Rebuild Ukraine, Water Solar Recovery Forum

Tariff and Cost recovery issues in Ukraine

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Technical assessment on water tariff and cost-structure in Ukraine

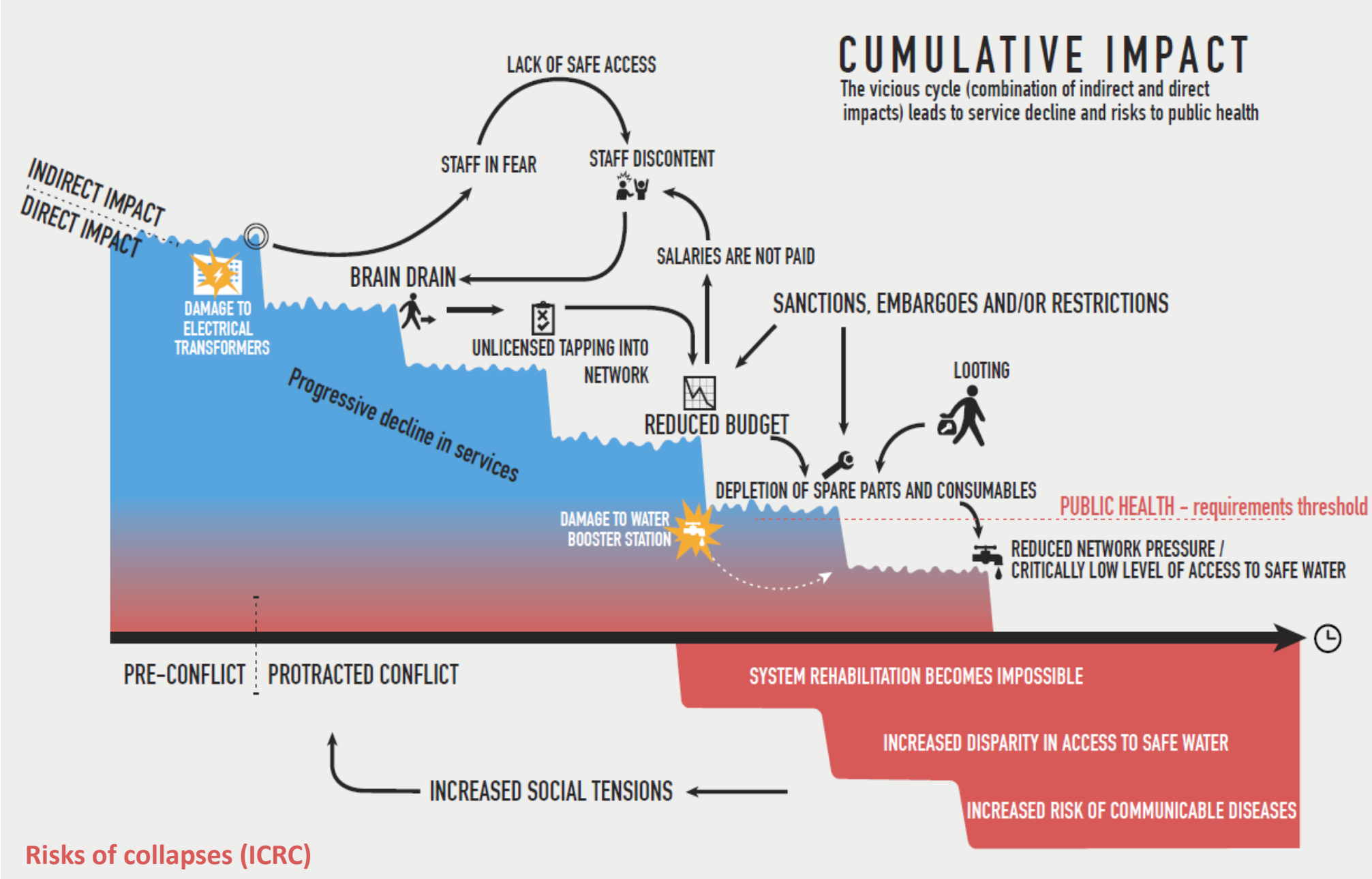
Objective: Evidence based policy dialogue towards gradual reforms of the water tariff structure

#	Deliverable	Description
1	State of play: current situation analysis	• Critical VK situation (financial & technical) • National Regulator Jurisdiction & tariff adjustment procedure • War-induced challenges
2	Options for pro-poor tariff systems	• Household expenditure on water vs income level • Increasing block rate tariff model • Cross-subsidies for water sector
3	Path to EU integration	• Strengths & Weaknesses of Ukrainian water sector • EU integration roadmap (governance & standards) • Suitable EU "model" countries
4	**Analysis of updated tariff for business consumers**	May-June 2024: tariff increases for business consumers across 37 water utilities (+ 17% to 136% for WS / + 26% to 144% Sewerage) → impacts on cost recovery ?
5	Policy brief	Consultative process, co-signed by key partners for advocacy

Issues and challenges

Devastating war:

- systemic underperformance
- management constraints
- chronic underinvestment
- lack of sustainability and service failure
- incomplete legal and regulatory requirements
- tariffs do not allow for cost recovery, not even for operating costs (<85%)



Risks of collapses (ICRC)

Snapshot: Overall situation for WSS in Ukraine

70% — **Population of Ukraine with access to centralized piped water supply**
10 million without piped water supply

50% — **Population of Ukraine with access to centralized wastewater collection and treatment**
20 million without piped water supply

>30% — **Distributed water not in compliance with drinking water standards**

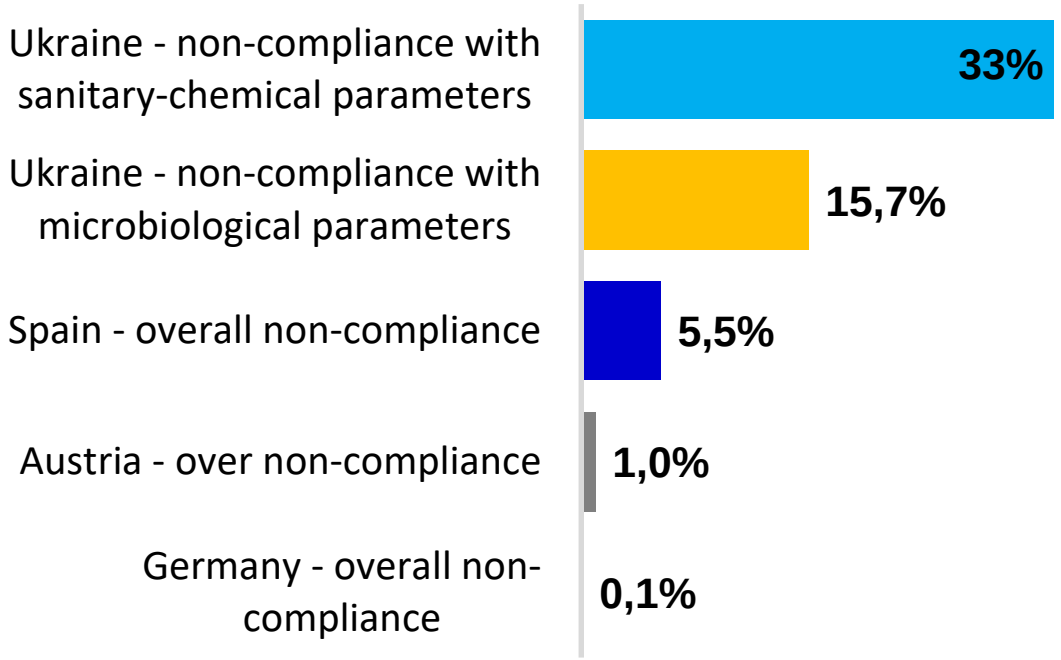
33% — **Urban sewage treated**

55% — **Respondents (9,000 households) refrain from using piped water for drinking purposes due to poor tap water quality**

70-90% — **Depreciation of fixed assets of enterprises as of 01.01.2021**
National Targeted Social Program "Drinking Water of Ukraine" 2022-2032

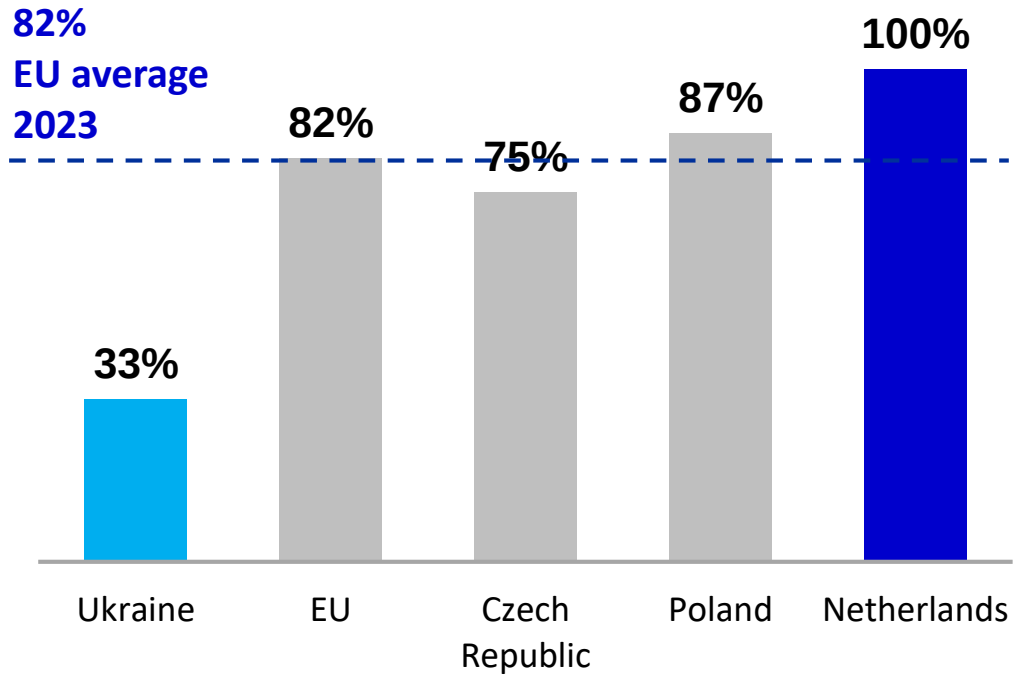
Challenging path towards EU integration for the WSS sector

Non-compliance with drinking water standards



Sources: Ministry of Ecology & Natural Resources of Ukraine, Spanish Ministry of Health, German Ministry of Health & Environment

Proportion of urban sewage treated (Ukraine vs EU countries)



Sources: Danube Water Program, https://water.europa.eu/

Issues and challenges

Cost Recovery (2023)

Ukraine

55-65%

% of cost water utilities recover

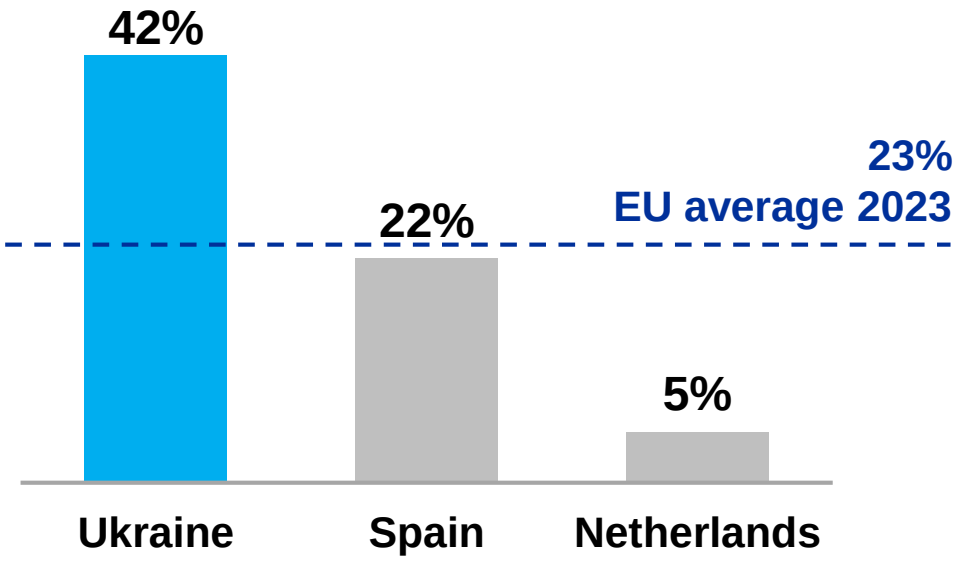
European Union

100%

- **Denmark** = 98% tariff + 2% public budget
- **Netherlands** = 40% tariff + 60% public budget
- **Sweden** = 0% tariff + 100 % public budget

Source: OECD

Non-revenue water (2023)



Sources: MinRegion & World Bank, Ukrainian Vodokanal Association, EC,

War damages and Losses (Dec 2023)

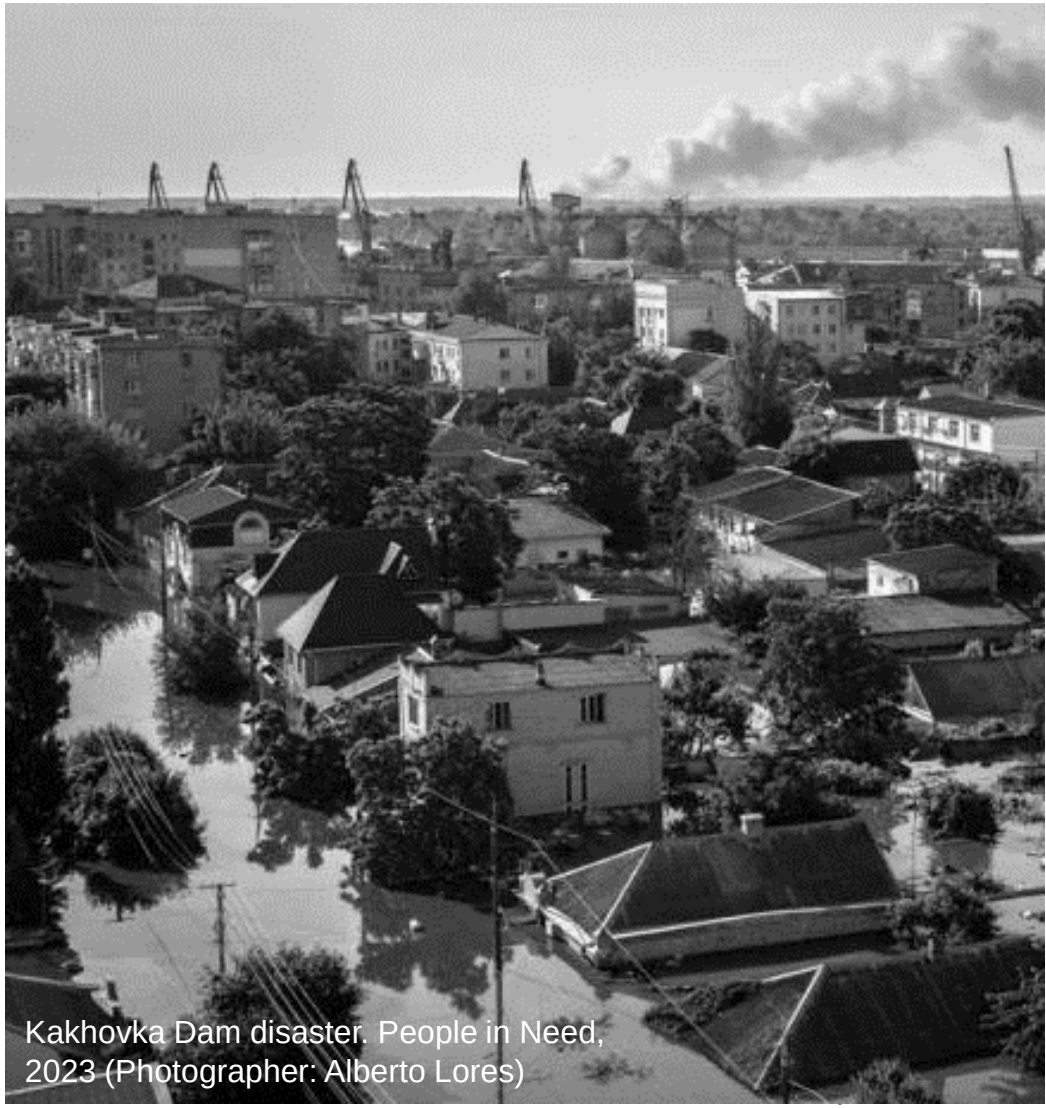
Total WSS recovery and **reconstruction needs**: **$11.1 billion** for the 10 years from 2024–2033

Total **physical damage** for water supply and sanitation sector: **$4 billion**

Total losses in the sector: **$11.6 billion**

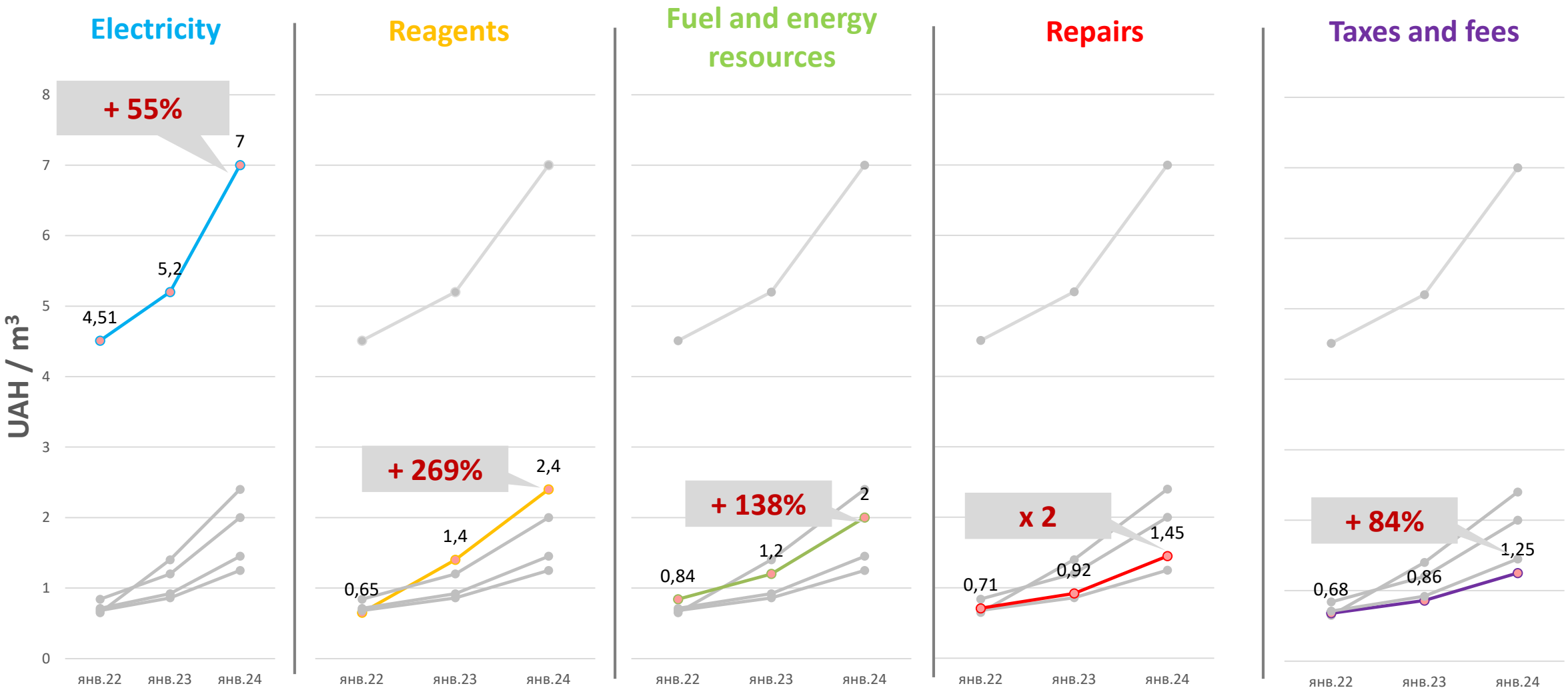
- **Lost revenues** WSS services due to war **~ 40%** of the total losses in the sector **~ $ 4.6 billion**
- **Losses** due to **energy** consumption **~ $3.5 billion**

Source: RDNA 2 and RDNA 3



Kakhovka Dam disaster. People in Need, 2023 (Photographer: Alberto Lores)

Operating cost increase

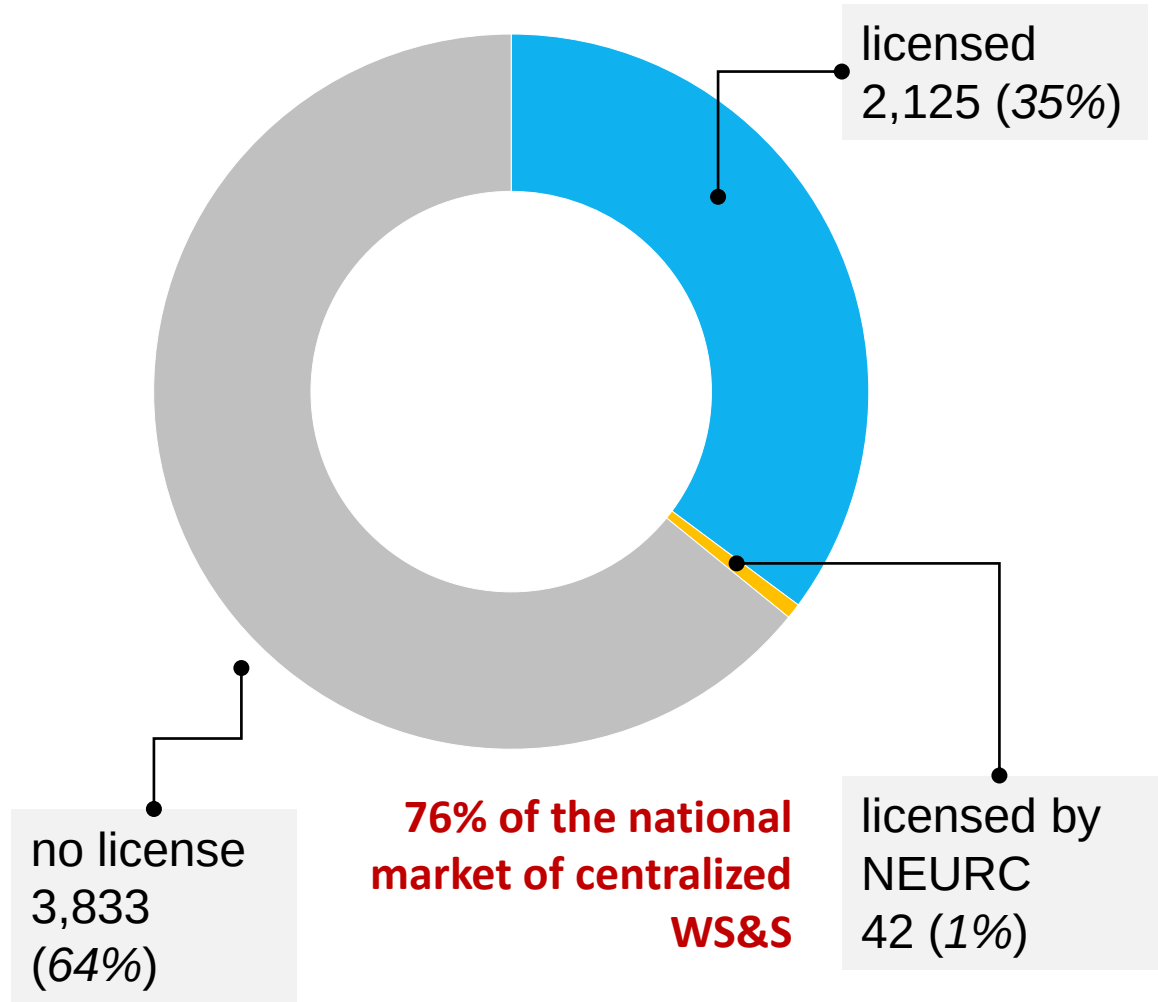


Background: Water Tariff Study

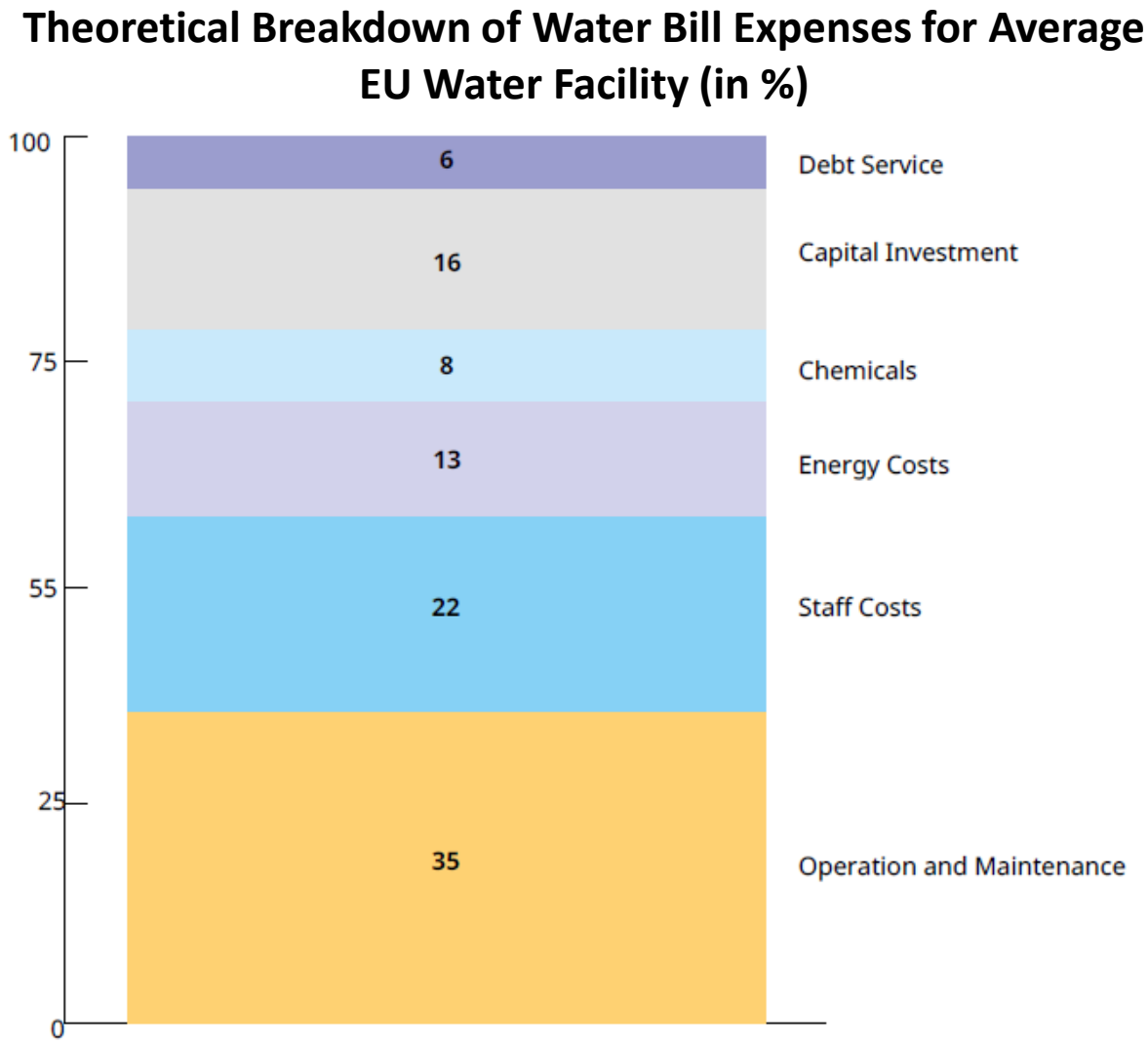
Current tariff structure: 1-block volumetric tariff per cubic meter:

- Applied to consumption volume, calculated according to meter readings or consumptions norms.
- Consumption norms: 95 liters – 300 l/c/d (EU ~ 124) decided by city administration

Scope: 42 vodokanals licensed by NEURC representing 76% of total population



Cost vs revenues for WS&S Services



Cost vs revenues for WS&S Services (UAH/m3)

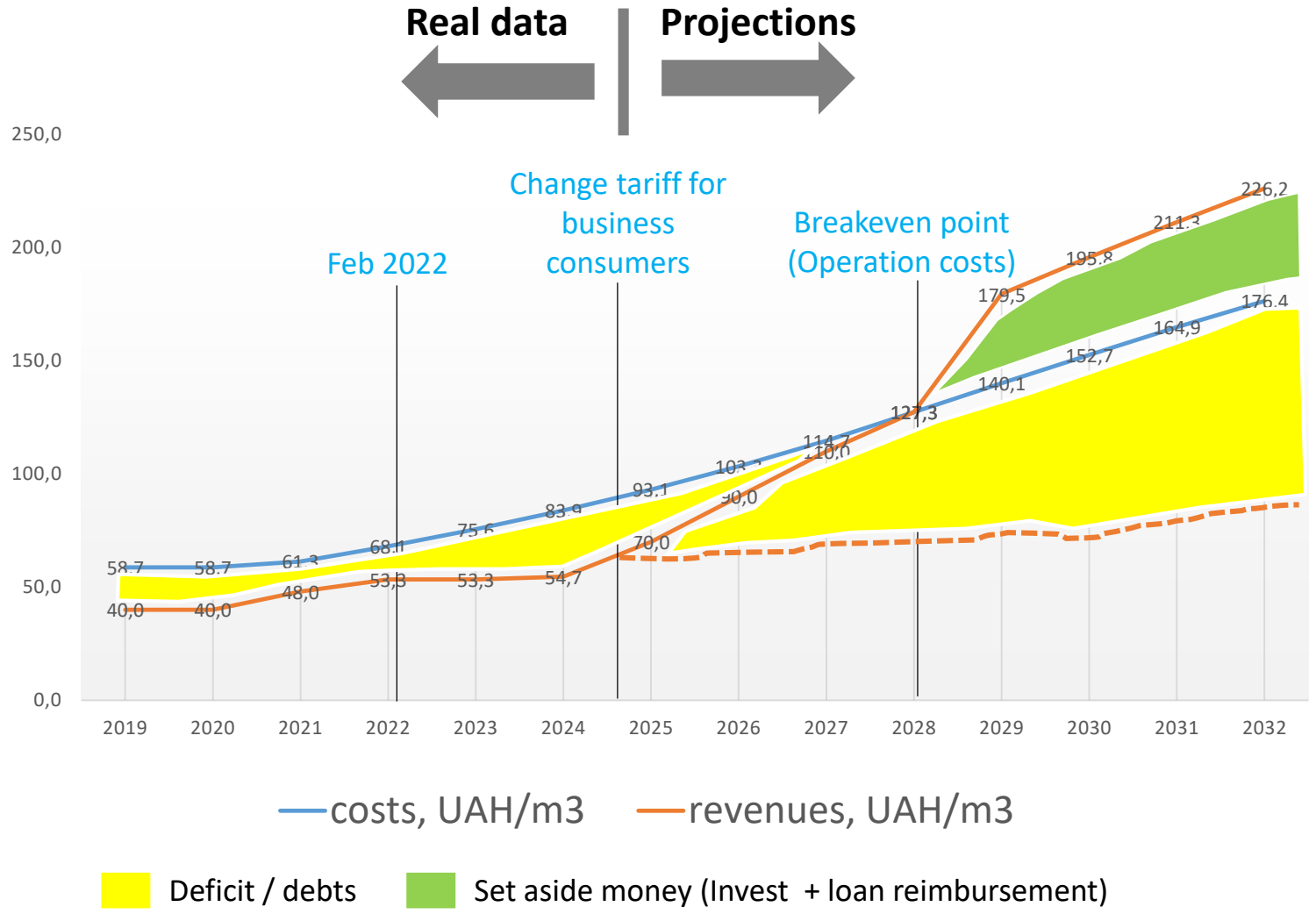
2018 – 2022 Feb: Actual status

2022 Feb – 2024: widening gap

June 24: increased tariff for business consumers (37 utilities):

- + 17% to 136% for WS
- + 26% to 144% for sewerage
- cost recovery rates from 66.9% for water and 71.0% for sewerage to 74-76%

2024 onwards, achieving cost recovery + set aside funds

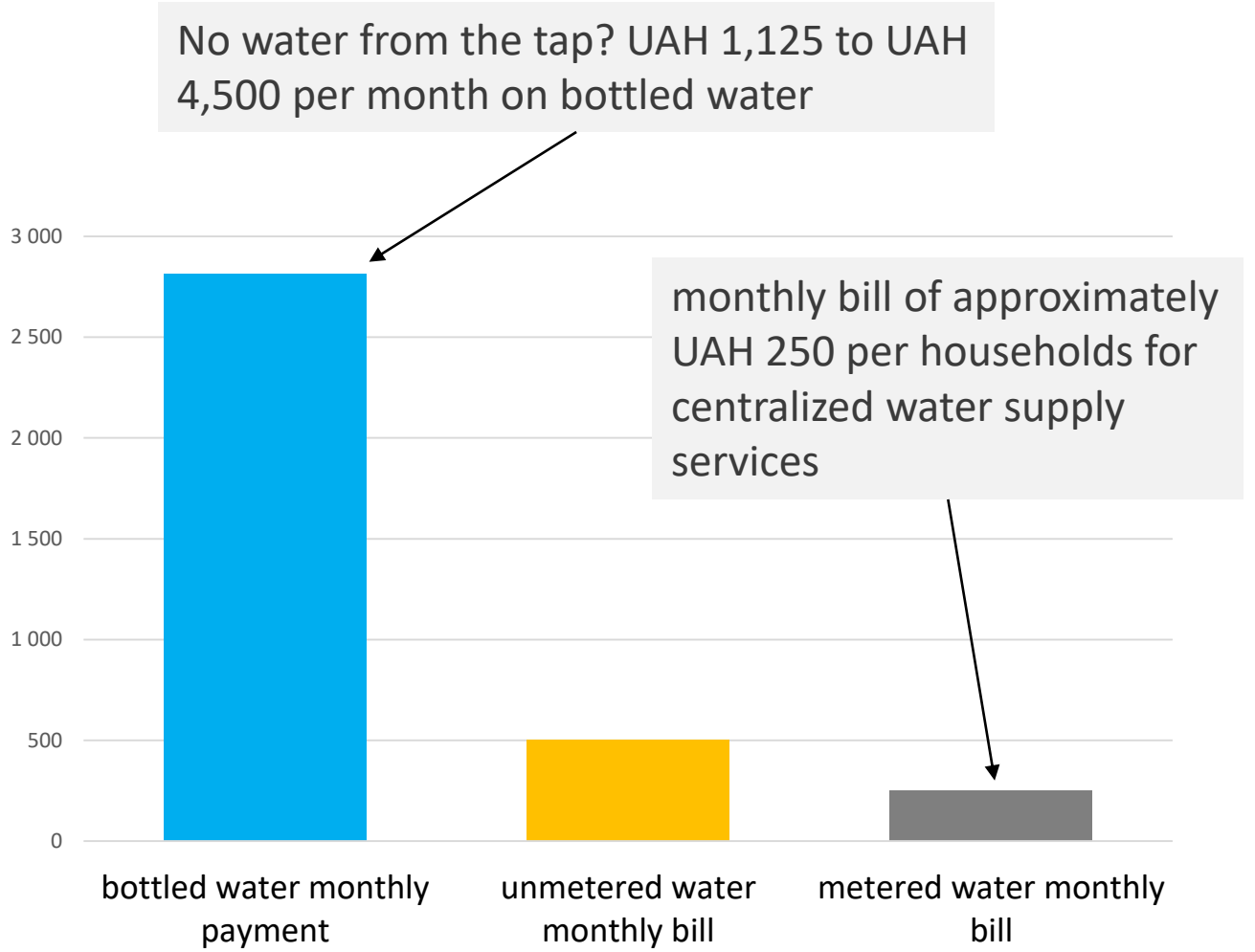


Situation of low-income households for tariff

- **Poverty in Ukraine: 5.5% in 2021 to 22% in 2023**
- **Pushing 7 million people into poverty.**

- UKR households pay ~ 1.8% of their income for WSS services
- up to 5.6% for low-income households and 6.8% for the poorest consumers (norm ~ 3-5%)

- Consumers that cannot afford to install individual water meters, are subsidizing better off consumers than can afford to install them.



Tariff Models and Reform Scenarios

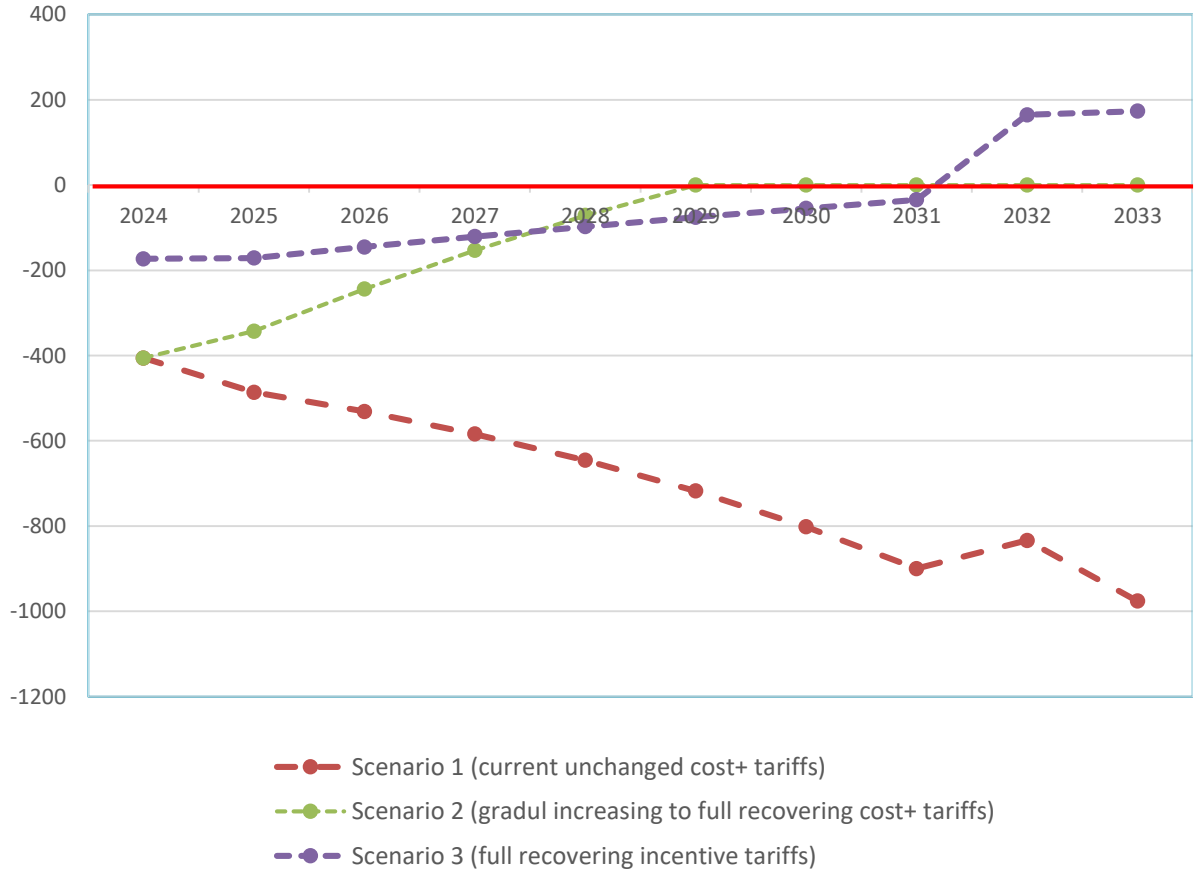
Proposed Tariff Models

- **Increased block tariff (IBT):** the more you consume, higher is the unit cost; affordable basic "lifeline" rate; needs metering; promotes conservation
- **Two-Part Tariff** *(like for energy in Ukraine):* Fixed service fee + usage rate; Cost-based structure; Customer type flexibility

Reform scenarios:

- Scenario 1 – 'cost plus' /single block with the real cost of services and NRW; **unsustainable**
- Scenario 2 – 'cost plus' + gradually increased tariffs to reach the full cost recovery; **high social impact**
- Scenario 3 – full cost recovery tariffs, incentive-based (IBT or two parts) with real cost of services and NRW. **Sustainable transition to EU-aligned tariff structure**

Financial Modeling Results: Zhytomyr Case Study ((in million UAH)2024-2033)



Pro-Poor Water Sector Recovery

Ukrainian Housing Subsidies (Since 1995)

- 1.7M households, ~ UAH 1,189 monthly average
- Key Challenges: Water only 5-10% of utility bills; Inequitable consumption norms; poverty targeting

Reform scenarios:

- Short-term Measures:
  - ✓ State budget cross-subsidies
  - ✓ Emergency utility support
  - ✓ Targeted connection subsidies
- Structural Solutions
  - ✓ Environmental Fund creation
  - ✓ Regulation enabling private sector engagement
  - ✓ EU-aligned social protection

EU Best Practices

- Italy (50L/day free)
- Lithuania (vouchers)
- Spain (Social Fund)
- Belgium Social Water Fund (0.025€/m^3)
  - ✓ €4M annual support
  - ✓ 16% households above affordability threshold
- France Housing Solidarity Fund
  - ✓ 77% public + 23% utility funding (0.5% of revenues)

% of buildings with commercial water metering

Individual household water metering

- Kharkiv: 65%
- ??