

ADOPTED  
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CONCEPT NOTE  
of Economic Development of Donetsk and Luhansk Oblasts

General Provisions

Restoration of territorial integrity of the country, de-occupation and reintegration of the temporarily occupied territories in Donetsk and Luhansk oblasts represent the key strategic goal of Ukraine.

Development of a new modern competitive economy in Eastern Ukraine and establishment of an additional stimulus for development of Donetsk and Luhansk oblasts are an integral prerequisite for gradual reintegration of the temporarily occupied territories into the unified constitutional space of Ukraine.

Donetsk and Luhansk oblasts shall become a territory for implementation of special economic and legal conditions for comprehensive implementation of the system of economic processes management and organization that may be subsequently scaled up to the entire territory of Ukraine.

Introduction of special conditions will envision formation of priority development territories, state incentivizing of development and implementation of new economic development models that will serve as the unifying mechanism, the basis of which is simple and clear logic, namely, well-being of residents.

Conceptual approaches to the economic development of Donetsk and Luhansk oblasts are the following:

Implementing the Concept Note of Economic Development of Donetsk and Luhansk Oblasts (hereinafter referred to as the Concept Note) which covers territories of Donetsk and Luhansk oblasts where public authorities perform their authorities in full with the possibility of further scale-up of the economic system to the temporarily occupied territories after their reintegration into the unified constitutional space of Ukraine;

Taking into consideration requirements under international commitments of Ukraine, namely, the Association Agreement between Ukraine, on the one hand, and the European Union, the European Atomic Energy Community, and their member states, on the other hand, other regulations on European and Euro-Atlantic integration, Protocol of Accession of Ukraine to the World Trade Organization as of 5 February 2008, agreements on free trade zones;

Taking into consideration the vector of sustainable development of Donetsk and Luhansk oblasts pursuant to Decree No. 722 of the President of Ukraine as of 30 September 2019 “On Sustainable Development Goals of Ukraine till 2030”.

Authorities to make expenses from the state and local budgets shall correspond to the scope of revenues and shall be formed based on realistic indicators of economic and social development of Donetsk and Luhansk oblasts. Special modes on the priority development territories shall be introduced simultaneously with measures aimed at ensuring the balanced nature of the state budget.

Taking into account the key role of production in generation of demand for innovation, focus on the production sphere will have a decisive meaning for recovery of the economy of Donetsk and Luhansk oblasts. In this region there will be formed priority development territories, industrial, agricultural production, infrastructure, and tourist clusters, innovation centers. The priority will be a wide use of the ideology of partnership between the state and business as the organizational and economic framework for development of the investment model of relations between the state, local self-government bodies, and economic entities.

In order to achieve this, within the shortest possible period there will be formed a pool of industrial, construction, logistic, transport, engineering, financial suggestions that may generate a comprehensive solution for recovery and modernization of Donetsk and Luhansk oblasts. In many instances, production capacities of enterprises of Dnipropetrovsk, Zaporizhzhia, Kharkiv, and many other oblasts of Ukraine will be engaged.

### Problems That Need to Be Solved

Armed aggression of the Russian Federation against Ukraine has caused temporary occupation of about 3 percent of the territory of Ukraine located in Donetsk and Luhansk oblasts where about 4 million people resided. The total number of the population in Donetsk and Luhansk oblasts in 2020 amounts to 6.2 million people.

Consequences of the armed aggression of the Russian Federation have primarily impacted the real sector of economy, namely, coal, metallurgic, machine building, chemical industrial enterprises located in eastern regions which accounted for a significant share of internal industrial production and export. Over 40 percent of the negative contribution to the Gross Domestic Product dynamics in 2014–2015 was caused by the armed aggression of the Russian Federation in Donetsk and Luhansk oblasts. Hence, the country's Gross Domestic Product has decreased by approximately 10 percent as compared to 2013.

The industrial and agricultural economic complex with the predominant development of heavy industry was formed in Donetsk and Luhansk oblasts. Regions with the area amounting to 8.8 percent of the area of the country produced 25 percent of industrial produce and 8 percent of agricultural produce. Enterprises were located in clusters (coal, metallurgic, heavy machine building, energy, chemical), most industries of the specialty were of interregional and international significance. According to different estimates, Donetsk and Luhansk oblasts accounted for one fourth of all export of Ukraine.

According to the data of the State Statistics Service of Ukraine, in 2013 foreign trade transactions with goods were conducted with partners from 153 countries of the world, while the produce of enterprises of Donetsk and Luhansk oblasts was exported to 141 countries of the world. A share of the CIS countries in the total export volume of Donetsk and Luhansk oblasts amounted to 32.8 percent, Asia – 26.9 percent, Europe – 26.2 percent, Africa – 9.6 percent, and America – 4.2 percent. The relative share of the EU's countries amounted to 25.7 percent.

Regional economy and labor market were mainly oriented at the Russian Federation and did not modernize large enterprises because of the presence of a traditional target market. Volumes of exports to the Russian Federation amounted to 19.7 percent of the total export volume.

Export of goods and services of Donetsk and Luhansk oblasts decreased by 71 percent in 2019 as compared to 2013 and amounted to USD 4,905.6 million, while import decreased by 74 percent and amounted to USD 2,670.8 million.

According to the data of State Statistics Service of Ukraine, 131 large enterprises, 2,247 medium-sized enterprises, and 37,738 small enterprises were registered in Donetsk and Luhansk oblasts as of 2013.

However, their number significantly decreased by 2018. Hence, 33 large enterprises, 706 medium-sized enterprises, and 12,441 small enterprises were registered on the territory of these oblasts in 2018.

When the armed aggression of the Russian Federation against Ukraine started, many Ukrainian industrial enterprises located on the temporarily occupied territories of Donetsk and Luhansk oblasts ceased functioning, while large enterprises on territories of Donetsk and Luhansk oblasts where public authorities perform their authorities in full lost their largest target market and their profits significantly decreased.

Currently, there are no quantitative estimates of the harm inflicted by the armed aggression to the nature. However, qualitative assessments of such harm allow assuming that it is significant. The largest source of ecological danger is the natural flooding of mines located on the temporarily occupied territories of Donetsk and Luhansk oblasts, which leads to contamination of ground waters (as a consequence, worsening quality of potable water) and may result in soil subsidence and contamination of water in river basins. According to the data of the Ministry of Energy of Ukraine, there were 148 coal mines of all forms of ownership in Ukraine as of 2019, including 95 located on the temporarily occupied territories. 102 mines (including 67 mines located on the temporarily occupied territories) belong to the jurisdiction of the Ministry of Energy of Ukraine, i.e. are state-owned.

Activities of only two mining enterprises – JSC “Mine “Nadiia” (‘Hope’) and state enterprise “Coal Company “Krasnolymanska” – are profitable, while the rest (22 mines in Donetsk and Luhansk oblasts) are loss-making and receive budget funds to partially cover expenses on the cost of production of ready coal produce.

According to the data of the State Statistics Service of Ukraine, coal mining decreased by over 22 percent in 2014 as compared to 2013 because of military actions in Donbas and the dynamics in subsequent years is bleak as well.

Because of the failure to maintain hydrologic constructions in proper condition, general problems with water supply for the population may emerge in the near future.

Another problem concerns mine clearing of the territory, and about EUR 650 million and dozens of years are needed for that. Ukraine is the third country in the world in terms of mine contamination of the territory.

The Russian occupation of the part of territories of Donetsk and Luhansk oblasts has resulted in an abrupt worsening of the demographic situation on this entire territory, especially on the temporarily occupied territories. Negative tendencies are witnessed in terms of all three major factors that determine the dynamics of the population growth: migration, birth rate, mortality. Internally displaced persons (and there are over 1.4 million IDPs in Ukraine) even in Donetsk and Luhansk oblasts have the probability of finding employment that is lower by 14—23 percent two years after displacement.

Taking into account a large-scale destruction of the economy of Donetsk and Luhansk oblasts, significant human losses, and danger of territories negatively affected by the Russian Federation's armed aggression turning into post-war depressed territories, the following problems require effective and rapid solving:

- scaling back of the entrepreneurial development and free market trade forms due to the absence of the strategic approach to the support and development of business on the territories affected by the armed aggression of the Russian Federation against Ukraine;

- losses of the labor and intellectual potential because of labor and education migration, high rates of depopulation and aging of the population of Donetsk and Luhansk oblasts. A significant share of the most active, creative, and self-sufficient citizens of the working age have left the territory of Donetsk and Luhansk oblasts;

- historically established passive exploitation of the resource potential: natural, labor, social, economic, etc.;

- traditional dependence on the Russian market of goods, services, and workforce, limited target markets for the produce of export-oriented industries of Donetsk and Luhansk oblasts;

- outdated material and technical base and structural imbalance of the industrial complex with domination of industries with weak innovative susceptibility;

- disruption of infrastructure and logistic connections because of military actions, which restricts possibilities for movement of people, capital, products, and information;

- exhaustion of natural resources and emergency ecological situation;

high corruption and military risks for conducting business on the territory of Donetsk and Luhansk oblasts;

lack of financial, legal, and insurance tools on the investment market of Ukraine;

lack of interest among investors in investing funds into development of Donetsk and Luhansk oblasts and, as a consequence, lack of financial, investment, material, and technical resources aimed at ensuring development of this region;

stagnation of interregional cooperation connections of large, medium-sized, and small businesses, undeveloped interregional consolidation, and focus of the regions solely on problems relating to their own development.

### Goal and Terms for Implementation of the Concept Note

The goal of the Concept Note consists in determining conceptual approaches and main directions of developing the Strategy of Economic Development of Donetsk and Luhansk oblasts with a view to creating regulatory, legal, institutional, and organizational conditions to form and develop economy of Donetsk and Luhansk oblasts based on comprehensive implementation of a separate system of economic processes management and organization with extensive engagement of investment resources that will become the basis for rapid development of territorial communities of Donetsk and Luhansk oblasts, provision of comfortable living conditions, self-actualization, development of citizens and increase in their quality of life, as well as subsequently a large-scale reintegration of the temporarily occupied territories once they are returned into the single constitutional space of Ukraine.

The Concept Note is envisioned to be implemented during the period till 2030.

The reset of the economy of Donetsk and Luhansk oblasts will be implemented in two stages:

the first one – in current conditions on territories of Donetsk and Luhansk oblasts where public authorities perform their authorities in full,

the second one – on the entire territory of Donetsk and Luhansk oblasts after reintegration of the temporarily occupied territories into the single constitutional space of Ukraine.

### Ways and Means of Solving Problems

In order to solve the above mentioned problems and provide adequate effective responses to challenges, there is envisioned a possibility to apply special tools after their respective economic justification, in particular:

*with respect to improvement of institutional and financial tools and regulatory policy*

establish three types of models of priority development territories: on the territory of communities adjacent to the temporarily occupied territories, on the entire territory of Donetsk and Luhansk oblasts, on the territory of separate production and recreation clusters, namely, innovation and industrial parks, with a special mode of innovative and investment activities, which will envision incentivizing conditions in the sphere of taxation, financing, and customs policy for each separate type of models;

introduce new tools for protection of investments, in particular, establishment of branch offices of international commercial arbitration with extension of their jurisdiction over priority development territories of Donetsk and Luhansk oblasts;

create the insurance system regarding military and political risks;

promote legislative recognition of the unchanged nature of taxation conditions for investors' economic activities which will be implemented within the framework of implementing the Concept Note;

introduce the experiment on creation of opportunities for substituting the system of control by public authorities with the function of voluntary insurance of business owners' responsibility on priority development territories;

eliminate excessive regulation of economic activity by means of decreasing the number of permits, approval procedures, mandatory reporting, simplification of the process of their administration;

ensure effective coordination of attraction of financial resources, including funds of international partners, to implement development tasks of Donetsk and Luhansk oblasts, introduce project management at the level of communities, as well as implement agreements on social partnership with business;

initiate establishment of the Syndicated Financing Fund to invest into projects aimed at developing the transport, energy, and municipal infrastructure;

establish the State Venture Fund in order to make investments on priority development territories of Donetsk and Luhansk oblasts or apply other forms of support of new business projects;

modernize the mode of public procurements to satisfy needs of Donetsk and Luhansk oblasts regarding respective goods, works, and services;

develop legal provisions regarding a possibility to redistribute the share of taxation revenues between the state and local budgets on priority development territories, establish special taxation conditions with simultaneous ensuring of the principle of the balanced budget, namely, a possibility to allocate a share of enterprises' profit for reinvestment into own capital;

revise regulatory approaches to issuance and fulfillment of technical conditions for engineering networks;

improve the regulatory taxation legislation, primarily for micro- and small business, which will motivate the local population to develop entrepreneurial activities, self-employment, and creation of workplaces with competitive salaries;

establish mechanisms for reimbursement of financial damages inflicted to commercial entities as a result of the armed aggression of the Russian Federation against Ukraine, which has caused destruction and damage of fixed assets (basic assets) on territories of Donetsk and Luhansk oblasts where public authorities perform their authorities in full;

develop interregional sectoral production cooperation;

*with respect to the real sector of the economy, industrialization, and innovative development*

establish projects on accession to highly technological European and world clusters;

support enterprises manufacturing products with high added value and formation of technological chains of processing facilities in different sectors of the economy;

encourage development of new highly technological enterprises, namely, the computer integrated ones, as the basis for the technological reequipping of the machine building industry;

support development of existing industrial enterprises, namely, the state-owned ones, by means of attracting state investments, primarily, of the government defense order;

facilitate attraction of investments through decreasing a share of state and municipal ownership by means of selling objects of privatization to an efficient private owner;

promote placement of production capacities of foreign companies in order to saturate the internal market with products and export them to the USA, EU, and other countries due to the change in the world distribution of manufacturing connections;

develop the agricultural and industrial complex primarily to form the segment of livestock farming, irrigation agriculture, namely, by means of concluding an agreement on distribution of the produce;

intensify the degree of processing of agricultural products, in particular, develop own production of biodiesel and bioethanol at agricultural enterprises in the area of bioenergetic raw materials production;

develop agricultural clusters and agro-logistic centers, in particular, implement projects relating to construction of new and extension of existing capacities of functioning elevators, laboratories, selection seed centers, etc.;

support projects relating to construction of complexes of hydraulic facilities, namely, installation of mobile irrigation systems and units;

encourage development of industries, products of which are directly aimed at satisfying needs of the local population: manufacture of construction materials, food manufacturing and consumer goods industries, manufacture of highly technological and environmentally friendly packaging, service sphere, primarily oriented at improvement of trade, public catering, consumer services;

transform the coal industry of Donetsk and Luhansk oblasts, namely, by means of establishing energy industrial parks on the basis of separate state coal mines with participation of international energy corporations;

technically reequip and modernize mines, namely, ventilation and degasification systems in mines in order to ensure safety of miners;

implement comprehensive programs and projects on transformation of mining regions, which will promote diversification of the economy of mining monofunctional towns, and measures on mitigation of negative socio-economic consequences in case of closure of coal producers and coal refineries;

implement innovative solutions in the coal mining sphere at promising mines, use accompanying resources, namely, colliery gas of methane, technology of underground coal gasification, mine waters;

attract investments in order to introduce alternative sources of energy, namely, construction of wind-power and solar power stations on the territories of Donetsk and Luhansk oblasts;

promote implementation of the low-carbon economy and hydrogen energetics;

attract investments in order to develop the potential of green economy and introduce the program of sustainable development of territories in the basin of the Seversky Donets river.

*with respect to development of essential infrastructure and logistics*

establish transportation and logistical clusters and basic logistical centers for storing, processing, and sorting cargoes, taking into account re-orientation of transport flows;

modernize the rail mainline and its infrastructure, primarily, railway lines “Popasna – Svatove – Kupiansk” and “Novozolotarivka – Lyman”, increase the train-handling capacity of the running line “Zaporizhzhia – Komyshe-Zoria – Volnovakha”, and construct a branch line that connects the segment of railway line “Lantrativka – Kindrashivska-Nova” with the railway network of Ukraine;

introduce innovative technologies and information systems for management of the transportation system;

diversify sources for supplying raw materials and goods for production capacities of basic industries of Donetsk and Luhansk oblasts in case they are blocked;

improve quality of transport connectivity between northern and southern areas of Donetsk and Luhansk oblasts by means of conducting capital repairs of general-purpose roads of national significance;

conduct works on water isolation of the canal bed of Seversky Donets – Donbas, capital repairs and reconstruction of the Second Donetsk Water Pipeline, reconstruction of the water supply system of Mariupol and of the Popasna water service company;

introduce an effective system for management of the engineering infrastructure of reclamation systems and their maintenance in proper condition, namely, study the condition of drain channels, dams, constructions;

recover the energy and gas supply infrastructure in settlements located along the separation line;

develop and ensure technical modernization of the infrastructure adjacent to the Mariupol commercial seaport (railway approaches, automobile roads, etc.) in order to restore its crossing capacity;

restore the passenger and cargo air transport connection with airport “Kramatorsk” based on conditions of its joint use with the Air Forces of the Armed Forces of Ukraine, develop airports “Mariupol” and “Sieverodonetsk” provided that there is guaranteed safety of aircrafts flying in the vicinity of airports “Mariupol”, “Sieverodonetsk”, and “Kramatorsk”;

decrease the level of contamination of air by mining and smelting enterprises and thermal power stations;

form environmental values and principles of sustainable consumption and production in the society;

develop regional automated systems of environmental monitoring;

*with respect to formation of the regional labor market*

implement retraining and advanced training programs for specialists pursuant to needs of the labor market based on principles of the partnership between the state and business, namely, re-qualification and training of employees of city-forming enterprises in monofunctional cities;

support displaced higher educational institutions, recover “applied” links of the cycle of “education – research – production” in the industrial, health care, and educational spheres, namely, formation of university centers of innovative development and scholarly researches;

conduct educational, informational, and consultation events for small and medium-sized entrepreneurs;

*with respect to ensuring effective communication*

implement measures aimed at popularizing an attractive investment image of Donetsk and Luhansk oblasts in order to ensure diversification of production of enterprises from other countries and financing of state-private partnership projects

on territories that have been negatively affected by the armed conflict of the Russian Federation against Ukraine;

engage the potential of economic diplomacy to promote goods and services of Donetsk and Luhansk oblasts at international markets and diversification of the geographical structure of foreign trade along with minimization of critical dependence on separate countries and target markets;

extend mechanisms of using countrywide tools by small and medium-sized enterprises in order to promote internal economic potential of Donetsk and Luhansk oblasts while holding international communication events;

extend mechanisms for engaging socially responsible businesses, namely, with respect to reconstruction of social infrastructure and housing destroyed as a result of the armed aggression of the Russian Federation.

### Forecast Impact on Key Interests of Stakeholders

Measures aimed at implementing the Concept Note will have predominantly positive mid- and long-term impact on main stakeholders.

Some of the main stakeholders include, among others, population residing on territories of Donetsk and Luhansk oblasts where public authorities perform their authorities in full, internally displaced persons and economic entities that function on territories of Donetsk and Luhansk oblasts where public authorities perform their authorities in full.

The population residing on territories of Donetsk and Luhansk oblasts where public authorities perform their authorities in full will receive a higher quality of life by means of strengthening capacity and social resilience, incentivizing economic activity, developing social, cultural, humanitarian spheres, which will prevent migration.

There will be created conditions for internally displaced persons in order to promote their voluntary return to their abandoned place of residence by means of ensuring safety and economic stability of Donetsk and Luhansk oblasts.

Economic entities that function on territories of Donetsk and Luhansk oblasts where public authorities perform their authorities in full will receive qualitatively new conditions for entrepreneurial activities.

### Expected Results

Implementation of the Concept Note will facilitate:

creation of conditions for a consistent formation of the new structure of the economy of Donetsk and Luhansk oblasts based on a new inclusive competitive economic system, increase in resource efficiency of industrial spheres, their integration into production networks with high added value;

modernization of industrial production of Donetsk and Luhansk oblasts based on the innovation framework and increase in the share of innovative active enterprises with V–VI technological modes in productive processes of the real sector of the economy;

development of the export potential of Donetsk and Luhansk oblasts at the expense of an increase in the share of high-degree processing products manufactured in innovative business incubators on priority development territories and intended for export;

overcoming of logistical restrictions that limit load of production capacities of basic industries of Donetsk and Luhansk oblasts and ensuring of a gradual improvement of the transit potential of this region;

significant increase in revenues to local budgets of Donetsk and Luhansk oblasts, which, in turn, will create prerequisites for sustainable development of territorial communities;

creation of new workplaces and increase in demand for highly qualified workers and researchers with the highest qualification, as well as extension of opportunities for professional self-actualization;

increase in the level of the population's income, primarily, of workers of basic industries of Donetsk and Luhansk oblasts, in order to prevent their migration to other regions and abroad;

development of the initiative-taking of the young generation, their participation in solving problematic issues of Donetsk and Luhansk oblasts, as well as engagement into innovative development of the economy of this region.

#### Evaluation of Financial Resources Required to Implement the Concept Note

The Concept Note shall be implemented at the expense of funds from the state and respective local budgets within the scope of budget allocations approved for the respective budget period, funds which will be collected from the Russian Federation that is held responsible for material or non-material harm inflicted upon Ukraine as a result of the armed aggression of the Russian Federation in line with principles and provisions of the international law, as well as funds of international partners, banking sector, and loan capital.

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