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TOWARDS A PEACEFUL FUTURE FOR UKRAINE'S DONBAS REGION

EXECUTIVE SUMMARY

The third High-Level Policy Dialogue (HLPD) on the Donbas region was organised by the School of Transnational Governance (STG) of the European University Institute (EUI) in Florence, on 8-9 February 2020, in cooperation with a Ukraine-based team involved in supporting the Minsk negotiations. Building on discussions at the first two HLPD editions of December 2018 and July 2019 that had addressed the post-conflict economic perspectives for the Donbas region as a whole and the issue of the institutional framework for reintegration, this dialogue focused on designing a vision for Donbas reintegration and on the possible role of the international and business communities in achieving it. It brought together high-level Ukrainian decision-makers and policy influencers, leading economists, academics, actors from civil society as well as representatives from European and US international institutions and businesses. Under the Chatham House rule, they provided analysis and discussed policy recommendations that stand as expert advice for Ukrainian policy-makers and the international community.

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The opinions of the authors represent personal opinions and do not represent the position or opinion of the European University Institute.

The analysis and policy recommendations presented in this policy brief draw on the input of participants of the High-Level Policy Dialogue organised by the EUI School of Transnational Governance which took place in Florence, Italy on 8-9 February 2020.

INTRODUCTION

With the election of Volodymyr Zelenskyy to the Ukrainian presidency in April 2019 and his party's subsequent absolute majority in Parliament – a first-time achievement in the country's history – Ukraine's policy stance towards the conflict in Donbas shifted significantly.

In June 2019, following through on its core electoral pledge, the new leadership took steps to revitalise the conflict settlement process. It initiated or carried out high-profile exchanges of conflict-related detainees (so far, in September 2019, December 2019, and April 2020), reanimated the policy of limited military disengagement, reconstructed the only crossing point in the Luhansk region (the pedestrian bridge, damaged in 2015 near the Stanytsia Luhanska village) and, in a different register, held high-profile Investment and National Unity Forums in Mariupol, which raised international attention to the region. The government also started delivering on its intention to reach out to all stakeholders, from the Russian leadership to the Donbas residents.

This new attitude towards conflict resolution and social and territorial integrity was echoed internationally on 9 December 2019 by the “Normandy Four” summit in Paris, the first in three years,¹ in which the Normandy leaders tasked the conflict participants with pursuing all of the priorities previously chosen by Ukraine: cease-fire consolidation, military disengagement, prisoners exchange, and the consideration of local elections, within a foreseeable future, in the territories outside the control of the constitutional authorities, as the first step towards their political and administrative reintegration. At the same time, the Ukrainian leadership's new attitude created the conditions for addressing the multiple issues of reintegration at the official level, such as the definition of adequate institutional tools or the design of an inclusive vision of post-conflict economic revival.

The policy shift has not been exempt from criticism from parts of the Ukrainian public or expert circles. Military realities on the ground remain

uneven, and the Paris summit did not deliver results as quickly as expected, partly as a result of the COVID-19 pandemic. Nevertheless, the Zelenskyy presidency has created new opportunities to consolidate the positive trend: the holding of a next summit has been put on the Normandy leaders' agenda and the decentralization reform is nearing completion, to be followed by nation-wide local elections towards the end of the year.

Political and international efforts to resolve the Donbas conflict are mostly focused on short-term objectives, but the situation has grown ripe for preparing a peaceful mid- and long-term vision for the future of the region. The development of a comprehensive and implementable approach for the re-integration of the eastern regions embedded in a broader and cohesive political vision for Ukraine as a whole could be decisive in facilitating conflict resolution and peacebuilding. The international and business communities have a crucial role to play in supporting the implementation of such a vision.

The third meeting of the HLPD was organised by the School of Transnational Governance (STG) of the European University Institute (EUI) in Florence, on 8-9 February 2020, in cooperation with a Ukraine-based team involved in supporting the Minsk negotiations. The dialogue focused on designing a vision for Donbas re-integration and on the possible role of the international and business communities in achieving it. It brought together high-level Ukrainian decision-makers and policy influencers, leading economists, academics, actors from civil society as well as representatives from European and US international institutions and businesses. The discussion built on the first two editions of December 2018 and July 2019 that had addressed the post-conflict economic perspectives for the Donbas region as a whole and the issue of the institutional framework for re-integration.

The government reshuffle of February 2020 brought about some key institutional

¹ A follow-up summit was planned for April 2020 but postponed due to the COVID-19 global crisis, the foreign ministers met in a virtual Normandy format meeting on 30 April.

changes which had been discussed at the second and the third HLPD meetings (see for instance point 3 of the key conclusions and recommendations below). It reaffirmed the reintegration objective, reconstituted the the Ukrainian Ministry for Reintegration of the Temporarily Occupied Territories (MTOT), thereby establishing its coordinating role.

To ensure a free and open discussion, the HLPD was a closed-door event run under the Chatham House rule. The analysis and policy recommendations presented in this policy brief draw on the input of participants and stand as expert advice for Ukrainian policy-makers and the international community.

KEY CONCLUSIONS AND RECOMMENDATIONS

VISION AT THE NATIONAL LEVEL

1. The new political momentum aiming at relaunching the political process for the resolution of the Donbas conflict needs to be accompanied by the development of a comprehensive and implementable **long-term approach for the reintegration of the Donbas region**. The approach should outline the political, economic, and social policies which can support reintegration and peace-building in the Donbas and should be developed in the context of a **broader and cohesive political, economic, and social vision for Ukraine as a whole**.
2. The approach is necessary to win the “hearts and minds” of the public on both the sides of the contact line and has to go hand in hand with **establishing people-centered political processes that allow the political buy-in** of a broader spectrum of political groups. An effective **communication strategy** should accompany these processes, fully taking into consideration the lack of access to Ukrainian media in non-government-controlled areas (NGCA).
3. The re-constitution of a “**Ministry for Reintegration of the Temporarily Occupied Territories**” (MTOT) offers an **opportunity to deepen and streamline** the policy formulation on the Donbas region. It should address the definition of the central **government’s priorities**; the search for **low-hanging fruits** to be urgently pursued in government-controlled areas (GCA); as well as the **coordination with relevant political and civic actors** at the local, national, and international level.
4. To operationalise this policy, **five institutional measures** would be recommendable:
 - a. Giving the head of the MTOT the status of a Deputy Prime Minister, with the authority to supervise and coordinate all government action (including in the defense area) to serve the set policy goals;
 - b. Ensuring sufficient interaction with the Minsk process of the government departments placed under the supervision of the Deputy Prime Minister in charge of reintegration;
 - c. Nominating Deputy Ministers in all other Ministries to contribute to the delivery of policies for the re-integration of the Donbas region;
 - d. Nominating Deputy Heads of Oblast administrations responsible for the implementation of reintegration and economic recovery policies in close interaction both with the central government and with local self-governing entities;
 - e. Establishing a “Coordination Council” in the Ukrainian Parliament to enable cross-party dialogue (or nominate a charismatic political champion to that end).

COORDINATION OF THE INTERNATIONAL COMMUNITY

5. Secure and sustainable re-integration of the whole Donbas region requires that the international community unites in its efforts to facilitate dialogue with the Russian Federation, not only on the return of the Donbas territories of Ukraine and the **peaceful settlement of the Donbas conflict**, but also on **post-conflict reconstruction**.
6. **The expansion of humanitarian work** in the Donbas region has the potential to become a **driver and facilitator of the peacebuilding process**.
7. Among the major challenges for international aid to the Donbas region is the **limited absorption capacity of regional and local administrations**. As a first step in addressing it, **existing attempts at cooperation**, such as the “Water in the East” regional cooperation project, **should be unblocked and used to their full potential**.
8. The reinforced powers and responsibilities of the Reintegration Ministry will require **qualified support and advice to MTOT’s head and services**, from analysing policy proposals to the modelling of the ways the territories that will be reintegrated will be managed.
9. The set-up of **temporary development institutions** with a limited duration (e.g. 20 years) and carefully designed management structures and controls could enhance the implementation, supervision, and coordination of projects relevant to the region’s post-conflict recovery and revitalisation. In addition to the International Partnership Support Fund initiated by the World Bank, participants also discussed the benefits of a **Regional Investment and Development Agency**, set up by law and endowed with the authority and technical capacity to overcome existing administrative hurdle. The Agency should be under the inclusive supervision of an **independent Supervisory Board** to ensure accountability and the quick achievement of results. The possibility of concurring private initiatives, such as the establishment of a Regional Development Bank mandated with a limited, mid-range timeframe, was also raised by participants.

ACTION ON THE GROUND

10. **Expanded humanitarian activities** should include efforts in de-mining, providing access to medical services and post-traumatic stress disorders support, and increasing people-to-people contacts.
11. **To create a more favorable environment for recovery**, it is advised to:
 - a. re-build regional infrastructure, including roads, railroads, public facilities, and telecommunications;
 - b. establish a risk-mitigating insurance fund, together with international partners;
 - c. concentrate efforts in areas and sectors with major economic potential for the region: agriculture, metal industries, and the production of high value-added goods, including Information and Communication Technologies (ICT) sector;
 - d. build up the region’s human capital by creating education opportunities through action on the national and local government levels.
12. To lay the ground for peace, security, and the rule of law, the government is advised to put in place a **transitional justice policy**. It would outline the model of a transitional administration, local elections, and amnesty issues regarding combatants and non-combatants in NGCA. For example, the transitional administration could include international representatives and have the mandate to organise local elections. Combatants – and non-combatants alike – suspected of unlawful actions or activities would be subject to court trials, while all other categories would be granted amnesty.

VISIONS FOR THE FUTURE OF DONBAS

1. PARADIGM SHIFTS IN THE SETTLEMENT/REINTEGRATION PROCESS AND ITS IMPLICATIONS FOR THE DONBAS' FUTURE

1.1 A new but versatile political landscape

Since the presidential and parliamentary elections in April and July 2019, the political landscape in Ukraine has undergone significant changes. The election of the “anti-system candidate” Volodymyr Zelenskyy and the absolute parliamentary majority of his “Servant of the People” party created an unprecedented window of opportunity to relaunch the process of conflict resolution and reconstruction. The Re:Think investment forum, the first in five years, convened on 30 October in the city of Mariupol upon the personal initiative of President Zelenskyy and was followed by a National Unity Forum. It sent a strong message about the new leadership’s determination to follow through on core electoral pledges, by bringing peace and reconciliation and ending poverty in the country. In economic terms (before the COVID-19 crisis), the government had announced ambitious GDP growth goals to be achieved through increasing the country’s investment attractiveness, including in the Donbas region. In political terms, the President continues to promote national unity, as it appeared prominently in his 2020 New Year address, in which he promoted social reconciliation against deep-rooted divisive cultural patterns and socio-political sentiments.

Yet, the President faces serious challenges. Critical social media reactions to his unconventional New Year address showed that part of the public opinion harbors negative feeling against disrespecting patriotism². Pro-Russian media in turn are equally antagonistic and expanding their influence using funds of undisclosed provenance. Despite his landslide election victory, the President is strug-

gling to rally popular support around his reform agenda. Zelenskyy’s popularity, strongly correlated with his claim to ‘cease the war’ in the Donbas, had dropped shortly before the third HLPD Meeting to around 50%.³

These political obstacles were evidenced on 5 February 2020, when legislation on the payment of pensions for Internally Displaced Persons (IDPs) and residents of the non-government controlled areas (NGCA) was discussed in the Ukrainian Parliament. While the need for relief through such payments to the people concerned was widely acknowledged, neither the proposal of the opposition nor that of the “Servants of the People” party garnered sufficient support. The majority appeared divided and even members of the government voiced public criticism on the draft amendments. This underscored the difficulty of finding cross-party consensus on essential matters related to the Donbas region, but also the deep fissures within the party and the government of President Zelenskyy over such issues. Some Members of Parliament showed highly independent attitudes, in sharp contrast to the President’s declared commitment to consensus and unity.

Moreover, scandals like the “Honcharuk tapes”, in which then-Prime Minister Honcharuk mocked the President’s lack of economic knowledge, the mistakes of inexperienced government personnel, and Zelenskyy’s overreliance on close advisors and rotation-based style of management have provided ammunition to his critics. Informal vested interests and influential actors have resurfaced to limit his space for manoeuvre, as evidenced by the configuration of the Shmyhal government, appointed on 4 March 2020.

²“President Zelenskyy’s New Year message misreads Ukraine’s patriotic progress”, Taras Kuzio, Atlantic Council, January 9, 2020 [URL: <https://www.atlanticcouncil.org/blogs/ukrainealert/president-zelenskyy-s-new-year-message-misreads-ukraines-patriotic-progress/>, this and all following URLs last accessed 01.03.2020, except where indicated otherwise].

³“Zelensky’s approval rating falls below 50%,” Alexander Query, Kyiv Post, February 3, 2020 [URL: <https://www.kyivpost.com/ukraine-politics/zelenskys-approval-rating-hovers-at-51.html>]. Six months later, President Zelenskyy’s rating had dropped to 43%, recording for the first time a negative trust balance (-8.9%) according to an opinion poll [URL: <https://smc.org.ua/monitoring-gromadskoyi-dumky-naseleennya-ukrayiny-cher-ven-2020-1247/> (in Ukrainian only)]. For the record, Zelenskyy garnered a 73% majority in the presidential elections.

1.2 A new momentum in the Donbas peace process

Other factors, however, have injected new energy into the Donbas conflict settlement process. The resumption of military disengagement, high-level prisoner exchanges, and “Normandy Four” summits, like in Paris on 9 December 2019, have renewed endorsement of the Minsk agreements. In Paris, President Zelenskyy’s first personal encounter with Russian President Putin re-animating the search for a settlement, despite some criticism back home directed at Zelenskyy having been “too compliant” during the talks⁴. The gas transit agreement with Russia (that committed Moscow to pay a USD 5 billion upfront payment) and the take-over of the conflict management file by the First Deputy Head of the Russian Presidential Administration Dmitry Kozak⁵, have also indicated greater readiness on the Russian side

to consider Ukraine’s conditions for a re-integration of the Donbas region.⁶ On the ground, the reconstruction of the pedestrian bridge across the Siverskyy Donets river near the Stanytsia Luhanska village (the only checkpoint in operation between the Luhansk part of NGCA and the rest of Ukraine) has significantly improved the crossing conditions of the 200,000 people or so, most of them elderly people, who have to traverse the river every month to collect their pensions or buy first necessity products.

With a next “Normandy Four” meeting agreed for the coming months to discuss, as announced, the holding of local elections in NGCA, and local elections in the rest of Ukraine taking place around the end of 2020, new wind has been blown in the sails of the settlement process, allowing to look further into a peaceful and a fair re-integration process.

2. THE NEED FOR A VISION AND A PEOPLE-CENTRED POLITICAL PROCESS

2.1 Strategic vision vs. settlement process

At the “National Unity Forum” in Mariupol, President Zelenskyy stated that “after five years of war in eastern Ukraine, a state strategy for the safe reintegration of Donbas and Crimea must finally emerge.”⁷ Critics, however, hold that no clear strategy has yet been presented by the government. Based on the concept of “secure reintegration”⁸, under which reintegration steps should not pose a threat to Ukraine’s national sovereignty or violate its social peace, such a strategy is needed to guide governmental efforts as well as

non-governmental and international partners in pursuing reintegration efforts. The Targeted State Programme for Recovery and Peacebuilding in Eastern Ukraine for 2017-2020 is about to expire soon.⁹

Until recently, the conflict settlement agenda was dominated by a short-term, conflict management-based approach, and the political discussions were essentially about the return of the NGCA territories into Ukraine. With the new emphasis on people, a new approach should put greater focus on creating more favorable oppor-

⁴ According to diplomatic sources, the Ukrainian delegation rather succeeded in having the pre-agreed summit conclusions modified to its liking.

⁵ Dmitry Kozak is considered to be more open to compromise than the previously responsible Putin aide, Vladislav Surkov.

⁶ To this point, recent studies suggest that Russian economic gains from the region are negligible while the support of pro-Russian groups in NGCA produces costs, which would increase further if Russia claimed formal sovereignty over any territory in the Donbas. See “Kremlin Aggression in Ukraine: The Price Tag,” Anders Åslund, Atlantic Council, March 2018 [URL: https://www.atlanticcouncil.org/wp-content/uploads/2018/03/Kremlin_Aggression_web_040218_revised.pdf].

⁷ “President: State strategy on reintegration of Donbas and Crimea must include transparency, consensus, realism and implementation of decisions,” President of Ukraine: Official website, October 30, 2019 [URL: <https://www.president.gov.ua/en/news/prezident-derzhavna-strategiya-z-reintegraciyi-donbasu-ta-kr-58121>].

⁸ “What is “secure reintegration” and why it matters for Ukraine” (“Shchto take “bezpechna reintehratsiya” i chomu tse vazhlyvo dlya Ukrainy”), Volodymyr Lupatsiy, 2020 [URL: <https://www.pravda.com.ua/columns/2020/06/24/7256974/> (in Ukrainian only)].

⁹ “Targeted State Programme for Recovery and Peacebuilding in Eastern Ukraine,” Ministry of Temporarily Occupied Territories and Internally Displaced Persons, 2016 [URL: <https://mtot.gov.ua/files/uploads/PRO-GRAMA-Dodatok-1.doc>].

tunities for those living in the conflict-affected areas. Irrespective of the status of the settlement process, the Donbas needs to become part of Ukraine's development and decentralization processes. In the short term, those living in NGCA ought to have access to support and the same opportunities as the other citizens of Ukraine.

What is needed is a peacebuilding vision for the Donbas that will articulate the ideas of reconstruction and development with that of reintegration. Based on policies to repair the economic space and foster social cohesion in the region and the country as a whole, it should address the region's social and economic specificities. These include the need to transit away from overreliance on the steel industry to a more diversified and productive economy, the fight against the deep structures of organised crime, and the tackling of key social factors such as the loss of workforce due to the conflict, a rapidly aging population and the lack of educational offers. The consequences of on-going "passportization" (i.e. the issuance of Russian passports to NGCA residents), as well as questions of identity, add to the complexity of the task at hand.

A vision for the Donbas' future in Ukraine should take due account of the region's weaknesses, which include, among others, its obsolete infrastructure and factories, mono-industry cities, logistic complications due to the de facto blockade of the Azov Sea by the Russian navy, and the chronic lack of investments over the past six years. The vision should also build on the Donbas' competitive advantages and industrial strengths, such as the rich deposits of metal ores, the availability of important, integrated production chains, the traditional abundance of skilled local workforce, or the potential attractiveness for international business.

2.2 Giving people a future

Once the political settlement is in place, the objectives of rebuilding regional infrastructure and increasing employment opportunities can be achieved by commissioning road, railroad, social housing, and utilities construction works. Such massive infrastructural projects, especially if supported by international development agencies, can attract business interest – starting with those activities that require the least fixed capital such as, for instance, ICT development activities, one of Ukraine's leading industries nation-wide – and boost commercial activity in the region. To increase the level of investment and their transparency, such projects could use several co-funding schemes, some of which have proved their efficiency in the Ukrainian context.¹⁰ During the post-conflict political transition, the demand for funding is likely to largely exceed the offer at hand. Economist Anders Åslund estimated the cost of reconstruction at around US\$20 billion¹¹.

At the Mariupol Investment Forum, and again at the February 2020 Munich Security Conference, President Zelenskyy invited¹² the business community to engage in an investment fund for the region. The World Bank is already operating a multi-donor trust fund, in which the Ukrainian government is a key stakeholder, as a model to be expanded to cover the Donbas region's future infrastructure and business-support development needs. Participants also referred to the possibility (and the will) for the private business sector to leverage the funds available for future investment in the region's post-conflict re-development through a regional investment and development bank, in which the role of the State remained to be defined.

Although these approaches were sometimes believed to be potentially competing for the same

¹⁰ "Community-Based Development Approach to Local Development in Ukraine: Results of Sociological Research "Evaluation of Impact of Community Based Development Approach to Local Development Implemented by the UNDP Projects in Ukraine Financed by European Union and Other Donors,"" Volodymyr Paniot-to, Dmytro Khatkyy, Anton Grushetskyi, and Vitaliy Kisil, 2011 [URL: http://cba.org.ua/images/stories/Impact_Assessment_CBAapproach_KIIS_Jan2011_ENG.doc].

¹¹ A study of the Vienna Institute for International Economic Studies released in June 2020 set this cost at a very close US\$ 21.7 billion, on the basis of a very detailed methodology. [URL: <https://wiiw.ac.at/ukraine-reconstruction-of-donbas-will-cost-at-least-usd-21-7-billion-or-16-of-ukraine-s-gdp-n-448.html>].

¹² "Volodymyr Zelenskyy urged foreign business to join Donbas reconstruction and reintegration projects," President of Ukraine: Official website, February 15, 2020 [URL: <https://www.president.gov.ua/en/news/volodymyr-zelenskij-zaklikav-inozemnij-biznes-doluchitisya-d-59861>].

resources, under carefully designed conditions they could operate as complementary initiatives, targeting different local needs and development priorities (or emergencies). There was consensus among the participants that job creation would have to be the top priority for the Ukrainian authorities after they re-gain control of gravely depressed territories.

In any case, any development initiative, be it state-sponsored or privately funded, will have to operate in a radically reformed rule-of-law environment which provides robust legal guarantees to investors. Transitional justice measures will be key to enforcing “secure reintegration”, as they will make it possible to restore justice and human rights and bring to justice those who have committed crimes. The vision should also consider the possibility of establishing a special judicial regime (an exceptional model of court proceedings) that would enhance the protection of property rights, thereby helping stimulating the investment flow.

The availability of skilled labor in the Donbas will have to increase to facilitate the technological upgrade of local industries. Training of the local workforce, starting with government-controlled areas, should be prioritised through open online courses offered by the government, international educational projects, and on-the-job training. Civil society institutions can contribute to disseminating soft skills while business, as part of its corporate social responsibility, can sponsor specialised education in management, administration, or information and communication technologies.

The strategy should also seek to promote peaceful social reintegration of the local population through educational opportunities supported by public and private scholarships, or exchange visits to other regions of Ukraine. Of equal importance is the provision of broadcasting of Ukrainian national TV channels and radio stations, as well as broadband and satellite internet connection for the whole territory of the Donbas, although

some of the participants warned that the current NGCA de facto leadership would try to thwart such initiatives. Visions for the future can also be supported by success stories produced as user-friendly audio-visual material, brochures with infographics, interviews, and video clips. It was also recommended to commission sociological surveys from reputable research organisations that inquire about the contemporary needs and aspirations of the local population. Experts in the field, including from NGCA, can contribute to data-driven policymaking, generating sound policy solutions to existing issues.

The Donbas re-development strategy should also address pressing environmental issues, whose importance has come to the fore during the conflict due to lack of investment and the reversal of environmentally sound policies in NGCA. For instance, one priority objective would be to systematically evacuate infiltrated water from highly mineralized and, in some instances, nuclear-contaminated closed coal mines to prevent contamination of the groundwater table. Ukraine could also aim to gradually reduce reliance on coal consumption for energy generation and replace it with green energy, such as wind and solar, which are abundant resources in south-east Ukraine. Once the conflict is resolved, environmental sustainability can help promoting innovation and long-term investment in the Donbas region.

A conceptual vision developed by the government could be transformed into an actionable program with clear deliverables by drawing on the support of international development agencies and the expert community. To reach a consensus and pave the way for a successful implementation of a strategy, the government should arrange consultations with local self-government bodies, civil society organisations, business representatives, and individual citizens. Consultations can take on the form of online crowdsourcing of ideas or on-the-spot fora and workshops to shape policies, thus offering voice both to popular opinion and independent expert knowledge¹³.

¹³ Although all of these approaches have not yet been put to practice, it is encouraging to see that the Ministry for Reintegration of the Temporarily Occupied Territories launched in May 2020 an inclusive initiative to design Ukraine’s economic re-vitalization strategy for the Donbas, implementing the main recommendation of the first HLPD meeting (“Minreintehratsiyi rozpochalo robotu nad proektom stratehii ekonomichnoho vidnovlennya Donbasu”, MTOT, May 26, 2020 [URL: <https://mtot.gov.ua/ua/minreintegracii-rozpochalo-robotu-nad-proektom-strategiii-ekonomichnogo-vidnovlennja-donbasu>]).

In addition to the focus on reconstruction and transformation of the economy, the vision should also concentrate on a new branding and marketing strategy for the region. Its competitive advantages should be identified, packaged, and communicated to potential national and international investors. The aim is to shift Donbas' association away from war, destruction and political extremism, to an image of a high-tech, export-oriented region

with potential in agriculture, agro-business, metal, and ICT industries. This can be reflected in a brand book, promotional publications, and videos in Ukrainian and foreign languages. For instance, online-publications and TV commercials can be co-sponsored by EU mass media partners and support programmes.

3. ESTABLISHING A PERFORMING INSTITUTIONAL ARCHITECTURE

The formulation and subsequent implementation of a comprehensive vision for the Donbas and Ukraine requires a well-functioning institutional architecture, designed to meet the very specific purpose of secure reintegration, starting with reconstruction and following with social, economic, and political rehabilitation and reform. This means building and strengthening institutional structures capable of formulating and executing the appropriate policies at the national and regional levels. This is also important for the international community, which needs effective mechanisms to implement its assistance programs.

To achieve this, Ministers should be directed to nominate Deputy Ministers who would be responsible for the design and implementation of reconstruction and reintegration policies within their areas of competence, under the coordination of the Deputy Prime Minister for Reintegration. Likewise, at the level of the regional administrations in eastern Ukraine, the nomination of Deputy Heads responsible for the implementation of recovery and reintegration policies on the ground would improve the interaction between regional authorities and local self-governing entities and the central government. Within the national parliament, in the absence of an ad hoc parliamentary committee, a formal or informal "coordination council", could invite all parties to participate in the formulation of Donbas policies. This would broaden the political ownership and social acceptance by all political groups.

To move towards reconstruction, security in the whole Donbas region will be needed, and this includes the restoration of control over Ukraine's easternmost border, and of legal central government offices and functioning local self-government in NGCA. Legal provisions will also be required to facilitate the re-integration of the population in the Donbas.

A transitional administration could initially be supported by international experts and representatives of international institutions to increase trust and legitimacy. In addition to the OSCE presence, a UN mission could facilitate the political transition until the Ukrainian government takes full administrative control of NGCA. At the administrative level, especially in the government-controlled areas, the absorption capacity of regional and local authorities of both national and international supported measures and funding need to be increased.

In implementation of the Minsk agreements, the Parliament should adopt clear and fair laws for peaceful and socially acceptable re-integration of all NGCA residents. Such laws should particularly address the issues of legal prosecution, requests for selective amnesty, and the challenge of the de-facto dual citizenship of many Donbas residents, forbidden under Ukrainian law.

As far as international cooperation is concerned, the international community can lead by exam-

¹⁴ "Drafting the development strategy for the Luhansk oblast and the Sievierodonetsk city for 2021-2027," Syevyerodonetsk City Council, November 21, 2019 [URL: <https://sed-rada.gov.ua/strategiya-socialno-ekonomichnogo-rozvitku-mista/rozrobka-projektu-strategiyi-rozvitku-luganskoyi-oblasti-ta-mista-sievierodonecka-na-period-2021-2027-roki>].

ple by developing a unified approach in offering and executing support measures in the Donbas. Attention should also be paid to the strategies for regional development for the period 2020-2027 recently announced by the regional administrations in Sievierodonetsk (Luhansk region)¹⁴ and Kramatorsk (Donetsk region)¹⁵ as well as to the need for local administrations to better communicate internally and externally about their plans. A discussion among participants about a specific project – concerning priority railway development projects for the Luhansk region – illustrated the latter point, by revealing enduring divergences of information and opinion between local actors, and between them and the representatives

of the international donor community.

Furthermore, effective and transparent mechanisms for the cooperation between all actors on the ground are of central importance. The International Partnership Support Fund for the reconstruction and future reintegration of the Donbas,¹⁶ announced by the President in Mariupol in cooperation with the World Bank, could also involve more international organizations and take the form of an “all-embracing” Regional Investment and Development Agency responsible not only for the planning, preparation, and monitoring of projects but also for their funding.

4. INTERNALISING THE ROLE OF, AND SUPPORT TO, THE BUSINESS SECTOR

Prospects for the economic recovery of the Donbas continue to face great challenges.¹⁷ Even though the situation is said to have stabilised in NGCA in the last couple of years thanks to budget support from abroad, the fundamentals remain highly problematic. Industrial production in the government-controlled areas of the Donetsk region has dropped to 47% (2016) compared with its pre-conflict level (2013), the GDP per capita fell by 58% from 2013 to 2015. In the Luhansk region, industrial production has declined to 27%, and the GDP per capita sunk by 70%. The conflict has cost some 1.6 million jobs in the Donbas, with the heavy industry taking the biggest hits.¹⁸ At the same time, the exodus of people fleeing the conflict areas has depleted its workforce. The closing of educational institutions has particularly spurred young residents to leave. Within the remaining population, about one third are pensioners. Unemployment and forms of illegal employment remain high. The absence of jobs and

economic opportunity on the one hand and the lack of human capital on the other continue to be mutually re-enforcing factors hindering the region's recovery.

Economic activity also continues to be limited by destroyed infrastructure and the ban on economic relations across the contact line, which has disrupted the region's external trade and internal supply chains. In addition, the region still faces problems arising from the lack of structural reforms in the previous thirty years of the post-Soviet era.

Given these multiple challenges and their embeddedness with socio-economic conditions in Ukraine as a whole, re-development of the Donbas region, starting with government-controlled areas, could become a model case for other underdeveloped regions in Ukraine. While drawing on the traditional economic strengths of the Donbas “macro-region” and aiming at developing

¹⁴ “The strategy of the Donetsk region until 2027,” Donetsk Regional State Administration, March 27, 2019 [URL: <https://dn.gov.ua/ua/projects/strategiya-rozvitku-doneckoyi-oblasti-na-period-do-2027-roku>].

¹⁶ “President announced the launch of the International Partnership Support Fund for the reconstruction and future reintegration of Donbas,” President of Ukraine: Official website, October 29, 2019 [URL: <https://www.president.gov.ua/en/news/prezident-u-mariupoli-ogolosiv-pro-zapusk-fondu-mizhnarodnoy-58105>].

¹⁷ See “What economic model for a post-conflict Donbas? How economic measures could play a role in exiting the negative scenario,” STG Policy Brief, June 2019 [URL: https://cadmus.eui.eu/bitstream/handle/1814/63510/STG_PB_2019_06-EN-EN-N.pdf?sequence=1].

¹⁸ “Maintaining the Momentum of Decentralisation in Ukraine,” OECD, June 15, 2018 [URL: <https://www.oecd-ilibrary.org/docserver/9789264301436-en.pdf?expires=1581943921&id=id&accname=ocid195734&checksum=A50679A4F270BD51616C46E009D77164>].

new ones, a set of measures will be necessary to increase the area's attractiveness for people, businesses and investment.

Among the most potent measures to create a more favorable climate for investment is, besides the transition to robust rule of law, the improvement of the regional infrastructure (connectivity). This includes the re-building of railroads, automobile roads and other public facilities, including telecommunications. The government's new "Great Construction Project" and Zelenskyy's comments at the "Knit Ukraine Together: Security, Construction, Financing" event at the State Agency of Automobile Roads of Ukraine can be seen as a promising start in this direction.¹⁹

Beside insufficient infrastructure, businesses in Eastern Ukraine face difficulties in securing loans. The lack of international recognition hinders businesses in NGCA, while businesses near the contact line equally struggle in securing funding due to the latent potential of renewed hostilities. A risk mitigation insurance fund established by the national government in cooperation with international partners has the potential to enhance economic recovery considerably.

As mentioned before, regional development policies, embedded in national industrial policy, should focus on those industrial sectors of the Donbas with most economic potential: agriculture, metal industries, and the production of high value-added goods (including ICT). The goal

should be a close integration into European supply chains and markets. Besides these core sectors, special attention ought to be given to small and medium-sized enterprises (SME), as they bring specific knowledge and motivation to the task due to their close links with the local realities. Small business incubators and access to credit for SME should be prioritised. Furthermore, the creation of accessible educational opportunities and pieces of training to produce skilled labor in the Donbas will assist the increase of human capital and thus underwrite sustainable economic recovery in the region.

The participants discussed the issue of creating "special economic zones", where businesses would be granted tax holidays. They concluded that such initiatives would present more risks and disadvantages than benefits for Ukraine – and the region – in terms of economic development. Besides, the historical track record of such special economic zones in Ukraine was bad enough to substantiate this conclusion.

Finally, likely political head-wind should not deter the national government from evaluating whether a gradual lifting of the ban on economic relations with NCGA might enhance the region's prospects for economic recovery and the building-up of personal connections across the contact line, contributing thereby decisively, in the medium term, to its successful reintegration into the Ukrainian economy and society.

¹⁹ See the official press statement on 11 February [URL: <https://www.president.gov.ua/en/news/v-ukrayini-z-bereznya-rozpochinayetsya-realizaciya-masshtabn-59709>].

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