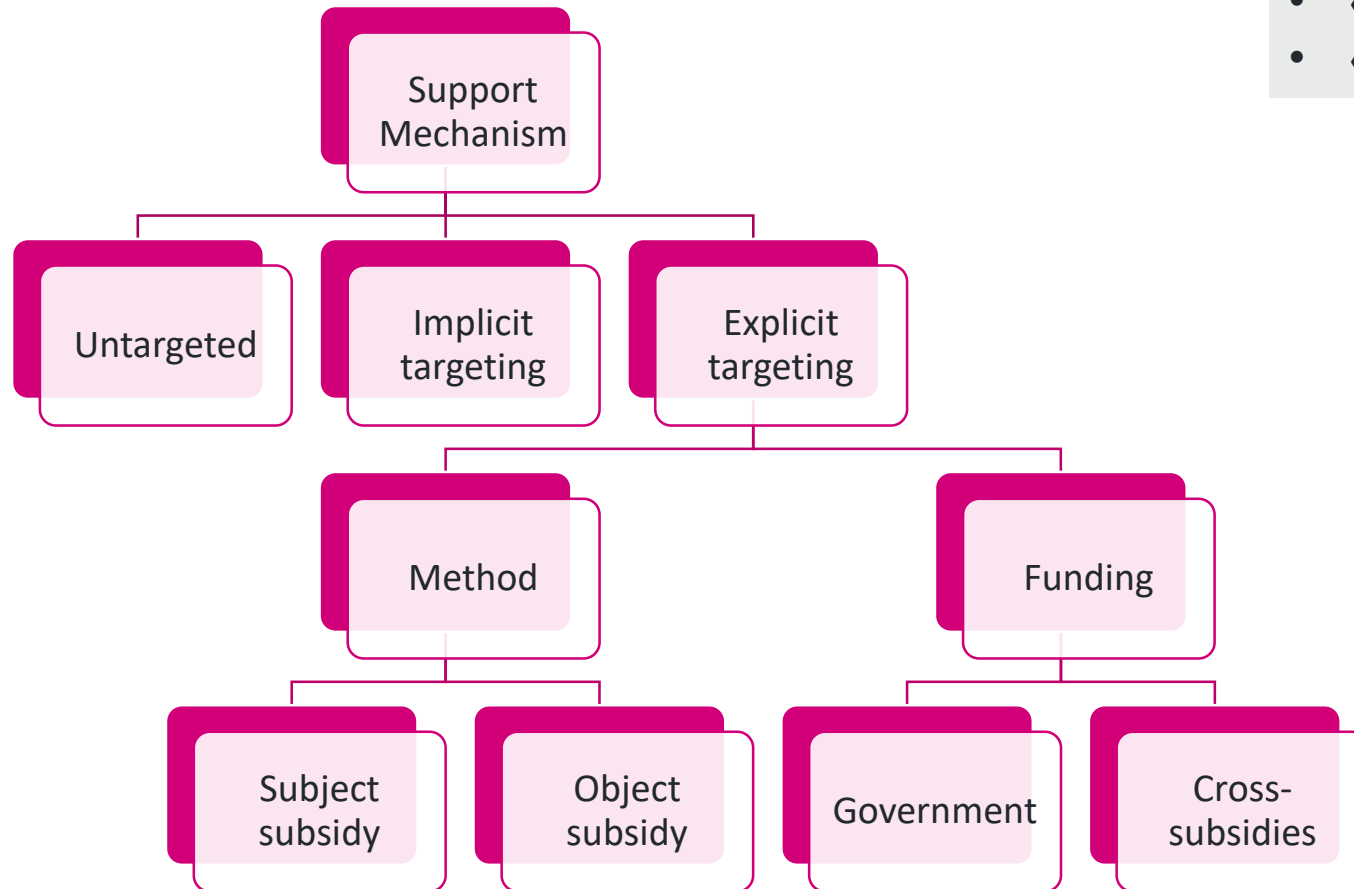
Simplicity



Appropriate level  
of funding

# Options for support mechanisms

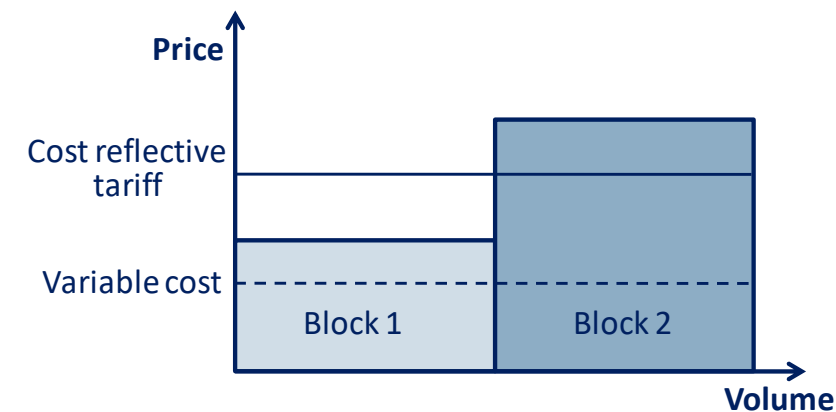
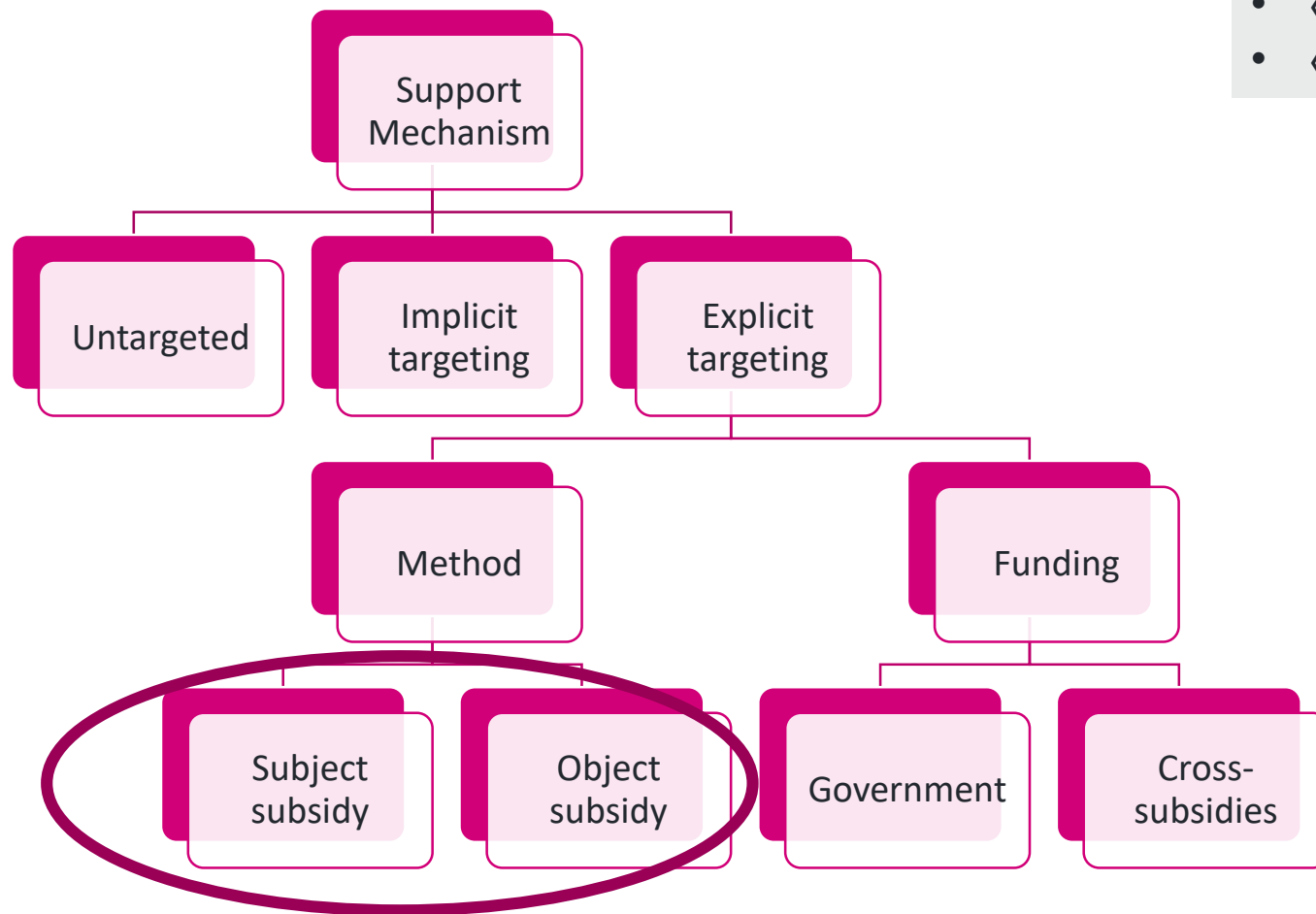
- «Social tariffs» for all or some households
- «Lifeline tariffs» or «Increasing Block Tariffs»



- Social benefit payments for certain customers

# Options for support mechanisms

- «Social tariffs» for all or some households
- «Lifeline tariffs» or «Increasing Block Tariffs»



- Social benefit payments for certain customers

# Specifics of supporting vulnerable customers in the heating sector

A common benchmark is “who pays more than 10% of their income for heat, or more than 25% for all utilities”

*But ...this is not a very appropriate definition*



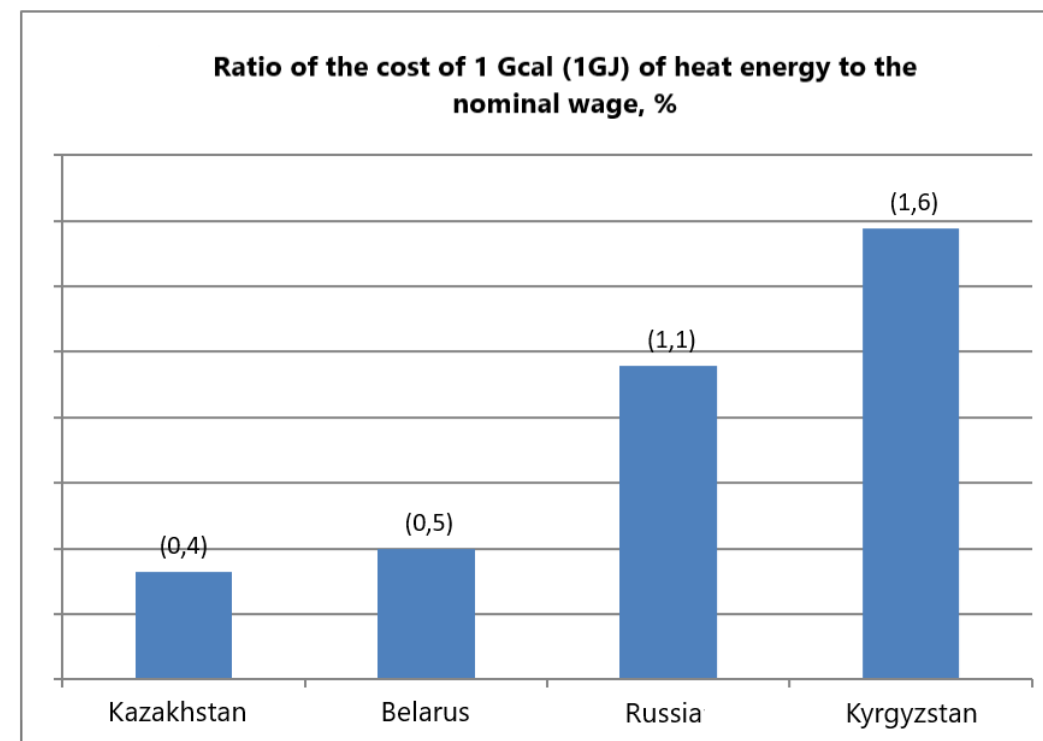


# Specifics of supporting vulnerable customers in the heating sector

TDD - Table 35: Costs of households to pay for heating services by region

	Payment for heat energy tg/year	Annual household income, tg	Heat energy costs from annual income, %
Republic of Kazakhstan	34 155	2 353 246	1,5
Akmola	21 870	1 994 983	1,1
Aktobe	32 379	2 501 575	1,3
Almaty	30 164	2 133 867	1,4
Atyrau	25 851	2 791 747	0,9
West Kazakhstan	36 871	2 334 286	1,6
Zhambyl	23 075	1 962 027	1,2
Karaganda	43 886	2 553 944	1,7
Kostanay	47 283	2 116 237	2,2
Kyzylorda	15 461	2 698 156	0,6
Mangistau	23 460	3 460 652	0,7
Pavlodar	35 590	2 210 755	1,6
North Kazakhstan	42 448	2 034 505	2,1
Turkestanakaya	23 549	2 056 784	1,1
East Kazakhstan	39 960	2 135 489	1,9
r. Nur-Sultan	31 499	3 044 357	1,0
r. Almaty	35 598	2 626 779	1,4
r. Shymkent	17 487	1 966 635	0,9

TDD - Figure 57: Ratio of 1 Gcal (1GJ) heat energy cost to nominal wage by country

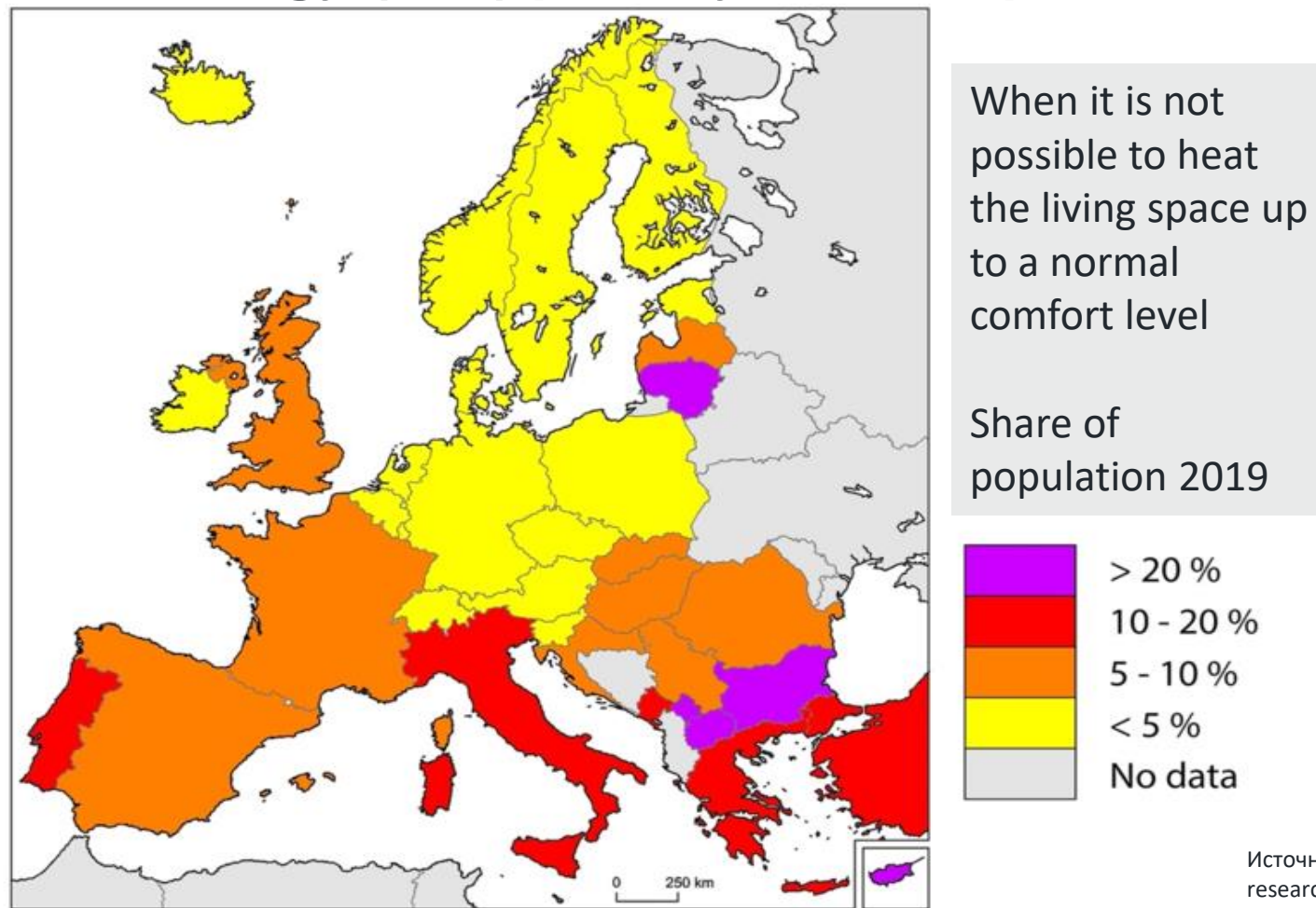


Looking at the simple measure «% income» - heating is very affordable in Kazakhstan

# Specifics of supporting vulnerable customers in the heating sector

## «Energy (fuel) poverty» in Europe

Many countries use the term „Energy poverty“ or „Fuel poverty“



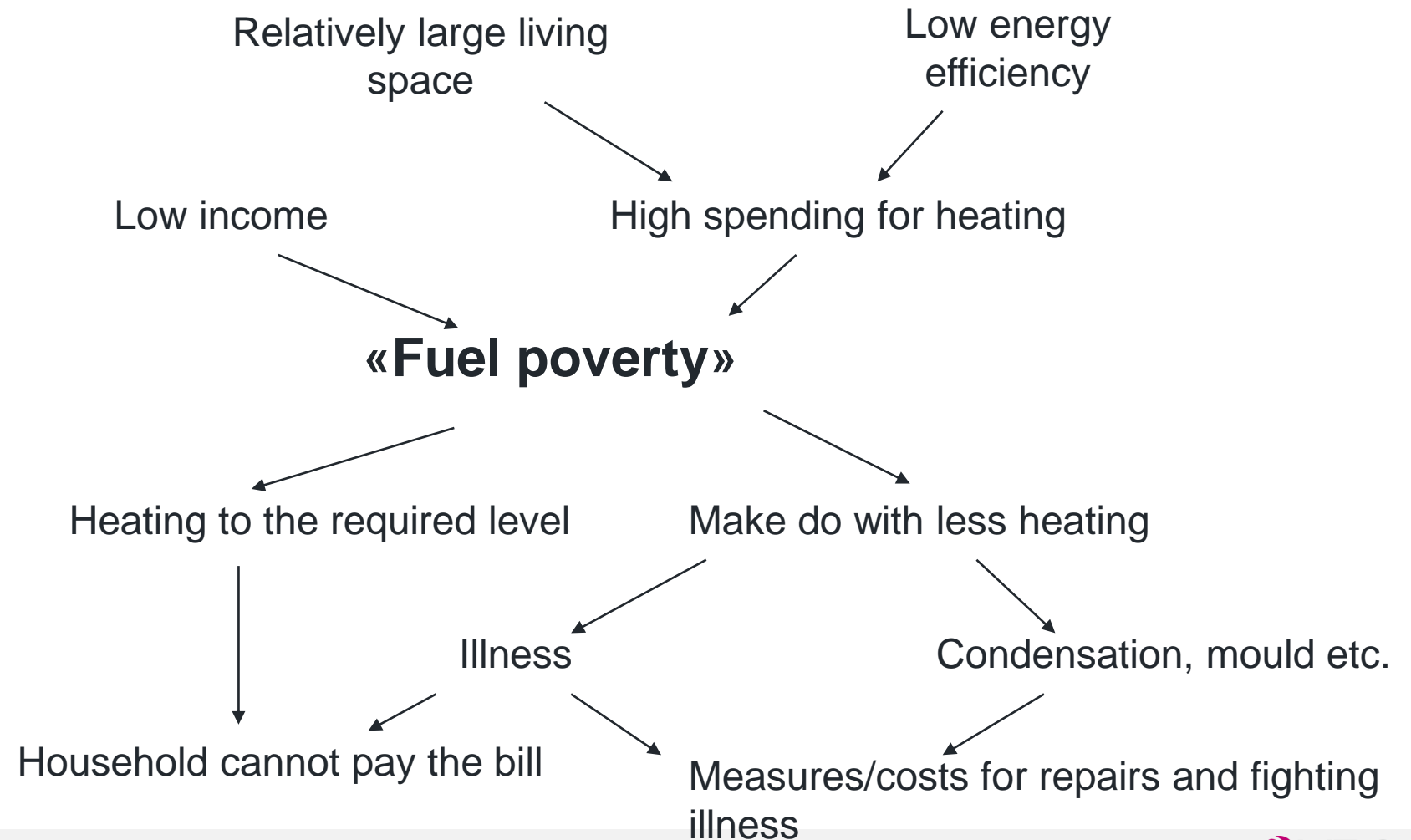
Источник: „Confronting Energy Poverty in Europe: A research and policy agenda“, S. Bouzarovski, H. Thomson, M. Cornelis. Energies 2021

**Figure 1.** Spatial variation in energy poverty in terms of the inability to achieve adequate thermal comfort. Data source: EU-SILC survey. Map by Stefan Bouzarovski, outline map of European borders courtesy of <http://www.hist-geo.co.uk/>.

\* Note: Kosovo, UK and Iceland data are from 2018.

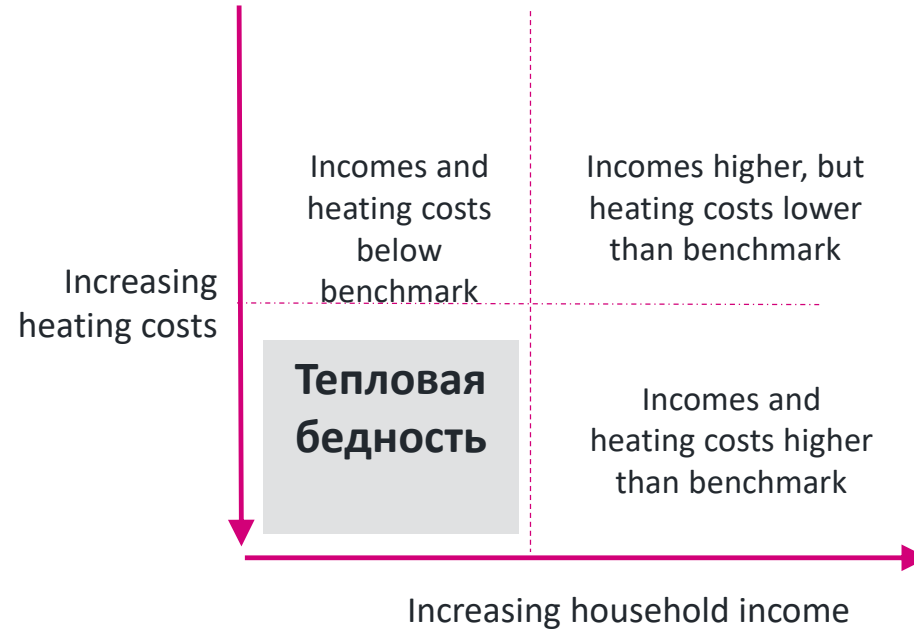
# Specifics of supporting vulnerable customers in the heating sector

- «**Affordability**» means that the households can satisfy their basic heating requirements
- But the **level of basic heating requirements** depends on many factors and is more difficult to generalise than, say, the requirements for electricity



# Specifics of supporting vulnerable customers in the heating sector

“Low income/high heating costs»



A household is „heating poor“ in case of combination :

- Income is lower than a certain benchmark, taking account of other utility costs, and
- Cost for heating the living space to a «normal» level are higher than benchmark

# Specifics of supporting vulnerable customers in the heating sector

**Support measures can be classified in accordance with the following factors :**

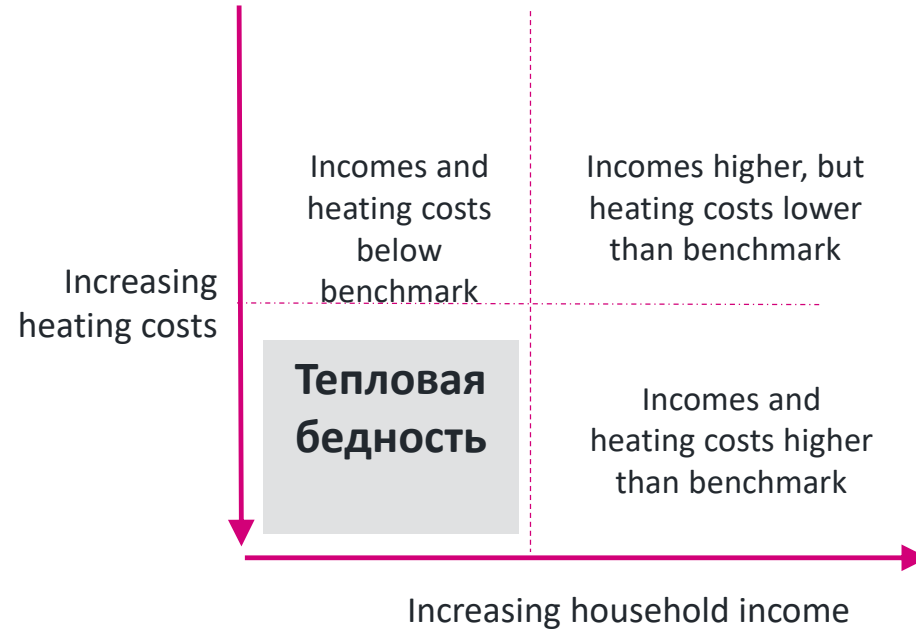
- Type of measure (i.e. is it directed at energy efficiency, at the households' income or at the price)
- Source of financing (the state, or other customer groups)
- Who benefits from the support (only those households that are “heating poor” or all households)

In Europe it is considered that the **most effective support system** is characterised by :

- Focus on energy efficiency improvements, particularly targeting the dwellings of vulnerable customers
- Financing – from the state budget or utilising methods of PPP, such as ESCO
- Active participation of the heating utilities in organising and administering the support measures

# Specifics of supporting vulnerable customers in the heating sector

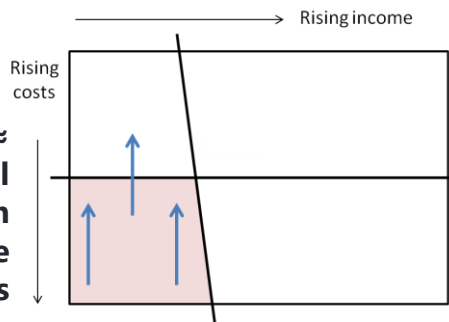
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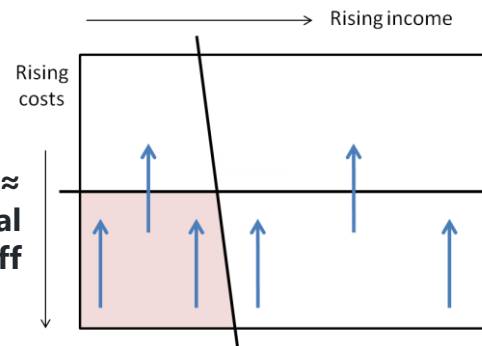
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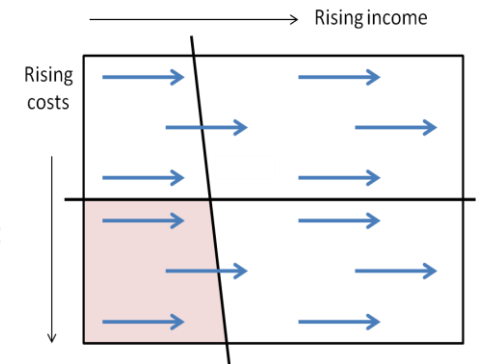
Measure ≈ targeted thermal modernisation for vulnerable customers



Measure ≈ general social tariff



Measure ≈ «general Heat benefit»



- The Ukrainian **Social security system**, includes several types of measures:
  - assistance to low-income families (families with an average monthly income less than the subsistence level),
  - assistance to families with children (at birth, child care, single mothers, adoption and guardianship, etc.)
  - assistance to internally displaced persons,
  - subsidies to the population for reimbursement of expenses for payment of housing and communal services, liquefied gas, solid and liquid domestic fuels (hereinafter referred to as housing and communal services).
  - ...
- **Targeted subsidies – support to vulnerable customers for required payments for housing and communal services.**
- **Vulnerable customers** - households (families) whose housing and communal services costs (according to social norms) exceed a certain part (%) of their average monthly income, within which payment for housing and communal services is obligatory

The **special support mechanism** was introduced in 1995 and underwent substantial changes over the past 20 years, such as:

- Change of way in we determine the **part of communal bills which should be considered obligatory**:
  - until 2014 - a fixed percentage of family income (10-15%),
  - since 2014 - according to the formula, depending on the ratio of the average monthly family income and the subsistence minimum (see slide 4/9)
- Changing the **procedure for financing** subsidies:
  - until 2019 - transfer of funds to housing and communal services providers,
  - from 2019 to May 2021 - a transitional period (at the choice of the consumer - non-cash or in cash),
  - from May 2021 - transfer of funds directly to consumers
- **Monetization of subsidies**:
  - stimulates savings and full payment for housing and communal services,
  - beneficial to vulnerable consumers (savings on utilities remain at their disposal),
  - beneficial to utility service providers (eliminates their dependence on the state budget and improves consumer settlements with them)

The **formula approach strengthened the protection of low-income families** (the percentage of family income for mandatory payment of housing and communal services decreases with a decrease in the average monthly income per family member)



- **Main regulations** governing the Subsidies Mechanism:
  - On the establishment of state social standards in the field of housing and communal services (Resolution of the Cabinet of Ministers of August 06, 2014 No. 409)
  - On the amount of mandatory payment for housing and communal services (Decree of the Cabinet of Ministers of July 27, 1998 No. 1156)
  - The procedure for providing the population with subsidies for reimbursement of costs for paying for housing and communal services (approved by the Resolution of the Cabinet of Ministers of October 21, 1995 No. 848)
  - The procedure for calculating the average monthly total family income (approved by the Resolution of the Cabinet of Ministers of July 22, 2022 No. 632)
  - Law on the State Budget (item of expenses for the payment of benefits and subsidies for payment of housing and communal services)
- **The main provisions of the subsidy mechanism** (as of February 1, 2022):
  1. The appointment of subsidies and control over their use is carried out by **structural units for social protection** of the population of state administrations, executive committees of city, district councils
  2. The subsidy is assigned at the request of an individual with a **declaration of income and expenses** of the household, as well as other documents (if necessary)

3. **Subsidies include:** services for the management of an apartment building, for the supply and distribution of natural gas, electricity, for the supply of thermal energy, hot water, centralized water supply and sanitation, household waste management, as well as the purchase of liquefied gas, solid and liquid heating oil

4. **Amount of obligatory payments for communal services** (as % of income) is determined as follows:

**10% \* average monthly income per person / poverty threshold**

*For example: With an average monthly income of a family of 4 people of 720 USD and a poverty threshold of 90 USD, the amount of the mandatory (maximum) monthly payment for the family for housing and communal services is 20% ( $= 10 * 720/4/90$ ) or 144 USD / month ( $= 720*0.2$ ). With an average monthly income of the same family of 360 USD, the amount of the family's mandatory monthly payment for housing and communal services will be only 10% ( $=10*360/4/90$ ) or 36 USD/month*

5. **The subsidy** is assigned in the amount of **the difference** between the amount of payment for housing and communal services (within the boundaries of social norms) and the amount of mandatory payment for housing and communal services.

*For example: if the monthly fee for housing and communal services (within social norms) is 255.4 USD and the amount mandatory payment of 144 USD/month, the accrued subsidy will be 111.4 USD/month. With a mandatory payment of 36 USD/month, the accrued subsidy will be 219.4 USD/month.*

6. **The benefit payment is not approved** (except when it is necessary to convene the decision of the Commission of Special Circumstances) :
  - - if there is an overdue (more than 3 months) debt for housing and communal services,
  - the area of the apartment is more than 130 m<sup>2</sup>, houses - more than 230 m<sup>2</sup>,
  - possession by any member of the household of a car less than 5 years old from the date of issue,
  - purchase by any member of the household over the past 12 months for more than 50 thousand UAH of land, real estate,etc.,
  - any member of the household has more than 100 thousand UAH (3.6 thousand USD) in bank accounts,
  - ...
7. The subsidy is calculated, as a rule, separately for the heating period (from October 1 to April 30) and the non-heating season (from May 1 to September 30) according to data for the last 2 (4) quarters
8. The subsidy is assigned after verifying the accuracy of the data submitted by the applicant (on the basis of the Register of Rights to Real Estate, the Register of Civil Status Acts, the Unified Register of Debtors, the Unified Register of Legal Entities and Individual Entrepreneurs). If necessary, a survey of the material and living conditions of the household is carried out.
9. The decision to refuse a subsidy can be **challenged in court**.

10. For a significant part of households that have previously received subsidies, subsidies are accrued without the application of citizens
11. When changing the prices of tariffs for housing and communal services, changing social norms and standards, changing the procedure for calculating the mandatory payment for housing and communal services, obtaining updated information on the income of household members, recalculation of subsidies is carried out **without the appeal of citizens**
11. The subsidy is paid **monthly in cash** by transferring funds to the account of the recipient of the subsidy in an authorized bank or paid to him in cash through organizations that pay and deliver pensions and other assistance to the place of residence. Payment of subsidies is made in the first half of the month, payment for housing and communal services - from the 20th day of the month following the month of consumption of services
12. **Excessive amounts** of the subsidy are **subject to return** by the recipient of the subsidy.

## Some social parameters used for communal and housing services in Ukraine

- **Norm of adequate space** - **35,22 m<sup>2</sup>** for the family plus **13,65 m<sup>2</sup>** for each family member
- **Centralised and individual heating (heat energy):**
  - Heat energy for centralised heating in case of existence of heat metering in the houses and apartments – **0,0383 Gcal/m<sup>2</sup>** per month within the heating period,
  - Natural gas in case of individual heating – **4 m<sup>3</sup>/m<sup>2</sup>** per month within the heating period,
  - Electricity for individual heating – **30 kWh/m<sup>2</sup>** per month within the heating period
- **Centralised Heating (cold water):**
  - **2 m<sup>3</sup>/person** per month when hote water is provided,
  - **3,6 m<sup>3</sup>/person** per month when hote water is not provided
- **Centralised Heating (hot water) – 1,6 m<sup>3</sup>/person** per month
- **Centralised water provision – 3,6 m<sup>3</sup>/person** per month
- **Supply and distribution of natural gas :**
  - In case of gas cookers and centralised hot water provision– **3,3 m<sup>3</sup>/person** per month
  - In case gas of gas cookers but without centralised hot water provision– **5,4 m<sup>3</sup>/person** per month
  - In case of gas cookers and gas water heating– **10,5 m<sup>3</sup>/person** per month
- **Supply and distribution of electricity :**
  - In case of centralised hot water provision - **70 kWh for the family and 30 kWh for each family member** per month (but no more than 190 kWh per month)
  - In case without centarlised hot water provision **100 kWh for the family and 30 kWh for each family member** per month (but no more than 220 kWh per month)
  - In case of electric cooker and centralised hot water provision - **110 kWh for the family and 30 kWh for each family member** per month (but no more than 230 kWh per month)
  - In case of electric cooker but without centralised hot water provision - **130 kWh for the family and 30 kWh for each family member** per month (but no more than 250 kWh per month)

\* For regions within the COVID-19 “Red Zone” the norms are increased by 50%

# Support of vulnerable customers. Ukraine experience 8/9

- **Example for calculating the monthly obligatory payments for utility services within the existing social norms :**

**Existing data:** A family of 4 lives in an apartment of 100 m<sup>2</sup> in a house with centralized heating (with a house heat meter), centralized hot and cold water supply and sanitation, electric stoves.

Current tariffs :

- Heat energy for heating – 60 USD/Gcal
- cold water – 0,8 USD/m<sup>3</sup>
- water supply – 0,4 USD/m<sup>3</sup>
- Hote water – 3,6 USD/m<sup>3</sup>
- Electricity – 0,06 USD/kWh

**Social norms** for the family:

- Living space – 89,8 m<sup>2</sup> (= 35,22 + 4 \* 13,65)
- Heating - 3,44 Gcal/month (= 89,2 \* 0,0383)
- Water supply – 14,4 m<sup>3</sup>/month (= 4 \* 3,6)
- hot water – 6,4 m<sup>3</sup>/month (= 4 \* 1,6)
- cold water – 8,0 m<sup>3</sup>/month (= 4 \* 2)
- Electricity – 230 kWh/month (= 110 + 4 \* 30)

**Costs for utility services within the social norms** (without multi-apartment block management fee):

- Heat energy – **206,4 USD/month** (= 3,44 \* 60)
- cold water – **6,4 USD/month** (= 8,0 \* 0,8)
- Hote water – **23,0 USD/month** (= 6,4 \* 3,6)
- Electricity – **13,8 USD/month** (= 230 \* 0,06)
- Water supply – **5,8 USD/month** (= 14,4 \* 0,4)

**Result:** **255,4 USD/month** (during the heating period) u **49 USD/month** (outside the heating period)

# Support of vulnerable customers. Ukraine experience 9/9

- Amount of subsidy payment:**

Year	Overall budget spending Ukraine budget		Spending on benefits and subsidies			Average minthly income		Poverty line as of 1st January	
	Mill. UAH	Mill.USD	Mill.UAH	Mill. USD	%	UAH	USD	UAH	USD
<b>2022</b>	1 499 496		38 378		<b>2,6</b>			2 393	
<b>2021</b>	1 444 342	<b>52 906</b>	47 258	<b>1 731</b>	<b>3,3</b>	14 014	513	2 189	80
<b>2020</b>	1 270 677	<b>47 062</b>	37 170	<b>1 377</b>	<b>2,9</b>	11 591	429	2 027	75
<b>2019</b>	1 093 021	<b>42 283</b>	20 000	<b>774</b>	<b>1,8</b>	10 497	406	1 853	72

- Number of subsidy recipients:**

- Heating period 2020-2021 – **3 Mill households** (about 18% of population)
- Heating period 2021-2022 rr – **2,5 Mill households**

- Average subsidy amount:**

- Heating period 2021-2022 – about 2000 UAH/month per household (about **74 USD**)

# Questions for discussion

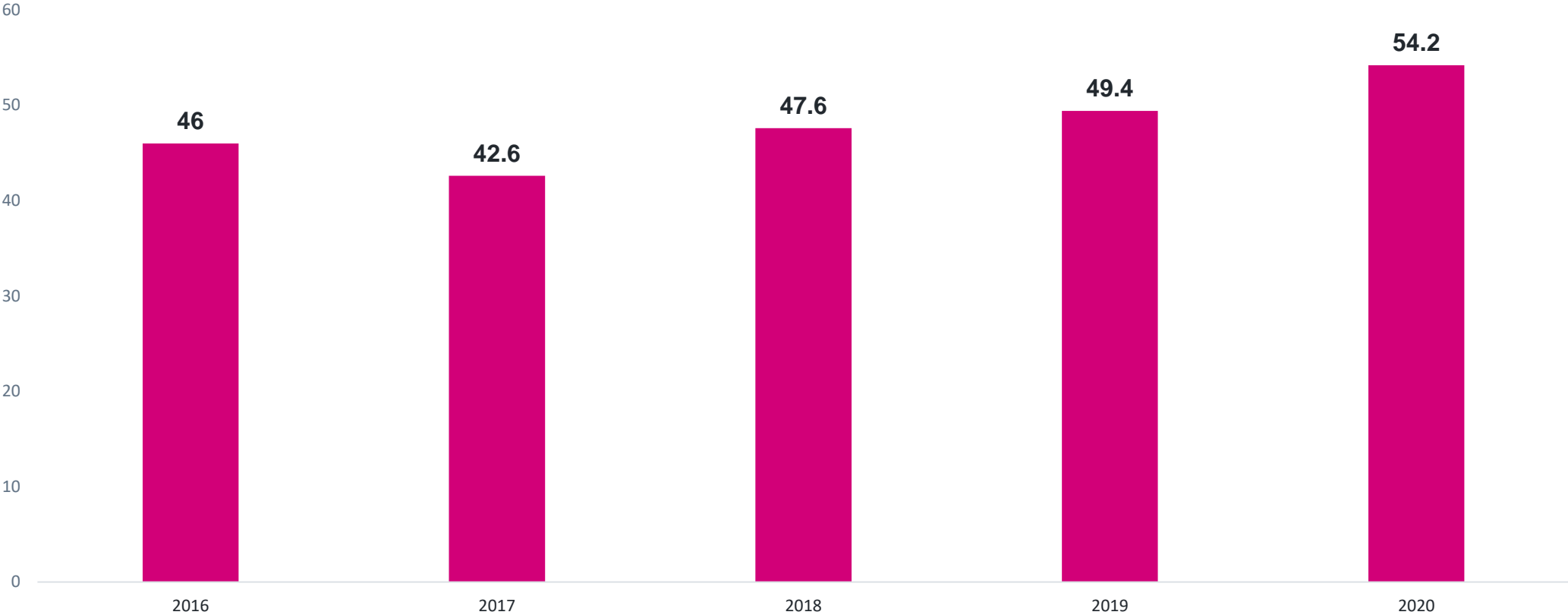


# Support for vulnerable parts of the population related to heat supply

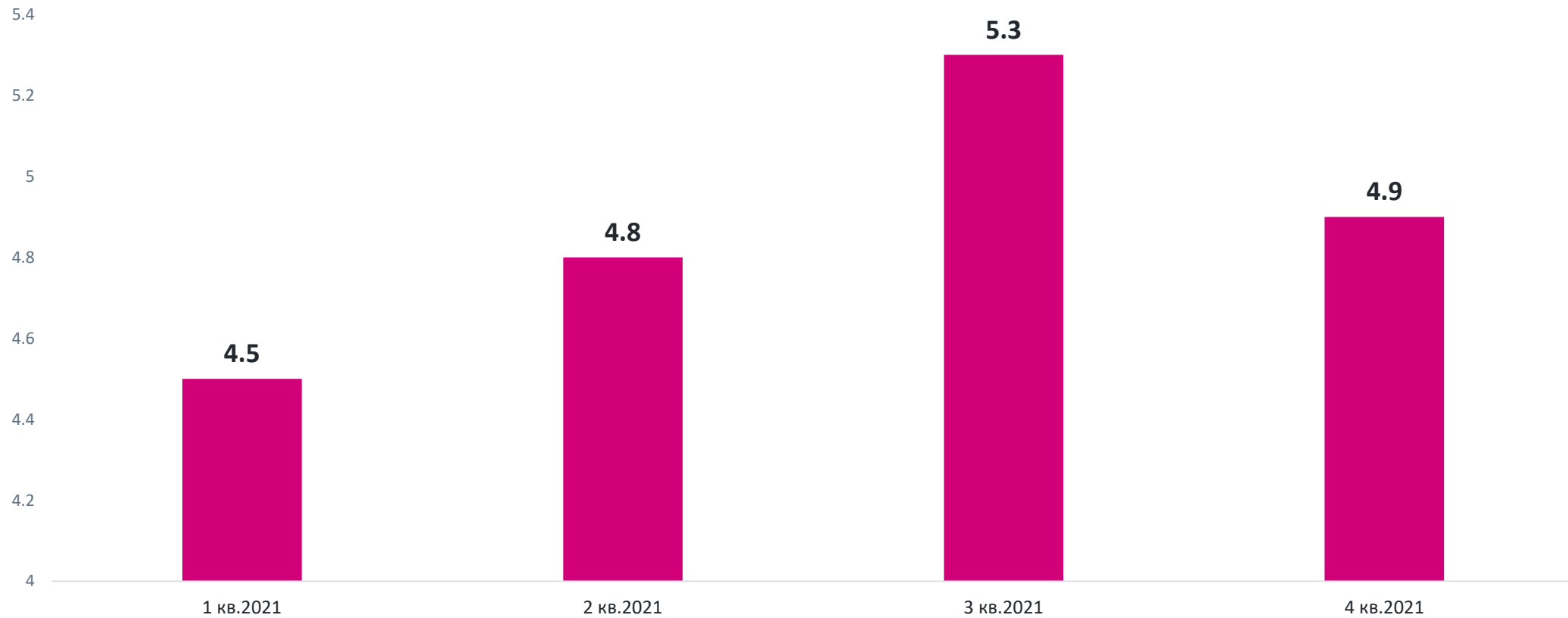
# Share in cash income

	Share of cash income					
	Income from work	ИЗ НИХ		Social transfers	Income from capital	Material help from relatives, alimnts and other incomes
		Income from work – employment	Income from work outside regular employment			
2015	80,1	69,3	10,8	16,6	0,4	2,9
2016	78,3	68,0	10,3	18,1	0,4	3,2
2017	76,3	65,7	10,6	19,7	0,4	3,6
2018	74,2	63,3	10,9	21,5	0,5	3,8
2019	72,3	61,9	10,4	23,8	0,5	3,4
2020	67,0	57,9	9,1	28,6	0,4	4,0

# Spending on food products.



# Share of population with incomes below the poverty line



- ❑ Summing up the analytical work, it can be concluded that when increasing tariffs for thermal energy, it is extremely necessary to take into account the situation of socially vulnerable categories of citizens. In addition, the increase in heat tariffs immediately stimulates the growth of inflation in general.
- ❑ The introduction of a new "heat allowance" will help mitigate the negative effects of tariff increases.
- ❑ The introduction of a new "heat allowance" will help mitigate the negative effects of tariff increases.
- ❑ Against the backdrop of rising prices for goods and services, an increase in tariffs for thermal energy may cause a “shock” among the population, given their low level of income. In addition, if you look at the structure of expenditures, it becomes clear that most of the expenditures are directed to food products, and despite the small share of expenditures on services, the increase in tariffs will negatively affect the general level of well-being of the population.

# Currently Kazakhstan has a system of Targeted Social Assistance (АСП).

АСП is divided in two major group:

**Unconditional** financial assistance is provided:

1) Single and (or) low-income persons living alone with limited opportunities to participate in employment promotion measures in connection with: reaching retirement age; disability of the first or second group; the presence of a disease in which a period of temporary disability for more than two months can be established.

2) Low-income families that do not have able-bodied persons or the only able-bodied member takes care of: a child under the age of three; disabled child; a disabled person of the first or second group; the elderly; in need of care and assistance.

**Conditional** assistance is provided to single and (or) living alone low-income able-bodied persons, as well as low-income families that have an able-bodied (able-bodied) member (s), including individuals who are payers of a single aggregate payment in accordance with Article 774 of the Code of the Republic of Kazakhstan "On taxes and other obligatory payments to the budget", subject to his (their) participation in measures to promote employment and (or) if necessary, social adaptation, with the exception of the persons (families) indicated above.

- According to the Law “On State Targeted Social Assistance”, the amount of targeted social assistance per person or family is calculated by the authorized body as the difference between the average per capita income and the poverty line established in the regions based on each family member. In the event of a change in family composition and income, the amount of the assigned targeted social assistance is recalculated. The applicant is obliged to report the circumstances that may serve as a basis for changing the amount of targeted social assistance to the authorized body within 10 working days.
- The determination of the total income of a person applying for targeted social assistance is made on the basis of documents submitted when applying for targeted social assistance, and information received from the information systems of state bodies.
- The total family income includes all types of income, except for housing and targeted social assistance, as well as government support measures within the framework of participation in active measures to promote employment, received in cash or in kind, for a specified period of time. Akimats, taking into account the peculiarities of the regions, have the right to define as not generating income: livestock, poultry, land.
- The average per capita income is calculated by dividing the total income received in the quarter preceding the quarter of applying for targeted social assistance by the number of family members and by three months.

It is proposed to introduce targeted assistance to reimburse part of the costs of paying tariffs at the expense of the local budget, setting an acceptable level of expenses for paying for heat energy for each family member or for the family as a whole, thereby covering only the difference. An example in many transition economies is the value of 10%.

Example.

1. Family income 150 thousand tenge, the maximum allowable level of expenses in Nur-Sultan is 10%.
2. The amount of expenses for thermal energy is 20 thousand tenge, 10% of the family income is 15,000 tenge.

$$20000\text{tg} - 10000\text{tg} = 5000\text{tg}$$

It should be noted that payments of this kind are not made individually for each person. Targeted assistance is provided during the heating season and only one payment per place of residence, regardless of the number of socially vulnerable citizens living in it.



- ❑ In addition, subsidies are not awarded to households if at least one of its members:
  - 1) Has overdue debts for housing and communal services for more than 3 months;
  - 2) Has a living space of more than 130 m<sup>2</sup>;
  - 3) Has made a purchase of real estate, land or a car for more than 1,000,000 tenge in the last 12 months;
  - 4) Has more than 1,500,000 tenge on the bank account;
- ❑ The subsidies themselves are credited to the applicant's account with an authorized bank and only during the heating season on a monthly basis. Only recipients of “unconditional” targeted social assistance do not need to re-apply, while the rest need to re-apply before each heating season. Money is credited either to the place of pension payments at the address of residence, or to a bank card using registered details.
- ❑ With him, the applicant must have only the state-approved application itself, an identity card and electronic copies of documents confirming the facts of being classified as a socially vulnerable segment of the population. Of these: bank statements, data on the basis of the Register of rights to real estate, a certificate of the absence of utility debt, confirmation of the fact of earnings.



**Thank you for attention!**

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