

**DONBAS RECOVERY:  
ASSESSMENT OF SOCIAL AND ECONOMIC LOSSES  
AND STATE POLICY PRIORITY DIRECTIONS**

❖ **Challenges**

❖ **Will**

❖ **Hard work**

The high priority of consideration in the public policy of unprecedented processes in Donbas that have caused human, moral, political, environmental and economic losses, and drastically changed social relations, is beyond any doubt.

A large-scale military conflict has undoubtedly produced an extremely negative impact on the country's economic potential, not very strong as it was. It encompasses both the outcomes of the direct destruction of the economy in the region – both the occupied areas and those controlled by Ukraine – and problems caused to enterprises directly connected with it.

Implementation of an entire range of long-due political, social and economic reforms at present opens the window of opportunity to a radical response, but at the same time requires very precise coordination of specific innovations addressable specifically to Donbas, with the universal ones to be applied throughout Ukraine, and with the commitments that our state undertook within the EU association.

Lack of resources considerably limits the possibilities to channel budget funds for Donbas recovery; expectations of foreign investment may not materialize, therefore extremely important is the mobilization of funds of the population. For that end, it is necessary to reform the system of taxation and revenue allocation between the budgets of different levels; to move to the development budgeting through budgetary allocations, government domestic borrowing, resources of specialized financial institutions and government securities with the preferential purchase by population with their own savings.

Donbas economy has long failed to meet even the most modest modern requirements – its obsolete technologies, dangerous and harmful working conditions, and high energy consumption have for decades demanded fundamental changes. But any proposal clashed across an insurmountable obstacle: the need to secure employment for those workers who would inevitably lose their jobs as a result of the reconstruction. And every time the state authorities did not dare to take any resolute measures. At present, the economy has been destroyed and the issue is in the context of its revival.

Donbas recovery means development of an area, suitable for living, with due account to all the specifics and difficulties caused by its proximity to the warfare zone. Destruction of the technologically obsolete economy and disruption of the traditional ties with the temporarily occupied areas and Russia compels both the formation of a fundamentally different economic complex and also finding new markets for the of necessary raw materials, components and for distribution of ready products. Although the country as a whole is already building its strategy, implements trade and economic and monetary and financial projects without the resource potential of Donbas, progress in that occurs with considerable difficulties and, more importantly, may not be a reason for, or even an argument in favor of, disregarding the region. In many cases, formation of patterns of production processes involving enterprises of Dnipropetrovsk, Zaporizhyya, Kharkiv and other Oblasts of Ukraine will become an urgent necessity.

This implies the need to:

- change the resettlement system;
- build new roads and communication lines;
- build/ repair social infrastructure assets, primarily housing;
- encourage investment in innovation facilities and technologies;
- encourage accelerated development of small and medium businesses, which will create jobs for residents of the area and the supply of the necessary goods and services to the population.

Implementation of the defined tasks will require specific solutions, in part, those related to the provision of certain preferences.

Events in Donbas also produce a very important psychological impact on the Ukrainian society and the Ukrainian state. The myth about Donbas feeding the entire country, which had for a long time been – and it should be admitted, quite successfully – formed by the local elites and set deep roots in the minds of the local residents, was

destroyed by the harsh reality. And even if this has not yet (probably) been realized by the residents of the occupied areas, it is becoming increasingly clear to the people who fled from those areas and are surviving near the so-called demarcation line, who work at enterprises in Zaporizhya, Dnipropetrovsk and Kharkiv Oblasts. But alongside this outcome, overall positive, albeit very painful, the war in Donbas has generated a number of challenges and threats of a social and psychological nature.

In particular, a significant redistribution in the social status of certain occupations should be noted. Against the background of a quite understandable and expected promotion of the social role of the military, due to a significant reduction (and in some cases, full stoppage) of the extraction mines, the change in the social role of the miners, which throughout the independence period was an important component of political life, appears to be very real.

An entire set of problems is related to the large-scale forced internal displacement of people from the conflict area. A large part of IDPs, despite the threat of new shelling, on their own accord try to move to settlements that are closest to their homes or even return to the occupied territories. Such aspirations should not be qualified as manifestation of separatism or anti-Ukrainian sentiments. In most cases, they are a reflection of the inadequate material conditions, housing and work, and inability to adapt to life in regions far away from Donbas. This, however, creates an additional burden on the IDP host communities, which are predominantly in extremely poor condition themselves. Many of the labor-capable people are unemployed, and therefore are in need of help themselves, same as are their families. The destruction of social infrastructure assets creates an extremely difficult situation for the elderly, and people with disabilities and chronic diseases. The growing rates of child abandonment and neglect, in the absence of proper work, both cause an increase in the number of children who do not receive education and are a potential threat of crime growth.

The ongoing hostilities and permanent increase in the number of their participants cause the post-war syndrome and reintegration problems for the demobilized combatants and often, for their family members.

At the same time, it is necessary to emphasize positive changes in the socio-psychological situation in Ukraine caused by events in Donbas.

First, formation of the Ukrainian political nation has significantly accelerated, as the society united around the idea of building an independent state.

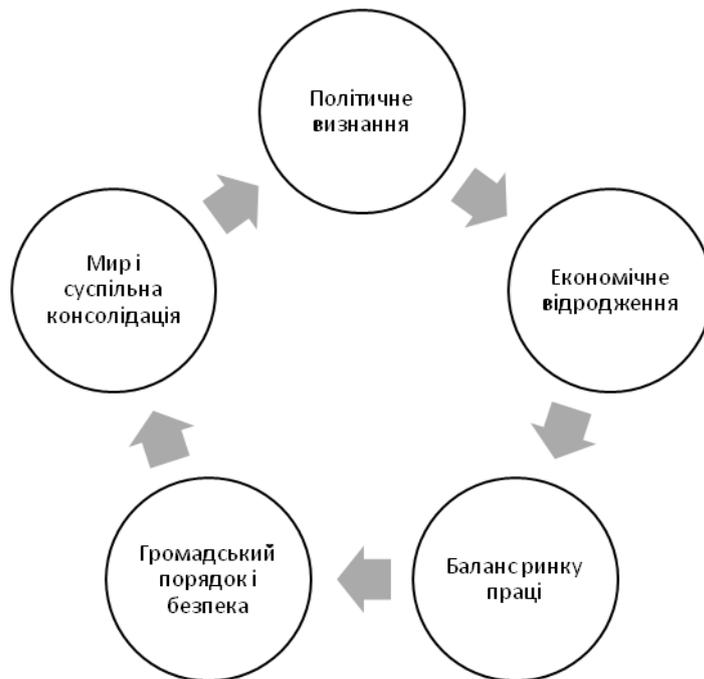
Second, strengthening social ties reflected many times in the growth of social capital, in part, through the establishment of a fundamentally new system of contacts between total strangers.

Third, an information system, alternative to the official media, has formed through contributions by a large part of Ukrainians, especially of young and middle age, which definitely contributes to formation of a democratic society.

Finally, the very awareness of the public threat and the will to avoid it triggered a large-scale volunteer movement, which is the most obvious and vivid manifestation of civil society in action.

Therefore, against the background of huge economic and political problems, Donbas tragedy brought about extremely important positive socio-political consequences.

Donbas recovery requires focused, systematic and systemic work of government structures, broad-scale engagement of civil society and international organizations. It is necessary to build upon the experiences, gained in different countries in a hard way and, whenever possible, adapt and use it in Ukraine, to the maximum extent.



**Political recognition.** The Ukrainian society must recognize Donbas as the territory of Ukraine, part of the unitary state, affected by the armed conflict and requiring long-term rehabilitation. The foundation for Donbas recovery should be laid by the consolidation of efforts by the government, business and citizens, and by the enormous, financial resources of the entire state – primarily, its own.

**Economic recovery.** Donbas must become a platform for a comprehensive introduction of modern management methods and organization of economic processes, where an important role will belong to the development of social responsibility of business and various forms of public-private partnership. Employees must become investors receiving their share of profits (as is the case in democratic European countries), and the business – tax holidays, under effective public control to prevent abuse.

**Labor market balance.** A large part of the most active, creative and self-sufficient citizens of labor-capable age have left Donbas territory. Therefore it is necessary to rethink approaches to employment of the people who have stayed. Development of new sectors of economy and construction of new enterprises based on modern technology will require a workforce that is qualitatively different. Partially, the problem can be solved through training, retraining and qualification upgrading of employees through the creation of training centers and providing them with the necessary equipment, staffs and educational technologies. Labor supply on the regional labor market will also be formed by various forms of migration (permanent, shift-based, commuting).

**Public order and security.** Excessive numbers of weapons and the proximity of areas outside the control of Ukraine entail a high threat of terrorist acts, manifestations of banditry and a difficult criminal situation in Donbas. Therefore, the construction and restoration of industrial and social facilities must envisage their protection, strengthening of control over observance of law and order in the streets and public places. It is necessary to focus efforts on overcoming, and preventing in the future, any manifestations of mass aggression, with the use of a range of law enforcement means, methods of psychological influence, advocacy and propaganda.

**Peace and social consolidation.** The prolonged military confrontation and the growing human casualties, exposure of the population in the occupied and adjacent territories to the informational influence of the Russian propaganda – all this aggravates the trend towards misunderstanding and confrontation in the society. The needs to overcome that requires enormous awareness-raising and advocacy work, which must engage everyone who influences the people's outlook – teachers, journalists, deputies to

councils of all levels. Civil reconciliation will require at least 10 to 15 years and must become an integral part of the complex and comprehensive process of consolidation of the Ukrainian society, the formation of patriotism and the Ukrainian identity.

## **SOCIO-ECONOMIC SITUATION IN DONBAS IN THE PRE-CRISIS PERIOD**

**Human development.** The population in Donbas formed under the influence of a large-scale migration from the countries of the former Soviet Union – more than 80% of the people born outside the country come from the Russian Federation. In the 21st century, the region has suffered significant migratory losses and at present experiences the highest rates of depopulation.

In Donbas, there existed a powerful system of vocational education, including training and education of employees at workplace. At the same time, the Donbas labor market was influenced by structural imbalances caused by an unmet demand for skilled blue-collar workers and engineering professionals, and the industrial-type economic structure that had formed in the Soviet period was marked by the dominance of unskilled labor.

The population in the region has always been characterized by relatively high levels of material well-being, incomes and wages. In that respect, the structure of incomes was marked by a high share of pension benefits related to occupational privileges and compensations for work in dangerous, difficult and hazardous conditions, which were among of the most hazardous to Ukraine. The social environment in Donbas was characterized by high levels of crime and suicide, and the situation with the tuberculosis prevalence was difficult.

**Social, industrial and rural infrastructure.** Health infrastructure had an extensive network of treatment and prevention institutions; the region had 44.3% of all preschool establishments with sanatory groups. A feature specific to the school network in Donbas was a large proportion of city schools, the largest number of public secondary schools and one of the country's most powerful networks of evening schools with the highest number of students. Donetsk Oblast concentrated the largest number of vocational and higher education institutions in Ukraine, and the number of university students, along with students of vocational schools, exceeded 280 thousand.

Social infrastructure expenditures per 1 person in Donbas were below the average level in Ukraine. among the regions of Ukraine, Luhansk and Donetsk Oblasts occupied the lowest position by the new housing supply. The level of rural infrastructure development in the region was among the lowest in Ukraine; more than a third of villages had no paved roads and houses in every fifth village had no amenities of any kind.

**Economic situation.** Donbas formed an industrial and agricultural economic complex, with the primary development of heavy industry. The region with the area of 8.8% of the country's territory generated 25.0% of industrial and 8.0% of agricultural output. Enterprises were placed in clusters (coal, metallurgy, heavy machine-building, power engineering, chemicals); the majority of the specialization sectors had interregional and international significance. According to various estimates, Donetsk and Luhansk Oblasts accounted for 23 to 27% of Ukraine's total export.

The Donetsk economic region was characterized by a developed network of roads and railways of national significance, which were part of international transport corridors. Important transit oil and gas pipelines, electric power lines and communication passed through its territory. The region was characterized by a high proportion of agricultural land. Currently, production of 70 to 90% of major agricultural crops is located in the areas controlled by Ukraine.

**Environmental conditions and specific features of natural resource management.** Historically, Donbas belonged to the regions with the highest levels of anthropogenic impact on the environment resulting from operation of its industrial complex. Shortage of drinking water reached 65% of the needs; in most residential areas in Donbas

it was supplied by schedule; over 30% of residential areas did not have centralized water supply and in Luhansk Oblast, only 20% of water met the Ukrainian DSTU State Standard for drinking water.

## **SOCIO-ECONOMIC LOSSES CAUSED BY WARFARE**

**Socio-demographic losses.** Civilian casualties in the military operations in Donbas exceed 7 thousand persons and continue to grow. Apart from the direct danger to life of the population during the combat operations, the deterioration of people's health in the conflict area is caused by disruption of normal living conditions, absence or delay of adequate medical care, lack of medicines, and forced failure to have access to the necessary treatment.

There exists a risk of outbreaks of socially dangerous diseases. The deterioration of sanitary and epidemiological situation is the second most significant risk, following the immediate danger to life in the active warfare, to public health and the restoration of economic activity in Donbas.

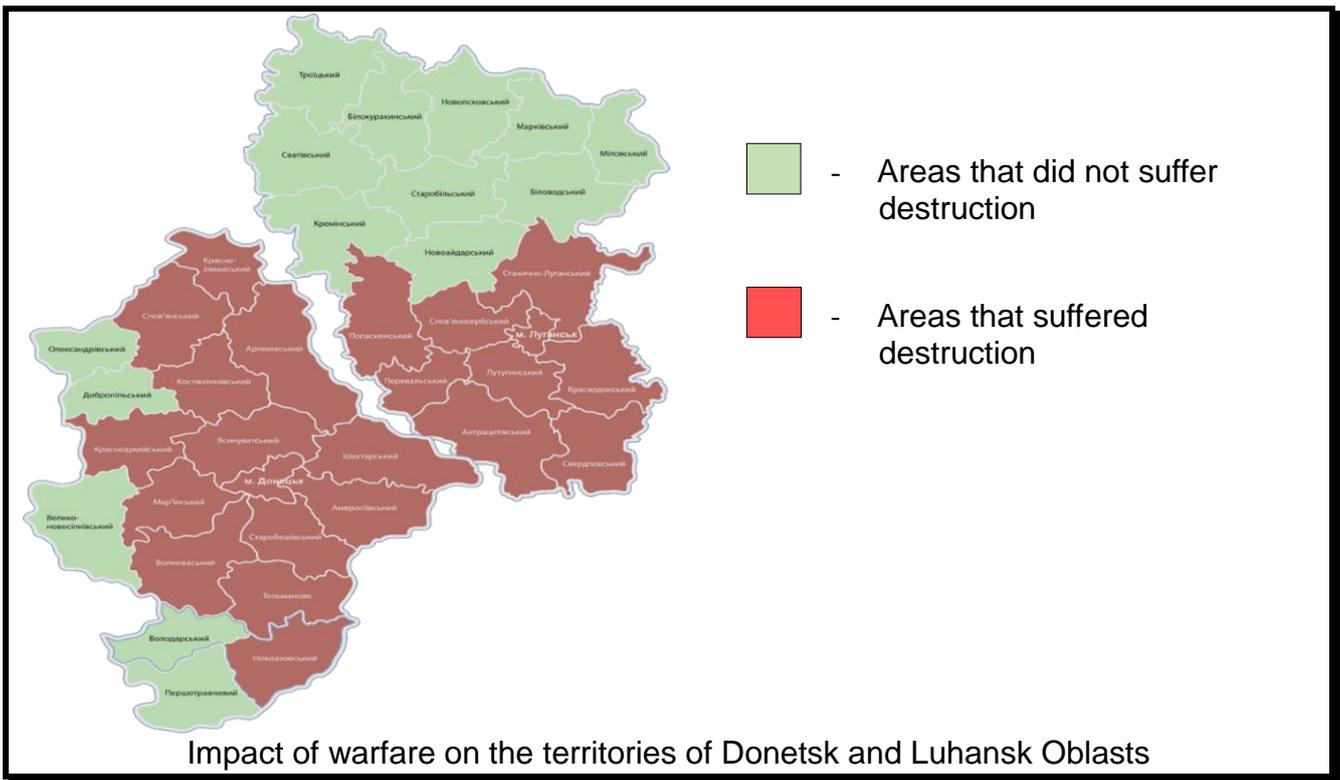
The total confirmed migration losses in the region are close to 1.5 million people. Uncertainty with any real prospects for the cessation of hostilities and the restoration of Ukraine's control over the occupied territories will result in a further increase in internal migration.

Job losses are estimated to range from 50% at large companies to 80 to 90% at small and medium enterprises in the region. Consequently, 1.1 to 1.8 million able-bodied people in Donbas have partially or completely lost their jobs and livelihood, which entailed emergence of up to 2 million economically inactive people.

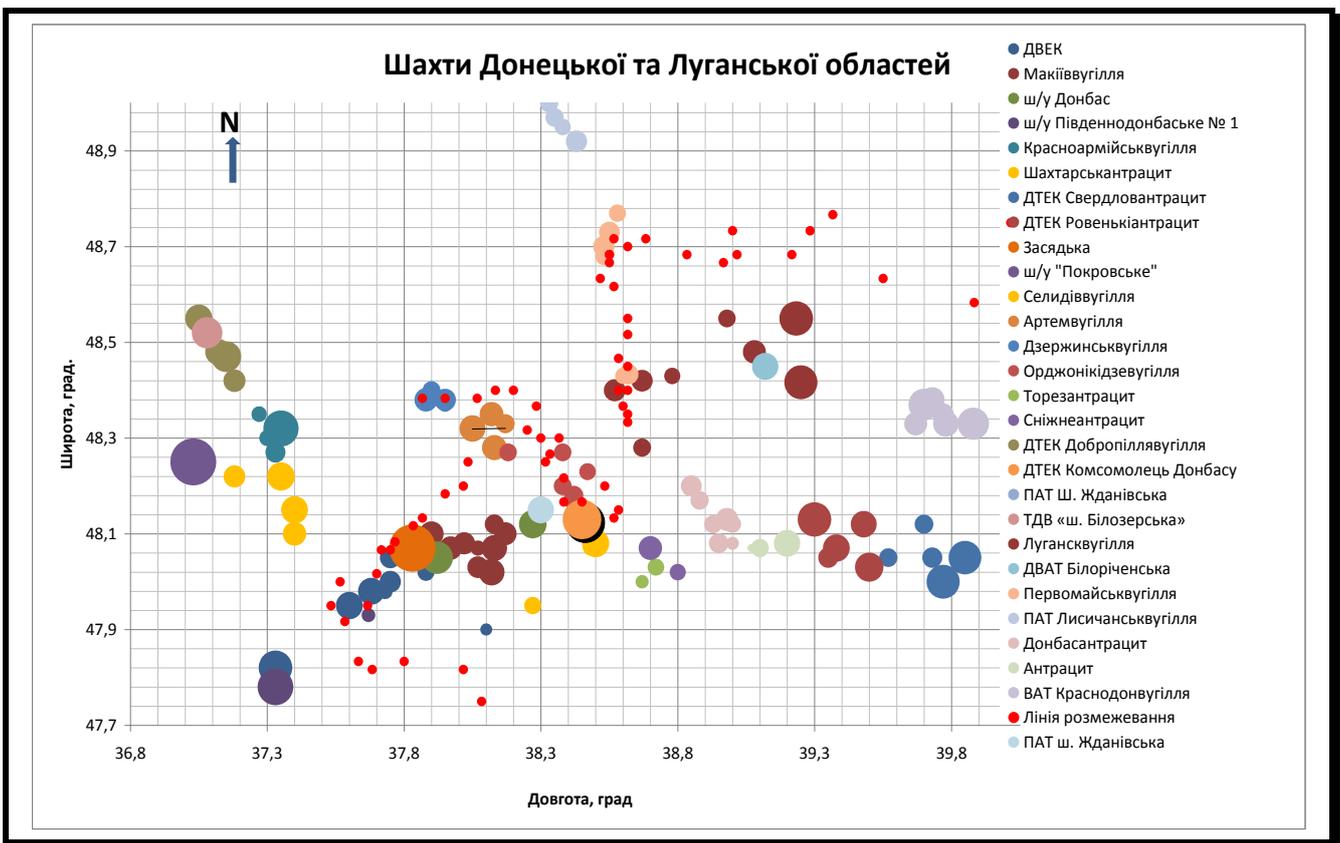
The increase in poverty level among the population in Donbas due to loss of the principal sources of income, property and social status, has resulted in the emergence of the sudden poverty phenomenon and intensified the burden on the state social support system.

**The destruction of settlement structures and industrial and social infrastructure.** As a result of the conflict and combat operations, densely populated and unique, in terms of urbanization, Donetsk and Luhansk Oblasts have suffered the greatest loss of population in urban areas, accompanied by the disruption of social life and provision of social services, complete or partial destruction of housing and the strategically important infrastructure assets. The average population density decreased by 20.2%, which is critical in terms of population recovery potential in the residential areas of Donbas in the near future.

The greatest damage has been caused to residential houses and systems of energy, water and heating supply. The total amount of damages in Donetsk Oblast alone exceeds UAH 1.25 billion. A large number of social infrastructure institutions have remained in the areas that are temporarily beyond Ukraine's control.



**Loss of industrial infrastructure.** Donetsk and Luhansk Oblasts, by their industrial potential, are the largest in Ukraine. The military operations significantly damaged machine-building, heavy industry and extraction industry, in particular, coal mining, since a significant share of enterprises in those sectors are located within the ATO zone. Economic activity in the areas temporarily beyond Ukraine's control decreased 5 times. In 2014, the volume of industrial output decreased in the Donetsk Oblast by 31.5%, and in Luhansk Oblast – by 42.0%. Budget losses amounted to 20%.



Coal Mines In Donetsk and Luhansk Oblasts

DVEK

Makiyivvuhillya

m/a Donbas

m/a Pivdenodonbaske №1

Krasnoarmiyskvuhillya

Shahtarskanratsyt

DTEK Sverdlovanratsyt

DTEK Rovenkyanratsyt

Zasyadko

m/a "Pokrovske"

Selydivvuhillya

Artemvuhillya

Dzerzhynskvuhillya

Orgonikidzevuhillya

Torezanratsyt

Snizhneanratsyt

DTEK Dobropillyavuhillya

DTEK Komsomolets Donbasu

PAT Zhdanivska Mine

TDV Bilozirska Mine "

Luhanskvuhillya

DVAT Bilorichenska

Pervomayskvuhillya

PAT Lysychanskvuhillya

Donbasanratsyt

Anratsyt

VAT Krasnodonvuhillya

Demarcation line

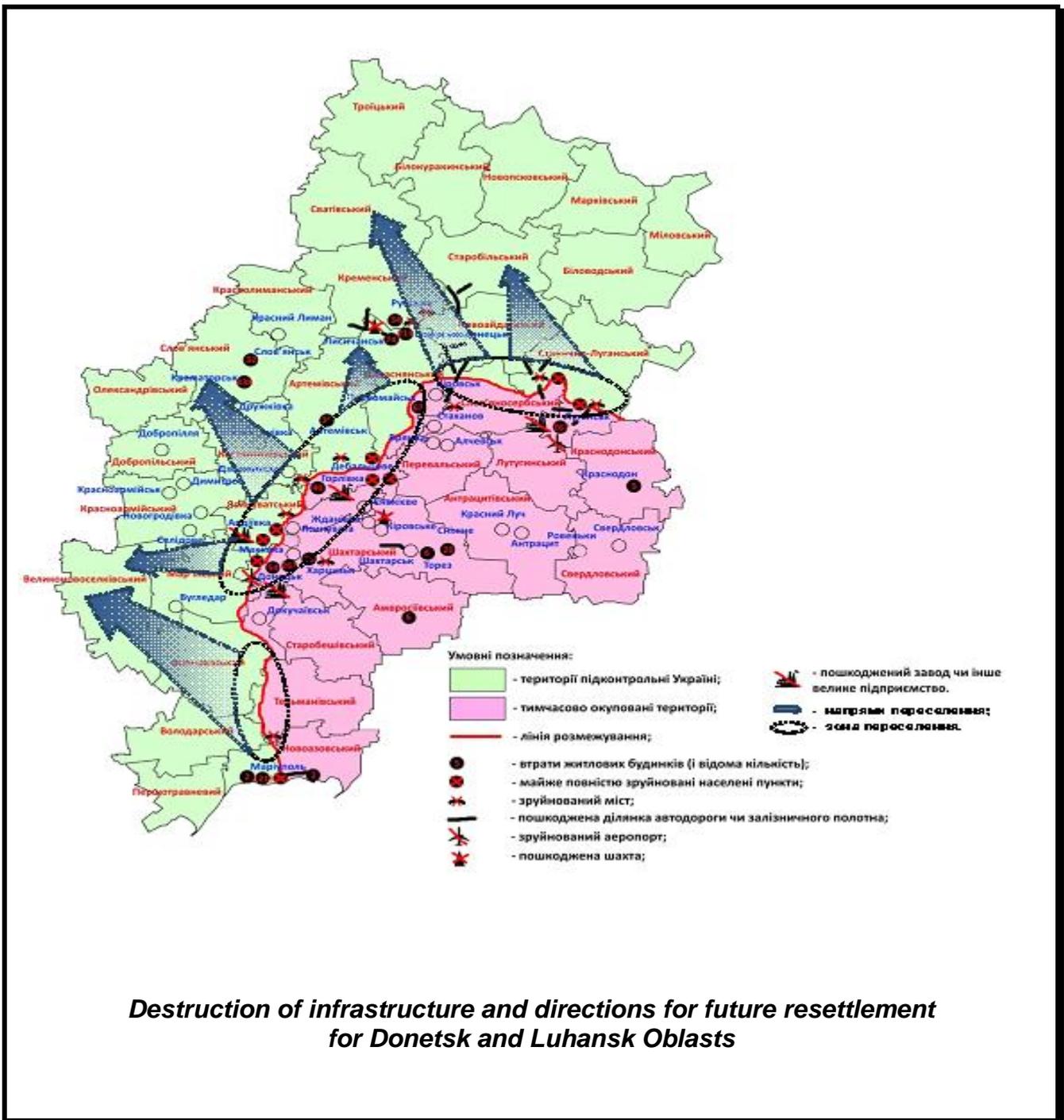
PAT Zhdanivska Mine

*Longitude, degrees*

***Environmental losses and deterioration of natural resource management conditions.*** Significant damage was inflicted to water supply and water disposal infrastructure; the "Siversky Donets-Donbas" canal was damaged; water supply to cities and towns with the total population of over 2.5 million threat is under a threat of total disruption.

Coal mines are getting flooded, which can entail contamination and poisoning of the groundwater basin of the Siversky Donets and small rivers of the Azov Sea basin, as well as of drinking water and the environment.

The number of cases when dangerous toxic substances of industrial and municipal origin fall into water bodies continues to grow. There is danger in spontaneous burials that do not comply with sanitary and hygiene requirements.



**LEGEND:**

Areas controlled by Ukraine	Damaged factory or another large enterprise
Temporarily occupied territories	Direction of resettlement
Demarcation line	Resettlement area
Losses of dwelling houses (with their number known)	
Almost totally destroyed residential areas	
Destroyed bridge	
Damaged section of an automobile road or railway tracks	
Destroyed airport	
Damaged mine	

**PRIORITIES FOR RECOVERY OF THE SOCIO-ECONOMIC POTENTIAL**

**Totally unacceptable are plans for the Donbas recovery to match the pre-conflict standards.** The desired level of post-conflict rehabilitation of the region must be achievable and consistent with the financial, logistical and human capacities of the

country. The program for Donbas recovery and development must be a comprehensive national project to modernize the economy and infrastructure of Ukraine.

At the early recovery stage, more than 90% of public funds must be channeled to the restoration and reconstruction of the life supporting systems and infrastructure, and in the future it will be necessary to mobilize both public funds and international aid, and resources of Ukrainian businesses.

**Changes to the resettlement system and restoration of the settlement structure** will envisage formation of a single integrated regional settlement system covering inter-rayon subsystems on the territory controlled by Ukraine (Slovyansk-Kramatorsk, Volnovakha, Velykonovoselivka – in Donetsk Oblast, and Lysychansk, Severodonetsk, Svatove, Starobilsk, Bilovodsk – in Luhansk Oblast), with an active behavioral strategy of the residents of those territories, aimed at participation in the recovery.

**Restoration and modernization of housing, economic, transport and social infrastructure** must be carried out depending on the degree of damage, based on the post-conflict recovery priorities, investment efficiency criteria and reasonable cost minimization. Critically important is restoration of damaged and destroyed water supply and wastewater disposal systems that are key to ensuring the environmental safety of Donbas and needs of drinking water supply.

The main objectives of transport and communication rehabilitation is the recovery (construction) of roads and extension of the national broadcasting to cover the territory of Donbas.

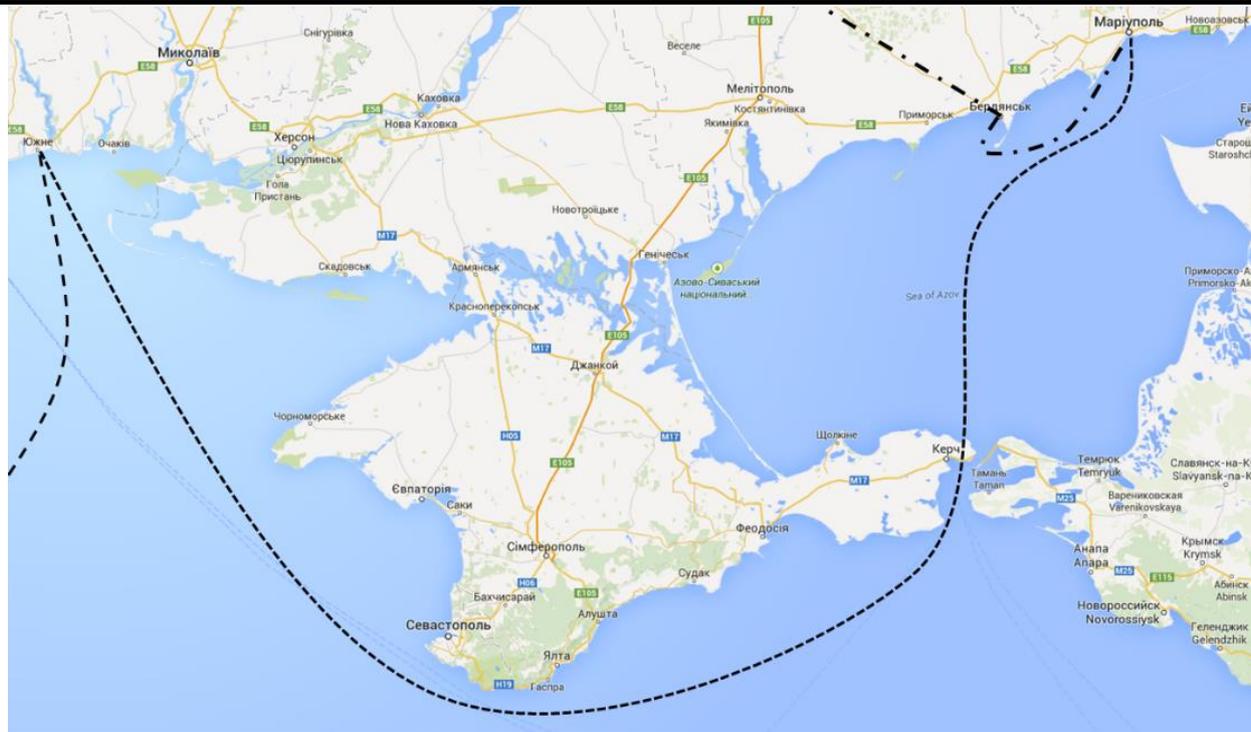
**Building a modern industry** envisages orientation to the following:

- neo-industrial modernization of enterprise of the traditional industries in the region (fuel and energy complex, ferrous metallurgy, chemical industry, machine building) to ensure competitiveness in the global economy;
- emergence of new types of activities as a foundation for the domestic market development, export potential augmentation and solving social problems in the region;
- establishment of technology implementation (scientific and technological parks) and industrial investment zones (industrial parks).

#### **Supply of coal and ore to Mariupol**

*Suppliers and consumers of coal must become partners of economic networks. That is what follows from the theoretical and practical legacy of Elinor Ostrom, winner of Nobel Prize in economics. Consumers of coal that are unable to do without the products of state-run coal mines must assume investment obligations for their upgrading and sustainable development. The possibility and feasibility of such relationship have been confirmed by the experience of Japanese energy producers and mining companies from the island of Sakhalin. After the accident at Fukushima NPP in Japan, a need emerged for an urgent re-activation of a powerful coal-fuelled thermal power station. Requests for the fuel were sent to the nearest coal companies, located in the island of Sakhalin. The cost of coal extracted by underground mining there exceeded the export prices, but the Japanese, in order to obtain the necessary resources, agreed to invest in local mines.*

*For the two large iron and steel plants in the city of Mariupol, which can be served by rail, sea and road transport, suppliers of iron ore can be supplied by mining and processing enterprises in the Kryvy Rih basin, and coking coal – by mining enterprises in Africa and Australia. In the first stage, the coking coal will be delivered by ocean vessels to one of the Black Sea ports. The task is to choose the route and the mode of transport to serve the enterprises with minimal costs.*



- delivery of coking coal by "Panamax" ships;
- ······ delivery of coking coal by shallow draft ships;
- · · · · ore supplies

**Diagram of coking coal and iron ore supplies to the Mariupol enterprises**

**Development of rural areas and agriculture** must be based on:

- agricultural production to meet the needs of the population in region,
- upgrading and development of individual farms,
- diversification of the rural economy,
- modernization of housing in rural areas and development of rural infrastructure,
- promotion of self-organization of rural communities.

**Implementation of human development priorities** will make it possible to achieve:

- progressive balancing of the labor market to achieve a dynamic market balance with the dominance of regular, stable employment in the formal sector of the economy and ensuring consistency of jobs with the defined areas of socio-economic development;
- formation of sectoral educational, research and production complexes around industry sector clusters (fuel and energy, metallurgical, machine-building, chemical and agricultural) based on the creation of associations of educational institutions, research institutions and enterprises for training and retraining, carrying out research and experimental implementation of their results at enterprises of the region;
- creating conditions for the integration of internally displaced persons in local communities in the areas of their settlement; reducing manifestations of extreme poverty among internally displaced people and preventing their social exclusion;
- formation of integrated management of natural resources; introduction of the natural resource monitoring in compliance with the EU standards;
- ability of the public administration system to act, in a prompt and effective manner, to prevent and overcome the consequences of conflicts, prevent

human, social and economic losses, promote recovery of post-conflict areas on the basis of innovation.

## **INSTITUTIONAL SUPPORT AND ECONOMIC AND LEGAL MECHANISMS FOR DONBAS RECOVERY**

An effective tool for upgrading and creation of new infrastructure facilities are public-private partnership mechanisms, as well as creation of industrial and science parks to attract private investors.

Implementation of Donbas recovery measures on the modern technological foundation requires attention to the development of respective institutional environment – creation of public and private development institutions, strengthening the institutional capacity of public authorities and raising public awareness about plans for the area development; active engagement in those processes of research and analytical centers, as well as international organizations that have the relevant experience and competence in projects, with due account to interests of different social groups.

**Development of public-private partnership.** Promising is the implementation of public-private partnerships projects in Donbas, by the following areas:

- construction and rehabilitation of automobile roads to improve economic and social cohesion of promising territorial cluster of economic development;
- construction, upgrading, reconstruction, renovation and technological modernization of water supply and wastewater disposal facilities in residential areas;
- modernization of thermal power engineering sector by creating power engineering industrial parks on the basis of state-owned coal mines and ore-processing plants; implementation of a coal gasification pilot project to supply process gases to chemical companies;
- development of construction materials industry with the use of local raw materials and industrial sites of liquidated enterprises;
- restoration of partially destroyed and idle social infrastructure facilities, construction of social housing, reconstruction of lost (damaged) housing, housing management, provision of social and housing-and-utility services.

Of principal importance is granting tax incentives to business entities – private partners that are active in the production of goods and performance of works and services that are important for the Donbas recovery, and channeling the corresponding savings to increase capital investment and accelerate the recovery works to be carried out within the framework of public-private partnership projects.

**Decentralization of administration and power of authority.** Addressing issues of socio-economic development of Donbas requires adjustment of tax and budget legislation with account to the following specifics:

- securing, for the duration of Donbas economic recovery (but not less than five years), of crediting the full amount of the main national taxes (VAT, corporate income tax, income tax for individuals) to the local budget, and in post-recovery period (approximately for 10 years) – crediting 70% of those taxes to local budgets;
- granting the bodies of local self-government the right to manage budget funds with the possibility of their depositing with offices of state-owned or communal banks to avoid problems related to treasury services for local budgets;
- defining the procedures to exercise authority of bodies of the state executive power, particularly in the social sphere, delegated to bodies of local self-government, for their implementation in the respective territory; establishing

in the Budget Code of Ukraine budget holders' responsibility for late and incomplete financing of the delegated powers; granting bodies of self-government the right to implement them within the scope of funds allocated from the state budget.

In the course of optimization of the structure of powers of local authorities, it is necessary to adhere to the principle of subsidiarity as a European criterion to define the powers that are appropriate and necessary to be delegated to the regional level.

*Regional aid is not the only tool to support investment and job creation in regions with extremely low life standards and it may be provided in various forms, however, in presence of guarantees for the least possible distortion of competition. Provision of direct financial aid (subsidies, privileges, exemption from, or reduction of taxes and mandatory duties) requires proof of inability to use forms that distort competition to a lesser extent (for example, those based on debt instruments, such as low-interest loans, sovereign guarantees).*

*An aid beneficiary must ensure coverage of at least 25% of the costs by its own resources or by external financing – it will promote the aid beneficiary's interest and guarantees to the investment viability. To provide investments for a real and sustainable development of a respective territory, they must continue for at least 5 years (3 years for small and medium enterprises) after completion of the investment project.*

*A limit for state financing of investment has been established:*

- ✓ 50% of reimbursed costs for regions where the per capita GDP  $\leq$  45% of the EU average;
- ✓ 35% of reimbursed costs for regions where the per capita GDP  $<$  60% of the EU average;
- ✓ 25% of reimbursed costs for regions where the per capita GDP  $\leq$  75% of the EU average.

*A separate regulation of state aid provision has been envisaged for airports, agriculture, fishery, power engineering sector. Regional aid in the coal and transport sectors, shipbuilding, manufacture of synthetic fibers and steel production shall not be permitted.*

*Operation support covering the recurrent expenses of an enterprise is prohibited, as a rule, but may be permitted if obstacles to the development of economic activity are so serious and persistent that aid in the form of investment is not sufficient for the development of the territory.*

In order to ensure the direct participation of citizens in local self-government and interaction of local communities in the implementation of joint projects, regions, districts, clusters, cities, enterprises are to be regarded as legal institutions that ensure balancing of the rights and obligations of participants in relationships, effective public control over the activities by public authorities and bodies of local self-government at the respective level. Decentralization processes envisage the active use of international experience in engagement of civil society organizations to address socio-economic issues of local development through the establishment of community councils.

**Accelerated deregulation of the economy.** Reducing administrative barriers to stimulate development of the economy and economic entities, especially small and medium enterprises, envisages establishment of uniform (generally applicable) dates of enactment of regulations that affect entities, upon advance notice of the planned changes.

***Assistance in development of small and medium enterprises – EU rules***

*In 2008 the EU adopted a law “On small business”, having formalized the Think Small First principle, the essence of which is that the development of regulations must consider interests of SMEs: if SMEs can comply with the requirements at a reasonable cost, then large firms can do it too, and the feedback is not always possible.*

*It envisages setting the uniform (generally applicable) dates of enactment of regulations (common commencement dates), the number of which in a year is limited (usually to two days a year – April 6 and October 1 in the UK or January 1 and July 1 in the Netherlands – preceded, at least by 12 weeks, by the publication of guidance materials on potential changes): it ensures streamlining of the flow of new regulations and provision of information to SMEs regarding the new rules in advance. Over time, the EU expects that the common commencement dates will encourage legislators to decrease the volume of regulations because their overall burden is becoming increasingly evident.*

For businesses in Donetsk and Luhansk Oblasts with the special regulations for economic activities, it is proposed to establish a simplified procedure for issuance of permits (no more than 3 business days) that are needed to conduct business.

**Introduction of special regime for economic activities.** The socio-economic recovery of Donbas must be based on the Law of Ukraine “On the special regime for economic and investment activity in individual areas of Donetsk and Luhansk Oblasts”, aimed at combining the advantages of different types of special regimes of economic activities to maximize economic benefits through the following:

- establishment of special procedures for organizing and conducting business and investment activities (preferential economic activity regime) for entrepreneurs that implement investment projects;
- implementation of the priority development area regime for innovation-based modernization of industrial production, accelerated attraction of investment funds for the rehabilitation of industrial and social infrastructure; preservation and creation of jobs for employees made redundant due to structural changes.

Cost savings due to full or partial exemption from taxes and customs duties must be channeled towards an increase in investment by enterprises and new job creation. Of particular importance for investors are sovereign guarantees for the stability of the special regime of economic and investment activities throughout its validity, and the preservation of the rules in case of early cancellation. In that regard, proposals for granting economic preferences must be considered within the context of Ukraine's commitments before the EU regarding state support.

The implementation of the special regime for economic activities will make it possible to attract investments to the total of about USD 50 million, and create about 100 thousand new jobs.

**Development of industrial parks, including power engineering, technology and research.** Specific needs of development of individual sectors of the Donbas economy require use of advantages of the investment and innovation infrastructure through the establishment of industrial parks, including power engineering, technology and research ones, which will ensure the development of the following in Donbas:

- scientific research and experimental development, market promotion of innovation products, attracting investment to research-intensive activities and services;
- priority sectors of economy (fuel and energy complex, ferrous metallurgy, machine-building, etc.);
- energy efficient technologies (“green” energy) and alternative energy (methane, solar and wind energy, biomass energy);
- resource support of the chemical industry through the introduction of technology of coal gasification and its conversion into liquid fuel, construction of gas generator units to supply process gas to enterprises.

Development of industrial, power engineering, technology and research parks will result in the following:

- an increase of the proportion of products made in the investment areas to 30% of the total volume of innovation products by the industry in the region;
- augmentation of the export potential of the region 2 to 2.5 times due to the growing share of advanced conversion products manufactured in the investment areas for export to the markets of the EU, USA, Canada, Middle East, etc. .;
- an increase in the share of innovation-active enterprises in Donbas to 25% – a level corresponding to that in the European countries;
- an increase in the number of innovation projects that will make it possible to generate close to UAH 90 million in annual revenues to the state and local

budgets from each park, as well as compensate for the state incentives (on the average, UAH 20 million for each park annually);

- creation of high-quality new jobs, at the rate of 200 to 400 new jobs annually at each technological park.

**Implementation of targeted industrial programs.** Achievement of Donbas recovery goals is directly connected with the necessity to develop and implement targeted state programs:

- modernization and development of metallurgy for the period until 2025;
- accelerated environmental upgrading of thermal power plants;
- support to farms to preserve rural areas and villages in Donbas;
- overcoming the consequences of the social crisis in the territory of Donbas until 2020;
- improvement of health and medical care of Donbas population;
- construction and reconstruction of roads in Donbas.

An important outcome of the program for modernization and development of metallurgy until 2025 will be a two-fold increase (up to 30 to 40%) in the share of the domestic market in the total consumption of metal produced at the enterprises of Donbas for recovery of the damaged infrastructure in the region.

The program for accelerated environmental upgrading of thermal power plants will ensure creation of new power generation capacities in Donbas, based on the environment-friendly circulating fluidized bed technology, coalmine methane cogeneration modules, and green energy with the use of height differences typical for coal mines. Introduction of current technologies for accelerated construction of surface degasification wells at the most powerful mines of Donetsk and Luhansk Oblasts may help create 5 thousand new jobs and additional coal output to the total worth of UAH 6 billion.

The main expected outcome of the program of support to farms to preserve rural areas and villages in Donbas is an increase to 50% of the share of locally produced agricultural products to meet the needs of the population in the region.

Development and implementation of the Program to overcome the consequences of the social crisis in the territory of Donbas until 2020 will envisage the creation of about 200 thousand jobs in agriculture, industry, construction and social sphere, which will trigger a job multiplier effect in the commercial sector and creation of 80 to 90 thousand jobs in micro-business alone.

An expected effect of implementation of the Program of improvement of health and medical care of Donbas population is the implementation of an optimal model of financing of primary health care, in-patient, urgent and emergency medical care to the population of Donbas through subventions (60%), contributions by private entrepreneurs and non-governmental organizations (20%) and international financial institutions (20%).

The Program construction and reconstruction of automobile roads in Donbas to connect promising territorial clusters on socio-economic development, with the total length of about 1,280 km, will create about 50 thousand "fast" jobs. In that respect, the multiplier in road construction is 60 related and indirect jobs, and in the road services – 20 to 30 jobs per each job created.

In order to accelerate the implementation of the proposed mechanisms, draft regulations have been developed to implement the priority directions in the state policy for Donbas recovery.

\* \* \*

For reasons beyond Ukraine's control, Donbas has turned into a total ruin – infrastructure, economic and human potential have been lost, and in many cases forever. Fundamental changes will inevitably take place in the resettlement system and location of economic facilities; the size and composition of the population will change; natural resources will need to be restored through hard work.

But at the same time, the destruction of industrial and social infrastructure opens new opportunities – not for revival of a morally and physically obsolete economy but for building a modern and efficient economic system; not for the restoration of roads and communication lines, housing, and education system, health care and social institutions that are totally inconsistent with the present-day requirements, but the formation of a space suitable for sustainable human development in the interpretation of the 21st century.

One way or another, sooner or later, through the enormous all-out efforts of all its capacities, Ukraine will restore the long-suffering region and the new Donbas will again become the flagship of the national economy, the region inhabited by the nationally aware, patriotically-minded, educated and skilled people.

## *Structure of the report*

### **DONBAS RECOVERY: ASSESSMENT OF SOCIAL AND ECONOMIC LOSSES AND STATE POLICY PRIORITY DIRECTIONS**

#### **INTRODUCTION**

##### **1. SOCIO-ECONOMIC SITUATION IN DONBAS IN THE PRE-CRISIS PERIOD**

- 1.1. Human development
- 1.2. Social infrastructure
- 1.3. Economic situation
- 1.4. Environmental conditions and specific features of natural resource management

##### **2. ASSESSMENT OF SOCIO-ECONOMIC LOSSES CAUSED BY WARFARE**

- 2.1. Socio-demographic losses
- 2.2. Destruction of settlement structures
- 2.3. Destruction of social infrastructure
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##### **3. PRIORITIES FOR RECOVERY OF THE SOCIO-ECONOMIC POTENTIAL OF DONBAS**

- 3.1. Changes to the resettlement system and restoration of the settlement structure
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- 3.5. Human development strategic priorities
- 3.6. State administration, financial, economic and budget policies

##### **4. INSTITUTIONAL SUPPORT AND ECONOMIC AND LEGAL MECHANISMS FOR DONBAS RECOVERY**

- 4.1. Promotion of public-private partnership
- 4.2. Decentralization of administration and power of authority
- 4.3. Accelerated deregulation of the economy
- 4.4. Accelerated deregulation of the economy
- 4.5. Establishment and development of industrial, power engineering and technology parks
- 4.6. Targeted industrial programs
- 4.7. Specific features of application of economic and legal instruments of Donbas recovery within the context of Ukraine's EU Association Agreement

#### **APPENDICES**

##### **I. Draft regulations aimed at implementation of priority directions in the state policy for Donbas recovery**

##### **II. Statistical Appendices**