

Summary of the draft strategy
of economic development
of Donetsk and Luhansk regions
for the period up to 2030
(SED)

Section I. General provisions

Introduction

Restoration of the country's territorial integrity, deoccupation and reintegration of the temporarily occupied territories in Donetsk and Luhansk regions is one of the key strategic tasks that Ukraine is facing. The development of a new, modern and competitive economy in the east of the country and the creation of an additional impetus for the development of Donetsk and Luhansk regions is a prerequisite for the gradual reintegration of the temporarily occupied territories into a single constitutional space of Ukraine. The basis of safe reintegration should be the security and well-being of everyone living in the region.

Ukrainian banks refuse to pledge assets and lend in these areas, as they do, e.g., in Poltava or Chernivtsi. Young people go to study elsewhere and then do not return, staying where there are employment opportunities, comfortable living space and security. The situation requires a comprehensive and powerful response. The transformation of the region cannot and shall not be aimed at restoring everything as it was. However, in such a transformation, the regions have something to rely on: a strong, albeit broken infrastructure network, skilled and hard-working people, natural resources, fertile land and access to the sea. The strategy of economic development of Donetsk and Luhansk regions (hereinafter SED) is designed to take into account these strengths and ensure the construction of a modern economy based on them.

Donetsk and Luhansk regions should become a territory for the application of special economic and legal conditions for the comprehensive implementation of the management system and organization of economic processes, which in the future can be scaled to the entire territory of Ukraine. The introduction of special conditions shall involve the formation of priority development areas, government incentives, development and implementation of new models of economic development, which shall serve as a unifying mechanism based on a simple and clear logic - community development to create comfortable conditions for citizens and improve their well-being.

The main approaches to the economic development of Donetsk and Luhansk regions are as follows:

- taking into account the requirements of Ukraine's international obligations;
- taking into account the vector of sustainable development of Donetsk and Luhansk regions in accordance with the Decree of the President of Ukraine as of September 30, 2019 № 722 "On the Sustainable Development Goals of Ukraine until 2030";
- implementation of the approaches enshrined in the "National Economic Strategy for the period up to 2030".

Issues that need to be solved and ways to solve them

Russia's armed aggression against Ukraine has led to the temporary occupation of about 3 percent of its territories, located in Donetsk and Luhansk regions, with a population of about 4 million people. According to the digital census conducted by the Cabinet of Ministers, as of December 1, 2019, 3.1 million Ukrainians resided in the controlled territories.

The consequences of Russia's armed aggression were reflected, inter alia, in the real sector of the economy, namely in the enterprises of the coal, metallurgical, machine-building, and

chemical industries located in the eastern regions, providing a significant part of domestic industrial production and exports. More than 40 percent of the negative contribution to the dynamics of gross domestic product in 2014-2015 was caused by the armed aggression of the Russian Federation in Donetsk and Luhansk regions. Thus, the country's gross domestic product decreased by about 10 percent compared to 2013.

According to the State Statistics Service, in 2013 foreign trade operations were conducted with partners from 153 countries, and products of enterprises in Donetsk and Luhansk regions were exported to 141 countries, but the regional economy and labour market were mainly focused on the Russian Federation, which did not stimulate modernization of large enterprises with a view of a traditional market. Exports of goods and services of Donetsk and Luhansk regions in 2019 compared to 2013 decreased by 71 percent and constituted 4905.6 million US dollars, while imports decreased by 74 percent and constituted 2670.8 million US dollars.

Currently, there are no definitive quantitative estimates of the damage caused by armed aggression to nature. However, qualitative estimates of this damage suggest that it is significant. In addition to direct losses, large-scale environmental damage is observed. The primary source of environmental danger is the spontaneous flooding of mines located in the temporarily occupied territories of Donetsk and Luhansk regions, which leads to groundwater pollution (as a result, drinking water quality deteriorates) and can lead to subsidence and water pollution of river basins. According to the Ministry of Energy, as of 2019, there are 148 coalmines of all forms of ownership in Ukraine, of which 95 are located in the temporarily occupied territories. The field of management of the Ministry of Energy, i.e. the state form of ownership, includes 102 mines (of which 67 mines are located in the temporarily occupied territories).

Another task is the necessity to demine the territory, which would take about ten years. Ukraine ranks third in the world in terms of mine contamination.

Given the large-scale destruction of the economy of Donetsk and Luhansk regions, significant human losses and the danger of the negative impact of the armed aggression of the Russian Federation, **the following negative trends require effective and rapid resolution:**

- lack of sustainable development of entrepreneurship and investment;
- loss of labour and intellectual potential;
- historically formed passive exploitation of available resource potential;
- traditional dependence on the market of goods of the Russian Federation;
- outdated material and technical base as well as structural imbalance of the industrial complex, with the dominance of industries of weak innovation receptivity;
- interruption of infrastructural and logistical connections due to military actions;
- depletion of natural resources and critical environmental situation;
- high military risks for doing business;
- lack of modern financial, legal and insurance instruments in the investment market of Ukraine;
- factors that hinder the development of entrepreneurship and investment and are inherent in the entire territory of Ukraine: distrust of the judiciary system, the complexity of administration, corruption;
- stagnation of interregional cooperation, underdeveloped interregional consolidation and the regions' concentration only on the issues of their own development¹.

¹ The concept of economic development of Donetsk and Luhansk regions.

To address these negative trends and provide adequate and effective responses to challenges, the use of special tools of economic, legal and organizational nature, including:

- in the strategic direction of improving institutional and financial instruments and regulatory policy:

- creation of a territory of priority development with three levels of special modes on the territory of communities adjacent to the line of contact with the temporarily occupied territories, on the whole territory of Donetsk and Luhansk regions, on the territory of separate industrial and recreational clusters, in particular innovation and industrial ones, which would involve taxation, crediting and customs policy for each type of level;

- introduction of new tools for investment protection, in particular, opening of international commercial branches;

- creation of an insurance system against military and political risks;

- assistance in legislative consolidation of invariability of taxation conditions for investors' economic activity;

- introduction of priority development of an experiment to create opportunities for changing the control system by government agencies to the function of voluntary liability insurance for business owners in the territories;

- elimination of excessive regulation of economic activity by reducing the number of permits;

- ensuring effective coordination of attracting financial resources, including funds of international partners;

- initiating the establishment of a Consortium Financing Fund to invest in projects identified as priorities;

- creating opportunities for financing start-ups in the territories of priority development of Donetsk and Luhansk regions or the use of other forms of support for new business projects;

- development of legal norms on the possibility of redistribution of the share of tax revenues between the state and local budgets in the territories of priority development;

- revision of regulatory approaches to the issuance and implementation of technical conditions for engineering networks;

- improvement of regulatory and tax legislation, primarily for micro- and small businesses;

- development of interregional branch-related industrial cooperation;

- in the strategic direction of the real sector of the economy, industrialization and innovative development:

- introduction of projects of joining European and world high-tech clusters;

- support for the production of products with high added value;

- stimulating the development of new high-tech industries;

- assistance in attracting investments by reducing the share of state and communal property by selling privatization objects to an efficient private owner;

- promoting the location of production facilities of foreign companies to supply the products to the domestic market and export them to the United States, the EU and other countries in connection with the changing global distribution of production ties;

- development of agro-industrial complex, first of all for formation of segment of animal husbandry, irrigated agriculture, etc .;

- increasing the degree of processing agricultural products;

- development of agro-clusters and agro-logistics centres, in particular implementation of projects for the construction of new and expansion of existing facilities of operational elevators, laboratories, breeding and seed centres;

- support for projects aimed at construction of complexes of hydraulic structures, in particular the installation of mobile irrigation systems and complexes;

- stimulating the development of industries whose products would directly meet the needs of the local population;

- transformation of the coal industry of Donetsk and Luhansk regions;

- technical re-equipment and modernization of coalmines, in particular ventilation and degassing systems of mines to ensure miners' safety;

- attracting investments for the introduction of alternative energy sources;

- promoting the introduction of a low-carbon economy and hydrogen energy;

- attracting investment to develop the potential of the green economy;

- *in the strategic direction of building critical infrastructure and logistics:*

- creation of transport and logistics clusters and basic logistics centres for warehousing, processing and sorting of goods;

- modernization of the railway and its infrastructure;

- improving the quality of transport connections between the northern and southern parts of Donetsk and Luhansk regions;

- waterproofing of the Siversky Donets – Donbas canal, overhaul and reconstruction of the second Donetsk water supply system, reconstruction of the water supply system of Mariupol and Popasnyansky Vodokanal;

- restoration of energy and gas supply infrastructure in settlements located along the contact line;

- development and technical modernization of the infrastructure of the Mariupol sea-trade port;

- restoration of passenger and cargo air connections;

- reduction of atmospheric air pollution by enterprises of the mining and metallurgical complex as well as thermal power plants;

- formation of ecological values and principles of sustainable consumption and production in the society;

- development of regional automated environmental monitoring systems;

- in the strategic direction of formation of the regional labour market:

- improving the quality of life of the population in the territories of Donetsk and Luhansk regions and preventing the outflow of labour resources from the region;

- increasing the number of new jobs, reducing unemployment, decreasing occupational imbalances and increasing labour market flexibility;

- creating legal conditions for more flexible official employment and reducing the share of informally employed in the region's economy;

- implementation of retraining programs and professional development in accordance with market needs;

- stimulating motivation and financial capacity for adult learning, increasing labour mobility and distance employment;

- carrying out educational and information-consulting activities for small and medium-sized businesses;

- in the strategic direction of establishing communications:

- promoting confidence for the authorities throughout the country as regards reintegration processes of Donetsk and Luhansk oblasts;

- promotion of ideas of the Strategy of Economic Development of Donetsk and Luhansk regions;

- promoting an increase in the share of media projects aimed at social cohesion of society;

- implementation of measures to promote the attractive investment image of Donetsk and Luhansk regions;

- attracting the potential of economic diplomacy to promote goods and services of Donetsk and Luhansk regions on international markets;

- expansion of mechanisms for attracting socially responsible business, in particular for the reconstruction of social infrastructure and housing destroyed as a result of the armed aggression of the Russian Federation.

Performance monitoring and evaluation system of the implementation

As part of the implementation of this Strategy, the Ministry of Reintegration of Temporarily Occupied Territories monitors the achievement of objectives and measures by comparing the actual values of indicators with their forecast values on a regular basis by summarizing information on the implementation of SED and analysing the degree of achievement of defined target indicators.

A generalized evaluation of the effectiveness of this Strategy is conducted one year after its expiration and is submitted to the Cabinet of Ministers of Ukraine.

Indicators for monitoring the Strategy and achieving its goals are given in the tables of indicators for each event in the full text of SED.

Section II. Analysis of issues and prospects of socio-economic development of the region

The main peculiarities and challenges of Donetsk and Luhansk regions

RF's armed aggression, in addition to exacerbating all-Ukrainian hardships, is hampering the region's economic development through political restrictions. They complicate people's lives and the operation of enterprises while requiring special risk management. Conditionally, it is possible to define the following among them:

- The region partially falls out of all-Ukrainian political, social and cultural field.
- The image of the region remains war-torn.
- The system of military-civil administrations at the regional level works according to different rules compared to the administrations of other regions of Ukraine. Thus, businesses and potential investors need to invest additional efforts and resources in order to understand the individual rules and regulations in the region.
- The stereotypical perception of the region contributes to the spread of unfounded negative attitudes towards its inhabitants, including internally displaced persons.
- A significant part of the social infrastructure remained in the temporarily occupied territories.
- Political life in the region is inactive. Not all parliamentary parties are represented by their branches in the region.

Portrait of the region's economy

Donetsk and Luhansk regions have historically been one of the most economically viable regions in Ukraine, but the armed aggression of the Russian Federation has led to the closure of many enterprises and migration. But for the war, the gross regional product of 2018 in the Donetsk region could amount to 252 billion UAH, or be 2.3 times larger, and in the Luhansk region - 113 billion UAH, or 4.2 times larger. In dollar terms, the difference could be \$ 9.3 and \$ 4.2 billion USD².

After the seizure of territories and the curtailment of economic activity in the peaceful area of the region, the number of economic entities³ from 2013 to 2019 decreased in the Donetsk region by 55% and now is only 3% of all in Ukraine; in the Luhansk region the number of enterprises decreased by 70%, their share is now only 1%.

The structure of the land fund of Donetsk region (26.5 million hectares, or almost 4.4% of the area of Ukraine) is dominated by agricultural land, the territory of the region (together with the temporarily occupied territory) accounts for 2.0 million hectares of agricultural land (almost 5% of agricultural land of Ukraine), of which 91% are highly fertile soils. Luhansk oblast has almost the same indicators, with the majority of land (73.3%) being used in agricultural production.

The territory of Donetsk and Luhansk oblasts has significant deposits of natural resources, which contributed to the emergence and rapid development of industry in the region. According to the reserves of minerals of Donetsk region, almost 49% are fuel and energy raw materials (coal,

² If Donetsk and Luhansk oblasts developed on average in the same way as other (peaceful) oblasts of Ukraine <https://ces.org.ua/how-much-did-donetsk-and-luhansk-oblasts-lose-due-to-the-armed-conflict-with-russia/>

³ Legal entities and persons-entrepreneurs are taken into account altogether.

methane from coal deposits and free gas). The second place belongs to non-metallic minerals, in particular construction, mining and chemical, non-metallic raw materials for metallurgy, etc.

Before the beginning of the armed aggression of the Russian Federation, almost 6.5 million people lived in the territory of Donetsk and Luhansk regions (66% in Donetsk region, 34% in Luhansk region). According to the State Statistics Service, this is approximately 14% of the total population of Ukraine. As of now, the number of people living in this region in the controlled area has decreased to 1.5 million people in Donetsk region (-65%) and to 0.7 million people in Luhansk region (-70%).

Revenues of local budgets in Donetsk and Luhansk regions collapsed after the loss of territories and the beginning of the crisis, which forced a significant number of people to leave peaceful settlements and some enterprises to close. Currently, the regions collect 2 to 3 times less revenue than before the crisis, despite the decentralization reform, which allows for more revenue to remain in place.

Due to the armed aggression of the Russian Federation and the severance of trade relations with Russia, most enterprises were forced to close down, which led to a drop in demand for labour. In 2019, according to the State Statistics Service, 7% of all labour force in Ukraine was in Donetsk and Luhansk regions. The unemployment rate in the region increased significantly from 2013 to 2019 - from 8.2 to 13.6% in Donetsk region and from 6.7 to 13.7% in Luhansk region. The majority of the population works in the historically largest sector of the region - industry (30% of those employed in Donetsk and 24% in Luhansk region), followed by trade (25% in Donetsk and 28% in Luhansk region).

Section III. Strategic goals of the SED, expected results and tools for their implementation

Strategic idea

Given the key focus of the SED on improving the well-being and security of people and community development, its **vision** is as follows: "Donetsk and Luhansk regions shall be the regions with comfortable and safe living conditions and human development. It shall be a progressive, prosperous and attractive region, grounded on powerful and innovative industrial and agricultural complexes, based on effective management, balanced nature management and safe reintegration. It shall be a community of motivated people, effective partnerships and new opportunities."

The **mission** of the Strategy is to create an environment in the region conducive to economic growth and welfare of the population, restoration of the territorial integrity of the country and safe reintegration of the temporarily occupied territories of Donetsk and Luhansk regions.

The **purpose** of the transformation of the region in a broad sense is to build a new modern competitive economy in the east of the country and create an additional impetus for the development of Donetsk and Luhansk regions.

Given the identified issues and challenges, the **strategic goals** are as follows:

- Improving the quality of life in the Donetsk and Luhansk regions;

- Creating a favourable business climate in the region, which shall stimulate investment in and development of small and medium enterprises;
- Development of value chains, international trade, production and exports;
- Development of modern agriculture and processing industry;
- Providing energy resources essential for the development of the region;
- Providing the transport infrastructure network essential for the development of the region;
- Reducing unemployment and increasing labour market flexibility;
- Prevention of environmental disasters and improvement of the environmental situation in the region.

Each of these tasks includes specific measures based on solving issues and expanding the bottlenecks of the region, as well as on the use of its strengths. The measures set out below have a territorial principle and may apply to communities adjacent to the contact line, areas of industrial parks or the entire territory of Donetsk and Luhansk regions.

Values

Security. Stability. Prospect. The well-being of the people.

Expected Results

1. Increasing the level of income of the population, primarily employees of basic industries of Donetsk and Luhansk regions, to prevent their migration to other regions and abroad;
2. Significant increase in revenues to local budgets of Donetsk and Luhansk regions, which shall create preconditions for sustainable development of territorial communities;
3. Creating conditions for the consistent formation of a new structure of Donetsk and Luhansk regions' economy;
4. Modernization on an innovative basis of industrial production of Donetsk and Luhansk regions and increasing the share of innovatively active enterprises with V-VI technological systems in the production processes of the real sector of the economy;
5. Increasing the export potential of Donetsk and Luhansk regions by increasing the share of highly processed products;
6. Overcoming logistical constraints that limit the capacity utilization of the basic industries of Donetsk and Luhansk regions, which shall ensure a gradual increase in the transit potential of the region;
7. Creating new jobs and increasing demand for highly skilled workers and highly qualified researchers, as well as expanding opportunities for professional self-realization;
8. Development of young generation' initiative, its participation in solving issues of Donetsk and Luhansk regions, as well as their involvement in the innovative development of the economy of the region.

Indicators of 2030:

- Growth of capital investment (% to GRP): Donetsk region – 25%, Luhansk region – 25%;
- Growth of the share of complex goods in sales of the processing industry (%): Donetsk region – 17%, Luhansk region – 20%;

- Increase in the index of agricultural products (%): Donetsk region – by 3%, Luhansk region-by 3%;
- Average duration of power outages (SAIDI) due to the fault of companies, (minutes): Donetsk region – 600, Luhansk region – 600;
- Cargo turnover of road and rail transport (thousand km/1000 people): Donetsk region - ≥ 3000 , Luhansk region - ≥ 1000 ;
- Reduction of the unemployment rate of the population aged 15-70 years (%): Donetsk Region – 8%, Luhansk region – 8%;
- Growth in the level of employment of the population aged 15-70 years (%): Donetsk region – 56%, Luhansk region – 60%;
- Reduction of the average duration of new job search (months): Donetsk Region – 3, Luhansk region – 3.

Strategic directions of development, events for their implementation and expected targets

1. Strategic direction: improvement of institutional and financial instruments and regulatory policy

Direction tasks:

To create a favorable business climate in the region that will encourage investment and Entrepreneurship Development.

Direction indicators:

Indicator	Region	Basic as of 01.01.2021	Intermediate till 2025	Target till 2030
Capital investment, % to GRP	Donetsk region	14%	20%	25%
	Luhansk region	8%	17%	25%
	Ukraine	15%	NA	NA

Source: State Statistics Service

1.1. Initiative: creating a favorable business climate

1.1.1. Event: launch of the military-political risk insurance system in the region

The task of the event is to reduce the military and political risks of doing business in the region, which are now one of the main obstacles to economic development.

The creation of a security risk insurance system will allow, if not equalize then at least bring the region's position closer to the level of the rest of the country.

The initiative can be implemented in the following ways: (1) through cooperation with the World Bank and its MIGA Division; (2) through direct involvement of a private international insurance company through a tender; (3) through insurance in Ukrainian companies and reinsurance in a foreign insurance

company. Each of these options should provide for the creation of a system of state compensation of insurance payments to investors for insurance against military and political risks.

The highest priority, from the point of view of economic feasibility, is insurance of investments and loans in industries that the SED defines as priority and in industries that correspond to the SMART specializations of the regions defined in their development strategies.

The cost of insurance of military and political risks (insurance payments) can be compensated with the participation of the state, for example, from the consortium financing fund.

Economic impact assessment

Based on scenario modeling, the impact is estimated as an additional 3-4 percentage points of capital investment growth relative to GRP, which corresponds to an average of an additional 0.2 percentage points of annual GRP growth in Donetsk and Luhansk regions for the first three years, and this amount is expected to increase in the future due to the multiplicative effect.

1.1.2. Event: development of entrepreneurship support infrastructure

The task of the event is to promote the growth of small and medium-sized businesses, the development of investment and trade.

The main goal of creating an infrastructure to support entrepreneurship and the business environment should be to provide information, training in the basics of entrepreneurship, mentoring, legal support, promotion and advice on state support programs, assistance in obtaining credit, including international, grant and investment resources, export assistance, creating a permanent platform for interaction between local authorities and entrepreneurs, etc.

1.1.3. Event: ensuring access to financing programs, including international ones

The task of the event is to provide access to financing programs, which will expand the investment opportunities of enterprises and cover the need for working capital.

The following measures are proposed to improve access to credit:

- National credit support programs (EKA, "5-7-9", mortgage lending), as well as regular credit programs of Ukrainian banks will be launched in the region automatically with the introduction of a system of insurance against military and political risks
- Within the framework of the Entrepreneurship Development Fund, continue the work of the FinancEast program (or introduce a similar program for large-scale projects)
- Providing micro-grants for starting a business (in non-monetary form) after appropriate training at the Entrepreneurship Support Center or other selected entrepreneurship courses and after submitting a business plan.
- Launch of investments in small businesses in the region through the allocation of a special annual regional program in state funds (Ukrainian startup fund, Ukrainian Cultural Fund, etc.).
- Creation of a factoring platform and development of factoring.
- Support for the creation of regional credit unions, which are organized either by associations of entrepreneurs or individual local entrepreneurs.

Economic impact assessment

The expansion of MSB lending programs (provided that security risks are reduced due to the launch of insurance) to the loan portfolio at the level of 5% and 10% GRP in Luhansk and Donetsk regions, respectively, may lead to an increase in capital investment by 2-4 percentage points relative to GRP.

1.1.4. Event: adaptation of the program of state support for investment projects with significant investments to the conditions of the region

The task of the event is to encourage the emergence of local projects with significant investments.

To adapt the law "On state support for investment projects with significant investments in Ukraine" to the realities of the region, while maintaining the general logic of the law, it is proposed to reduce the threshold for the availability of support in the region to 5 million euros of investment and 20 new jobs.

It is also proposed to create a system of support for business development by creating regional representative offices of the main state structures aimed at supporting business, such as the Business Ombudsperson Council, the state institution "UKREININVEST", the state institution "Export Promotion Office in Ukraine", the agency for public-private partnership.

If to assume that it is possible to launch 10 significant investment projects within five years, the increase in capital investment may amount to 1.7% of the total capital investment in two regions in prices of 2019.

1.1.5. Event: accelerate and reduce the cost of connecting to networks

The task of the event is to simplify and reduce the cost of connecting to networks, thus removing the barrier to investment.

At the local government level, the key to simplifying the process is to quickly and timely resolve the issue of allocating land for connection to networks. In addition, the following measures can provide a comprehensive solution: (1) prioritization of land allocation issues for the distribution of electric energy; (2) creation of detailed public maps of available capacities and distances for connections; (3) introduction of information collection and calculation of connection metrics to power grids of average cost and duration of connection; (4) for "projects with significant investments" to consider the possibility of introducing partial compensation or free connection to the electric networks; (5) to consider the possibility of directing part of the municipal and local development budgets to partial compensation or free connection to the electric networks of small and medium-sized enterprises that will open in mining towns; (6) in the case of creation or arrangement of industrial parks, funds may be provided from the State Regional Development Fund (SRDF) or the regional development budget program "Ensuring the economic development of Donetsk and Luhansk regions"; (7) standardize the procedures and cost of connecting to other networks (gas, water and drainage).

1.1.6. Event: reasonable deregulation and restriction of inspection activities

The task of the event is to simplify doing business and reduce the risk of minor corruption during inspections.

In total, there are more than 80 areas in Ukraine where supervision (control) measures are implemented each of them has its own specifics, risks and consequences. It is necessary (1) to cancel scheduled inspections by inspections for enterprises (primarily newly created ones) with low and medium risk levels in the first 3 years; (2) to introduce business deregulation through civil liability insurance as an alternative to the system of control by state bodies

1.2. Initiative: financing and tax incentives

1.2.1. Event: creation of a consortium financing fund

The task of the event: creation of a single fund for investment in infrastructure development projects in Donetsk and Luhansk regions and projects identified by the SED as priority

A Consortium Financing Fund can be created following the example of the Eastern Europe Energy Efficiency and Environmental Partnership (E5P). Projects under this partnership are financed by the Eastern Partnership Technical Assistance Trust Fund (EPTATF), which is formed and managed by the European Investment Bank (EIB). The model of a trust fund managed by a large international organization is justified, since it increases the confidence of donors and allows you to attract a lot of funds to finance large infrastructure projects at once.

It is assumed that the fund can have two areas of attracting financing: donors and credits.

The model of the new consortium financing fund should include contributions from the state budget of Ukraine. The total size of the fund will depend on the amount of Ukraine's contribution from the general fund of the state budget, which must be at least 5% of all credit revenues of the fund (the amount sufficient to cover administrative expenses and interest payments at the first stages).

1.2.2. Event: increasing funding for community budgets along the contact line

The task of the event is to increase local budgets own revenues, that is, to improve their fiscal capacity.

In order to motivate local communities to stimulate entrepreneurial activity and employment in particularly vulnerable regions (located on the demarcation line), it is planned to introduce a special subsidy from the state budget to local budgets in the amount of personal income tax, which was received by the state budget from splitting personal income tax collected in territorial communities along the contact line last year multiplied by the wage growth index. At the same time, 80% of such subsidies go to the TC budget (in accordance with the collected volumes), and 20% of such subsidies are sent to the regional budget.

In Donetsk and Luhansk regions, 72 territorial communities have now been formed in the controlled territories, 15 of which are located on the contact line at least partially (5 in Luhansk and 10 in Donetsk region).

1.2.3. Event: introduction of accelerated depreciation as a tax incentive for investments

The task of the event is to encourage new investments by reducing the company's expenses in the first years of its existence.

It is proposed to introduce changes to the procedure for calculating depreciation charges, making it possible to attribute a significantly larger part of the cost of fixed assets to depreciation expenses in the first 2-3 years.

We propose to reduce the minimum allowable useful lives of fixed assets in Donetsk and Luhansk regions for most objects till 2 years. Savings can reach 7.5% of investments, depending on the group of fixed assets (the average value is 5.4%), but it should be borne in mind that these savings will stop after the end of the useful life, that is, full depreciation, and then the company will be forced to pay full income tax. This will have a side positive effect, as it will become an additional incentive to reinvest profits in development.

Territorial principle

The event is planned to be launched as a pilot project until 2023 for industrial parks and TC along the contact line. If the changes show positive results, the initiative is planned to be expanded to other enterprises of Donetsk and Luhansk regions.

Economic impact assessment

Having the possibility of accelerated depreciation, the company pays less income tax in the first years of its existence (when purchasing fixed assets) and can attract/finance more capital investments.

If the saved funds for the payment of GNP can bring at least 3% additional real growth in capital investment, then the additional real GRP will be about 0.42% per year for Donetsk region and 0.27% for Luhansk region.

1.2.4. Event: increase of participation budgets and their implementation in all territorial communities of Donetsk and Luhansk regions

The task of the event is to increase the participation of the community in the management of local budget funds by increasing the amount of participation budgets and their implementation in most territorial communities.

Usually, local self-government bodies independently decide what share of local budget expenditures should be formed by the decision of local residents through voting on the websites of such participation budgets. Currently, the population manages about 0.1-1% of the local budget through such budgets. It is proposed to create prerequisites at the legislative level for the introduction of mechanisms for encouraging the distribution of participation budgets in Donetsk and Luhansk regions and provide for a system of additional (consolidated) financing from the state budget.

Economic impact assessment

In general, the positive effect of participation budgets can be estimated at up to 0.2% of the additional growth of GRP annually, taking into account the small share of such budgets in the total expenditures of local budgets.

2. Strategic direction: development of the real sector of the economy, industrialization and innovative development

Task: development of value chains, International Trade, production and export, modern agriculture and processing of agricultural products.

Direction indicator:

Indicator	Region	Basic as of 01.01.2021	Intermediate till 2025	Target till 2030
Share of complex goods in sales of the processing industry, %	Donetsk region	10%	13%	17%
	Luhansk region	15%	17%	20%
	Ukraine	17%	20%	24%
Agricultural output index (%)	Donetsk region	-4,6%	+3,5%	+3,0%
	Luhansk region	+1,7%	+3,5%	+3,0%
	Ukraine	+1,7%	+2,5%	+2,0%

Source: State Statistics Service, CES calculations

2.1. Initiative: development of value chains in industrial production

2.1.1. Event: adaptation of national and local support tools for creating and restoring value chains

The task of the event is to restore old and create new value chains to improve the manufacturability of production in the region.

It is planned to adapt national support tools to the peculiarities of the region. Adaptation can be used for two groups of tools:

- Special regimes that create investment attractiveness, include financial incentives and help business development, such as: (1) state support for projects with significant investments; (2) industrial parks; (3) export credit agency (EKA); (4) assistance in financing (Entrepreneurship Development Fund, Ukrainian startup fund).

- Technical support tools, for example: (1) assistance in attracting investors (state institution "UKREININVEST"); (2) assistance in foreign economic activity (state institution "Export Promotion Office", Ministry of Economy); (3) consulting support (regional division of the Business Ombudsperson Council).

Tools should be adapted to reflect priority sectors with Value-Added growth potential. Programs should prioritize the region and Sectors based on the region's SMART specialization, availability of raw materials, production and logistics capabilities, and access to dynamic consumer markets in Ukraine or abroad.

2.1.2. Event: Technical support for foreign economic activity

The task of the event is to increase and diversify the export of products in the region.

A set of technical measures to support business in the implementation of foreign economic activities: (1) priority work of the state institution "Export Promotion Office" with Donetsk and Luhansk regions; (2) prioritization of the Ministry of Economic Development and trade of regional value chains in the preparation of conditions for new or revision of existing international trade agreements, in particular in negotiations on trade quotas; (3) Information, legal and advisory support for meeting the requirements of technical regulation of other countries; (4) grants and other financial assistance in certification, participation in international events, etc., in particular through the voucher tool of Business Support Centers; (5) popularization of insurance products of the State Export Credit Agency (ECA) in support programs for exporters in the region.

2.1.3. Event: development of industrial parks

The task of the event is to stimulate the inflow of new investment projects to the region primarily by reducing initial costs for the investor

In order to stimulate the inflow of new investment projects, it is planned to:

- Liberalize the regulation of industrial parks:

- simplify the requirements for the management company (hereinafter referred to as the MC);
- eliminate existing limits on the minimum area (15 ha) and minimum service life of the park (30 years).
- solve existing problems with land allocation.

- Expand the list of business support tools:

- expand the list of infrastructure that will be created on the territory of existing and new parks at the expense of authorized sources of funding;
- provide residents with information and consulting support on the export and certification of products, search for foreign investors, etc.;

- Choose sites for creating new parks based on the following criteria:

- existing sites with existing infrastructure (in particular, non-operating enterprises);
- coal mining enterprises that will be restructured or already included in the restructuring program;
- new sites with easy access to transport and energy infrastructure to reduce the cost of logistics and electricity supply.

Economic impact assessment

If to assume that by 2030 the number of residents of industrial parks (IP) of Donetsk and Luhansk regions together will reach 140 investors and if an average of 150 million investments are attracted by one resident of IP, then the additional increase in GRP of Donetsk and Luhansk regions, all other things being equal, may amount to about 0.2-0.5 percentage points by 2030, and employment in industry will grow by 1.5 – 2% compared to 2020. Such an expansion of IP activities until 2030 may lead to an increase in industrial employment by 6-6.5% from the level of 2020.

2.2. Initiative: development of modern agriculture

2.2.1. Event: restoration and development of the irrigation system and reclamation channels

The task of the event is to increase soil fertility and agricultural productivity by ensuring a sufficient level of irrigation.

Restoration of water management and reclamation infrastructure in Donetsk and Luhansk regions provides for the following steps: (1) creation of an agrochemical soil passport; (2) inventory of irrigation and reclamation engineering infrastructure; (3) chemical analysis of the region's mine waters for the possibility of their use for irrigation of agricultural land; (4) attracting consortium funding with the participation of international donors;.

Modernization of irrigation facilities and restoration of water supply channels for 50% of irrigated land will make it possible to annually receive 6% and 3.6% more than the gross harvest of agricultural crops in Donetsk and Luhansk regions. Assuming 50% localization of processing of additional crops, modernization of irrigation systems can provide up to 2-2.6 percentage points of average annual growth of the gross regional product of both regions, as well as contribute to the growth of the region's export potential.

2.2.2. Event: mine clearance of territories and resolving the issue of the legal status of areas under fortifications

The task of the event is to return the maximum possible areas that are currently mined to agricultural turnover.

To address mine-related challenges, the following measures are proposed: (1) survey of agricultural land in Donetsk and Luhansk regions that has been withdrawn from circulation due to mine contamination; (2) implementation of a set of measures to conduct an inventory of land plots; (3) regulation of the legal framework for the participation of international organizations in mine clearance in accordance with International Mine Action Standards (IMAS); (4) exemption of agricultural land that was withdrawn from circulation due to mine pollution and construction of fortifications from payment of land tax; (5) provide compensation for losses of local budget revenues from exemption of such land from payment for land at the expense of targeted subventions from the state budget;

Economic impact assessment

The return of 1 ha of land to agricultural circulation will ensure the production of agricultural products in the amount of about 18,862 UAH/ha

By 2030, it is potentially possible to return to agricultural circulation about 110 thousand hectares in both regions, that is, about 6% of the sown area in 2020. This expansion of acreage can add cumulatively about 5% of the region's gross crop production.

2.2.3. Event: expansion of the state support program for the development of Agriculture and processing industry

The task of the event is to encourage investment in agriculture and the processing industry of Donetsk and Luhansk regions by partially reimbursing them.

The event is implemented mainly within the framework of the overall approach of the strategy to customize existing national programs to the needs of the region. In addition it is planned:

- to develop advisory services and promotion of agricultural cooperation

-to introduce a special regime to support the development of animal husbandry, processing industry and farming by making changes to the procedure for using funds provided in the state budget for financial support of agricultural producers.

If the funds of the budget program to support farming and horticulture are effectively used, the volume of capital investment in the agricultural sector will grow by 8-10% annually. As a result, the region's GRP growth may reach 0.1-0.2 percentage points.

2.2.4. Event: restoration of agricultural infrastructure

The task of the event is to remove "bottlenecks" in the development of Agriculture and processing industry in Donetsk and Luhansk regions.

It is necessary to ensure the promotion of epidemiological and epizootological well-being through reconstruction and technological equipment of the universal regional state laboratory of the state service of Ukraine for food safety and consumer protection in Donetsk and Luhansk regions. It is necessary to provide for the development of Veterinary Medicine. Encourage the creation and development of agricultural cooperation, as well as the development of a regional wholesale market for agricultural products and a logistics center with modern production facilities.

3. Strategic direction: development of critical infrastructure and logistics

Task of the direction: to provide energy resources, transport and energy infrastructure network necessary for the development of the region and reduce the cost and simplify logistics.

Direction indicators:

Indicator	Region	Basic as of 01.01.2021	Intermediate till 2025	Target till 2030
Average duration of power outages (SAIDI) caused by companies (minutes)	Donetsk region	1290	800	600
	Luhansk region	1223	800	600
	Ukraine	*683	-	** 150-300
Cargo turnover of road and rail transport (thousand km/1000 people)	Donetsk region	1662,7	≥2000	≥3000
	Luhansk region	409,7	≥500	≥1000
	Ukraine	5 036,3		

Source: NERC, * data of 2019, **150 minutes for urban areas, 300 minutes for rural areas. Monitoring of socio-economic development of regions (Ministry of Communities and Territories Development of Ukraine).

3.1. Initiative: energy recovery and development

3.1.1. Event: restoration of damaged equipment and elimination of bottlenecks in electricity transmission

The task of the event is to ensure reliable and unhindered supply of electricity to consumers, reduce the duration of power supply interruptions in the system to the national average level or less.

Taking into account the task of reducing the duration of breaks and the cost of distribution in the region, the NERC, together with the Ministry of Energy and network operators, should identify investment projects that are needed primarily to fulfill this task, and develop a tariff policy for their implementation. Examples of some projects: (1) PJSC NEC "Ukrenergo". Construction of 330 KV

Kurakhivska Power Station overhead line; (2) PJSC NEC Ukrenergo. Reconstruction of the 500 kV Donska–Donbasska overhead line. (3) PJSC NEC "Ukrenergo". Construction of 330 KV Kupyansk–Kreminska overhead line; (4) PJSC NEC “Ukrenergo”. Reconstruction of the 750 KV "Donbasska" substation”; (5) Investment Program of Luhansk Energy Association LLC; (6) Investment Program of JS “DTEK Donetsk electric networks”.

3.1.2. Event: stimulating electricity production from renewable sources

Task is to increase the share of electricity generated from renewable sources (RES) to 13% in 2030.

The task of the event will be facilitated by:

construction of heating stations that use renewable energy sources for residents of high-rise buildings that are located near the contact line and have problems with gas supply;

installation of renewable energy sources for additional or backup power supply at public sector facilities;

installation of lighting or electrical facilities that use renewable energy sources in localities that are located on the contact line and have problems with electricity.

3.1.3. Event: transformation of coal regions and mitigation of its social consequences

The task of the event is to carry out a fair transformation of coal regions by 2030, ensuring the modernization of profitable mines, privatization or environmental closure of other mines and social reconversion of single-industry towns.

The Coordination Center chaired by the Prime Minister of Ukraine is working out priorities for the transformation of coal regions. The corresponding concept is being developed by the Ministry of Community and Territory Development of Ukraine, following the example of European countries, the "fair transformation" model, which, according to preliminary estimates, will last until 2030.

It is necessary to assess the prospects for coal demand, taking into account the projected share of thermal generation and demand from other consumers, conduct a financial and technological audit of mines, assess their prospects and classify them into those that are subject to closure, privatization or modernization, and implement the chosen path for each mine within the framework of a comprehensive transformation plan.

Mitigation of social consequences (social reconversion) in the framework of projects for the transformation of coal-fired single-industry towns should be achieved by diversifying, if possible, the economies of mining cities or revising the optimal placement of human and production resources in the territories.

3.1.4. Event: launch of natural gas production at the Yuzivska gas field in Donetsk region and methane production from coal seams

The task of the event is to increase gas production.

The Yuzivska gas field is one of the largest oil and gas sites in Ukraine, with an area of 7,886 km². In 2020, the site was provided to NJSC “Naftogaz Ukraine” for further exploration and production of hydrocarbons. It is necessary to ensure a balanced development of the project taking into account Community Development Strategies and the interests of local residents.

In addition to the development of compacted reservoir gas, it is also advisable to analyze the possibilities of coal seam methane production. Methane resources in coal mines amount to about 500 billion m³, and in side rocks – up to 2 trillion cubic meters⁴.

3.2. Initiative: creation of modern transport infrastructure

3.2.1. Event: restoration of roads in the region, creation of the automobile corridor "Mariupol–Severodonetsk", elimination of "bottlenecks" in agricultural logistics

The task of the event is to provide the automobile network necessary for the development of the region and reduce the cost and simplify logistics.

The following road infrastructure objects that require construction/restoration are to be identified as priority: (1) construction of sections of the category 1B highway as necessary (detour of settlements; available traffic intensity) and improvement of the category of existing sections in the direction of Mariupol–Severodonetsk through Kramatorsk (2) construction of a highway that will connect Mariupol with Berdyansk through Urzuf (about 70 km); (3) major repairs of the most important sections in the largest agglomerations; (4) renewal of 183 km of roads in Luhansk region at the expense of the loan agreement "eastern Ukraine: reunification, restoration and revival (Project 3b); (5) restoration of damaged bridges and overpasses – 56 structures (13%).

Economic impact assessment

Based on the total estimated cost of the proposed projects and the assumption of their implementation within three years and with the localization of purchases at the level of 35-50%, one can expect an annual increase in GRP at the level of 0.15% in Luhansk region and 0.4% in Donetsk region (due to the multiplier effects of construction on related industries).

3.2.2. Event: construction and modernization of railway infrastructure in Donetsk and Luhansk regions

The task of the event is to provide the railway network necessary for the development of the region and reduce the cost and simplify logistics.

Within the framework of this event, the following projects are prioritized:

- A) Construction of a railway line between the branches Popasna–Svatove–Kupyansk and Kondrashivska-Nova–Starobilsk–Lantrativka.
- B) Electrification and modernization of Zaporizhzhе–Pologi–Komysh-Zorya–Volnovakha railway line.
- C) Electrification of the Siversk–Lisichansk section.

Economic impact assessment

The total cost of the proposed projects is UAH 16.6 billion, of which UAH 2.4 billion falls on the construction of a railway line in Luhansk region. If they are implemented within three to five years and purchases are localized at a level not lower than 30-40%, one can expect an increase in GRP at the level of 0.12% in Luhansk region and 0.1% in Donetsk region.

3.2.3. Event: reform of the commuter rail system

⁴ Рудько Г.І., Бондар О.І. Геологічні та екологічні аспекти газу метану вугільних родовищ. <http://ecoj.dea.kiev.ua/archives/2012/1/13.pdf>

The task of the event is to increase the level of mobility of the population of localities with railway connections to industrial centers.

One of the tasks of the reform is to develop a mechanism for payment by local governments for the socially important suburban transportation service provided by the railway, which will include the accumulation of funds at the regional level and the corresponding transfer of sources of financing. The reform should include other important elements, in particular the creation of a regional railway passenger company with a private share in the capital, which, with the support of international financial organizations, will carry out the renewal of rolling stock that is about to expire. Similar elements are provided for in the project of modernization of regional passenger transportation on the Pridniprovsk railway with the support of the EIB (contract registration number CC 9780-3).

3.2.4. Event: resumption of air traffic

The task of the event is to restore civil flights to the region.

It is necessary to determine ways to restore passenger flights in the region, taking into account security issues. Possible options for air traffic routes in the region: (1) the airport in Mariupol is located closer to the contact line, in the zone of influence of electronic warfare equipment of the Armed Forces of the Russian Federation; (2) Kramatorsk airport requires reconstruction of the premises and relocation of military units, but its location is safer and will allow launching flights faster; (3) the possibility of building a new airport for Donetsk and Luhansk regions is also being considered. The location for such an object has not yet been determined, but the construction of a new airport in Svyatogirsk can be considered a priority.

3.2.5. Event: development of Mariupol Seaport

The goal of the event is to increase the port transshipment by changing the structure and modernizing the production process.

The strategic direction of the port development may be the diversification of cargo turnover, including grain and other cargo groups, except for metal as the largest cargo group. An important task for the port is dredging the sea of Azov. The implementation of this direction should be carried out in accordance with the strategy for the development of Ukrainian seaports for 25 years, as well as the strategic port development plan for 2018-2022.

3.2.6. Event: providing comprehensive access to broadband internet

Task of the event is to ensure public access to the fiber-optic internet.

To introduce priority implementation of measures in accordance with the state strategy for regional development of Ukraine for 2021-2027⁵ in Donetsk and Luhansk regions, which provides for: (1) ensuring unhindered access to high-speed internet in all localities; (2) ensuring the connection of 100% of state institutions and social institutions to broadband internet at a speed of 100 Mbit/s by December 2021.

4. Strategic direction: formation of the regional labor market

Task of direction (1): to increase the number of new jobs, to reduce unemployment, to reduce professional and qualification imbalances and to increase the flexibility of the labor market.

Direction indicators:

⁵ State regional development strategy for 2021-2027. <https://zakon.rada.gov.ua/laws/show/695-2020-%D0%BF#n11>

Indicator	Region	Basic as of 01.01.2021	Intermediate till 2025	Target till 2030
Unemployment rate of the population aged 15-70 years (%)	Donetsk region	14,7	11,0	8,0
	Luhansk region	15,4	11,0	8,0
	Ukraine	9,3	NA	NA
Employment rate of the population aged 15-70 years (%)	Donetsk region	49,5	53,0	56,0
	Luhansk region	56,9	58,0	60,0
	Ukraine	56,5	NA	NA
Average duration of new job search (months)	Donetsk region	7	5	3
	Luhansk region	6	5	3
	Ukraine	5	NA	NA

Source: State Statistics Service of Ukraine, State Employment Service, CES calculations

Task of direction (2): to improve the quality of life of the population in the territories of Donetsk and Luhansk regions and prevent the outflow of labor resources from the region.

Direction indicators:

Indicator	Region	Basic as of 01.01.2021	Intermediate till 2025	Target till 2030
Share of negative responses to the question "Do you think things in your area are moving in the right or wrong direction?"	Donetsk region	39%*	25%	10%
	Luhansk region	58%*	38%	10%
	Ukraine	31%**		
Percentage of the population satisfied with the user experience infrastructure facilities and the level of provision of social services in key areas spheres	Donetsk region	70%	80%	100%
	Luhansk region	70%	80%	100%
	Ukraine	NA	NA	NA
Percentage of the population satisfied	Donetsk region	70%	80%	100%

with the level of provision of administrative management services	Luhansk region	70%	80%	100%
	Ukraine	NA	NA	NA

Source: public opinion poll in Donetsk and Luhansk regions August 27-October 2, 2020, Center for analysis and sociological research, commissioned by the International Republican Institute, sixth All-Ukrainian municipal survey from the International Republican Institute, National Report "Sustainable Development Goals: Ukraine", CES calculations

Task of direction (3): to prevent environmental disasters and improve the state of the environment in the region.

Direction indicators:

Indicator	Region	Basic as of 01.01.2021	Intermediate till 2025	Target till 2030
Level of capital investment in Environmental Protection (%GRP)	Donetsk region	0,79%	1,4%	2%
	Luhansk region	0,08%	1%	2%
	Ukraine	2%		

Source: State Statistics Service of Ukraine, CES calculations

4.1. Initiative: promotion of human capital development

4.1.1. Event: expansion of voucher programs for adult education

The task of the event is to increase motivation and financial opportunities for learning in adulthood.

Taking into account the need for significant professional reorientation of the adult population, raising the level of adaptation to changes in the structure of the economy, it is necessary to initiate the introduction of local systems of vouchers for training adults aged 25-49 years at the expense of budgets of various levels and donor programs.

4.1.2. Event: transfer of retraining programs for the unemployed for the needs of employers to the principles of cooperation between the state and business

Task of the direction is to reduce the qualification gap between the needs of the labor market and the opportunities of job seekers.

It is proposed to transfer programs for training, retraining and advanced training of unemployed people in Donetsk and Luhansk regions to a system that will put the needs of employers first, and expand the scale of such programs.

4.1.3. Event: accounting by the State Employment Service of opportunities for labor mobility and remote work

Task of the event is to increase labor mobility and distance employment.

It is proposed to include in the existing form of the State Employment Service No. 3- ПІІ a clause on the employer's readiness to hire a person on remote employment terms, on providing housing by the employer (with full or partial coverage of expenses), compensation for travel costs to the workplace (full or partial) and/or facilitating the employment of other family members in case of relocation, it is proposed to oblige employees of the Employment Service to offer the applicant along with vacancies at the place of residence additionally suitable vacancies in other districts of the regions.

4.1.4. Event: introduction of new forms of Labor Relations to increase the flexibility of the labor market and de-shadow the economy

The task of the event is to create legal conditions for more flexible official employment and reduce the share of informally employed people in the regional economy.

It is proposed to allow more flexible forms of employment that will encourage the conclusion of full-fledged employment contracts (with the provision of appropriate social guarantees), which can replace civil contracts for the performance of work and simplify the hiring of employees by foreign companies. It is proposed to introduce new non-standard forms of employment contracts in the region, for example, an employment contract with non-fixed working hours, a short-term contract, and an apprenticeship contract.

4.1.5. Event: introduction of a dual form of education in the institutions of Vocational Education, Professional Education and Higher Education of the region

The task of the event is to reduce professional and qualification imbalances and increase the level of employment among young people.

It is proposed to introduce a dual form of education in all institutions of vocational (technical vocational) and professional pre-higher education, as well as in some institutions of higher education in the region. The implementation of the initiative provides for close cooperation between educational institutions, business representatives, and potential applicants of the Distant Education.

4.1.6. Event: introduction of entrepreneurship lessons from primary schools

The task of the event is to increase the propensity of young people in the region to do business.

A USAID ERA study showed that entrepreneurship is not popular among the population of Donetsk and Luhansk regions – a region with a strong industrial tradition. In order to mitigate this effect on subsequent generations, it is necessary to add entrepreneurial competence as a pilot to the program, starting with the new Ukrainian school (NUS) and during the entire period of study at the Institutions of general secondary education in Donetsk and Luhansk regions.

4.2. Initiative: living standards

4.2.1. Event: introduction of a number of initiatives designed to improve the level of security in the region

The task of the event is to change the perception of the region from a "combat area" to a "high-security area".

Although security in the region fully depends on the aggression of the Russian Federation, the Government of Ukraine may consider introducing a number of initiatives that would contribute to improving household security in Luhansk and Donetsk regions: (1) building military camps and transferring (creating, restoring) military units with permanent deployment in Donetsk and Luhansk regions (as opposed to rotation and commanding); (2) strengthening the effectiveness of communication between the authorities and the local population. (3) Consider the possibility of

establishing safety centers in territorial communities as integrated structure, (4) promoting the formation of non-state fire protection units in remote locations or places of concentration of fire-hazardous objects and territories.

4.2.2. Event: a set of measures to improve the quality and energy efficiency of old housing stock and utility networks

The task of the event is to overcome the shortage of high-quality housing, reduce heat and energy consumption, and increase the share of alternative sources in energy consumption.

It is necessary to introduce municipal energy management and energy monitoring in communities as a system for managing the use of energy and natural resources. Within the framework of such a system, action plans for sustainable energy development of communities should be developed based on the European initiative of the agreement of mayors to achieve the EU climate and energy goals, which should include: (1) comprehensive support for expanding home management practices through condominiums by creating regional resource centers to support condominiums; (2) introduction of a separate package for condominiums of Donetsk and Luhansk regions within the framework of state programs to support energy modernization; (3) assistance in providing soft loans for major repairs of houses within the framework of municipal programs; (4) development of new schemes for heat supply of communities (and ways to implement them), including modernization of heating networks using energy-efficient materials and equipment.

4.2.3. Event: providing high-quality drinking water to the population of Donetsk and Luhansk regions

Task of the event is a comprehensive solution to the reliable supply of high-quality drinking water in the communities of Donetsk and Luhansk regions through the introduction of the latest technologies.

In order to implement the event, it is proposed to: (1) consider the possibility of a stable source of funding for the implementation of the humanitarian mission of water supply to the temporarily occupied territories of KP "Voda Donbassa" and KP "Popasnyansky Rayonnyi Vodokanal"; (2) development and implementation of alternative water supply schemes and plans in the communities of Donetsk and Luhansk regions (including existing ones), diversification of sources of drinking water supply in the communities of Donetsk and Luhansk regions; (3) modernization of water supply systems, pumping equipment, replacement of pumps with energy-saving ones from the KP "Voda Donbasa" and KP "Popasnyansky Rayonnyi Vodokanal", which will reduce water losses and electricity costs for it.

4.2.4. Event: availability of capable networks for providing medical, educational, administrative and social services in communities on the contact line and territories bordering the Russian Federation

The task of the event is to improve the living standards of people in the most vulnerable communities through better access to basic education, health and cultural services.

It is necessary to create a system of administrative multicenters with functionality like the Social Office "Multicenter" in Mariupol, or service zones that were created at the EECP Shchastia and Novotroitske. It is proposed to create multicenters in the communities adjacent to the contact line, namely: Stanytsia Luhanska, Zolote, Shchastya (Luhansk region), Maryinka, Mayorske, Novotroitske, Hnutove (Donetsk region).

4.2.5. Event: providing high-quality medical care and building clinical hospitals

The task of the event is to restore access of regional residents to high-quality medical services.

The following steps are proposed: development of the primary health care network in rural areas; - implementation of a project to carry out repair and reconstructive operations and modernize the "Regional Children's Hospital of Slavyansk" in order to create a tertiary-level institution;

- construction of a regional multidisciplinary hospital in Kramatorsk;

- construction of a regional multidisciplinary hospital in Severodonetsk.

4.2.6. Event: promoting the development of the region's tourism potential

The task of the event is to develop local tourism and popularize cultural heritage.

The tourist and recreational direction provides for the creation of at least three recreational clusters, namely: "Limano-Kreminska destination", "Svyatogirsk destination", "Priazovsk destination". Each of these tourist clusters requires the formation of a separate strategy with clear parameters of specialization. A separate area of tourism development may be post-industrial tourism, which includes such areas as: Soledar mines, sparkling wine production in Bakhmut, metallurgical production and coal mines.

4.2.7. Event: development of effective governance and forms of direct democracy in the communities of Donetsk and Luhansk regions

The task of the event: development of an effective management system in territorial communities focused on the needs of the population, introduction of modern forms of public participation, including e-governance.

The main principles of management should be: equal access of the population to quality services, gender equality and inclusion, involvement of citizens in making managerial decisions in communities; (2) autonomy of municipal institutions; (3) creation and support of municipal registers (databases) using Geo-information technologies; (4) introduction of various forms of direct democracy in communities (public discussions, public initiatives, appeals and requests from citizens, electronic petitions, advisory bodies, dialogue platforms, etc.); (5) introduction of gender analysis in the community management system by improving the gender competence of local staff; (6) creation of local project teams.

4.3. Initiative: "Improving the quality of the environment"

4.3.1. Event: Development and implementation of sustainable urban mobility plans

The task of the event is to reduce emissions of pollutants from mobile sources.

To reduce emissions of harmful substances from mobile sources, communities in Donetsk and Luhansk regions need to develop and implement sustainable urban mobility plans. Reduction of emissions of pollutants and noise levels can be achieved by: (1) introducing modern methods of planning and managing urban traffic; (2) promoting the development of non-motorized vehicles; (3) replacing rolling stock of public transport with internal combustion engines with electric vehicles.

4.3.2. Event: development of regional environmental monitoring systems

The task of the event: development and implementation of modern environmental monitoring systems in Donetsk and Luhansk regions.

The development of regional environmental monitoring systems is carried out within the framework of the requirements of Directive 2008/50/EC of the European Parliament and of the Council of 21 May 2008 "On atmospheric air quality and cleaner air for Europe" and Directive 2004/107/EC of the European Parliament and of the Council of 15 December 2004 "On Arsenic, cadmium, mercury, nickel

and polycyclic aromatic hydrocarbons in atmospheric air", directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 year "On approval of the boundaries of the community's activities in relation to water policy" and so on.

4.3.3. Event: Collection and disposal of industrial and household waste

The task of the event is to increase the share of recycled waste through the development of regional household and industrial waste management systems.

The development of regional household and industrial waste management systems is carried out in compliance with the requirements of Directive 2008/98/EC of the European Parliament and the Council of 19 November 2008 "On waste and repeal of certain directives", Directive 1999/31/EC of 26 April 1999 "On waste disposal", Directive 2006/21/EC of the European Parliament and the Council of 15 March 2006 "On waste management of mining enterprises", which amends the Directive 2004/35/EC

The successful experience of Mariupol in using credit funds to modernize and increase the efficiency of the waste management system can be borrowed by other major cities in the region.

4.3.4. Event: adaptation to climate change and mitigation of its consequences, reduction of emissions of pollutants from stationary sources

The task is to reduce greenhouse gas and pollutant emissions into the atmosphere.

To minimize the environmental, economic and social risks of climate change, it is necessary to develop and implement regional and local action plans for climate change adaptation and action plans for climate change mitigation.

Climate change adaptation and mitigation measures are developed taking into account the goals of the United Nations Framework Convention on climate change, the Paris Agreement, and the European Commission's policy initiatives "European Green Deal"

4.3.5. Event: maintenance of mine water levels and treatment

The task of the event: is to take into account the safety of mine water treatment and drainage systems in the development and implementation of projects for the liquidation of mining enterprises.

Due to the uncontrolled flooding of a number of mines in Donetsk and Luhansk regions, there is an urgent need to take into account the preservation of mine water treatment and drainage systems during the development and implementation of projects for the liquidation of mining enterprises including through the creation of mine water treatment systems and the use of mine water, for example: the construction of desalination plants for mine water mines "Zolote" (Zolote), previously closed mines "Kreminna" (Kreminna), "Chernomorka" (Lisichansk), as well as the construction of supply water pipes to the drinking water supply networks of these cities, at the expense of the state budget and investors.

5. Strategic direction: "Establishing communications"

The task of the direction is to form a positive perception of the region and restore confidence in the authorities in order to implement reintegration processes; to counter the influence of Russian Mass Media on the formation of consciousness of residents of the territories of Luhansk and Donetsk regions controlled by Ukraine.

Direction indicators:

Indicator	Region	Basic as of 2019	Intermediate till 2023	Target till 2030
Trust in local authorities (SCORE indicator)	Donetsk region	2,9	3,3	4,3
	Luhansk region	3,9	4,0	4,5
	Ukraine	3,3	3,6	4,3
Public optimism	Donetsk region	4,5	5,1	5,5
	Luhansk region	3,8	4,5	5,2
	Ukraine	5,1	5,6	5,5

Source: The Social Cohesion and Reconciliation (SCORE) Index

5.1. Initiative: "Creating a communication strategy"

5.1.1. Event: creation of a unified communication framework and effective communication between state institutions and communities

The task of the event is to form a comprehensive strategy and common standards of communication with all state institutions involved in the development of the economic development strategy of Donetsk and Luhansk regions, as well as a long-term communication plan.

To establish effective communication between state bodies and local administrations, we need common communication standards and a communication framework that will be used at all stages of implementing the economic development strategy of Donetsk and Luhansk regions.

According to the developed strategy, a standard set of communication tools should be introduced, namely: the formation of regular information messages, the creation of a single brand book for the implementation of the economic development strategy of Donetsk and Luhansk regions, regular press events, the creation of tools for rapid information exchange between all communication services of major stakeholders.

5.1.2. Event: creation of a single Information Center

The task of the event is to create an Information Center that will become a single point of collection and dissemination of information.

The purpose of the event is to create a single Information Center for the development and implementation of an economic development strategy, which will be the main entry and exit point for information on the implementation of the SED. It is also responsible for correcting the information framework for institutions, as well as communicating with the media, public opinion leaders, news agencies, and so on.

5.2. Initiative: "Ensuring unhindered access to the Ukrainian Information field"

5.2.1. Event: ensuring comprehensive internet access as a basic human need

The task of the event is to ensure that all households in the region can connect to the internet and use Ukrainian IPTV/OTT platforms.

Access to Information resources is one of the signs of active citizenship in most democracies of the world, but the use of a limited number of sources distorts information that is taking place in the context of a hybrid war waged by Russia against Ukraine. On both sides of the contact line, residents of Donetsk and Luhansk regions are in the disinformation field.

Internet access is becoming particularly important in the context of the COVID-19 pandemic and the growing demand for additional education, which is due to changes in the economy's labor needs.

5.2.2. Event: ensuring access to Ukrainian TV and radio products, forming a pro-European identity

The task of the event: to provide a technical opportunity for residents of the region to have reliable access to Ukrainian TV and radio products using various technical systems of signal transmission; to provide protection from the information flow of the aggressor country and its mercenaries, to form a pro-European worldview.

As part of the implementation of the National Security Strategy, recommendations of the committee and parliamentary hearings of the Verkhovna Rada, it is necessary to implement a set of measures, first of all, to develop a state target program to ensure stable Ukrainian broadcasting in the temporarily occupied, adjacent to the conflict zone and border territories of Ukraine for 2022-2024. This program provides, in particular, for measures to create and regularly update a database (broadcasting passports) in the aspect of communities located on the border and adjacent territories of the conflict zone.

5.3. Initiative: "Increasing the level of social cohesion"

5.3.1. Event: formation of tolerance and social consolidation

The task of the event is to reduce the level of conflict while maximizing the involvement of the entire population, social and gender groups in the active life of communities.

Post-conflict traumas, forced displacement, and low incomes lead to the potential threat of conflict and disruption of cohesion chains.

Simultaneously with the system of economic changes, it is necessary to introduce a system of building social connections. Such connections should be set up in the following areas::

- a person and the community;
- links between communities;
- links between regions;
- involvement of citizens in decision-making;
- elimination of gender and social inequality;
- socialization of IDPs.

Section IV. institutional management system

Given the high level of importance of the development and implementation of the economic development strategy of Donetsk and Luhansk regions, its social weight, the close attention of Ukrainian society and the international community, as well as the importance of ensuring a high-quality management system for the strategy and territory of long-term development, the involvement of most public administration bodies and international organizations in this process, it is necessary to ensure the creation of a special management system for the implementation of the economic development strategy of Donetsk and Luhansk regions. Thus, (1) an SED implementation management system and (2) a priority development territory management system will be created.

Principles of Functioning of the Priority Development Territory in Donetsk and Luhansk Regions

The Priority Development Territory (hereinafter referred to as the PDT (the final definition will be given in the law)) in Donetsk and Luhansk regions is created in order to form a modern economy of the region on the basis of an innovative development model with a broad attraction of domestic and foreign investment resources.

The PDT will operate within two administrative-territorial units of Ukraine, namely Donetsk and Luhansk regions, and will not apply to the TOT. We propose to introduce a special regime of investment activity for ten years.

It provides for the possibility of functioning of the following subjects:

1. **Advisory Council** of the economic development strategy of Donetsk and Luhansk regions (hereinafter referred to as the Advisory Council), whose main tasks should be to constantly update and monitor (evaluate) the implementation of the economic development strategy of Donetsk and Luhansk regions (hereinafter referred to as the strategy); integration of the strategy with other strategic documents of the state, primarily with the "economic strategy of Ukraine — 2030"; open and transparent reporting to the citizens of Ukraine, the leadership of the state and the international community on the implementation of the tasks of the strategy. The Advisory Council should include representatives of government agencies, international financial organizations, and world-class experts.

2. The Authorized management body of the territory of long-term development should be the (state) **Agency for PDT management** (hereinafter referred to as the Agency), which will be the central executive authority, whose activities will be managed by the Cabinet of Ministers of Ukraine through the Minister for the Reintegration of Temporarily Occupied Territories of Ukraine. The main tasks of the Agency are to ensure the implementation of the strategy through the development and implementation of relevant programs and projects and coordinate the efforts of all agents of the ecosystem (primarily its residents).

3. **Consortium Financing Fund**, the model of which will be determined in close cooperation with international financial institutions. Its main tasks are to finance the development of priority investment projects, attract investors and international financial assistance, and to promote the formation of a sufficient level of community capacity.

4. **State Venture Fund**, whose functions will include investing in the territories of priority development of Donetsk and Luhansk regions or applying other forms of support for new business projects. It is advisable to consider the possibility of developing the existing Ukrainian startup fund at the first stage.

5. **Investment Agency** whose functions will include assistance in attracting investment primarily in the segment of small and medium-sized businesses through the creation of a network (in particular, through

attracting entities of various forms of ownership or forming a franchise). The possibility of creating a synergistic effect through cooperation with "Diya.Business" and SE "Ukrinvest".

6. **Branch of the International Arbitration Court**, whose functions will include the introduction of new investment protection tools for PDT through the extension of international arbitration jurisdictions in the territory of priority development of Donetsk and Luhansk regions.

7. **Local Self-Government bodies** and local state administrations.

8. **Residents** of the territory of prospective development.

The PDT management system will include:

- authorized management body (DPT Management Agency);
- Donetsk regional state administration;
- Luhansk regional state administration.

A **resident** of the prospective development territory in Donetsk and Luhansk regions **can become** a business entity registered under the legislation of Ukraine, which will have the legal status of an individual entrepreneur or a legal entity registered under the legislation of Ukraine on the territory of Donetsk or Luhansk region (except for temporarily occupied territories).

Managing the prospective development territory

The authorized management body of prospective development territory should be the DPT Management Agency. It will have the status of a central executive authority, whose activities will be managed by the Cabinet of Ministers of Ukraine through the Minister for the Reintegration of Temporarily Occupied Territories of Ukraine. It is necessary to build a modern corporate governance system of the agency, consisting of the supervisory board, management board and executive directorate.

It is advisable to grant the following powers to the PDT Management Agency:

- * ensuring the implementation of the PDT strategy and the development and implementation of current development programs;
- * ensuring interaction and coordination of the activities of subjects of the prospective development territory with state authorities;
- providing advice to residents of the prospective development territory on the implementation of economic activities of this territory;
- * maintaining a register of PDT residents;
- * making decisions on entering a business entity in the Register of PDT residents or removing a resident from such a register;
- * monitoring the performance of a PDT resident's duties and compliance with their rights;
- * development and implementation of organizational measures to attract financial resources;
- * development of a system of communication relations, advertising and information work on the functioning of the PDT and the activities of its residents;

Regional state administrations and local self-government bodies, on the territory of which a special regime of investment activity has been introduced, will exercise their powers in accordance with the Constitution, Legislation of Ukraine and other normative legal acts, taking into account the specifics that the law will determine.