

An Assessment of the Donbas Region of Ukraine

Strategic and Operational Recommendations for USAID's
Country Development Cooperation Strategy 2017-2022

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A. Executive Summary

Overview

The purpose of this assessment is to explore the opportunities and constraints to early recovery and development assistance in the Donbas region of Ukraine. In the context of this analysis, the “Donbas” is defined as the entire territory of Donetsk and Luhansk oblasts, inclusive of Government-controlled and separatist-held areas. As part of USAID’s Country Development Cooperation Strategy (CDCS) for Ukraine 2017-2022, the mission seeks to understand the recovery and development needs in this region, beyond present commitments of humanitarian assistance. Moreover, the assessment will examine USAID’s comparative advantage in addressing the future needs of the region.

The assessment team focused on answering two fundamental questions:

1. Are there distinguishing features of the Donbas that require specialized and targeted programming; or can uniform national-level programming adequately address conditions in the region?
2. How should USAID approach the transition between humanitarian assistance in the Donbas and longer-term development efforts and what are the critical recovery and development challenges in the fields of economic revitalization, governance, social cohesion, access to information, and infrastructure?

Findings

The Distinctive Character of the Donbas as Development Space

A combination of pre-crisis political, economic, and social challenges rooted in the dissolution of the Soviet Union and Ukrainian independence precipitated the violence that erupted in 2014. Shocks over the three years of the ensuing crisis have now deepened political disillusionment, weakened economic performance, slowed reforms, and increased poverty. The chronic nature of these challenges and a widening gap among citizens over the future of the country could yet fuel additional political and social crises in Ukraine.

Outside of these general challenges to the unity and resilience of the country’s institutions, there are particular features (and challenges) that distinguish the Donbas region. These factors range from those that are unique to the region to those that are distinct by a matter of degree from the rest of the country. These characteristics frame a development context that is unlike assistance environments found in most other oblasts.

Moreover, the Donbas region requires more than humanitarian response after three years of conflict. Timely recovery and development support is vital to the stability of the region and the unity of the country. The distinctiveness of the Donbas requires that any development strategy that promotes the unity and stability of the state should regard the Donbas region as a specific problem set, requiring a focus on the particular factors that drive ongoing instability in the region – even as violent conflict continues.

Social Cohesion

As a region, the Donbas is less accepting of a European future than any other part of the country. On most questions of popular opinion regarding the government in Kyiv, the economy, and the general trajectory of Ukraine, the Donbas (and in fact much of Southeastern Ukraine) trends away from the rest of the country.¹ Ukrainians in the Donbas are also the most unaware of (and skeptical toward) the reform process.

Many of these perceptions predate the current conflict, including low regard for political authorities in Kyiv and a more eastward-looking orientation as part of a regional and national identity. Differences like these contributed to the events that would come to divide the Donbas into separate areas of control in 2014. Messages and policies by the national government easily play into the perceptions and narratives that Kyiv is punishing the region. Moreover, the inversion of status from when the rest of the country depended a great deal on the Donbas to a situation where newly disadvantaged government-controlled areas (GCAs) of the Donbas are dependent on the central and western parts of the country is deeply unsettling to residents.

There are significant differences in social cohesion between GCAs and non-government-controlled areas (NGCAs) of the Donbas as well as diverse perspectives on the economy and perceptions of quality of life between areas of control. There is also a growing gap in how residents of government-controlled and occupied Donbas view their political identity.

While studies suggest strong, polarized “Pro-Ukrainian/Europe” and “Pro-Russian” camps in the region, there is also a large, undecided segment of the population. This nascent pluralism, born of disenchantment with existing political options, is a new phenomenon within the Donbas – and one that presents new opportunities to engage.

Governance

The conflict in the Donbas has created significant challenges to civilian governance in the government-controlled areas of the region. Large numbers of displaced Ukrainians as well as 8,000 to 10,000 residents a day traveling from NGCAs place significant burdens on service delivery in the region that are felt by host residents, the displaced, and residents coming from separatist areas.

Civil-military administrations have also contributed to feelings of marginalization and disenfranchisement in some areas. A number of key cities, including large towns like Bakhmut near a crossing between areas of control, and smaller transit towns like Kurakhove, were deemed too insecure to hold local elections in 2015.

Both Donetsk and Luhansk oblasts are the slowest to implement territorial decentralization. The two administrations have managed to amalgamate only five territories, compared to nearby Dnipropetrovsk oblast that has merged 34 hromadas. Moreover, local city governments have been slow to take advantage of opportunities presented by fiscal decentralization. Factors like these are consequences of a history of poor governance in the region (and in much of Ukraine) and have contributed to high levels of dissatisfaction with government authorities in the Donbas.

In addition to the worrying public opinion trends that reveal significant social cohesion challenges in the Donbas, the region had extraordinarily low voter turnout in 2015 and the results of those elections tended to place antagonists to Kyiv in power. Perception surveys also suggest that a majority of residents in the Donbas believe that democracy in Ukraine is on the decline, that corruption is not being addressed at the national level, and that service delivery is deteriorating in their community.

Today, somewhat counter-intuitively, there are several windows of opportunity for reform and democratic transition in the region. Perhaps the most promising indication of long-term changes to governance in the Donbas is the emergence of a reform-minded, professionalized civil society. More recent attempts to improve service delivery through administrative service centers have also shown promise. Recent polling in key population centers in the Donbas also suggests that significant percentages of respondents are ready to attend public meetings and would like local media to focus more intently on the affairs of local government. Contrary to expectations that the citizenry is apathetic, there is a strong sense that changes are coming to the Donbas, although anticipated changes are not always regarded as positive.

Information Flows

After the start of the armed conflict, both Kyiv and separatist authorities banned popular Russian and Ukrainian media outlets in their respective territories. The results have been a narrowing of the media space, a growing divergence in public narratives of events on both sides of the contact line, and a decline in trust of media in general. Aside from trusted person-to-person contact, television remains the main source of information for most residents in GCAs within the Donbas. Yet while broadcast television captures the largest share of the media consumption market, both empirical and anecdotal evidence suggests that the internet and social media are becoming more popular. Trust in media of all types in the Donbas is extremely low, however, and messages about reform and the direction of the country do not resonate in the region. This has created a situation where word of mouth, rumor, and other informal information sources are disproportionately influential.

One promising trend is the diversification of the media environment. Several new online outlets have emerged or have gained popularity in the past two years, filling the information gap. While the market for these outlets is underdeveloped and they often are the pet projects of local businesses, they typically cover reform-oriented issues in ways mainstream media do not – and they do so with accuracy and journalistic integrity.

Despite the growing number of media sources, both Ukrainian and Russian outlets struggle to overcome a trust deficit. Trust in national Ukrainian broadcasters that have supplanted Russian outlets in GCAs is dismally low at only 22 percent – half the national figure. This lack of trust in television news, in particular, is likely due to both the rapid change in available content (at least in GCAs) and the less-than-subtle agendas and terminology used by media outlets on each side of the conflict. As a consequence, despite high viewership, respondents to surveys claim neither Ukrainian nor Russian media sources shape their “political outlook”.

Evidence suggests this claim “to not be influenced” by media outlets may not be true. Significant numbers of Donbas residents that consume Russian media believe common Russian narratives and over 50 percent of the same respondents believe that the Maidan was a military coup rather than a popular demonstration. This may represent the influence of media sources or the self-selection process that draws these residents to certain media sources in the first place. The larger questions are just how trusted information and opinions are shared in the Donbas and what the vectors of influence on word of mouth communications and social media networks. Before any large scale, or specific media program for the Donbas is implemented, additional analyses of these issues is warranted.

Economic Recovery

The Donbas economy has historically been centered on mining, metallurgy, and chemical processing, with value chain linkages throughout Ukraine. Up until the current conflict, these industries continued to play a major role in contributing to Ukraine’s economic output, employment, and exports. While this can be said of both Donetsk and Luhansk, the two regions’ economic profiles are similar, but distinct. Each oblast specializes in different types of exports and Luhansk is more dependent on Russia as a trading partner than Donetsk.

The Donbas economy was in decline before the onset of the conflict and relied on significant and unsustainable government subsidies to the region. As such, the conflict has accelerated an economic downturn in the region that began decades ago. While heavy industry has been most impacted by the pre-war decline of the region and present conflict, small- and medium-sized enterprises (SMEs) have been affected by the conflict as well.² It should be noted that there are competing definitions over what qualifies as an SME. The European Commission (EC), for example, tends to emphasize the larger end of the SME spectrum. It defines an SME as an enterprise that employs fewer than 250 persons with annual revenue not more than \$53 million, and/or an annual balance sheet total not exceeding \$46 million. This analysis views SMEs more in line with the International Financial Corporation’s (IFC) definition of SMEs, identifying small enterprises as having fewer than 50 employees with revenue and assets less than \$3 million and medium enterprises as having fewer than 300 employees with revenue and assets less than \$15 million.

As of 2015, the output of SMEs in the region had dropped 80-90 percent due impacts associated with the conflict.³ SMEs not directly engaged in economic relations with one of the region’s prevailing industries also suffered losses as consumers have less to spend as a result of the spike in prices, currency depreciation, or unemployment.

The conflict has also caused the region’s domestic and foreign markets to shrink. Moreover, the Donbas is suffering from the same macroeconomic factors that are impacting the rest of the country. These factors include: high rates of inflation; a depreciated currency; a fragile banking system; poor access to credit; and business regulations unfavorable to SMEs.

Given the factors and current conditions cited above, the economy of the Donbas is unlikely to return to the status quo ante of the pre-war period. What is required to transform the economy in the east is support for SMEs. While large enterprises have either closed or continue to receive state support, and microenterprises (many of questionable

sustainability) have been established as a result of the livelihood programs supported by humanitarian donors, there is little to no support in the region for viable SMEs. Room now exists to leverage the accomplishments of micro-enterprise and small-scale livelihood initiatives into larger programs of assistance for SMEs.

Infrastructure

The conflict has caused significant damage to key aspects of infrastructure within the Donbas, yet a significant portion of this damage (and the poor state of remaining infrastructure) is also attributable to deferred maintenance. GCAs and NGCAs of the Donbas are mutually dependent upon Soviet-era infrastructure that provides essential services to populations in both regions. This is especially the case with respect to the region's water, electricity, and sanitation facilities that thread across the line of separation.

The infrastructure of the region was traditionally serviced and managed by facilities and professionals in the urban centers of Donetsk and Luhansk; areas that are no longer under government control. This has made it difficult to overcome the chronic deficits in infrastructure within GCAs and even more difficult to connect these systems with other parts of Ukraine. This is especially the case with Mariupol.

Infrastructure damage arising from the conflict and neglect of existing systems is impacting the regional economy and the availability of shelter as well. The lack of government resources (and low political will) for public investment in the region, coupled with the proximity of key infrastructure to the "line of contact" (LOC) deters external and domestic support for large-scale infrastructure projects at this time. In the face of these reservations, a viable transitional alternative is to invest in smaller "social infrastructure" projects such as clinics, school facilities, administrative and social service centers, markets and recreation facilities.

Donor Activity and the Donbas

The larger share of donor interest in Donbas has thus far focused on responses to the humanitarian consequences to the crisis. At the three-year mark, however, several donor agencies are weighing whether a scaling back of humanitarian engagement and scaling up of development support is more appropriate for conditions in the region. During the assessment, the team met with representatives from multiple donor agencies that planned to conduct their own assessments of development opportunities in the Donbas in the second quarter of 2017.⁴ The question of the economic development of Donbas is central to many of these planned assessments, driving home the importance of future coordination among development actors in the modest-sized region.

Even as humanitarian assistance is scaled back, the expertise, local relationships, and accomplishments of organizations such as Mercy Corps, Catholic Relief Services and People in Need should be leveraged; particularly in the areas of legal aid, livelihood support, and micro-credit. These programs have effectively vetted many participants that may now be candidates for larger access-to-credit programming or SME assistance. While there are very few ongoing development programs that are active in the Donbas, there are programs that should not be overlooked. The United Nations Development Program (UNDP)

decentralization initiative is one effort aimed at advancing territorial amalgamation in Donetsk and Luhansk. Progress has been slow but the UNDP has improved service delivery and procurement processes in several communities while strengthening the outreach capacities of newly amalgamated communities. UNDP also has a pending rule of law and community security program prepared for the Donbas and the organization will facilitate a European Investment Bank (EIB) loan guarantee program that will provide up to €300 million in loans for social infrastructure to local governments over the next 2 years. The European Commission is also planning a €40 million program to support infrastructure, civil society, media, human rights and other stabilization issues in Donbas. Much of this development activity has not yet been implemented. The design of any USAID development portfolio in the Donbas should be completed in full recognition of these ongoing and nascent initiatives – as well as those that may result from upcoming assessments by United Kingdom’s Department for International Development, German, Canadian, and ECHO missions in Ukraine.

Government of Ukraine and the Donbas

The Government of Ukraine has outlined plans for the integration of GCAs and NGCAs in the Donbas but the controversial nature of these initiatives and divisive politics in Kyiv have resulted in mixed messages over the future of the region. Earlier this year, the recently established Ministry for Temporarily Occupied Territories (MTOT) released an updated fifteen point agenda in support of reintegration of the Donbas region while also sponsoring the adoption of a State Target Program for the Recovery of Eastern Regions of Ukraine (STP).⁵ These plans broadly call for changes in economic policies, addressing corruption and inefficiencies at crossing points between areas of control, and improving access to social services for Ukrainians on both sides of the LOC. Locally, the Donetsk and Luhansk regional governments have seen large increases to their development budgets but are unable to effectively implement projects in their jurisdictions. As described elsewhere in this report, USAID is well suited to quickly provide support to local and regional administrations to implement “quick wins”, improve governance, develop economic development plans, and diversify the region’s economy and business environment. Much of the analysis and recommendations below are informed by both the MTOT re-integration agenda and the needs articulated by these regional administrations.

Unfortunately, there is little coherence in Kyiv’s approach to the region. An ongoing economic blockade of NGCAs and stark criticism of the MTOT from other actors within the Ukrainian government continue to illustrate the political gridlock over Donbas policy. This paralysis is presently revealed in the ongoing debate with in the Rada concerning legislation that will replace the expiring Temporary Order number 144⁶ that governs movement and access to conflict-affected areas of the Donbas. Proposed new legislation put forward by the Opposition Bloc would create a temporary system of local self-governance in the region based on the principals of decentralization and would take steps to ease restrictions on Ukrainians in the occupied territories. The “Samopomich Proposal” would retain civil-military administrations in the region, cut off utilities and most economic ties to NGCAs, and introduce martial law after (and if) NGCAs are reclaimed. USAID should track these discussions and adjust any future programming accordingly. In the interim and for the

purposes of the assessment, the recommendations below are constrained to categories of activities that are prioritized in the existing MTOT Action Plan for the Donbas region and pending Ukraine State Target Program for the Recovery of Eastern Regions of Ukraine.⁷

Recommendations

It is difficult to prioritize the recommendations below. The activities recommended throughout this report are additive and not intended to be sequential or stand-alone. Implemented together, these varied initiatives will more effectively promote the social, economic and political reintegration of the Donbas region. Some areas of activity are more likely to catalyze improvements in economic conditions in the region while others, such as reform-oriented initiatives and small-scale consultative community infrastructure repair programs, are more likely to improve the legitimacy of local authorities and advance the social integration of the region. This caveat aside, the recommendations below are listed by order of importance in the event that constraints limit the type and number of activities USAID may implement in the Donbas.

Unless otherwise noted, these recommendations refer to activities in GCAs of Donetsk and Luhansk oblasts. Moreover, the set of recommendations in this document presume a situation where the status quo prevails; one in which the conflict does not significantly worsen or abate. For instance, the recommendations provided for limited support to ameliorate the poor state of infrastructure in the Donbas are predicated on the assumption that violence along the NGCAs will continue for the foreseeable future.

Support for SMEs should be the bedrock of USAID’s economic recovery approach in the Donbas. The majority of the region’s larger enterprises are no longer economically viable. This has highlighted the near and medium-term importance of SMEs as a driver of economic activity. In parallel, USAID should continue to support projects that work to make business and tax regulations more SME-friendly. A portion of the candidates for SME support may be drawn from among successful participants in humanitarian livelihood and micro-enterprise programs. It is beyond the scope of this report to suggest definitively which sectors are most amenable to SME development, however. The obvious candidates are machine-production, retail and agriculture-related endeavors but the design of any SME support program should be prefaced by a rigorous review of trade and market opportunities as well as the existing and pending regulatory and legislative environment framing SME activity and employment in the east.

Programs that improve access to finance, such as credit guarantees or digital finance initiatives that connect business owners with credit, will be particularly helpful in the Donbas where these services are difficult to access. There is a gap in available support to “small” enterprises that require financing in the range of \$10,000-\$25,000. Livelihoods programs typically offer financing below \$10,000 and other USAID programs (e.g. ARDS) provide grants upwards of \$25,000 – only if that amount is matched by the recipient. This condition is difficult for residents in the Donbas to meet. Support for SMEs in this range of financing is advised with matching investment at a lower threshold, coupled with entrepreneurship training. With donor resources being limited, it is important to strengthen non-bank financial institutions that are oriented toward micro-financing and would be able to fill the gap mentioned above. Credit unions, due to their community-based nature, are

well positioned to play such a role.

Given the uncertain and volatile conflict environment in the Donbas, large-scale infrastructure projects are discouraged. An alternative to large-scale infrastructure projects will be to engage local communities in small-scale improvements to select service delivery and community infrastructure such as clinics, school facilities, administrative and social service centers, and public spaces such as markets and recreation facilities. Consultative programs like these have the dual purpose (and impacts) of enhancing the quality of life for residents while strengthening the link between citizens and authorities. Programs like USAID's Community Revitalization through Democratic Action Program (CRDA) and the related Serbian Local Government Reform Program (SLGRP) in Serbia are models for such activity. The Zardabi Community Road and Street Light Rehabilitation project in Azerbaijan and USAID/OTIs Kosovo Transition Initiative community infrastructure project are also successful models of community engagement with local authorities to improve services and infrastructure.

Improvement of the delivery of social and administrative services in areas close to the LOC is a priority for residents – with demonstrable impact on perceptions and daily lives. Improving the speed, efficiency and transparency of the delivery of administrative services in areas that have seen increased demand for such transactions due to daily surges of residents from NGCAs will have the dual effect of reducing frustrations associated with the increased demand and improve perceptions of Ukrainians in both government controlled and occupied areas of the Donbas. While UNDP is focusing its efforts at helping new amalgamated hromadas with the capacity to deliver services for residents, cities and municipal governments where much of the population in GCAs of the Donbas live also require assistance with delivering services. USAID's local government programming should focus on these larger population centers in GCAs of the region to increase their ability to deliver tangible benefits to residents.

There is a clear need to demonstrate reforms in a concrete way in the Donbas. Programs that empower city governments to demonstrate anti-corruption and service delivery reforms hold the potential to improve perceptions and support for Ukraine's democratic reform process. Presently, faith in the reform process is quite low in the region and residents in the Donbas are unaware and skeptical of the reform process.

Support civic engagement in the Donbas through assistance for cultural, artistic, community improvement, and youth oriented activities. As important will be establishing lasting connections between civic actors in the Donbas with counterparts elsewhere in the country. Ukrainian arts and culture have begun to fill the void left by an absent and increasingly discredited Russian media, serving as a platform to engage citizens.

Improve understanding and support of local voices and messages while partnering with national media and leaders that are looking to improve national narratives about Donbas. Media support programs should consider working with these partners to create content and messages that are appropriate for what data demonstrates is viable and attractive information for the region; particularly regarding how reforms are explained and presented. Media literacy programs for youth will be important complements to these initiatives.

Support for improved trade, youth engagement, as well as entrepreneurship and vocational training will be important adjuncts to SME assistance. Youth engagement in such programs will be crucial to the long-term success of the region. Significant numbers of citizens under the age of 35 have left the region due to the presence of the conflict and the decline of livelihood opportunities in the Donbas. Programs that expose and train youth for employment in emergent professions in the region, linked with SME and other economic growth support described above, will be an important part of catalyzing the economic transformation (and stemming youth migration) that the region requires. There remains significant interest in entrepreneurship and skills training in the region despite its shifting demographics. A forthcoming REACH survey found that 33 percent of unemployed individuals expressed an interest in opening a business, a figure that rose to 45 percent among respondents who had previously owned a business. Most people were interested in opening a business in retail, trade, or service provision. The study also noted that 49 percent of unemployed respondents were interested in vocational training.⁸

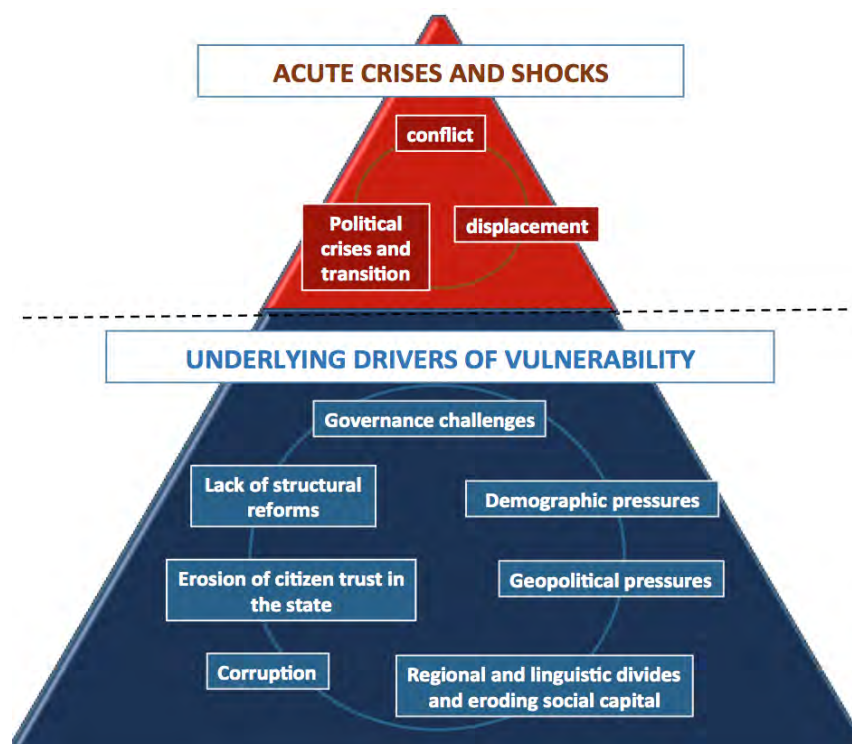
Engage in additional analytical exercises within the Donbas to better understand key features and opportunities in the region. This brief and broad-scope assessment has identified several promising areas of engagement. However, prior to implementation of media, economic recovery, and governance programs it will be important to conduct targeted analyses of social network activity, labor mobility and labor law, trade and SME opportunities, market characteristics, and the capacity of civic actors in the region. It will also be useful to closely examine opportunities to facilitate constructive interaction between populations in GCAs and NGCAs of the Donbas and to track ongoing discourse on the future of the Donbas within the Ukrainian government. Follow-on activities like these will determine the viability and design of programming in the Donbas region of Ukraine.

B. Background

Ukraine is experiencing an acute period of political transition, instability, and insecurity. Over the last three years, the “Maidan” uprising led to the removal of a president; the Russian Federation illegally annexed the Autonomous Republic of Crimea and the City of Sevastopol; separatist violence erupted in eastern Ukraine; and national, regional, and local elections took place throughout much of the country. Recent escalations in violence along the contact line between GCAs and NGCAs of the Donbas are a reminder that no solution to the current territorial crisis is in sight – even as forced displacement associated with the conflict becomes protracted and the impacts of ongoing hostilities continue to undermine the country’s development prospects.

The antecedents of this current crisis, however, are deeply rooted in the terrain and history of the country. Ukraine has struggled with corruption and state capture⁹ since its independence more than two decades ago. Privatized state assets and wealth were concentrated among a small number of individuals, commodities were often bought at state-regulated prices and sold at full market prices, and large tracts of agricultural land, subsidies, and low-interest loans were made available to well-connected elites. As a result, an emergent oligarchic class came to dominate large sectors of the Ukrainian economy, extracting rents and influencing public institutions, including through direct representation in political parties within the Parliament.¹⁰ The symbiotic relationship among oligarchs, politicians, and state officials continues today, slowing the pace of reforms and contributing to an erosion of trust in the state.

Figure 1: Enduring and Recent Drivers of Instability in Ukraine



As a result, property damage, the forced displacement of 2.7 million Ukrainians, and an estimated 33,146 casualties¹¹ associated with the current conflict cannot be attributed to a single proximate cause. Instead, a combination of pre-crisis political, economic, and social challenges rooted in the dissolution of the Soviet Union and Ukrainian independence precipitated the violence that erupted in 2014. Additional economic, political, and conflict-related shocks over the three years of the ensuing crisis have now deepened disillusionment with government institutions, weakened economic performance, slowed reforms, and increased poverty.¹² The chronic nature of these challenges and a widening gap in perceptions among citizens over the future of the country could yet fuel additional political and social crises in Ukraine. Corruption, social divisions, a fragile social contract, and declining standards of living are now as great a threat to the Ukrainian state as the ongoing violence in the east.¹³

It is within this context that USAID Ukraine begins its 2017-2022 strategic planning process. The Country Development Cooperation Strategy (CDCS) focuses on identifying appropriate strategic objectives for anticipated development challenges over the next five years, linking assistance to host country development priorities, and determining the types of investments in key areas that will contribute to stability and prosperity. At present, USAID's portfolio in Ukraine is a mix of development and humanitarian assistance, reflecting needs associated with the complex emergency in the country after the "Maidan" events of 2014.

While the current portfolio addresses many of the challenges described above, the Donbas has thus far been singled out as an area for humanitarian operations to mitigate the impact of the conflict on the displaced and host communities within Donetsk and Luhansk oblasts. Going forward, the protracted nature of the conflict, the increasing localization of ongoing violence, and the improved ability of Ukraine's own institutions to address the impacts of the crisis on citizens and communities has signaled USAID to decrease its humanitarian assistance in the region and to increase the amount of recovery and development-oriented support in the east of the country. The nature of that support is the subject of this assessment.

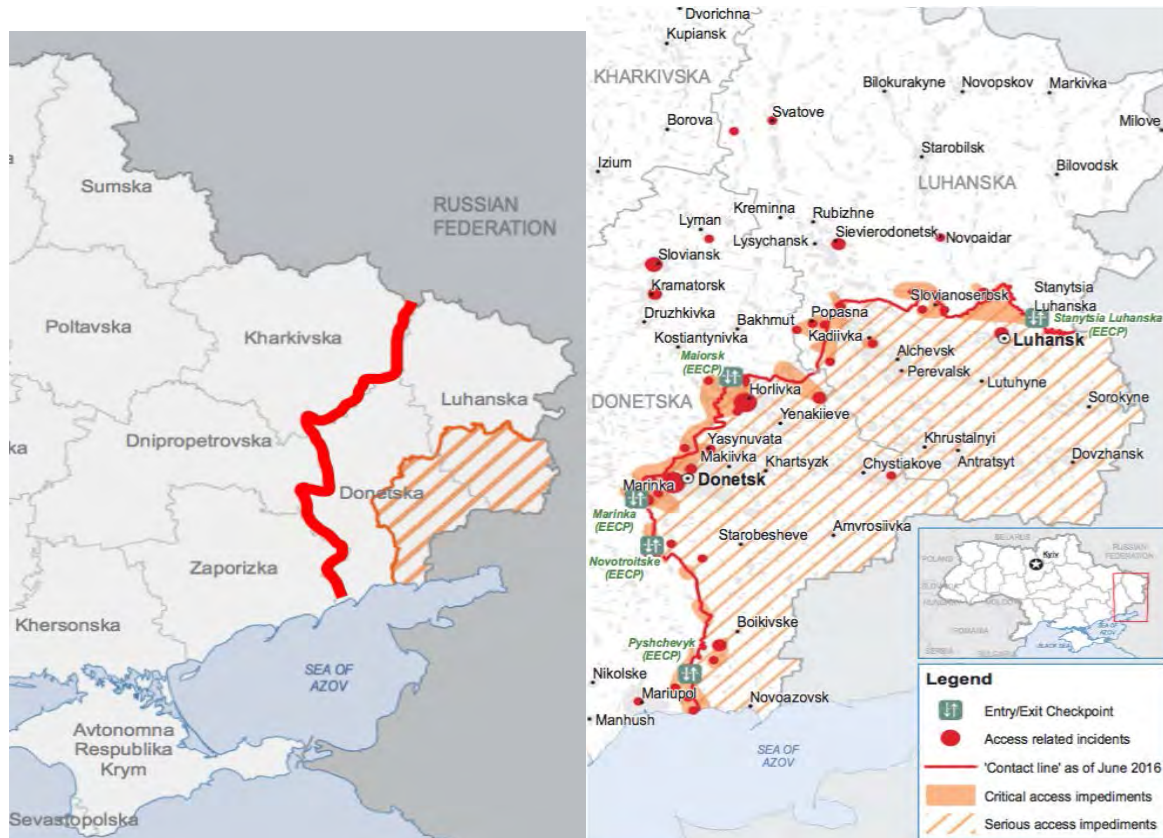
The "Donbas"

Although the region has never officially been demarcated, the "Donbas" is defined here as the GCAs and NGCAs of Donetsk and Luhansk oblasts. As will be described in more detail in the following section, the onset of the conflict in 2014 has induced a dramatic decline in economic and social stability in the region.

Conflict has paralyzed economic activity in Ukraine's eastern industrial heartland. Prior to the conflict, Donetsk and Luhansk regions accounted for almost one-quarter of Ukraine's industrial activity and an equal share of its exports.¹⁴ Disruptions in industry, transport, and small and medium enterprise activity have led to widespread job loss, and a crisis of investor confidence has eroded business development. Hostilities in the Donbas region have led to a decline of Ukraine's exports (by over 13 percent) and imports (by over 28 percent) due to deterioration of trade with Russia and an overall decrease in economic activity.¹⁵ Moreover, it is doubtful that many of the landmark industries in the region such as chemical, mining, machine production, and steel fabrication facilities will ever be

competitive even if stability returned to the Donbas. A decline in global commodity prices since 2014 has not helped matters and Ukraine's exports of commodities have declined while many of Ukraine's resource rich export markets have been hit by recession and sharp depreciations in their currencies. Even in the pre-crisis period, Ukraine's reliance on volatile commodity markets contributed to inconsistent economic performance.

Figure 2: Donbas Region with Areas of Control and Localized Conflict (UNOCHA: Dec 2016)



The conflict has exacted a considerable human cost in the region as well. The impacts of conflict are particularly acute for the poor and vulnerable living in eastern Ukraine. Over 9,900¹⁶ people have been killed, an estimated 23,200 wounded, and over five million people in the Donbas region have been directly affected by ongoing violence. Donetsk has one of the highest populations of the bottom 40 percent (B40) in absolute terms¹⁷, and the conflict and loss of employment will push households further into poverty and create additional pressures on Ukraine's already overstretched social protection systems. Insecurity in eastern Ukraine has interrupted service delivery, deferred needed attention to infrastructure, and reversed progress on urban development for eastern populations. Vulnerability is particularly acute for the forcibly displaced and the 800,000

Donetsk has one of the highest populations of the bottom 40 percent (B40) in absolute terms, and the conflict and loss of employment will push households further into poverty and create additional pressures on Ukraine's already overstretched social protection systems.

persons living in areas close the LOC between GCAs and NGCAs. An estimated 3.8 million are in need of protection and assistance and 2.8 million of these individuals live in areas beyond government-control.

Although the exact number is a matter of debate, Ukraine’s Ministry of Social Policy estimates 2.7 million people have been forcibly displaced both internally (1.6 million) and outside of Ukraine (1.1 million).¹⁸ This represents over five percent of Ukraine’s population. Nearly 60 percent of IDPs are pensioners, 60 percent are women, 13 percent are children and four percent are disabled. Moreover, nearly 60 percent of IDPs have remained in Donetsk and Luhansk oblasts, near the conflict zone. As will be suggested below, these are among the features that make recovery and development operations in the Donbas region distinctive.

Structure of the Report

In the sections below, these features of the Donbas will be described followed by observations concerning economic recovery, governance, social cohesion, access to information and rehabilitation of infrastructure. The analysis concludes with recommendations across each of these sectors as USAID finalizes its 2017-2022 CDCS. Annexes will include an extensive literature review of some of the more useful sources of information on conditions within the Donbas and throughout the country.

C. Methodology

The terms of reference for this assessment were ambitious. The four-person team composed of governance experts, a media specialist, and an economist were tasked with the logistical and political challenge of providing a prognosis for the Donbas region across multiple sectors and operational environments. Despite years of in-country experience among team members, the absence of current and granular development-oriented data on some aspects of activity in the Donbas was striking – particularly data on recent economic performance. Much of the information not sourced to the literature review, survey and perception polling data, social cohesion analyses, and humanitarian assessments was collected in key informant interviews.

Over the course of three weeks (with two weeks in Ukraine), the team conducted over sixty meetings with key informants, with in-country interviews held in Kyiv, Sloviansk, and Kramatorsk. These key informants ranged from government ministers to civic activists and local entrepreneurs (see Annex I for a list of these interviewees). Representatives from diverse political, social, and economic backgrounds provided revealing and often contradictory descriptions of the challenges in the Donbas – with some of the more compelling differences being between views in Kyiv and those in the region itself.

Because of the scope of the exercise and the limited time available, this assessment does not provide deep, sector-based analysis for any one area of prospective recovery and development activity in the Donbas region. Instead, the sections below are top line observations and key takeaways from research and interviews with individuals that were both passionate in their commitment to improve conditions in the country and generous in their time with us.

D. Characteristics of the Donbas: A Distinct Operational Environment

This assessment identified several distinguishing features of the Donbas region. These factors range from those that are unique to eastern Ukraine to those that are distinct by a matter of degree from the rest of the country. These characteristics frame a development context that is unlike assistance environments found in most other oblasts.

Figure 3: Features that Distinguish the Donbas Region*

MORE DISTINCTIVE CHARACTERISTICS	LESS DISTINCTIVE (A MATTER OF DEGREE)
<ul style="list-style-type: none">▪ No return to status quo ante for economic production in Ukraine's eastern industrial heartland▪ Concentration of IDPs & "surge" traffic over contact line▪ Formerly interdependent now severed transport, service delivery and economic markets▪ Demographic distortions and loss of human capital▪ Region subject of ministerial level engagement plans▪ Presence of civil-military administrative areas▪ Strategic value for territorial integrity concerns▪ Mixed HA, recovery, and development space▪ Opportunities for cross-line outreach▪ Presence of UXO and ERW▪ Physical isolation of key areas: Mariupol▪ Active conflict, ongoing damage (20,000 houses thus far)	<ul style="list-style-type: none">▪ Increased demand for administrative and social services▪ First line of demand for specific legal services▪ Reduced access to credit and poor investment prospects▪ Increased psycho-social issues resulting from uncertainty▪ Emergent epidemiological issues▪ Environmental degradation and risks▪ Higher percentage of the B40 in GCA Donetsk and Luhansk▪ Survey results suggest:<ul style="list-style-type: none">▪ higher levels of pessimism;▪ most apathetic and least informed about reforms,▪ most disengaged civically,▪ poorest perceptions of the President,▪ least likely to sacrifice for reform,▪ most likely to believe Russian narratives about events▪ believe Maidan was a coup; and▪ most likely to believe they would be better off if they were not part of Ukraine.

*UXO: unexploded ordnance; ERW: explosive remnants of war; HA: humanitarian assistance; B40: bottom 40% of income distribution

As described above, the Donbas region hosts the highest concentration of internally displaced persons in the country, intensifying the development impacts of forced displacement on political participation, service delivery, social welfare, livelihoods, and social cohesion for displaced persons and host communities.¹⁹ The Donbas is also the only area to experience active and ongoing hostilities; mixed civil and military administrative zones; a debilitating severing of previous patterns of social and economic interaction by a "line of separation"; and the danger of unexploded and explosive remnants of war (UXO/ERW).

The region has also been subjected to significant demographic distortions in areas closer to the line of conflict, with youth and working age adults leaving these areas for opportunities elsewhere.²⁰ This loss of human capital complicates social and economic recovery and leaves behind less mobile and older populations more dependent on failing services. Moreover, economic recovery in the Donbas is complicated by the likelihood that few of the large industries (and major employers) in the region will be successfully reanimated due to changes in global markets, reductions in state subsidies, and conditions that deter foreign investment. Unlike elsewhere in the country, economic

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In addition, urban centers in GCAs of the Donbas, such as Mariupol and Kramatorsk, are isolated from their previous linkages with the dominant urban centers of the region (such as Donetsk city) that now lie in non-government controlled territory. This presents service delivery and development challenges not seen elsewhere in Ukraine, and it introduces the dilemma of whether (and how) to reorient population centers that remain in GCAs toward the west of the country.

The Donbas is fragmented in other ways as well. Not only has the line of separation consolidated most of the urban terrain of the two oblasts in NGCAs, the two separatist enclaves of the Luhansk People’s Republic and Donetsk Peoples’ Republic are also at odds, complicating communication and assistance overtures to separatist authorities. In GCAs, regular perception surveys reveal the region is the most pessimistic concerning the future of the country; it harbors the lowest expectations of (and is the most adversarial toward) Kyiv; it is the most divided between Western and Russian narratives about events; and it is the least informed about, or expectant of reforms. The incidence of poverty is increasing and civil engagement is among the lowest in the country as is regard for the national government, reform processes, and economic prospects for the east – and the nation.²¹ Left unaddressed, it is likely these conditions will catalyze new instability in a region already fragmented by war and socio-political cleavages.

The distinctiveness of many of these features suggests that any strategy that promotes the unity and stability of the state should regard the Donbas region as a specific problem set, requiring a focus on the particular factors that drive ongoing instability in the region – even as violent conflict (among the most destabilizing factors in the region) continues. This is the logic driving Government of Ukraine and external actors like the World Bank to enhance the capacity of central institutions to adopt, and act on, development imperatives in the Donbas region.



In April 2016, the State Agency for Donbas Recovery (SADR) became the Ministry for Temporarily Occupied Territories and Internally Displaced Persons (MTOT). With World Bank support, the MTOT has contributed to a “State Target Program” and an associated “Action Plan” that includes priorities specific to the Donbas.²² The MTOT has also developed an “engagement strategy” for NGCAs and assisted in establishing a Multi-Partner Trust Fund to enable the MTOT and other Ministries to implement recovery and development initiatives in the region.²³ Despite strong disagreement among key actors in the Government on whether (and how) to engage populations in the Donbas, the MTOT is committed to establishing a presence in the region and to addressing the developmental impacts of the conflict and the post-Maidan political transition in Donetsk and Luhansk oblasts.

This development-oriented engagement by the Government of Ukraine in the Donbas deserves strong support. As described below, alienation from Kyiv is among the most powerful drivers of instability in the east of the country. *How the government communicates with and engages this region will either augment or undermine the recovery and development activities of external actors in the east.* As major donors consider investments in the Donbas, there is a powerful and common interest in ensuring the actions of the MTOT and others stakeholders in the Government do not aggravate the fragility of the region. The sections that follow proceed from a similar set of premises: the Donbas region requires more than humanitarian response after three years of conflict; timely recovery and development support is vital to the stability of the region and the unity of the country; and conditions and features of the Donbas are strikingly singular, warranting a specific strategic objective and set of activities.

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E. Social Cohesion

Trends in the Donbas threaten Ukraine’s democratic transition, the integrity of the state, and progress toward European integration. The region is fragmented internally and alienated from much of the rest of the country - yet the situation is more nuanced than simple political polarization between pro-Ukrainian and pro-Russian communities in the east.

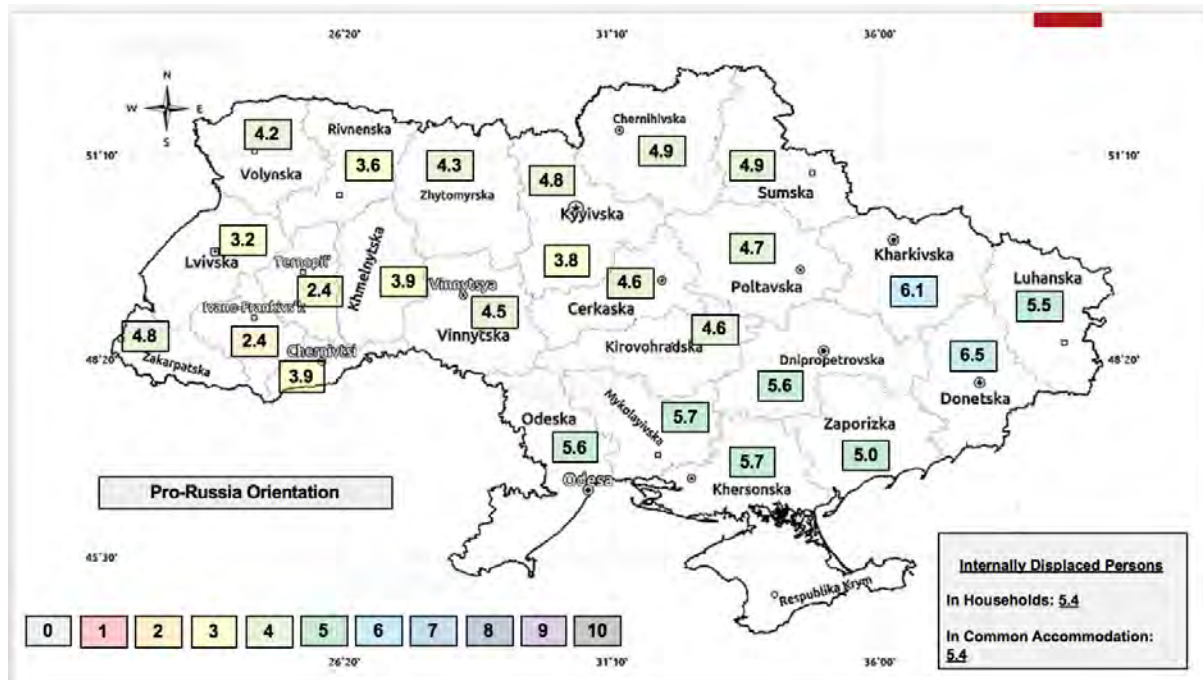
As a region, the Donbas is more skeptical of Ukraine’s transformation and less accepting of a European future than any other part of the country. This mistrust and skepticism drives internal tension and gives geopolitical actors and political forces the ability to veto moves that do not serve their interests. While GCAs of the Donbas share the rest of the country’s disappointment and frustration with the slow pace of reform, studies suggest a strong pessimism associated with a deep-rooted mistrust in the current direction of the country and of the processes that have led to the transition.

On most questions of popular opinion about government, the economy, and the trajectory of Ukraine, the Donbas (and much of southeastern Ukraine) trends away from the rest of the country. The Donbas is the only region where more adults think their children will be worse off than the last generation.²⁴ Perceptions about the economy are worse than in other regions as well, with 76 percent of people in Donbas believing that the economy will continue to get worse and 46 percent believing that the economy will continue to decline over the next five years, compared to more optimistic views of 64 percent and 23 percent respectively at the national level.²⁵

Ukrainians in the Donbas are also the most unaware and skeptical of the reform process. Only 30 percent of citizens in the Donbas can name a reform, compared to 51 percent in Central Ukraine. Moreover, very few residents feel that decentralization will improve governance, with only 23 percent of people willing to endure financial hardships for the reform process compared to 56 percent in the West and Central regions of the country.²⁶ All polls cited in this study point to a deep dissatisfaction within the region toward the current political leadership in Kyiv, giving Parliament and the President “very bad” rankings at twice the rate of Ukrainians in other regions.

But one of the most striking differences in perceptions held by residents of Donbas and the rest of the country is the degree to which residents are skeptical of a European future, and still hold strong ties to Russia and nostalgia for the Soviet Union. USAID’s Social Cohesion and Reconciliation Index (SCORE) revealed that the Donbas, along with regions such as Kharkiv, Kherson, and Odesa, have strong social, cultural, and (in spite of the conflict) political leanings toward Russia.²⁷ Other studies reveal that fewer residents of the Donbas are likely to blame Russia for the conflict, with most feeling that sanctions against Russia should end²⁸ and over 30 percent maintaining that Ukraine should join the Eurasian Customs Union.²⁹ SCORE index data and these other sources suggest that these feelings are largely rooted in Soviet nostalgia; political isolation from the rest of the country; a sense of being victimized by inattentive or malign political forces in Kyiv; and a frustration with the reform effort. Moreover, exposure to media flows originating from Russia as well as social, cultural, and economic ties to the Russian Federation continue to play a role in the enduring skepticism toward closer relations with the West.

Figure 4: SCORE Index Amalgamated Data Suggesting Levels of "Pro-Russian Orientation" Country-wide (SCORE: USAID Ukraine 2016)*



**According to the SCORE Index, Donbas continues to lead the country with regards to variety of Pro-Russian sentiments. Disposition toward Russia is measured on a 1-10 scale with "10" being the strongest affinity for Russia.*

Many of these perceptions are common throughout eastern and southern Ukraine. They predate the current conflict in the Donbas and include a low regard for political authorities in Kyiv. A more eastward-looking orientation is often regarded as part of the regions identity. As noted above, differences like these contributed to the events that would come to divide the country into separate areas of control in 2014. However, these sensibilities are not monolithic. The protracted nature of the conflict and deterioration of conditions in the east may present opportunities to improve relations with the Donbas in ways that allow the region to play a productive role in Ukraine’s democratic transition.

The inversion of status from when the rest of the country depended a great deal on the Donbas to a situation where newly disadvantaged GCAs of the Donbas are dependent on the central and western parts of the country has unsettled residents in the region. In addition, the physical separation of the region has created significant social, economic and cultural ambiguity within the population of each oblast. This uncertainty sustains and fuels increasingly divergent political views about the future of the country, particularly as poverty and livelihood challenges intensify in the region. This divisiveness and uncertainty pose significant challenges to the full integration of the most populous and economically important parts of the region with the rest of Ukraine – as well as important opportunities as the value of links to the west is made clear.

While divided, Donbas communities show the promise of pluralism. While studies suggest strong, polarized “Pro-Ukrainian/Europe” and “Pro-Russian” camps in the region, there is also a large, undecided segment of the population. This “unaligned plurality” appears to be

coalescing around a reinvigorated Donbas-centric Ukrainian identity. SCORE data in November 2016 labeled these growing numbers of residents that find little to like in either western or eastern options as “tolerant synthesizers” and “tolerant Pro-Europe.” While the number of people in these two categories appears to be growing as a result of disenchantment with politics on both sides of the contact line, they do not eclipse the number of “polarized/intolerant Pro-Russians” or “polarized/intolerant Pro-Ukraine” in the data. However, they do express tolerance toward other groups, they support a syncretic vision for the country, and are more prone to civic engagement.

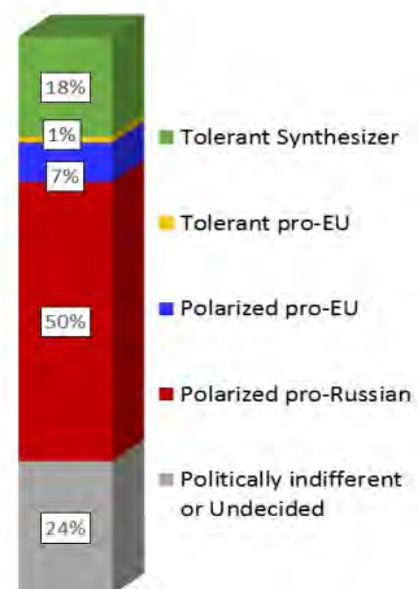
This nascent pluralism born of disenchantment with existing political options is a new phenomenon within the Donbas. Civic engagement was particularly weak prior to the conflict but many respondents to recent SCORE surveys and in interviews maintain that the volunteer work of local humanitarian groups and others supporting the war effort have created a new ethic of service. This expansion of nascent civil society has been well received and is credited with improvements in morale and conditions in these areas. Many of these volunteer groups are quickly professionalizing with international help – and beginning to engage with counterparts in other areas of the country – creating additional links among disparate Ukrainians. This trend presents a clear window of opportunity to develop a Ukrainian civil identity in the Donbas based on social responsibility, tolerance, and pluralism.

However, demographic trends are not on the side of expanding these opportunities among youth. A majority of these new civic-minded residents trending toward a synthesis identity in the Donbas are young and uncertain whether they will stay in the region. Best estimates for a demographic profile of Kramatorsk, for example, suggests only 15 percent of the population is under the age of 35 – a total that is well below the pre-war figure, and dropping. Without the social, cultural and economic opportunities that retain this segment of the population, older and politically polarized groups may continue to dominate communities in GCAs of the Donbas.

While the data on conditions in NGCAs is difficult to obtain, there are significant differences in social cohesion between GCA and NGCAs of the Donbas. Each area shares a similar regional identity, paternalistic patterns of behavior, and strong cultural ties to Russia. Like all Ukrainians, they also are frustrated with service delivery and corruption, with most residents seeing little difference in the way the Ukrainian state and the de-facto separatist authorities govern.³⁰

However, there are significant differences on political orientation and the economy. Residents of GCAs of the Donbas have a worse opinion of the economy than their counterparts in NGCAs, for instance. They also are about twice as concerned with decline in

Figure 5: SCORE Index Social Data: Donbas (Nov 2016)



living standards, high prices and unemployment as their counterparts in occupied areas of the Donbas. For their part, residents of occupied areas of the Donbas have a much more negative view of the political situation in Ukraine, and are more likely to characterize it as a civil war than as a political crisis, compared to residents of GCAs.³¹

With regards to services and quality of life, residents of the two halves of the Donbas differ. On questions concerning where there is a better quality of life for residents (e.g. employment, prices of goods, government services), populations in occupied Donbas generally believe that there is no difference between government-controlled and occupied Donbas (even though pricing data and cross-contact line travel suggest differently). However, residents of occupied Donbas believe that democracy and human rights are stronger in non-NGCAs.³²

Data also suggests that there is a growing gap in the sense of how residents of government-controlled and occupied Donbas view their identity. Occupied Donbas residents are twice as likely to maintain that they are culturally closer to Russia than Ukraine and that they are “significantly different”³³ from people in other regions of the country. Much of this differentiated socio-political identity appears linked to an emergent DPR/LPR citizenship that being consolidated by the symbolic, administrative, and procedural presence of the separatist “state”.³⁴ This sense of separation and uniqueness is also shaped by saturation of the media space with Russian and DNR/LNR content that paints Ukrainian forces as the aggressor in the current conflict.

Messages and policies by the national government easily play into those narratives. The severing of suburbs and small towns from the major cities in the region has disrupted ordinary patterns of life in the Donbas. Everyday tasks, such as collecting pensions, visiting the market, or a doctor’s office call have been radically altered. Policies aimed at preventing resources from being siphoned by the de-facto authorities are often seen as punitive. Therefore, it is not uncommon for residents on both sides of the contact line to describe the current approach to the region by authorities in Kyiv as punitive.

F. Governance

The conflict in the Donbas has created significant challenges to civilian governance in the GCAs of the region. In 2014, the Rada approved a temporary order that established civil-military administrations for a portion of both Donetsk and Luhansk oblasts in GCAs near the contact line. Regional governments have also been relocated from their former facilities in Donetsk and Luhansk cities to locations in government controlled areas such as Kramatorsk - and each administration must deliver services with reduced staff and limited resources. Further, large numbers of displaced Ukrainians as well as 8,000 to 10,000 residents a day from NGCAs traveling west for services and markets place significant burdens on service delivery in the region that are felt by host residents, the displaced, and residents coming from separatist areas.³⁵

Corruption, human rights and other governance related issues have worsened because of the presence of the conflict and the contact line. Humanitarian and civil society actors report increases in trafficking and gender based violence as well as corruption and exploitation of residents traveling across the LOC. Ukrainians from the NGCAs also often increase the demand for legal services and administrative processing of documentation when visiting GCAs. Residents of Donbas have a lower sense of security than Ukrainians elsewhere in the country as well as a more pronounced sense of grievance toward government institutions and residents across the LOC. Many of these issues are being addressed by ongoing USAID programs yet demand for transitional justice and reconciliation programming will be heightened in the event of territorial reintegration.

The civil-military regime has also contributed to feelings of marginalization and disenfranchisement in some areas. A small but significant number of key cities, including large towns like Bakhmut near a crossing between areas of control, and smaller transit towns like Kurakove, were deemed too insecure to hold local elections in 2015. Instead, the regional administration appointed leadership in these population centers, typically defaulting to Opposition Bloc incumbents. While this may have been the least controversial decision under the circumstances, many of these leaders carry significant political baggage and do not enjoy public support. Likewise, because of the absence of a regional council, the civil-military administration plays a direct role in approving the amalgamation of communities, slowing the process of decentralization and engendering perceptions of disenfranchisement and confusion within some communities.

Both Donetsk and Luhansk oblasts are the slowest to implement territorial decentralization. Among the reasons for this are difficulties associated with active conflict and the presence of civil-military administrations in each oblast as well as delays associated with the ambiguous and contentious nature of Kyiv's policy toward the region. The two administrations have managed to amalgamate only five territories, compared to nearby Dnipropetrovsk oblast that has merged 34 hromadas. Moreover, local city governments have been slow to take advantage of opportunities presented by fiscal decentralization. As a result, the region's large development budget has gone largely unspent. Few city governments appear willing to publish open tenders for basic improvements to municipal services using new procurement measures issued last year, for instance. While this situation is certainly not unique to Donbas, it presents a greater risk of further isolating its residents from the reform process.

The Donbas, including GCAs of the region, contains some of the most densely populated urban areas in the country. Nearly a million people live in nine cities in government-controlled Donetsk oblast. Most of the population in GCAs of Luhansk oblast also reside in the densely populated urban corridor around Severodonetsk. The amalgamation that has occurred in the region (and that which is planned) is in more rural areas, as illustrated by the community of Liman, the largest area to be amalgamated with a population of 40,000. Yet cities and municipal governments require assistance in delivering services and with fiscal responsibilities as well. With UNDP focused on supporting newly merged hromadas, USAID's local government programming should focus on areas outside of the amalgamation process that contain the majority of the region's population, helping them to deliver tangible benefits for residents.

These factors have contributed to high levels of dissatisfaction with government authorities in the Donbas. In addition to the worrying public opinion trends discussed earlier in this report, the Donbas had extraordinarily low voter turnout in 2015 and the results of those elections tended to place antagonists to Kyiv in power. Perception surveys also suggest that a majority of residents in the Donbas believe that democracy in Ukraine is on the decline,³⁶ that corruption is not being addressed at the national level, and that service delivery is deteriorating in their community.³⁷ The Donbas also suffered from poor governance, including corruption at multiple levels, few opportunities for inclusive decision-making and inefficiencies in public service delivery. While these issues are present elsewhere in Ukraine, they are compounded within the Donbas by regional and historic divisions as well as present day factors that continue to isolate the region.

However, there may now be an opportunity to change political culture in the Donbas. Traditionally, the Donbas has had a reputation for corruption and poor governance; even (and perhaps more so) during the years when the Donbas was a one-party region and the economic powerhouse of the nation. Today, somewhat counter-intuitively, there are several windows of opportunity for reform and democratic transition in the region. While there was a great deal of room for improvement in the 2015 local elections, it was the first time that new political parties campaigning on transparency and good governance won significant numbers of seats in local city councils.³⁸ Moreover, the monolithic Opposition Bloc that has tended to dominate the political landscape in the region has splintered, producing a more reform-minded arm of the party.

Despite the challenges and a tradition of one-party rule and a lack of transparency in the region, there are several windows of opportunity for reform and democratic transition in the Donbas.

Perhaps the most promising indication of long-term changes to governance in Donbas is the emergence of a reform-minded, professionalized, and watchdog-oriented civil society. Protest-oriented civil society has long existed in the Donbas and it has been emboldened by the events of the last three years. But a new cadre of reformers in civil society that are using professional approaches to political modernization are working with allies in local government to make authorities in places like Mariupol, Kramatorsk, and Bakhmut more accountable and transparent. These are nascent efforts, as are accomplishments like the establishment of modern service delivery centers in Mariupol and

cities in Luhansk.³⁹ Yet there is new evidence to suggest that these efforts are having an impact on perceptions in several locations. Recent polling in key population centers in the Donbas suggests that the broader population is supportive of these efforts. In addition, significant numbers of respondents also indicate that they are ready to attend public meetings and want local media to focus more intently on the affairs of local government.⁴⁰ Contrary to expectations that the citizenry is apathetic, there is a significant expectation of change, even if the expectations that actual change may occur are quite low.

SCORE data and this recent polling indicates that much of the skepticism in the reform process and transition is rooted in a frustration with the way government works at all levels, but that even small improvements have the potential to change the low expectations of residents. Emergent civil society, new westernized political formations, innovations like administrative service centers and the potential of new procurement reforms may begin to mitigate some of the region's skepticism in Ukraine's democratic transition. Supporting these efforts, with a special emphasis on civic-government collaboration and greater transparency in local governance may improve trust in local and national government in these regions. However, the region is largely urbanized with most residents concentrated in cities that remain in NGCAs. Promoting territorial decentralization is likely not enough to reassure residents remaining in NGCAs. These smaller population centers that are now disconnected from the urban environments now in occupied areas of the country are ideal laboratories for reform in sectors where levels of dissatisfaction are most pronounced: health care, access to education, and in administrative and social service delivery.

Recommendations

An overlapping recommendation with this report's suggestions for addressing infrastructure deficits is to engage local communities in small-scale improvements to select service delivery and community infrastructure such as clinics, school facilities, administrative and social service centers, markets and recreation facilities. Consultative programs like these serve the dual purpose of enhancing the quality of life for residents while strengthening the link between citizens and authorities. Examples of such programs are found in the infrastructure section below.

Improvement of the delivery of social and administrative services in areas close to the contact line is a priority for residents – with demonstrable impact on perceptions and daily lives. Improving the speed, efficiency and transparency of the delivery of administrative services in areas that have seen increased demand for such transactions will reduce frustrations associated with the increased demand and improve perceptions of Ukrainians in both government-controlled and occupied areas of the Donbas. Examples of such activities include upgrading administrative service delivery in places like Bakhmut as well as “back office” and “front office” support to TSNAPS in the region. Support for improved access or transportation to service centers, as well as legal support to Ukrainians from occupied Donbas are additional examples.

Support civic engagement in the Donbas through assistance for cultural, artistic, community improvement, and youth oriented activities. It will be important to support the establishment of lasting connections between civic actors in the Donbas with

counterparts elsewhere in the country. While the Donbas has a large population harboring anti-Kyiv sentiments, it also has a growing population of “tolerant synthesizers” (described in the previous section). Many of the individuals in the latter category have come together to form an unprecedented civil society network in the region and have built new relationships across Ukraine. Ukrainian arts and culture actors and events have also begun to fill the void left by an absent and increasingly discredited Russian media, serving as a platform to engage citizens in civic-oriented activities and a narrative about identity more closely linked to the rest of the country.

There is a clear need to demonstrate reforms in a concrete way within the Donbas. Poor governance has directly contributed to the skepticism of Donbas residents and to the ability of external actors to exploit the situation to advance divisive agendas. Programs that empower city governments to demonstrate anti-corruption and service delivery reforms have the potential to improve perceptions and support for Ukraine’s democratic reform process. Reforms in the areas of health care, public administration, municipal services, and education should be piloted and prioritized in Donbas. Territorial decentralization (amalgamation) will likely remain too abstract as a reform to have significant impact on perceptions in the region and UNDP’s existing program supporting the amalgamation process in hromadas appears sufficient for now.

G. Information Flows

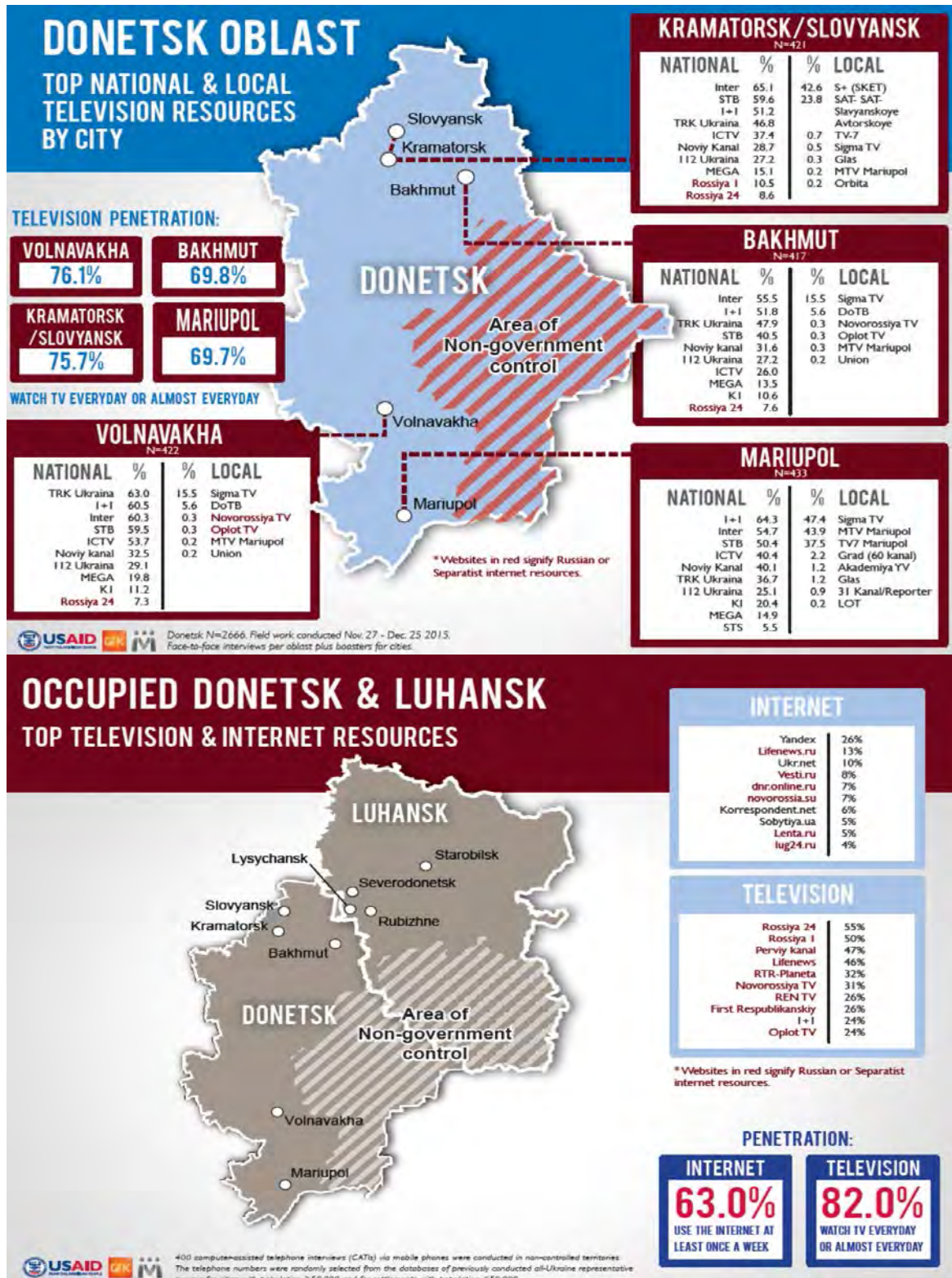
After the start of the armed conflict, both Kyiv and separatist authorities banned popular Russian and Ukrainian media outlets in their respective territories. Cable television outlets, the main source of information across GCAs of the Donbas, are prohibited from carrying content and programming originating in the Russian Federation or in non-government areas of the country. Similarly, in separatist-controlled territory, cable stations are prohibited from broadcasting content produced in GCAs. The result is not only a predictable narrowing of the media space and growing divergence in public narratives of events on both sides of the contact line, it has also led to a decline in trust of media in general.⁴¹

Television remains the main source of information for most residents in GCAs of the Donbas. Where Russian national stations such as Lifenews and Russia24 were popular before the conflict, they have now been replaced by national Ukrainian news and entertainment giants such as 1+1 and Inter.⁴² Viewership of these Ukrainian outlets is very high, averaging from 70-80 percent of the daily market. Russian sourced content is still available via satellite but less than 10 percent of the public claims to access this content on a regular basis.⁴³

While broadcast television captures the largest share of the media consumption market, both empirical and anecdotal evidence suggests that the internet and social media is growing in popularity.⁴⁴ Internet penetration across the region is high, with around 50 percent of residents using the internet daily. Sources of information online are much more diverse than in the television market and Russian internet sites and content have far greater currency and penetration in the east than over terrestrial means. Russian social media networks (such as VKontakte and Odnoklassniki) continue to be popular. However, online content is viewed with as much (if not more skepticism) than television and many residents acknowledge that internet information can be misleading.

The media environment in NGCAs of the Donbas has not seen as radical a shift in media viewing habits as GCAs. Ukrainian broadcasters (available via satellite) command about one-quarter of the market and, in spite of attempts to block websites, Ukrainian online content is popular. As before the start of the conflict, however, the majority of residents still watch popular Russian television channels.

Figure 6: Overview of Media Consumption in Government-Controlled and Non-Government Controlled Areas of Donetsk Oblast (USAID/ GFK December 2015)



Trust in media of all types in the Donbas is extremely low and messages about reform and the direction of the country do not resonate in the region. However, a promising trend in the Donbas is the diversification of the media environment. Several new online outlets have emerged or have gained popularity in the past two years, filling the information gap. While the market for these outlets is underdeveloped and they often are the pet projects of local businesses, they typically cover reform-oriented issues in ways mainstream media do not – and they do so with some accuracy and journalistic integrity.⁴⁵ The changed media environment and growing popularity of online sources also provides an opportunity for media outlets to focus on Donbas-specific news in ways larger outlets do not.

However, the region’s media – both Ukrainian and Russian - still struggle to overcome a trust deficit. Trust in national Ukrainian broadcasters that have supplanted Russian outlets in GCAs is dismally low at only 22 percent - half the national figure. This lack of trust in television news in particular is likely due to both the rapid change in available content (at least in GCAs) and the less than subtle agendas and terminology used by media on each side of the conflict. Moreover, media on both sides of the contact line deliberately sow distrust of other sources of information – a tactic that tends to have a generalized impact on trust in all media outlets. As a consequence, despite high viewership, respondents to surveys claim neither Ukrainian nor Russian outlets shape their “political outlook”.⁴⁶

Yet, other evidence would suggest this claim to not be influenced by media outlets may be untrue. Significant numbers of Donbas residents that consume Russian media believe common Russian narratives that are clearly outside mainstream journalism and fact, with 60 percent responding “don’t know” to a question concerning who shot down the MH17 airliner in 2015, for instance. Moreover, over 50 percent of the same respondents believe that the Maidan was a military coup rather than a popular demonstration. This may represent the influence of media sources or the self-selection process that draws these residents to certain media sources in the first place.⁴⁷

The larger question is just how trusted information and opinions are shared in the Donbas. While the contested media environment in the Donbas is widely discussed, little is known about how people are getting influential information that shapes decision-making in the region. Much is known about market share – far less is known about influence. In the interim, donor and national government efforts have largely consisted of supporting the viability of independent media outlets, promoting journalistic integrity, and propping up myriad media delivery mechanisms. The national government’s plans to rebuild television towers to broadcast into occupied Donbas received significant donor support, for instance. However, it is unclear if any of these efforts are addressing the fundamental trust deficits in typical news and information flows – or having a significant effect on influencing consumers or delivering on resident’s expectations. Before any large scale, or specific media program for the Donbas is inaugurated, additional analytics are warranted.

Recommendations

Improve understanding and support of local voices and messages. By conducting social network analysis and tracking the influence of sources (and messages) on public perceptions, USAID will begin to better understand the character of news and information flows and the nature of *influence* in the region. If such analytics produce actionable data, USAID will be able to develop programs that support trusted voices in local media environments. Subsequent programs could provide messaging, production and capacity-building to enhance information about relevant local and national issues in social and traditional media.

Partner with national media and leaders to improve narratives about Donbas. Some outlets, notably 1+1, and political leaders such as MP Mustafa Nayem, have expressed an interest in reaching audiences in the Donbas. Media support programs should consider working with these partners to create content and messages that are appropriate for what data demonstrates is viable and attractive information for the region – particularly regarding how reforms are explained and presented.

Reestablish a relationship between Donbas and the media. Residents of Donbas have much lower trust in traditional media, both Russian and Ukrainian, suggesting that the region is perhaps more discriminating in their information consumption habits than other parts of Ukraine. However, it does indicate that a new relationship between consumers and providers of media in Donbas is needed. Support for content production, targeted at key influences and voices, may be one method to revive trust in select media, as could creative, popular programming that targets false information. However, such initiatives should be coupled with relevant and conciliatory national messaging and pertinent local news from trusted voices.

H. Economic Recovery

Historical Context

For over a century, the Donetsk Basin, with its extensive coalfields, has been the industrial heartland of the Russian Empire, the Soviet Union, and Ukraine. The region's modern-day economic emphasis on heavy industry has its roots in the late 19th century, when the Imperial Russian government enlisted the help of Welshman John Hughes to establish an ironworks in the region for the purpose of helping the Russian Empire to equip the naval vessel Kronstadt with iron plating. Hughes accepted the offer and sailed to Ukraine with eight ships loaded with equipment and specialists where they founded a settlement eponymously named "Hughesovka." The settlement, now known as the city of Donetsk, would grow to become the largest city in the region and the fifth largest city in Ukraine.⁴⁸

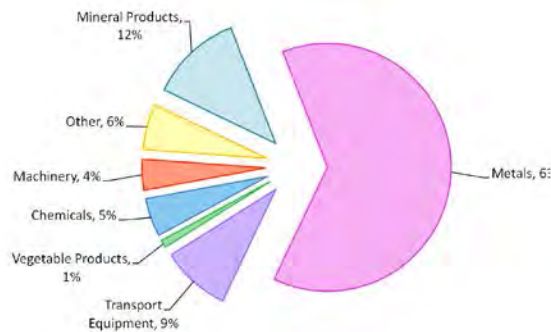
The Donbas economy has historically been centered on mining, metallurgy, and chemical processing, with value chain linkages throughout Ukraine. By 1913, the Donbas was producing 74 percent of pig iron and 87 percent of the total coal output in the Russian Empire.⁴⁹ The high production of metals and coal gave rise to ancillary industries throughout Ukraine. The ore used in iron and steel production is obtained from Kryvyi Rih in the west and Crimea. Manganese is mined and processed in Marhanets and Nikopol, which today is home to one of the world's largest producers of manganese alloys. Heavy engineering industries sprang up in Luhansk, Kramatorsk, and other industrial centers. Chemical industries, centered on coking byproducts and rock salt, drive the economies of Artemivsk and Sloviansk.⁵⁰ In short, coal and heavy industry have been the lifeblood of the region's economy for over a century.

Coal and heavy industry have been the lifeblood of the region's economy for over a century and up until the current conflict, these industries continued to play a major role in in Ukraine's economic output, employment, and exports.

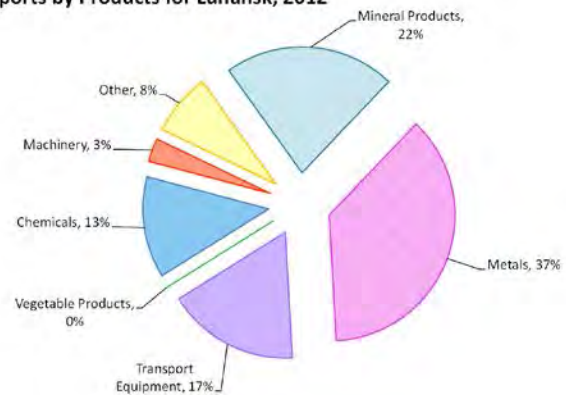
Up until the current conflict, these industries continued to play a major role in contributing to Ukraine's economic output, employment, and exports. According to the World Bank, Donetsk and Luhansk oblasts accounted for 12.5 percent of Ukraine's population yet were responsible for 15.7 percent of Ukraine's overall GDP, a quarter of Ukraine's exports of goods, and close to 60 percent of Ukraine's exports of metals.⁵¹ The charts below show that both Donetsk and Luhansk's primary exports revolve around heavy industry.⁵²

Figure 7: The Economy of the Donbas in Figures (Source: German Advisory Group - 2014)

Exports by Products for Donetsk, 2012



Exports by Products for Luhansk, 2012

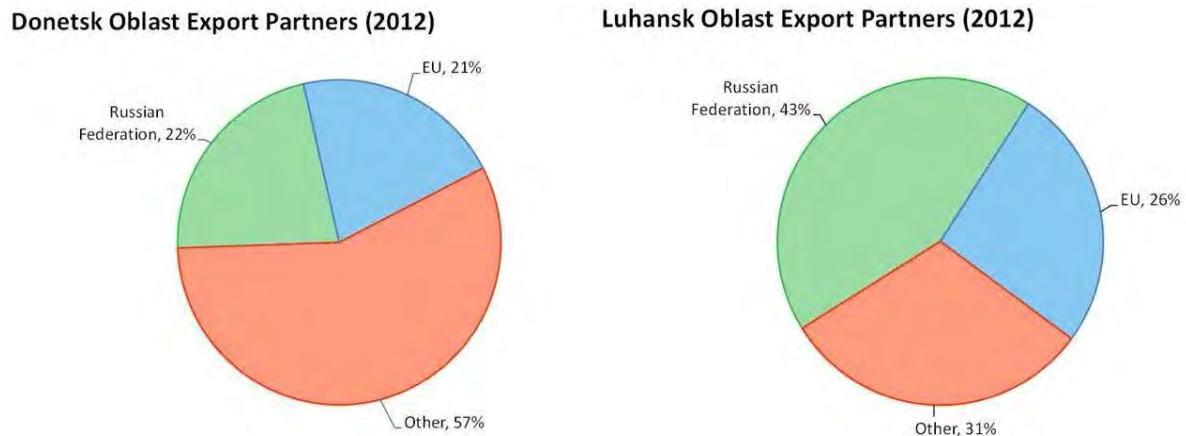


Notably absent are large exports in agriculture from the region, which were 13 percent of Ukraine’s exports in 2014, but practically insignificant in terms of exports from the Donbas.⁵³ Instead, mining and heavy industry have been the main employers in the region with an estimated 15.7 percent of Ukraine’s working population (about 3.2 million Ukrainians) employed in manufacturing, mining, and quarrying prior to the conflict; all of which were connected to industries in the Donbas region. Within the Donbas region, close to a third of the working population were employed in these sectors.⁵⁴

The economic profiles of Donetsk and Luhansk are similar, but distinct. Donetsk city and oblast have traditionally been the economic engine of the region. The oblast has over twice the population of Luhansk (4.5 million compared with 2.2 million) and in 2014 the Donetsk economy was close to four times the size of Luhansk’s.⁵⁵ Donetsk is also far more industrialized than Luhansk, with Donetsk contributing 18.5 percent of Ukraine’s industrial output compared to Luhansk’s 6.1 percent. Donetsk is also much more export-oriented with 19.6 percent of Ukraine’s overall exports coming from the oblast compared with just 5.6 percent from Luhansk.⁵⁶

Furthermore, each oblast specializes in different types of exports; and Luhansk is more dependent on Russia as a trading partner than Donetsk. Donetsk’s exports revolve around metallurgy, which comprises 63 percent exports from the oblast. Metallurgy also dominates Luhansk’s exports with 37 percent but Luhansk is also a leader in exporting mineral products (22 percent), transport equipment (17 percent), and chemicals (13 percent). Additionally, there are also stark differences in terms of the two oblasts’ main trading partners as shown in the charts below. Both oblasts trade heavily with the European Union and the Russian Federation, but Luhansk is more dependent on trade with the Russian Federation, with 43 percent of its exports going there compared to 22 percent from Donetsk.⁵⁷

Figure 8: Comparative Export Partnerships for Donetsk and Luhansk Oblasts (Source: Germans Advisory Group - 2014)



Impact of the Conflict

The Donbas economy was in decline before the onset of the conflict and relied on significant and unsustainable government subsidies to the region. In 1976, coal production in the region peaked at 213.2 million tons.⁵⁸ As new coal basins came online outside of Ukraine and deeper coal mines were required in the Donbas, the region's coal industry became less competitive. Newer mines farther east within the USSR were particularly detrimental to investment in the Donbas, leading to a deterioration in working conditions and labor productivity over the 1990's.⁵⁹ This lack of investment, combined with inefficiencies arising from state-ownership of key industries in the region, led the growth of government subsidies to industries in the region. By 2013, for example, total net subsidies to the Donbas were 38.6 billion hryvnia (\$2.9 billion) or 17 per cent of the region's GDP.⁶⁰ These subsidies keep the region on life support but delayed the difficult restructuring of the Donbas economy that was required to sustain livelihoods in the region. Subsidies also artificially inflated salaries in Donetsk and Luhansk, creating powerful social and political disincentives to implementing IMF-imposed austerity measures in the region.⁶¹

The conflict has accelerated an economic downturn in the region that began decades ago.

As noted earlier, the region's value chains are intimately linked, with coal and other raw materials being mined in Donetsk oblast and then processed up various value chains in different parts of Ukraine - until intermediary or finished products were exported. With the onset of the conflict, GCAs of Donetsk and Luhansk oblasts have lost access to key resources and facilities that are now in separatist controlled territory, accelerating their decline. Nearly all of Ukraine's current coal production originates in fields that are now in non-government controlled area, for instance.⁶² The

With the onset of the conflict, government-controlled areas of Donetsk and Luhansk oblasts now endure reduced access to the most productive regions in the Ukraine that are now in NGCAs, accelerating the decline of industry in the east.

impact of reduced access to these resources has rippled through the regional economy causing decreases in productivity and increases in unemployment.⁶³

SMEs have been affected by the conflict as well. While the main headline with respect to the economy of the Donbas may be the closure of large mines and larger companies active in heavy industries, the closure of these larger enterprises has eroded demand for the products and services of many SMEs. As of 2015, the output of SMEs in the region had dropped 80-90 percent due impacts associated with the conflict.⁶⁴ SMEs not directly engaged in economic relations with one of the region's prevailing industries also suffered losses as consumers have less to spend as a result of the spike in prices, currency depreciation, or unemployment. Findings from a recent REACH survey corroborate this observation, suggesting that the rising price of utilities, food, and other essential basket items force large numbers of residents to adopt negative coping strategies such as spending savings.⁶⁵ A lack of consumer confidence was also a common theme in several interviews in the region.⁶⁶

The conflict has also caused the region's domestic and foreign markets to shrink. Under current circumstances, the cities of Donetsk and Luhansk are now in NGCAs. As such, these markets are largely removed from the transactional economy in GCAs. There is little cross-line trade due to the difficult process of crossing the line of separation, reports of corruption at crossing points, and limitations on the amount of goods that can be transported between areas of control. In terms of foreign markets, international trade was and remains crucial to the Donbas economy. Donetsk and Luhansk continue to lose their traditional trading partners due to a combination of not being able to manufacture to demand and that many buyers and investors "don't want to deal with an unstable and unpredictable grey zone."⁶⁷ An interview with the Donetsk Chamber of Commerce reaffirmed the difficulty in finding new trading partners, with many overseas clients demurring from contractual relationships with Donbas suppliers because they think the entire region is a "conflict zone."⁶⁸

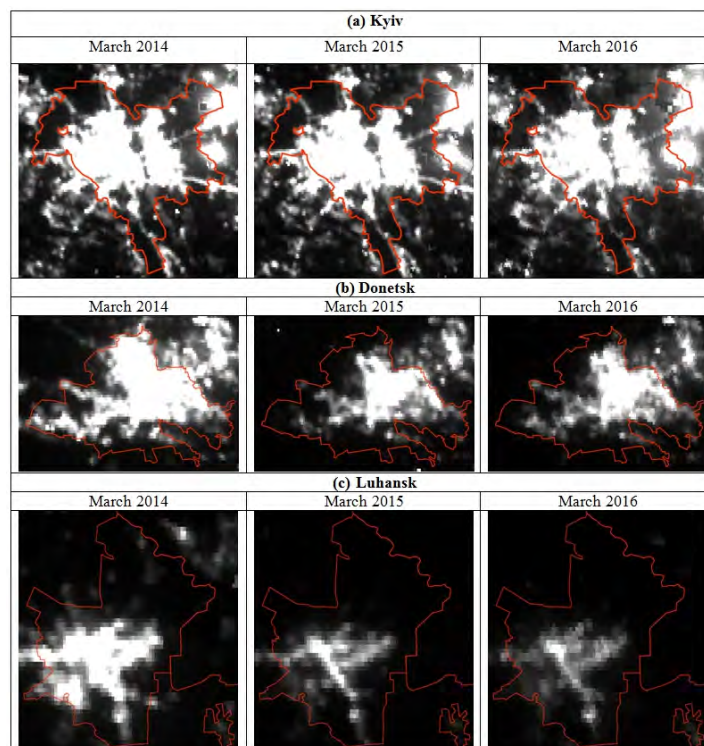
In addition to the above-listed factors arising from the conflict, the Donbas is suffering from the same macroeconomic factors that are impacting the rest of the country. These factors include: high rates of inflation; a depreciated currency; a fragile banking system; poor access to credit; and business regulations unfavorable to SMEs. Inflation and a volatile currency generate uncertainty within the business environment, especially in the presence of an ongoing conflict. Business owners from the region consistently cite the high-level of uncertainty stemming from the conflict and unstable macroeconomic conditions, particularly with respect to taking on new employees, expanding their businesses, and gaining access to finance. When banks and businesses cannot reliably predict the value of their currency in the future, credit becomes more difficult to obtain with resulting high interest rates that prevent even the most promising projects from becoming a reality. Furthermore, over the past

Business owners from the region consistently cited the high level of uncertainty stemming from the conflict and unstable macroeconomic conditions, particularly with respect to taking on new employees, expanding their businesses, and gaining access to the finance.

two years, the National Bank of Ukraine has been engaged in reforms of the banking sector, shutting down 86 of the country’s deficient banks, forcing others to recapitalize, and nationalizing the nation’s largest bank (Privatbank). While these reforms will pay dividends in the long-term, it has caused private credit to constrict since 2013 with effects throughout the business community of Ukraine.⁶⁹

The economy in NGCAs of the Donbas is similarly challenged. In the absence of reliable data for much the region, longitudinal nighttime light intensity matrices of the east offer one data point of economic performance. Nighttime light intensity is an often-employed as a proxy for energy consumption and has been used as a way to qualitatively understand the magnitude of economic activity in areas where data is sparse and access limited. The images below, taken from [a study](#) published on Vox Ukraine, depict the intensity of light in the cities of Kyiv, Donetsk, and Luhansk from March 2014 to March 2016. After the onset of the conflict, light intensity decreased in all three cities—with the greatest reductions in light emissions in Donetsk in Luhansk cities within NGCAs. The study was most revealing of the decline in economic activity in Luhansk, where light emissions were reduced by one-third over the two-year period of the study. This analysis supports evidence collected over the course of the assessment and survey data collected by REACH suggesting similar conflict-related economic impacts between GCAs and NGCAs of the Donbas.⁷⁰

Figure 9: Nighttime Light Intensity Analysis for the Cities of Kyiv, Donetsk, and Luhansk
(Source: Vox Ukraine, July 2016)



An additional conflict impact to the economy of the region is the flight of human capital from the Donbas. Many of those with transferable skills have chosen to relocate to other parts of Ukraine in search of stability and improved livelihoods.⁷¹ Unless this trend is reverse with improved livelihood options in the Donbas, the consequence will be a

remaining population that is older, more vulnerable, and more difficult to reemploy in any emergent industry after the conflict.

To date, humanitarian donors have focused extensively on providing livelihood assistance to vulnerable displaced persons and their hosts. Livelihood assistance is defined as a small grants or loans in the range of \$200 to \$10,000. In the current context, and with humanitarian funding, these grants have been oriented toward subsistence-level projects to decrease the exposure of the poorest segments of the population in the Donbas. Recipients of these sums typically use these resources to start or to expand a microenterprise endeavor or develop a home-based business. Examples of success stories have been a cheese maker, a fishing lure manufacturer, a automobile mechanic service center, and home-based food production facilities. While this livelihood support has undoubtedly helped thousands of people to establish subsistence-level incomes in the face of conflict and unemployment, they will not be able to transform the economy of the region.

Given the current conditions cited above, the economy of the Donbas is unlikely to return to the status quo ante of the pre-war period. What is required to transform the economy in the east is support for SMEs. While large enterprises have either closed or continue to receive state support, and a large number of microenterprises (many of questionable sustainability) have been established as a result of the livelihood programs supported by humanitarian donors, there is little support in the region for true SMEs. SMEs already existing in the region require assistance in finding new markets and pivoting their existing business models away from the failing industries that still dominate the economy of the Donbas. Microenterprises on the larger side of the spectrum also require support in expanding their businesses, where appropriate, and finding larger markets in the region and elsewhere. Supporting the growth of vetted microenterprises and developing programs of assistance for SMEs will be among the ways USAID may transition ongoing humanitarian assistance that is presently oriented toward providing livelihoods assistance to the most vulnerable. These recommendations echo those made in a previous USAID Donbas assessment from August 2016.⁷²

Recommendations

Support for SMEs should be the bedrock of USAID's approach in the Donbas. The majority of the region's larger enterprises are no longer economically viable. This has highlighted the near and medium-term importance of SMEs as a driver of economic activity.

At the national level, USAID should continue to support projects that work to make business and tax regulations more SME-friendly. In this regard, USAID's existing and planned programs will be important to continue. Operations such as the Financial Sector Transformation Initiative, Agriculture and Rural Development Support for Ukraine, and a programming augmenting the competitiveness of Ukrainian enterprises will improve the overall business climate with concomitant positive impacts for the Donbas.

However, specific conditions in the Donbas require targeted support. Programs that

improve access to finance, such as credit guarantees or digital finance initiatives that connect business owners with credit, will be particularly helpful. Grant or loan schemes that build on the successes of the humanitarian community's livelihood grants programs would also leverage previous support to the region. With donor resources being limited, it is important to strengthen non-bank financial institutions that are oriented toward micro-financing and would be able to fill the gap mentioned above. Credit unions, due to their community-based nature, are well positioned to play such a role.

There is a gap in available support to “small” enterprises that require financing in the range of \$10,000-\$25,000. Livelihoods programs typically offer financing below \$10,000 and other USAID programs (e.g. ARDS) provide grants upwards of \$25,000 - only if that amount is matched by the recipient. This match is difficult for residents in the Donbas to attain. Support for SME's in this range of financing is advised with matching investment at a lower threshold, coupled with entrepreneurship training that could be a derivative of USAID's Economic Opportunities for People Affected by Conflict project.

Support for improved trade will be an important adjunct to SME assistance. Businesses operating in the Donbas region will require assistance in finding new, potentially “niche”, markets for their products and for customizing their production to the requirements of new trading partners. Marketing and logistics support that eases trade, both in terms of infrastructure and administrative barriers, would also be beneficial to the region.

Vocational training promoting economic transition in the region should also be considered. On this issue, two interesting data points emerged from a review of surveys conducted in the region. A REACH survey found that of those people unemployed in the government-controlled area, 28 percent of hosts and 49 percent of IDPs listed “skills irrelevant” as the primary cause of their unemployment.⁷³ This statistic, coupled with the World Bank's finding that unemployed IDPs and hosts listed vocational training, language courses, and entrepreneurship training as the most useful types of training, suggests that targeted trainings in the region (calibrated to market conditions) would be well-received among individuals open to such experiences.⁷⁴

Finally, youth engagement will be crucial to the long-term success of the region. Many youth have left the region due to the presence of the conflict and the decline of livelihood opportunities in the Donbas. Programs that train youth for employment in emergent professions in the region, linked with SME and other economic growth support described above, will be an important part of catalyzing the economic transformation (and stemming youth migration) that the region requires.

I. Infrastructure

The conflict has caused significant damage to key aspects of the Donbas's infrastructure, yet some of this damage (and the poor state of remaining infrastructure) is also attributable to deferred maintenance. The most recent and comprehensive estimate of the total damages to the region's infrastructure is found in a Recovery and Peacebuilding Assessment, a joint enterprise of the World Bank, the European Union and the United Nations published in 2015. The Assessment estimated damage to the region's infrastructure at \$463 million that year. Most of the damage has been to the transport sector (\$352 million), the energy sector (\$52.7 million), and the water and sanitation sectors (\$22.4 million), but there has also been extensive damage to the region's education and health facilities as well as to public buildings.⁷⁵ Notwithstanding the damage sustained from the conflict, a common theme across key informant interviews is that much of the infrastructure needs of the region are also due to neglect and a lack of public investment.

A common theme across key informant interviews is that much of the infrastructure needs of the region are a result of neglect and a lack of public investment.

GCA and NGCA of the Donbas are mutually dependent upon Soviet-era infrastructure that provides essential services to populations in both regions. This is especially the case with respect to the region's water, electricity, and sanitation facilities that thread across the line of separation in several locations. The main water and sanitation service provider in the region is Voda Donbas, servicing the Donets-Donbas Channel and providing drinking and industrial water to the entire region. As critical as this system is, it is in urgent need of repair. The channel is also a major vulnerability in ongoing hostilities. Recent damage to this infrastructure, in particular the Avdiivka coke plant and Donetsk Filter Station (DFS) that provides water to more than 345,000 people, set off a domino effect of water, electricity, and subsequent heating cuts in both areas of control amidst freezing temperatures in January and February of 2017.⁷⁶

The infrastructure of the region was traditionally serviced and managed by facilities and professionals in the urban centers of Donetsk and Luhansk. These areas are now in non-government controlled territory. As Donetsk Chamber of Commerce representatives and local businesspeople in Kramatorsk maintain, this has made it difficult to overcome chronic deficits in infrastructure in GCAs and even more difficult to connect these systems with other parts of Ukraine. This is especially critical for Mariupol, a city often described as an "island" due to the poor condition of transport and other service infrastructure linking the city with the rest of government-controlled Ukraine.

Infrastructure damage arising from the conflict and neglect is impacting the regional economy and stretching housing resources. As noted in the Economic Recovery section of this assessment report, the Donbas region is heavily dependent on income from exports. Significant damage to the region's transport infrastructure (as well as the severing of transport networks by the line of separation) is hindering the region's ability to find new trading partners and to reanimate business in the region.⁷⁷

The lack of Government resources (and low political will) for public investment in the region, coupled with the proximity of key infrastructure to the line of contact, deters external and domestic support for large-scale infrastructure projects at this time. While the region is in dire need of significant investments in new and restored infrastructure, especially in the transport sector, all international actors consulted for this assessment expressed a reluctance to invest in anything more than emergency repairs to infrastructure near areas of hostilities. Moreover, without capacitated systems to manage and maintain restored or new infrastructure, there is a strong risk that such facilities will simply lapse into disrepair. There is a justifiable hesitation on the part of external assistance providers to invest in something that the Government of Ukraine may not have the will or the resources to maintain.

Without capacitated systems to manage and maintain restored infrastructure, there is a strong risk that such facilities will simply lapse into disrepair even if they survive ongoing hostilities.

In the face of these reservations, a viable transitional alternative is to invest in smaller “social infrastructure” projects rather than larger projects. One example of this is approach is the European Investment Bank’s (EIB) “Early Recovery Program”. This program makes financing of up to €200 million available at concessionary rates to local governments that submit developed, vetted, and approved project proposals for repairing hospitals, schools, or other public facilities. Germany’s aid agencies KfW and GiZ are weighing options to implement a similar program of “social infrastructure” repair with a focus on schools, hospitals, and housing. The World Bank, the British Foreign Office, and the United Nations Development Program are also supporting the Government’s Multi-Partner Trust Fund to coordinate reconstruction efforts in the Donbas and assist the MTOT in its outreach to the region—but many donors have expressed skepticism over the untested and relatively small size of the current Fund at present. As the size of the Fund grows, however, this may be a powerful way for Kyiv to demonstrate a commitment to the region.

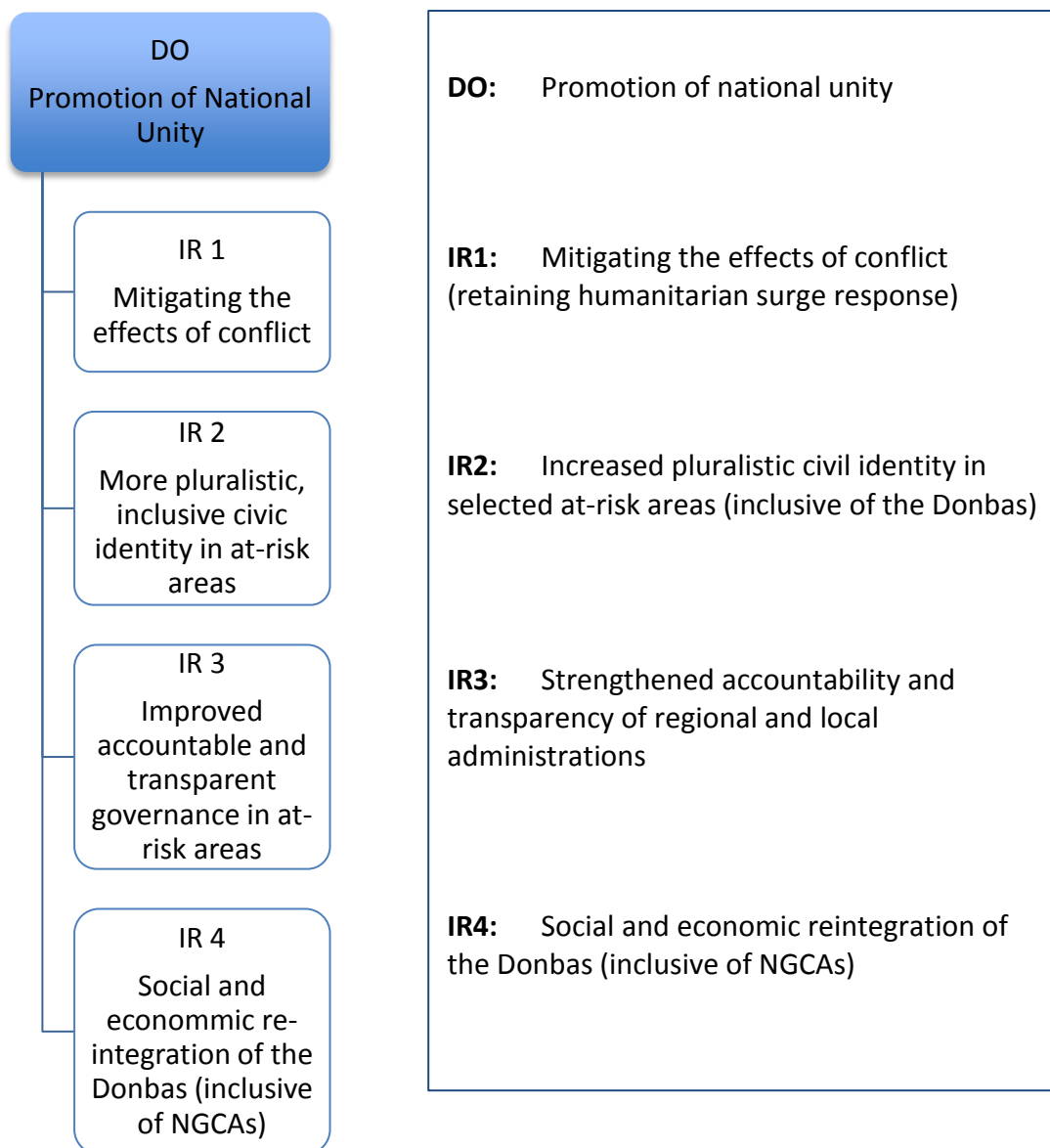
Recommendations

Given the uncertain and volatile conflict environment in the Donbas, large-scale infrastructure projects would be ill advised. An alternative to large-scale infrastructure projects will be to engage local communities in small-scale improvements to public and community infrastructure. Consultative programs like these often enhance the quality of life for residents while strengthening the link between citizens and authorities. In this regard, a recommended approach to infrastructure assistance in the Donbas would make funding available to local communities based on specific targeting and eligibility criteria. The amounts provided may be population (inclusive of IDPs) and/or needs based. Planning and community prioritization conducted in tandem between local authorities and citizen representatives would result in options for projects (via an open or closed menu process) for community improvement. Programs that have used this consultative methodology include USAID’s Community Revitalization through Democratic Action Program (CRDA) and the related Serbian Local Government Reform Program (SLGRP) in Serbia are models for such activity. The Zarbadi Community Road and Street Light Rehabilitation project in

Azerbaijan and USAID/OTIs Kosovo Transition Initiative community infrastructure project are also successful models of community engagement with local authorities to improve service delivery. This is not a substitute for the larger infrastructure engagements that will be required in the future. Instead, this will be an important transitional phase of infrastructure assistance (complementary to EIB and GIZ initiatives) that will prepare communities to take full advantage of parallel and subsequent peace-building, recovery and development initiatives by USAID and other actors.

J. Conclusion

The Donbas region presents a unique set of challenges for USAID. The consequences of ongoing conflict require the retention of a capacity to deliver humanitarian assistance to contend with events like those in Avdiivka and elsewhere near the LOC. Deteriorating services, protracted displacement, and poor governance in the region also require a capacity to deliver development assistance that mitigates the economic and social challenges threatening the unity of the state and the quality of life for populations living in eastern Ukraine.



USAID should frame its country strategy in such a way as to allow for the implementation of a Donbas-specific portfolio, in addition to national-level and oblast-specific activities in

other regions. To this end, it is recommended that USAID adopt the above development objective and suggested intermediate objectives as part of its upcoming CDCS, in alignment with the recommendations within this report.

The set of recommendations in this document presume a situation where the status quo prevails; one in which the conflict does not significantly worsen or abate. For instance, the recommendations provided for limited support to ameliorate the poor state of infrastructure in the Donbas are predicated on the assumption that violence along the NGCAs will continue for the foreseeable future.

But what if hostilities significantly worsened? Under such a scenario the NGCAs may shift, with consequences for forced displacement, service delivery infrastructure, public attitudes and perceptions, and linkages between east and west. In such a scenario, emergency assistance to the displaced and to host communities, as well as to those populations affected by service disruptions would be necessary. But recovery and development capacities would also be useful. In deteriorating conditions, populations also need access to reliable information, open channels of communication with local governments, and the resilience that civic actors provide under such circumstances.

And what if conditions markedly improved? Under such a scenario there would either be a de facto détente or a pacted resolution to the crisis where mobility across the NGCAs improved, hostilities ceased, and better relations between eastern and western Ukraine showed promise. In such a scenario the requirement for humanitarian assistance would be minimal but the requirements for recovery and development assistance would be significant. Again, the need for reliable information flows would be evident, as would improved citizen-government relations, improved civic capacities to rebuild bridges not only east and west but also east-to-east, across the NGCAs. This reconnection of populations that are becoming increasingly adversarial under separate authorities, in both their identities and allegiance to divergent narratives, will be among the most important frontiers of assistance promoting national unity.

As part of a CDCS planning process that must anticipate such a wide range of eventualities, it is recommended that USAID retain an ability to field humanitarian response until such time as a resolution to the crisis improves conditions in the Donbas. However, under any scenario the ability to understand and strengthen information flows; improve civic resilience; augment service delivery; enhance government-citizen relations and citizen-to-citizen “diplomacy”; as well as to provide targeted economic assistance will be integral to promoting the unity and stability of Ukraine.

Annex I: Terms of Reference

Background

The purpose of this task is to conduct an assessment of strategic development opportunities and constraints in the Donbas, to inform USAID's Country Development Cooperation Strategy (CDCS) for Ukraine 2017-2022. Understanding the development needs in Donbas -- defined for the purposes of this assessment as both the Government of Ukraine (GOU)-controlled and non-GOU controlled Donetsk and Luhansk oblasts of Ukraine -- and USAID's comparative advantage to addressing them will be central to defining and achieving our strategic objectives for the next five years of Ukraine's development. The extent to which USAID can and should expand and/or target activities in this region will have both programmatic and operational implications, given security restrictions that make parts of those oblasts non-permissive environments (NPEs) for the U.S. government (USG).

USAID/Ukraine is in the early stages of developing its Results Framework (RF) for its next five-year CDCS, and expects that the findings of this Assessment would be used to inform the Development Objectives, Intermediate Results, Transition Plan, Management Plan, and other considerations in its full strategy.

Given the constraints of time and human resources in conducting this assignment, the assessment team will concentrate its efforts on answering three fundamental questions:

1. How should USAID approach the transition between humanitarian assistance in the East and longer-term development efforts, and what are critical gaps that USAID should address during this transition?
2. What approach should USAID take to infrastructure projects in the East, particularly if there is a peaceful resolution to the conflict that would open up the NGCA to international development assistance?
3. Of USAID's existing portfolio, what components could be extended into the GCA in Donetsk and Luhansk and which would have the highest impact in advancing USAID's goals?

Following the 2014 EuroMaidan Revolution of Dignity and outbreak of conflict in eastern Ukraine, USAID developed the following strategic priorities for the 2015-2017 interim period prior to the development of a new five-year strategy. As USAID expects to continue working in the areas below during the course of its next CDCS, the Assessment will address the extent to which recovery and reintegration needs in the Donbas could be integrated in these areas or would be more effectively addressed through stand-alone programming.

1. Conflict Effects Mitigated in Ukraine's East
2. Democratic Reforms Implemented in Key Sectors

3. Economic Opportunities Revitalized in target sectors and groups
4. Enhanced Energy Security
5. Improved Health Status for Target Populations and Groups

Significant research on a wide range of issues pertaining to the current state of Donbas has been conducted. Key findings from such research include the following:

- Evidence of an emergent pluralism in eastern and southern Ukraine as well as a readiness for dialogue and high support for peace talks (including in NGCA) (source: SCORE Index)
- Continuing humanitarian challenges, including recovery/livelihood needs that cannot be met by humanitarian interventions alone (source: OFDA and OCHA).
- New Ministry for Temporarily Occupied Territories and Internally Displaced Persons remains significantly under-resourced.
- While the number of IDPs remains relatively stable, the protracted nature of the population displacement and the exhaustion of IDPs' personal savings creates a significant strain on housing, social services, and employment opportunities in host communities.
- The Donbas economy, already in decline pre-conflict, has lost access to regional markets, struggles to find new drivers of recovery and growth, and is not able to meet the regulatory/access to finance/training needs for an SME-based economy (source: Steve Hadley report).

Statement of Work

USAID seeks a team of researchers to review the available research (detailed below); conduct interviews with key stakeholders in Kyiv, Luhansk and Donetsk; develop a report of their findings; and make a series of recommendations around a range of programmatic areas. Illustrative programmatic areas and questions to consider including:

- Transition from HA to Early Recovery to Development: Given that USAID/OFDA will be winding down its programming in the next year, what are critical gaps that USAID should be responding to? Of particular interest are:
 - Livelihoods: OFDA supports numerous programs that address the gray area between humanitarian needs and the need to provide some income to make up the shortfall from the Ukrainian government's social safety net. As OFDA winds down assistance, what type of programing should USAID be considering to provide short to medium term assistance to conflict affected populations who need help re-establishing businesses or short-term cash transfers to sustain them until they find more permanent employment.

- Health: With the disruption of government services in both GCA and NGCA, what is the current state of the health system in both GCA and NGCA, particularly regarding infectious diseases such as HIV/AIDS and TB? While a comprehensive survey is not expected, what are other international and national actors saying about the current state of services and is there a role for USAID to play with its current health programming in the region? If there were a real peace deal, what areas should USAID be particularly focused on.
- Economic recovery. What is the state of local economy and variations by geographic location? What are the general trends with employment, local industries, education, commerce, construction, small business development, etc.? How has the conflict disrupted traditional economic or market links? What are options for the redevelopment or reorientation of areas that relied on heavy industry in the short, medium, and long term? What opportunities are there for new forms of employment, particularly in information technology, based on small business development, and what would be required to develop these industries or sectors? How has the prevalence of internally displaced persons (IDPs) impacted local economies? What sources of financing are available to support business development? Are there any legislative changes that need to be made in order to facilitate the movement of businesses from NGCAs to GCAs, improve the business environment to attract investment to the area, or encourage new business development? Is economic recovery affecting men and women differently.
- Governance. How has the political landscape in the Donbas changed? Where are there opportunities to demonstrate reform and promote decentralization? What inhibits local governments in the Donbas to implement reform? How does the conflict and the specifically the civil-military administration limit the extent to which reforms can be implemented? Is corruption at the de facto border crossings a problem and a major cause for concern?
- Information policy. How are residents of the GCAs and NGCAs receiving information? What are some of the main messages and narratives promoted by both Ukrainian and Russian information? How has the government and donor community attempted to increase the presence of objective information, and are those methods effective or feasible? What should the stance of government and donors be (on supporting local media? Targeting messaging? Need to focus this question)? What information needs might be required in the event of a peace settlement or in the event of a likely stalemate or continuation of low-level conflict?

- Community cohesion and reconciliation. Are there issues that divide or unite citizens in both the GCAs and NGCAs? If so, what are they? What is the prevalence of Ukrainian nationalism, Russian support, Soviet nostalgia, or sympathy for separatist regimes? How do these factors affect Ukrainian identity and political support for the country's current trajectory? How do residents in the NGCAs view the Ukrainian state and what issues would need to be on a "reconciliation" agenda?
- Infrastructure. What, if anything, should USAID's approach be to addressing infrastructure needs in the short run and in the longer term if there were a peace settlement? Should infrastructure needs be prioritized to facilitate economic recovery and the delivery of services? How are other donor approaching infrastructure needs, particularly in the light of discussions around a multi-donor trust fund?

The Assessment Team will pay particular attention to potential scenarios for the resolution or continuation of the conflict in the Donbas, including specific options/recommendations for programmatic approaches. Under each issue area above, the researcher will make a series of recommendations around three broad scenarios:

1. Active conflict along a stable front line (status quo)
2. The central GOU regains control over its territory and borders
3. The conflict worsens

Under the second scenario, specific issues in addition to those listed above, such as disarmament and dealing with former combatants, reintegration of IDPs, and transition from humanitarian to development assistance will need to be addressed.

In order to address the sensitivities around USG activities and data collection in the NGCAs, the Assessment Team will work with the United Nations and other international organizations operating in these areas to supplement fieldwork.

The researcher will be expected to conduct a thorough desk review of available literature, including documents provided by USAID.

- SCORE Index
- Steve Hadley Report on Economic Recovery
- UNDP/WB/EU Recovery and Peacebuilding Assessment (RPA)

During fieldwork in Ukraine, the Assessment Team will conduct consultations with:

- USAID mission
- Other U.S. Government colleagues within Embassy Kyiv

- Canadian Mission
- Minister for Temporarily Occupied Territories and Internally Displaced Persons
- oblast administrations in Donetsk and Luhansk
- UN
- World Bank
- EU
- DFID
- Other donors including domestic charities such as the Akhmetov Foundation
- European Investment Bank
- Ministry of Regional Development
- IDP organizations such as CrimSOS, Vostok SOS, Dopomoga Dnipro, and others (e.g., OFDA international partners)
- Private businesses or business associations
- Other NGOs working in the Donbas area, such as PIN, CRS, ADRA (could also convene the NGO Forum)
- IDPs and other residents

It is anticipated that the assessment team will perform the following activities:

A) Desk Review and Data Collection

1. Conduct a desk review of available literature and research on the Donbas, including documents provided by USAID (see annex). A summary of the literature review will be included in the final assessment report.
2. The Mission will provide the assessment team with its current CDCS and interim strategy, relevant project/activity documents, and a draft Results Framework for the new CDCS. The Mission also may provide the team with guidance on approaching USAID partners, embassy stakeholders, and host country organizations with respect to this assignment. The team shall be aware of sensitivities related to an assessment exercise (particularly regarding data collection in NGCAs) and respect Mission guidance.
3. Meet with USAID headquarters staff and other Washington-based stakeholders (such as other U.S. government agencies and non-government organizations with programs in Ukraine) as advised by USAID/Ukraine.
4. Develop/update the Assessment Work Plan, to include the schedule of tasks/milestones, site visit / data collection plan, and assessment methodology.
5. Develop and provide to USAID questionnaires, surveys, focus group discussion (FGD) guides, and other data collection tools that will be used for this assessment.
6. Update the list of stakeholders to be consulted.
7. Update the schedule of tasks/milestones and related consultations, surveys,

meetings, round table discussions, FGDs, site visits, and other events/venues planned for data collection in Ukraine.

8. In coordination with the Mission, begin planning site visits based on the Mission's recommendations and on the assessment team's preliminary review of key topics and information gaps. The team will discuss organizations to be contacted and any planned site visits with the Mission and coordinate as required.

B) Field Work and Data Collection

1. Upon arrival in Ukraine, meet with the Mission point of contact and relevant technical and front office staff to discuss Mission perspectives on this assessment, discuss the Mission's current strategy and activities, and gain an understanding of specific Mission interests and protocol on approaching USAID partners and host country organizations with respect to the assignment.
2. Conduct meetings in Kyiv with relevant GOU, civil society, and private sector stakeholders based in Kyiv
3. In accordance with the Assessment Work Plan, travel to a selection of sites in the Donbas to conduct stakeholder interviews, focus group discussions, and other data collection.

C) Data Analysis and Presentation

1. Upon return to Kyiv, prepare and deliver a draft out-brief for Mission management (and other USG stakeholders as invited by USAID) on assessment methodology, tasks, and preliminary findings and conclusions.
2. Following departure from Kyiv, prepare and submit for USAID review a draft assessment report describing the methodology, team, tasks, findings, conclusions, and recommendations related to the tasks defined in section __.

Annex II: List of Meetings and Key Informants

US Government in Kyiv, Ukraine

- USAID/Ukraine staff from executive, technical (democracy and governance, economic growth, health) and program offices, including Susan Fritz, John Pennell, Steve Gonyea, Larissa Piskunova, Thomas White, Dan Ryan, Tatiana Timoshenko, Victoria Marchenko, Stacy Wallick, David Hatch, Ann Hopper.
- US Embassy, Assistance Coordinator Joanne Wagner
- USAID/OTI, Country Representative Oren Murphy
- USAID/OFDA, Senior Humanitarian Advisers Sue McIntyre and Marchella Michaud

International government representatives in Kyiv, Ukraine

- European Commission Stabilization Lead Helga Pender (helga.pender@eeas.europa.eu).
- GIZ Special Project for the East, Hans Mueller
- ECHO Head of Office, Mamar Merzouk (mamar.merzouk@echofield.eu)
- Canada Deputy Director, Chief of Operations Jennifer Cooper (jennifer.cooper@international.gc.ca)
- European Investment Bank, Roy Draycott (r.draycott@eib.org)

International organizations and civil society in Kyiv, Ukraine

- UN OCHA, Head of Office Barabra Manzi (manzi@un.org)
- International Committee of the Red Cross,
- International Organization for Migration, Chief of Mission Manfred Profazi (mprofazi@iom.int)
- Internews, Country Director Wayne Sharpe (wsharpe@internews.org) and Media Advisor Gillian McCormack (gmccormack@internews.org)
- UCBI, Governance Expert Maya Gogolazde (gogmaia@yahoo.com)
- USAID/OFDA partners including Catholic Relief Services, Danish Refugee Council, HelpAge International, International Medical Corps, Mercy Corps, People in Need, Save the Children

Government of Ukraine in Kyiv, Ukraine

- Ministry for the Temporarily Occupied Territories, Minister Vadym Chernysh, Chief of Staff Victoriia Vorovina (voroninavv@mtot.gov.ua)
- Ministry of Regional Development representative Eugene Cherviachenko

Civil Society in Kyiv, Ukraine

- CrimeaSOS, Director Tamila Tasheva (tamila.tasheva@krymsos.com) and partner organizations VostokSOS, Right to Protection, Ukraine Committee of Voters
- Ukraine Crisis Media Center, Leonid Marushchak (art_leonid_vin@ukr.net)
- Kyiv School of Economics, Olga Kupets (kupets@kse.org.ua)
- Foundation101, Halyna Yanchenko (yanchenko@foundation101.org)

Government of Ukraine in Kramatorsk, Ukraine

- Donetsk Regional Administration, Deputy Governor Eugeny Vilinsky (e_vilinsky@yahoo.com)
- Donetsk Regional Health Department, Deputy Director Vladimir Kolesnik

Civil society in Kramatorsk, Ukraine

- Kramatorsk crisis media center, Sergiy Popov and Yevhen Onyschuk
- Donetsk Chamber of Commerce, Director Elvira Sevostianenko
- Right to Protection, Iryna Stepanov

-USAID/OFDA Livelihood partners, including Catholic Relief Services, Right to Protection, Mercy Corps, PIN

-Members of FreeUA co-working center and partner local business representatives

-Members of Teplitsya Youth initiative Center

-Members of CenterUA civil society local governance advocates

International community in Kramatorsk, Ukraine

UN OCHA, Humanitarian Assistance Officer Yana Thay (thay@un.org)

UNDP, Sylvia Fletcher (sylvia.fletcher@undp.org)

Annex III: Literature Review

This is an overview of key sources used for the assessment including the most recent nationwide surveys, long-term assessments of international organizations, policy papers and reports. The selected items represent all the research sectors underlined in this assessment. These are transition from humanitarian assistance to economic recovery of Donbas, social cohesion, governance, infrastructure and media.

Humanitarian Response Plan	
Organization: Humanitarian Country Team (UNOCHA) and partners	Two editions: Date: January - December 2016 Date: January - December 2017
<p>The Humanitarian Country Team in Ukraine consisting of 215 organizations (in 2016 the number of partners was 147) presented a 2017 Humanitarian Response Plan (HRP). In 2016 the plan targeted 2.5 mln people out of estimated 3.1 mln people in need. In 2017 the team has intention to reach 2.6 mln people among a general number of 3.8 mln people in need in Ukraine. HRP focuses on actions required to address the most urgent humanitarian and protection needs of the citizenry living along the contact line and in a buffer zone. At the same time all the clusters engaged to the Humanitarian Country Team strive to achieve access to non-governmental control areas (NGCAs) to ensure aid reaches the people in need there as well.</p> <p>The HRP has three strategic objectives: (i) to advocate for and respond to the protection needs of the conflict-affected people; (ii) to provide emergency assistance and ensure non-discriminatory access to quality essential services for populations in need; (iii) to improve the resilience of conflict-affected people, prevent further degradation of the humanitarian situation and promote early recovery and social cohesion. Beyond a general strategy, HRP contains operational response plans based on systematical monitoring and reporting of the Country Humanitarian Team. These operational plans are designed within 8 separate clusters: education; food security; health and nutrition; livelihood and early recovery; logistics; protection; Shelter/NFI; Water, sanitation and hygiene.</p> <p>Strategic importance. HRP helps to measure the scope of the acute humanitarian aid needed in different spheres. It is a good tool for making assumptions and designing a strategy for an early recovery plan, which is compulsory for returning the state economy and livelihoods of conflict-affected people back to normalcy. As there are strong linkages between humanitarian, recovery and development responses, it is vitally important to keep the right balance between these different kinds of assistance. It is still essential to provide a humanitarian aid to those who are in need, while the lack of development programs might cause a new challenge – a social and economic exclusion of the region. The humanitarian country team has intention to show coherency and synergy of all three types of assistance enabling other stakeholders to fill the gaps and look for efficient recovery solutions.</p>	
Ukraine Recovery and Peacebuilding Assessment	
The European Union (EU), the United Nations (UN), the World Bank Group (WBG)	Date: March 2015
<p>This is one of the most rigorous, detailed and precise assessments of Ukraine’s opportunities for an early economic recovery and social cohesion. Beyond expert observations, it includes estimated costs for</p>	

infrastructure rebuilding, healthcare, social welfare and other kinds of recovery needs. The assessment primarily focuses on the directly conflict-affected areas of the Donetsk and Luhansk oblasts (GCAs). However, some adjoining oblasts hosting IDPs have also been mentioned.

The whole report has a great strategic value as it includes a well-defined overview, estimated damages and suggested solutions for the most efficient recovery in each of the assessed sectors. The Recovery and Peacebuilding Assessment (RPA) team selected three components of research: (i) Infrastructure and Social Services; (ii) Economic Recovery; (iii) Social Resilience, Peacebuilding, and Community Security. Basically, researches underline multi-sector key needs and a short-term (24-month) recovery objectives and outcomes. A total sum to cover all the damages is estimated as \$1,550 mln, while the biggest budget expanses should go to reconstruction of a transport system (\$ 558,2 mln), endowment for social welfare (\$ 329.4 mln) and healthcare activities (\$ 184.2 mln).

The current scope of the largest component (Infrastructure and Social Services), as agreed between the government and RPA partners, is limited to 10 subsectors: energy, transport, water and sanitation, health, education, social welfare, environment, and housing, municipal services, and general public buildings.

One of the key assessment findings is that recovery efforts in the East need to be viewed through the prism of the unprecedented economic crisis in Ukraine. More specifically, it is imperative to restore macroeconomic and banking sector stability; address wider structural challenges, including by making the overall environment friendlier for investors; curb widespread corruption so public services can be delivered to citizens efficiently and cost-effectively; and deal with problems in the gas sector. These steps are preconditions for recovery in Donbas.

Strategic importance. What is essential, the assessment team has developed a complex methodology for estimation and calculation of losses, damages and needs in all the subsectors. Having these numbers, governors and experts will be able to make relevant recovery strategies more precise and realistic. Consequently, RPA suggests optional scenarios and institutional arrangements for recovery. Finally, it presents a Transitional Implementation Strategy based on the assessment results and team's conclusions. Due to one of its points, meaningful and sustainable social resilience and peacebuilding must have a dual focus: (i) on activities related specifically to conflict-affected areas; and (ii) activities that simultaneously target the countrywide level. From this perspective, RPA review is a crucial contribution to the Donbas Assessment project as it also shares a two-level approach.

**Ukraine: Translating IDPs' Protection into Legislative Action.
Prominent gaps in Ukraine's IDP law remain despite some improvements.
Brief paper**

Internal Displacement Monitoring Centre (IDMC), Norwegian Refugee Council (NRC)

19 December 2016

This brief paper is an overview of the most important challenges that IDPs keep facing in Ukraine. Although Minsk Agreement in 2015 ceased the conflict for a while, a number of displaced people in Ukraine continues to grow. Nowadays there are more than 1.6 mln of IDPs registered by the Ministry of Social Policy of Ukraine. However, the real figure seems to be different as it excludes those who do not will or have no opportunity to register.

Faced with a growing displacement crisis, the Ukrainian government developed a law on IDPs' rights and freedoms with support from the protection cluster led by the UN Refugee Agency (UNHCR). The

legislation was enacted in October 2014. As the brief paper’s authors admit, the law upholds core international standards reflected in the Guiding Principles on Internal Displacement and it addresses main protection concerns regarding social and economic services including residence registration, employment and healthcare. A number of gaps, however, became apparent during implementation. The analysts emphasized three most problematic issues in the area: (i) IDPs’ registration and obtaining a legal status; (ii) civil registration and the issuance of documents; (iii) efficient and non-discriminatory access to social benefits.

Despite the legislative developments highlighted in the study, IDPs living in NGCAs still have to cross the contact line to register and claim the social benefits that registration brings. This setup may encourage further waves of displacement from NGCAs to GCAs rather than within NGCAs. It also compels IDPs to flee onward to certain areas, regardless of the risks inherent in making the journey, or those that they may or may not face in NGCAs. Hence, a non-discriminatory access of IDPs living in NGCAs to social services remains problematic.

Strategic importance. Despite the concise format, the brief paper outlines main legislative initiatives, obstacles and requirement for further improvement of the IDPs’ status in Ukraine. A thorough overview of the IDPs’ law enacted in 2014 and its amendments makes the paper strategically important for recognizing legislative gaps and defining necessary steps for a more efficient and human rights oriented policy towards IDPs’ in Ukraine.

Employment needs assessment and employability of internally displaced persons in Ukraine: Summary of survey findings and recommendations

International Labor Organization (ILO)	2016
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The Ukrainian labor market is currently facing many challenges that will need to be addressed in the near term to help the country emerge successfully from a negative impact of the conflict. One of the most burning issues is to help disadvantaged workers, particularly among the IDPs, improve their livelihood and integrate into the new place as best as possible.

ILO initiated this complex assessment of employment need on request of the Government of Ukraine and social partners who were looking for: (1) a short-term responses to address the jobs recovery needs with emphasis on internally displaced people and (2) long-term strategy and policy recommendations for the State Employment Service and other state institutions to meet current challenges and demands.

This assessment provides background information about employment needs of IDPs NOT registered with the State Employment Service (SES) based on a targeted survey of 2000 IDPs aged 18-70 years carried out in June 2015 in 9 oblasts. The study also evaluates employment possibilities for IDPs based on in-depth interviews with 55 Ukrainian firms of different economic activity, size, region and type of ownership. Based on findings, the assessment team designed policy recommendations on how to overcome employment-related problems of IDPs and enhance their labor market integration. Some of them are following: i) to provide more and better information on existing job opportunities and SES services for IDPs; ii) to improve match of job seeking IDPs to available jobs in the host labor market or outside it; iii) to increase employment opportunities for IDPs through public and temporary works and subsidized employment; iv) to offer training and apprenticeship opportunities to increase employability of IDPs.

Strategic importance. This study answers many questions about the state of employment (or unemployment) within IDPs. It is a detailed analysis of IDPs’ labor market orientations and

qualifications, difficulties they face looking for new jobs, reasons not to register in SES and their main sources of income. Moreover, the assessment covers a review of current labor demand and opportunities for IDP' in Ukraine. Hence, this study has wide strategic importance both for Government of Ukraine (SES in particular) and non-governmental organizations that protect IDPs' rights and deal with labor forces analysis in Ukraine. In terms of Donbas assessment, policy recommendations on ceasing unemployment level within IDPS' based on this research seem significantly useful. Evidentially, joblessness is the main obstacle for an early economic recovery of the region.

National Monitoring System of the situation with IDPs

**International Organization for Migration (IOM),
Ministry of Social Policy (MoSP), Ministry of
Temporary Occupied Territories (MTOT)**

**Two editions:
March - June 2016
September 2016**

The objective of the National Monitoring System (NMS) in Ukraine, launched by IOM, is to support the Government of Ukraine in collecting and analyzing information on the socioeconomic characteristics of IDPs and IDP households as well as on challenges that IDPs are facing.

The study adopts a mixed-methods approach to gather data on its research questions. Main information sources used for NMS are: administrative data; data from key informant interviews; focus group discussions; data of sample surveys of IDPs and the local population via face-to-face interviews; data of sample surveys of IDPs via telephone interviews.

Almost all IDPs interviewed face-to-face in spring 2016 (93% out of 2,400 IDPs) stated that they had been registered with the social protection units of the MoSP. Among the reasons for avoiding registration, people mentioned loss of documents, disbelief in the possibility of receiving real help and long queues. The most financially secure IDPs do not see the point of registering. Only every sixth IDP out of the 2,400 interviewed face-to-face reported changing their voting address in displacement, so the vast majority did not participate in the election of the President of Ukraine and Verkhovna Rada of Ukraine in 2014. According to the focus group discussions, many IDPs simply did not have enough time to accomplish formalities for changing the election address before October 2014.

Beyond registration issues, NMS focuses on social and economic status of IDPs, their mobility and social integration, employment, accommodation and delivery of social services. Key informants admit that IDPs experience complications in accessing employment and housing. All other areas (health services, education, social protection, public services) are considered by key informants to be accessible to IDPs (at least on the same level as for the local population).

Employment is a key challenge for IDPs as revealed by all approaches used, namely the face-to-face and telephone interviews, interviews with key informants and focus group discussions. For September 2016 only 40% of IDPs have managed to find a job at their new location, while 38% consider themselves unemployed. 22% of IDPs state that they do not need a job, as they receive disability or retirement pensions or are currently on maternity leave. At the same time, the level of education among the surveyed IDPs is quite high, namely 53.5% of them have higher or incomplete higher education.

Strategic importance. A mixed-methods approach to the research allows assessing the status of IDPs in Ukraine from different perspectives. Cooperation between the project team and the Government of Ukraine (namely MoSP and MTOT) enhances a high quality statistics analysis and designing a targeted

short-term and long-term governmental strategy concerning integration and wellbeing of IDPs. As unemployment remains the biggest concern within IDPs, one of the main tasks for the government and IOM in the framework of the research is to strengthen economic capacities of IDPs. These steps might include support in entrepreneurship, retraining for occupations demanded in local labor markets, involvement of the unemployed in public works and so on.

Assessing the Socio-Economic Impacts of Internal Displacement

CADMUS Group, Kyiv International Institute of Sociology (KIIS)

November 2016 – January 2017

This nationwide survey of 2000 officially registered IDPs and 2000 hosts (sample proportional to a number of IDPs in each region) is a socio-demographic and economic profile of their current livelihoods. In fact, the survey describes many specific characteristics of the forced displacement. For instance, respondents were asked about reasons for their relocation, visits to NGCAs, willingness to return, welfare, household expenditures and so on. Moreover, the researchers compare the data on IDPs with their host communities, which is an additional tool for physiological and socio-economic interpretation of the obtained results.

Beyond numerous findings, it is worth to admit that 71% of IDPs and 76% of hosts surveyed believe that the economic situation of their families has worsened in the last 12 months (in case of hosts) or after displacement (in case of IDPs). Only 5% of IDPs and 2% of hosts noted any improvement. The most common strategies of coping with financial difficulties among IDPs and hosts are going without essential products and medicine and obtaining allowances or housing subsidies (passive approach). Active strategies (including business, training, working overtime, labor migration) are used by a minority of respondents.

Naturally, IDPs have more concerns regarding housing and psychological well being than hosts. Yet, improvement of health care and education systems, municipal services and welfare capacities remain a national requirement. Another essential data is that only 11% of surveyed IDPs reported about their availability to vote since displacement.

Strategic importance. The survey underlines current livelihood conditions of IDPs in Ukraine from different perspectives, turning the research in a valuable database for further complex assessment. The peculiarity of the survey is a comparison of needs and observations between IDPs and hosts. Although there are some specific and highlighted differences in answers of these two groups, the overall majority of respondents admitted and ranked the same concerns and social demands. Therefore the root of social and economic tension within communities should be seen rather in a state financial crisis and mistrust to governmental officials than in displacement. Despite mentioning it in the report, one of the main conclusions based on the survey result is that ongoing conflict in the east of Ukraine is not the only obstacle for the state economy recovery. The majority of both groups of respondents admitted the necessity of health care and judicial system reforms, efficient anti-corruption approaches and improvement of public services. The conflict slows down the reforms but it does not excuse their absence.

Inter-Agency Vulnerability Assessment in Luhansk and Donetsk Oblasts. Government Controlled Areas

REACH and international partners

November 2016

The purpose of the inter-agency vulnerability assessment (IAVA), endorsed by the Humanitarian Country Team in Ukraine, was to evaluate immediate humanitarian needs of the conflict affected population in the Donetsk and Luhansk Government Controlled Areas. It was conducted under the overall guidance of the Technical Assessment Working Group (TAWG) composed of more than 20 members from the UN and NGO community operating in Ukraine. The target population was composed of both displaced and non-displaced households through a mixed approach using household surveys, focus group discussions and secondary data review.

As the assessment demonstrates, civilians continue experiencing significant humanitarian hardship including obstacles in accessing basic services and legal rights, compounded by a severely deteriorating economic situation. The main findings revolve around: i) multifaceted humanitarian needs at the household level, ii) specific protection vulnerabilities, iii) a challenging housing situation and iv) the significant loss of economic security that has affected ability to access basic services including health, education, and utilities. Nevertheless, 90% of IDPs indicated that none of their household members had returned to their pre-displacement locations and 92% of IDP households reported no intent to return home in the next 6 months. 43% of IDPs expressed willingness to return in case they could feel safe there. Almost a quarter of the surveyed do not intend to return to their place of origin under any scenario. Further investigation is therefore required into the role of increasing housing costs and lack of access to income – the two most commonly cited causes for possible return.

This assessment finds that immediate needs of conflict-affected households in Donbas should be addressed through targeted household level interventions that address some of the key needs previously identified. However, findings also highlight the need for longer term planning that should address the economic insecurity of households living in Donbas that has been compounded by the conflict. The findings of this significant data collection effort in the field will be complemented by continued support to humanitarian actors for the operationalization of the main results of this assessment.

Strategic importance. This collaborative effort will provide an evidence base for more effective emergency response and early recovery activities across multiple sectors, resulting in better prioritization and targeting of aid. It will also provide a set of comparable indicators and replicable methodologies that can be used to inform future assessment of vulnerabilities and need in the study area.

Multi-Sector Needs Assessment: Non-Government Controlled Areas

REACH and international partners

February 2017

It is obviously hard to collect any data concerning social and microeconomic indicators of wellbeing of civilians in NGCA. Humanitarian assistance delivered there has been sharply limited since August 2015 when international and national humanitarian partners were required to get ‘accreditation’ from the de facto authorities. However, in-depth assessment of the internal economic situation in NGCAs and the people’s needs enables humanitarians, governors and other stakeholders to make their strategy towards them more efficient. REACH therefore, in close collaboration with OCHA and other partners, undertook a variegated multisectoral needs assessment to address this gap. This study comes after the publication of the Inter-agency Vulnerability Assessment (IAVA), which collected similar information about the humanitarian needs of IDPs and host communities in the GCAs.

The expert team combined several assessment methods and used 5 data sources to make the picture

coherent. These are secondary data review, media monitoring, quantitative household level telephone survey, focus group discussion and market monitoring data. In case of NGCA, this multi-sources approach is the only way to get the objective information.

One of the main findings of the assessment is that challenges faced by civilians of NGCAs are actually similar to the challenges in the GCAs. They concern i) insufficient income affecting their ability to meet basic needs such as food and medicines; ii) deteriorated housing conditions as a result of conflict iii) difficulties in recovering their livelihood after displacement and conflict. However, these problems are compounded by limited access to goods and services, and protection challenges including restrictions of freedom of movement and payment of social benefits, which have significantly reduced people's resilience and their ability to address these difficulties.

Challenges specific to the NGCAs revolve around i) access to health services that have been significantly disrupted by war, ii) ensuring adequate education for children that do not put their security at risk iii) addressing the regular water access difficulties experienced by millions of households in NGCAs and iv) reduction in food quality coupled with increase prices. In parallel of these humanitarian needs, the economic fabric of the Donbas has been disrupted by a contact line that has hampered circulation of goods in people in a region that was highly reliant on the trade of fuel (coal) and heavy machinery.

Strategic importance. A comprehensive understanding – based on robust data – of access to services and comparative needs at the household-level across the NGCAs had been big gap before the Multi-Sector Needs Assessment addressed it. Only one similar research had been conducted before it in late 2015. Doubtless, there is a critical need to better understand the humanitarian needs and gaps in assistance in the NGCAs and to strengthen evidenced-based planning in the NGCAs.

The assumption that the humanitarian crisis in NGCAs is much more critical than in GCAs was NOT confirmed by this assessment. Protracted displacement of IDPs in GCAs is leading to significant hardship that residents and returnees in NGCAs do not have to face such as i) paying for temporary accommodation, ii) difficulties in securing decent income, iii) not having quality non-food items for winter. As such the prioritization of assistance to NGCAs or to the areas along the contact line is likely to omit a significant amount of vulnerable conflict affected households.

Opportunities and Challenges Facing Ukraine's Democratic Transition

National Democratic Institute (NDI)	Two editions: April – May 2015 November – December 2016
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Since the conflict in Donbas started, NDI in partnership with other international organizations conducted 2 nationwide public opinion polls discovering capacities for Ukraine's democratic transition. The major findings and assumptions made in 2015 were lately proved with a new similar survey. However, some tendencies in losing trust to government and political parties, deterioration of economy and livelihoods were admitted in 2016.

A recent public opinion poll, conducted by NDI in November – December 2016 with the support of National Endowment for Democracy (NED), Global Affairs Canada (GAC), the United States Agency for International Development (USAID) and Government of Sweden, Foreign & Common Wealth Office (FCO), was a nationally representative research (GCA only) with a few specific oversamples. Like in 2015, the research team evaluated livelihoods, citizens' engagement and attitudes to local and national authorities, perceptions of democracy, reforms and corruption. However, in 2016 the researchers also

added a decentralization module to the questionnaire.

Rising prices, conflict in the Eastern Ukraine and corruption remain the biggest concerns of Ukrainians. Yet, the salience of the conflict has fallen from 57% in May 2015 to December 2016, while corruption has risen from 31% to 40%. Other high priority issues (healthcare, employment, pensions) were broadly stable during that period. In economic terms most respondents mentioned worsening since 2014 – 79% in May 2015 and 76% in December 2016. Meanwhile, the Southern Ukraine shows the biggest concern around the issue – 88% in the region and up to 98% in Ismail. A pessimistic vision towards livelihood of next generations also characterizes the south and east, while the rest of Ukraine is quite optimistic about it.

The majority of respondents throughout the country express support to a decentralization process in terms of delivering more leverages to local self-government. However, the attitude to the amalgamation of communities and its impact is rather neutral. Another characteristic feature common to all respondents is a passive role in public life and paternalistic moods. About 34% of the respondents believe the state should care of them instead of merely being accountable. This indicator is the highest in Ismail – 73%. A level of trust to political parties is extremely low throughout Ukraine. There is no a single party privileged with a positive perception more than a negative one. A readiness to vote at early parliamentary elections in Ukraine increased from to 26% in May 2016 to 34% in December 2017.

In terms of NGCA, the attitude has not been changed since May 2015 – the majority of respondents expect them to return to Ukraine. However, citizens of the eastern and southern parts of Ukraine unlike the rest of the population show less support to economic sanctions against Russia. The main reason for it is obviously an economic interdependence and trade relations of these regions with Russia.

Strategic importance. Two series of the survey are a very good tool to measure public attitudes to current national and local government, social cohesion, and reforms and to admit any changes in the tendency. A comparison of results in 2015 and 2016 lets the researchers admit a social tension in some aspects. Taking to account the conflict in Donbas, a political and economic instability, these observations become a pillar for developing future scenarios.

Ukraine – Economic Governance in the East

USAID

July 2016

The initial purpose of the report is to determine which approaches will work best to face economic constraints and opportunities in the Donbas region. In fact, it is a wide assessment of the economic and social situation in Donetsk and Luhansk oblasts that includes description of the main barriers, challenges, possibilities and expert recommendations.

One of the key findings presented in the report is that the economy of Donbas has been declining before the conflict has emerged. Consequently, there is no chance for a speedy recovery and growth even if the conflict goes down. Replacement of the old economy will require targeted work in the region as well and a continued push for nationwide reforms. As unemployment rates in Donbas are about 48%, it is vitally important to increase opportunities for SMEs to arise in the region.

As commerce across the line of control has stopped completely, producers of goods and services in the Ukrainian-controlled Donbas have lost access to buyers and suppliers in Luhansk city and Donetsk city, the largest markets in the region. This is another important challenge for the local economy. Another serious obstacle for its recovery is an unavailable or limited access to finance. Banks operating in the

Donbas still process payments but have more or less stopped lending in light of the risk.

Although the East pretends to have a specific targeted recovery strategy, the national economy faces the same constraints – an unfriendly regulatory environment, corruption, a poorly functioning banking and financial system, and specific policy problems like the ban on agricultural land sales which prevents small and medium-sized producers from accessing land.

Strategic importance. The report contains significant conclusions and recommendations for boosting economic reforms in the East. Moreover, it underlines the interdependence between the economic growth and psychological barriers such as a demand for re-branding and transition to obtaining new skills, jobs and identities. Collectively, across a population of hundreds of thousands of people, the inability of individuals to aspire and to trust is a significant impediment. Even having intention to encourage the economic recovery in Donbas in general, international organizations should focus first on people’s capacity building. The authors of the “Ukraine - Economic Governance in the East” report indicate that positive role models and learning about the successes of peers help to overcome it. Otherwise, higher levels of unemployment and social anemia or social anxiety will occur. In the long run, the relocation of part of the population to areas in Ukraine with better growth prospects and less competition for jobs must be part the solution.

Another gap that should be faced is the lack of ICT training programs in the region. It will impede efforts to develop new industries and handicap efforts to encourage bright young people to stay. Initiatives to develop ICT skills and talent would almost certainly be beneficial and could include support to one or more tertiary institutions to develop an ICT curriculum and in-house expertise.

An overall recommendation of the report’s authors is to move forward on multiple fronts by adding resources to current programs and develop a new program focused on the East with specific tasks and regulations. The assumption about the necessity of this targeted strategy was one of the main research question for the Donbas assessment project.

USAID BACKGROUND MATERIALS

Mitigation of conflict’s effects in Donbas is one of the strategic priorities for the USAID Mission in Ukraine. Therefore USAID has a certain database of previous assessments and surveys related to the issue implemented in cooperation with Ukrainian and international partners. The list will be useful for further research activities in the field.

- USAID 2015-2018 Recovery and Reform Strategy (April 2016)

*The Mission’s 2015-2018 interim goal is **A More Stable and Reform-Oriented Ukraine**. In order to achieve this goal, the Mission is working towards five strategic objectives: (1) Conflict Effects Mitigated in Ukraine’s East; (2) Democratic Reforms Implemented in Key Sectors; (3) Economic Opportunities Revitalized in Target Sectors and Groups; (4) Energy Security Enhanced, and; (5) Health Status Improved among Target Populations and Groups.*

- Social Cohesion and Reconciliation (SCORE) Index (2016)

The SCORE Index measures psychological adjustment in order to better understand the societal behavior of Ukrainians throughout the country. Its main findings concern social cohesion, political identity and

orientation, intergroup relations, peacebuilding process and relations with IDPs.

- Corruption in Ukraine. Comparative analysis of nationwide surveys of 2007, 2009, 2011, 2015 (USAID, PACT, UNITER, KIIS). November 2015

The aim of the survey was to monitor changes in people's perception and corruption experience during the year of 2015 and to compare them with the results of similar surveys conducted in 2007, 2009 and 2011. The research focused on attitudes of the adult population in Ukraine towards corruption; citizens' assessment of the governmental anti-corruption policy, civil engagement in anti-corruption activities. In 2015 the survey showed a tangible decrease in public trust to all government bodies without exception.

- Ukraine Media Consumption Survey. A Focus on the East (USAID, Internews) (2016)

The main purposes of the survey were to evaluate a level of trust, consumption and preferences regarding different types of media throughout Ukraine. There were two waves of the survey in 2015 and 2016 covering 12 regions of Ukraine. The key findings represent attitudes of citizens of Ukraine to regional, national and Russian media of all types. Estimation of media literacy of the population was an additional indirect result of the survey.

- Media Poll in 6 oblasts (USAID, IMI, GFK) (December 2015 – January 2016)

There were 4 main sectors of assessment in the survey. These were (i) media usage and TOP resources; (ii) primary news sources and topics of interest; (iii) political views, national and language identities; (iv) problems and values. The sample covered Dnipropetrovsk, Donetsk, Zaporizka, Luhanska, Odeska, Kharkivska oblasts including 1500 face-to-face interviews.

- National Public Opinion Survey on Democratic, Economic and Judicial Reforms, Including Implementation of the Law on Purification on Government (USAID, GFK) (2015)

The purpose of the survey was to identify opinion of Ukrainian citizens about the government's response to public demands following the Revolution of Dignity of 2013/2014. The research team measured Ukrainian public awareness about vetting and lustration (laws, responsible bodies, processes), levels of public trust in government and views about the future of Ukraine.

- Two years after Maidan: Ukrainians Committed to Democracy, Disappointed with Unmet Aspirations (USAID, IFES) (September 2015)

The survey represented views of 1558 respondents within the voting-age population in Ukraine excluding Donbas and Crimea on the current political situation, political leaders and institutions. It also expressed their perception of corruption, Maidan and local elections in 2015. There three biggest concerns respondents mentioned: (i) Donbas conflict; (ii) high prices; (iii) corruption.

- USAID snapshot. Uniting around a new identity (2016)

Traditionally, Ukraine's Eastern regions, which have been split by the conflict, have never fully embraced a Ukrainian identity, making them vulnerable to Russian manipulation and aggression. But today, Eastern Ukraine is more willing DONBAS (Donetsk and Luhansk) than ever to accept a contemporary, inclusive

Ukrainian identity and is open to a European future for the country. USAID/OTI supports the reformers who are promoting a new Ukrainian civic identity based on engaged citizenship, creativity and tolerance.

- USAID snapshot. Reform is happening in Eastern Ukraine (2016)

While Ukrainians in the country's Eastern regions want a less corrupt and more efficient government, they are the least convinced that the national reform process will deliver it. Many in the East, whose support is vital to the DONBAS (Donetsk and Luhansk) national reform movements' success, believe the reforms will not improve their lives. USAID/OTI works with stakeholders to ensure that these communities have a more accountable, transparent and inclusive government.

LEGISLATIVE INITIATIVES

Below find a short list of key legislative approaches of the Government of Ukraine and local government in Donetsk and Luhansk oblasts towards mitigation of conflict.

- Law on IDPs (October 2014) - <https://goo.gl/jf4FlR>
- Action Plan regarding NGCAs (January 2017) - <https://goo.gl/Wth6nF>
- State Targeted program on Recovery and Peacebuilding (August 2016) - <https://goo.gl/2V3eWH>
- 2016-2017 Communications Strategy of MTOT (September 2016) - <http://goo.gl/TFsMrE>
- Donetsk region development strategy until 2020 (2016) - <https://goo.gl/jzfKSY>
 - Luhansk region development strategy until 2020 (October 2016) (in Ukrainian) - <https://goo.gl/pXlt6f>

OTHER RELEVANT SOURCES

Publications in English:

1. Crimea SOS, UNHCR, Canada. Relationship between host communities and internally displaced persons in Ukraine (2015) - <https://goo.gl/iBo0Vi>
2. FIIA. Russia's Hybrid War in Ukraine. Breaking the Enemy's Ability to Resist (June 2015) - <https://goo.gl/EWZrqq>
3. GFK, IOM, Global Affairs Canada. Results of the survey on awareness of human trafficking risks among vulnerable children and youth in Ukraine (2016) - goo.gl/khF0wF
4. HIAS. Off to a Shaky Start: Ukrainian Government Responses to Internally Displaced Persons (2015) - <https://goo.gl/3Lgwid>
4. IDMC, NRC. Global Report on Internal Displacement 2016 (May 2016) - <https://goo.gl/BrVDuK>

5. International Crisis Group. Russia and the Separatists in eastern Ukraine (February 2016) - <https://goo.gl/ZTgjIA>
6. IRI. Public Opinion Survey Residents of Ukraine (May-June 2016) - <https://goo.gl/XkgXGm>
7. Kyiv International Institute of Sociology (KIIS). The current situation in the Ukrainian society (May 2015) - <https://goo.gl/OmYELb>
8. OCHA Monthly Humanitarian Bulletin - <https://goo.gl/xDZzVO>
9. OSCE. Access to water in conflict-affected areas of Donetsk and Luhansk regions. Thematic report (September 2015) - <https://goo.gl/PBF6DU>
10. OSCE. Protection of Civilians and Their Freedom of Movement in the Donetsk and Luhansk Regions. Thematic report (May 2015) - <https://goo.gl/jS01tm>
11. PACT, Kyiv International Institute of Sociology (KIIS). Survey on civic activities, attitudes to corruption and reforms (April 2015) - <https://goo.gl/6igk1p>
12. Ukraine, Humanitarian Snapshot - <https://goo.gl/9l1XOL>
13. UN, EU, WB. Ukraine Recovery and Peacebuilding Assessment (March 2015) - <https://goo.gl/45rYrI>
14. UNCHR Operational Update (December 2016) - <https://goo.gl/BdKSyh>
15. UNHCR. Ukraine's Attitudes towards Internally Displaced Persons from Donbas and Crimea. Summary of opinion polls (April 2016) - <https://goo.gl/WT4QS9>
16. WB and Danish Refugee Council. Livelihoods Support Programs for Displaced Persons: Global Experience and Lessons Learned (October 2014) - <https://goo.gl/uBpjEH>
17. WB. The Development Impacts and Policy Implications of Forced Displacement (February 2016)

Publications in Ukrainian:

1. Democratic Initiatives Foundation (DIF), Razumkov Centre. Reforms in Ukraine. Public Opinion Poll (May 2016) - <https://goo.gl/p631ln>
2. Democratic Initiatives Foundation (DIF). Information Situation in Front Zones: Diagnostics of Challenges and Their Solution (February 2017) - <https://goo.gl/rDLhaR>
3. Democratic Initiatives Foundation (DIF). Public Perception of the Situation in Donbas: Price for Peace and Ways for Conflict Mitigation (November 2015) - <https://goo.gl/s6OPpZ>
4. Democratic Initiatives Foundation (DIF). 2016: Political Conclusions. A Nationwide Survey (December 2016) - <https://goo.gl/oh2mYQ>
5. Democratic Initiatives Foundation (DIF). Donbas after Elections: Thoughts of Civil Society Activists. Expert Survey (November 2015) - <https://goo.gl/73otrS>
6. Democratic Initiatives Foundation (DIF). Donbas: Public Perception of the Conflict (July 2016) - <https://goo.gl/V7FG46>
7. Democratic Initiatives Foundation (DIF). Third Anniversary of Maidan. Lessons of Revolution and Focus on Future (November 2016)- <https://goo.gl/mUYs4d>
8. Democratic Initiatives Foundation (DIF). Communication as a Tool for Reintegration of Donbas (November 2016) (in Ukrainian) - <https://goo.gl/OBHQxK>
9. Democratic Initiatives Foundation (DIF). Future of Occupied Territories: Possible Scenarios (February 2017) - <https://goo.gl/n2p9Qb>
10. National Science Academy of Ukraine. Recovery of Donbas: Assessment of Socio-Economic Loss and Priorities for National Policy (2015) - <https://goo.gl/KGWkra>

11. Razumkov Centre. Public Assessment of the Situation in Donbas. Nationwide Survey (2015) - <https://goo.gl/knJEop>
12. Razumkov Centre. Ukraine 2015-2016: The Reform Challenge (assessments) (2016) (Ukrainian-English version) - <https://goo.gl/sUIVRY>

IV. ENDNOTES

¹ As will be described in a later section, see International Republican Institute, “Municipal Survey” June 2016; National Democratic Institute, “Opportunities and Challenges Facing Ukraine’s Democratic Transition,” December 2016; Kyiv International Institute Sociology, “Current Issues in Ukrainian Society,” May 2016; and SCORE index data, USAID Ukraine, November 2016.

² There are competing definitions of what should qualify as an SME. The EU Commission, for example, tends to emphasize the larger end of the SME spectrum. It defines an SME as an enterprise that employs fewer than 250 persons with annual revenue not more than \$53 million, and/or an annual balance sheet total not exceeding \$46 million. The evaluation team envisions supporting SMEs more in line with the International Financial Corporation’s definition of SMEs, which defines small enterprises as having fewer than 50 employees with revenue and assets less than \$3 million, and medium enterprises as having fewer than 300 employees with revenue and assets less than \$15 million. This definition is the most appropriate for building on the successes of OFDA’s livelihood program. For an EU definition see “What is an SME?” at http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en. For IFC definition see “The SME Banking Knowledge Guide,”

<https://www.ifc.org/wps/wcm/connect/b4f9be0049585ff9a192b519583b6d16/SMEE.pdf?MOD=AJPERES>.

³ European Union, United Nations, and the World Bank, “Ukraine: Recovery and Peacebuilding Assessment,” vol. 2: Full Component Reports, March 2015, 54.

⁴ These agencies included the European Commission, multiple United Nations bodies, and German, United Kingdom, and Canadian missions.

⁵ See at http://unhcr.org.ua/attachments/article/1661/KMU_Action%20Plan_ENG.pdf

⁶ Temporary Order no. 144 governs the crossing of the contact line. It came into force on 11 January 2015, when the Security Service of Ukraine (SBU) announced the introduction of the Temporary Order on Control of the Movement of People, Transport Vehicles and Cargo along the Contact Line in Donetsk and Luhansk regions (Temporary Order no.144) regulating the movement into and out of occupied areas of the Donbas.

⁷ The “State Target Program on Recovery of Eastern Regions of Ukraine” (STP) has been drafted but still requires passage by the Rada. An overview of the STP providing the clearest blueprint yet of the Government intentions to engage in GCAs and NGCAs of the Donbas is available on request.

⁸ REACH, “Thematic Assessment of Local Enterprises and Labor Markets in Eastern Ukraine,” March 2016, forthcoming.

⁹ State capture is defined as the actions of individuals, groups, or firms both in the public and private sectors to influence the formation of laws, regulations, decrees, and other government policies to their own advantage as a result of the illicit and non-transparent provision of private benefits to public officials (Hellman and Kaufmann, 2001).

¹⁰ Sectors now controlled in this fashion now include energy, metallurgy, mining, chemical production and, more recently, agriculture

¹¹ United Nations High Commission for Human Rights (UNOHCHR); March 2017 at http://www.ohchr.org/Documents/Countries/UA/UAReport17th_EN.pdf

¹² Following the breakup of the former Soviet Union, Ukraine experienced one of the sharpest and most protracted output contractions among transition economies. By 1999, real GDP collapsed to a mere 38 percent of its 1989 level. From 2000, very positive external conditions, along with some initial stabilization and reform efforts, contributed to strong rebound and growth from highly depressed levels. Growth averaged 7 percent per year during 2000-2007. Ukraine’s terms of trade (TOT) improved by 50 percent between 2001 and 2008, including higher steel prices on the export

side and beneficial pricing of natural gas on the import side. As external conditions deteriorated following the global financial crisis of 2008-2009, the economy contracted sharply in 2009 and then mostly stagnated through 2013. Between 2008 and 2013, growth averaged -0.7 percent. Finally, as Ukraine was hit by the double shocks of the conflict and lower global commodity prices in 2014-2015, the economy contracted sharply by 8.7 percent per year during 2014-2015. (World Bank:

¹³ An example of one comprehensive analysis of these challenges can be found in the International Crisis Group's (ICG), *Ukraine: Military Deadlock, Political Crisis*, December 2016.

¹⁴ United Nations, European Union, World Bank Group; *Ukraine: Recovery and Peacebuilding Assessment*. March 2015.

¹⁵ Swiss Confederation, *Economic Connectivity of Trade in Ukraine*, 2016.

¹⁶ An estimated 2,000 of these deaths are civilian casualties resulting from indiscriminate shelling (UNOCHA, *Humanitarian Needs Overview* 2017).

¹⁷ World Bank Group, *Shared Prosperity Note*, June 2015.

¹⁸ Ukraine Ministry of Social Policy, 2017

¹⁹ World Bank, *Internal Displacement Social Context Analysis for Ukraine*. June 2016

²⁰ See, for instance, UNOCHA, *Humanitarian Bulletin*, Issue 16 (published 3 March 2017)

²¹ See IRI, NDI and SCORE surveys from 2016, further cited and described below and profiled in Annex II..

²² See elements of Donbas-specific portions of the "Action Plan: Cabinet of Ministers of Ukraine" at <http://gogov.org.ua/wp-content/uploads/2016/05/Action-Plan-Cabinet-of-Ministers-of-Ukraine-2.pdf>

²³ See at <http://www.worldbank.org/en/news/press-release/2016/10/28/ukraine-un-and-world-bank-launch-trust-funds-for-economic-recovery-and-peacebuilding-in-ukraine>

²⁴ National Democratic Institute, "Opportunities and Challenges Facing Ukraine's Democratic Transition," December 2016

²⁵ Kyiv International Institute Sociology, "Current Issues in Ukrainian Society," May 2016

²⁶ International Republic Institute, "Municipal Survey" June 2016

²⁷ National Democratic Institute. "Opportunities and Challenges Facing Ukraine's Democratic Transition," December 2016

²⁸ Kyiv International Institute Sociology, "Current Issues in Ukrainian Society," May 2016

²⁹ International Republic Institute, "Public Opinion Survey Residents of Ukraine," June 2014.

³⁰ Centre for Sustainable Peace and Democratic Development (SeeD). "Social Cohesion and Reconciliation Index." November 2016

³¹ Kyiv Union of Voters. "Specific features of the mindset and identity of the residents of controlled and uncontrolled territories of the Donetsk region." December 2016

³² Kyiv Union of Voters. "Specific features of the mindset and identity of the residents of controlled and uncontrolled territories of the Donetsk region." December 2016

³³ Kyiv Union of Voters. "Specific features of the mindset and identity of the residents of controlled and uncontrolled territories of the Donetsk region." December 2016

³⁴ Kyiv Union of Voters. "Specific features of the mindset and identity of the residents of controlled and uncontrolled territories of the Donetsk region." December 2016

³⁵ Residents in population areas close to the line of separation routinely experience demand for services (particularly legal services) that is two to three times pre-war levels without any concomitant increase in staff capacity.

³⁶ National Democratic Institute. "Opportunities and Challenges Facing Ukraine's Democratic Transition." December 2016

³⁷ GfK (Gesellschaft für Konsumforschung). "Survey of 11 Donbas Cities." December 2016

³⁸ It should be noted, however, that these 2015 local elections were held only in GCAs. Moreover, in

Mariupol and three other cities, the local electoral commissions halted the elections on dubious pretexts (in Mariupol, there were allegations that unregistered ballots has been printed in excessive numbers). Many observers feel this was done to prevent victories by the Opposition Bloc in these localities; it remains open as to whether this decision was taken at a local level or in Kyiv.

³⁹ The response to these centers in places like Mariupol is captured in quotes such as the difference is “night and day” and “this is just like Europe”.

⁴⁰ National Democratic Institute. “Opportunities and Challenges Facing Ukraine’s Democratic Transition.” December 2016

⁴¹ According to recent Detector Media analysis, 22% in Donbas trust national television, compared to 44% nationally. Similarly trust in radio, internet and local television is all lower in the east than nationally.

⁴² GFK. “Media Consumption Analysis.” May 2015

⁴³ Internews. “Media Consumption Survey.” October 2016

⁴⁴ Internews. “Media Consumption Survey.” October 2016

⁴⁵ Such as the City Sites network, including 6262.com.ua and 0629.com.ua

⁴⁶ Internews. “Media Consumption Survey.” October 2016

⁴⁷ Kyiv International Institute Sociology, “Current Issues in Ukrainian Society.” May 2016

⁴⁸ Andy Roberts, “Euro:2012 Donetsk founded by welsh ironmaster John Hughes,” June 11, 2012, <http://www.bbc.com/news/uk-wales-18282468>.

⁴⁹ “Donets Basin,” *Encyclopedia Britannica*, <https://www.britannica.com/place/Donets-Basin>, accessed February 27, 2017; Bohdan Y. Nebesio, Myroslav Yurkevich, and Zenon E. Kohut, *Historical Dictionary of Ukraine* (Plymouth: Scarecrow Press, 2005), 158.

⁵⁰ “Donets Basin,” *Encyclopedia Britannica*, <https://www.britannica.com/place/Donets-Basin>, accessed February 27, 2017

⁵¹ European Union, United Nations, and the World Bank, “Ukraine: Recovery and Peacebuilding Assessment,” vol. 2: Full Component Reports, March 2015, 55.

⁵² Ricardo Giucci and Robert Kurchner, “The Economy of the Donbas in Figures,” German Advisory Group, June 2014, accessed February 27, 2017, http://www.beratergruppe-ukraine.de/download/TN/TN_04_2014_en.pdf

⁵³ Ricardo Giucci and Robert Kurchner, “The Economy of the Donbas in Figures,” German Advisory Group, June 2014, accessed February 27, 2017, http://www.beratergruppe-ukraine.de/download/TN/TN_04_2014_en.pdf.

⁵⁴ European Union, United Nations, and the World Bank, “Ukraine: Recovery and Peacebuilding Assessment,” vol. 2: Full Component Reports, March 2015, 63.

⁵⁵ “Gross Regional Product (2004-2015),” Ukrstat.org - State Statistics Service of Ukraine documents publishing, https://ukrstat.org/en/operativ/menu/menu_e/m_galuz_e/region_e.ht, accessed March 02, 2017.

⁵⁶ European Union, United Nations, and the World Bank, “Ukraine: Recovery and Peacebuilding Assessment,” vol. 2: Full Component Reports, March 2015, 55.

⁵⁷ Ricardo Giucci and Robert Kurchner, “The Economy of the Donbas in Figures,” German Advisory Group, June 2014, accessed February 27, 2017, http://www.beratergruppe-ukraine.de/download/TN/TN_04_2014_en.pdf.

⁵⁸ Bohdan Y. Nebesio, Myroslav Yurkevich, and Zenon E. Kohut, *Historical Dictionary of Ukraine* (Plymouth: Scarecrow Press, 2005), 158.

⁵⁹ Re-Constructing the Post Soviet Industrial Region: The Donbas in Transition, edited by Adam Swain, (Routledge: New York, 2007).

⁶⁰ Sergei Kuznetsov, “To survive, Donbas Industry ‘must stay in Ukraine,’” *Financial Times beyondbrics blog*, September 25, 2014, accessed February 27, 2017, <http://blogs.ft.com/beyond->

brics/2014/09/25/to-survive-donbas-industry-must-stay-in-ukraine/.

⁶¹ Ricardo Giucci and Robert Kurchner, "The Economy of the Donbas in Figures," German Advisory Group, June 2014, accessed February 27, 2017, http://www.beratergruppe-ukraine.de/download/TN/TN_04_2014_en.pdf; Yuri M. Zhukov, "Why the Ukraine Rebellion is Unlikely to Spread," *Newsweek*, November 25, 2015, accessed February 26, 2017, <http://www.newsweek.com/why-ukraine-rebellion-unlikely-spread-397530>.

⁶² European Union, United Nations, and the World Bank, "Ukraine: Recovery and Peacebuilding Assessment," vol. 2: Full Component Reports, March 2015, 56.

⁶³ European Union, United Nations, and the World Bank, "Ukraine: Recovery and Peacebuilding Assessment," vol. 2: Full Component Reports, March 2015, 56.

⁶⁴ European Union, United Nations, and the World Bank, "Ukraine: Recovery and Peacebuilding Assessment," vol. 2: Full Component Reports, March 2015, 54.

⁶⁵ REACH, "Inter-agency Vulnerability Assessment in Luhansk and Donetsk Oblasts," November 2016, accessed March 02, 2016, http://www.reachresourcecentre.info/system/files/resource-documents/reach_ukr_report_inter_agency_vulnerability_assessment_november_2016.pdf, 3.

⁶⁶ Notes from USAID Donbas Assessment interviews with small- and medium-sized enterprise owners, entrepreneurs, and Donetsk Chamber of Commerce.

⁶⁷ Sergei Kuznetsov, "To survive, Donbas Industry 'must stay in Ukraine,'" *Financial Times beyondbrics blog*, September 25, 2014, accessed February 27, 2017, <http://blogs.ft.com/beyond-brics/2014/09/25/to-survive-donbas-industry-must-stay-in-ukraine/>.

⁶⁸ Interview, Donetsk Chamber of Commerce (in Kramatorsk) February 14, 2017

⁶⁹ Ricardo Giucci and Robert Kurchner, "The Economy of the Donbas in Figures," German Advisory Group, June 2014, accessed February 27, 2017, http://www.beratergruppe-ukraine.de/download/TN/TN_04_2014_en.pdf.

⁷⁰ Tom Coupe, "And the Lights Went Out – Measuring the Economic Situation in Eastern Ukraine," *Vox Ukraine*, July 18, 2016, <https://voxukraine.org/2016/07/18/and-the-lights-went-out-measuring-the-economic-situation-in-eastern-ukraine-en/>.

⁷¹ This phenomenon was the subject of nearly every interview in the Donbas and a source of great concern for entrepreneurs, civic leaders, and political authorities.

⁷² Steve Hadley, "Recommended USAID Economic Interventions in Donbas," USAID.

⁷³ REACH, "Inter-agency Vulnerability Assessment in Luhansk and Donetsk Oblasts," November 2016, accessed March 02, 2016, http://www.reachresourcecentre.info/system/files/resource-documents/reach_ukr_report_inter_agency_vulnerability_assessment_november_2016.pdf, 28.

⁷⁴ World Bank, "Assessing the Socio-Economic Impacts of Internal Displacement Topline Report," November 2016, 28.

⁷⁵ European Union, United Nations, and the World Bank, "Ukraine: Recovery and Peacebuilding Assessment," vol. 2: Full Component Reports, March 2015, 15.

⁷⁶ UNOCHA, *Humanitarian Bulletin: Issue 16*, March 3 2017.

⁷⁷ Interview, Donetsk Chamber of Commerce Representatives (in Kramatorsk) 13 February 2017.