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DEVELOPMENT FINANCE ASSESSMENT: DONETSK REGION

ANALYTICAL REPORT





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Reservation

The draft report has been prepared within the project implemented by the Institute for Economic Research and Policy Consulting with the support of UNDP. The opinion of the authors of the report might differ from the stance of the UNDP.

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ABBREVIATIONS

BCU	Budget Code of Ukraine
GDP	Gross domestic product
GVA	Gross value added
IDPs	Internally displaced persons
VRU	Verkhovna Rada of Ukraine
PBO	Principal budget owners
SASU	State Audit Service of Ukraine
PEFA	Public Expenditure and Financial Accountability
Statistics Service	State Statistics Service of Ukraine
STSU	State Treasury Service of Ukraine
PPP	Public-private partnership
SFRD	State Fund for Regional Development
EBA	European Business Association
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EU	European Union
UST	Unified social tax
HCF	Health care facilities
INFF	Integrated National Financing Framework
CMU	Cabinet of Ministers of Ukraine
MNE	Municipal non-profit enterprise
ME	Municipal enterprise
CSR	Corporate social responsibility
IBRD	International Bank for Reconstruction and Development
Ministry of Economy	Ministry of Economy of Ukraine
Ministry of Regions	Ministry for Communities and Territories Development of Ukraine
Ministry of Finance	Ministry of Finance of Ukraine



ITA	International technical assistance
IFC	International Financial Corporation
IFI	International financial institutions
NBU	National Bank of Ukraine
NCSSM	National Commission on Securities and Stock Market
RSA	Regional State Administration
LSGA	Local self-government authorities
UN	United Nations
DFA	Development Finance Assessment
VAT	Value added tax
IIT	Individual income tax
DFI	Direct foreign investment
CIT	Corporate income tax
UNDP	United Nations Development Programme
PFTS	First Stock Trade System (Stock Exchange)
ACU	Accounting Chamber of Ukraine
RF	Russian Federation
SCMU	Secretariat of the Cabinet of Ministers of Ukraine
WTO	World Trade Organization
PFMS	Public Financial Management System
USA	United States of America
IE	Individual entrepreneur
SDGs	Sustainable Development Goals
USAID	United States Agency for International Development



Chapter 1.

INTRODUCTION

The Agenda 2030 for Sustainable Development adopted by the United Nations (UN) in 2015 set the integrated and ambitious vision of global development. It provides for achievement of the clear seventeen sustainable development goals with specific tasks as well as the list of indicators of how the world countries succeed in implementation of the Sustainable Development Agenda. At the same time, achievement of the sustainable development goals by 2030 (SDGs 2030) takes material and sustainable financing by governments, international organisations and private businesses. Given the limited development finance capacity, the available funds should be concentrated on the areas that will mostly facilitate implementation of SDGs 2030 in all dimensions: social, humanitarian, security, economic and climate ones. It requires revising the governmental policy for setting the priorities during the strategic and budget planning, increasing performance of interaction between the private and public sectors, and enhancing cooperation with the international financial institutions.

In 2019, the UN professionals suggested that the national governments should introduce the special tool to support implementation of the national development strategies, namely the Integrated National Financing Framework (INFF), in order to create the efficient framework for implementation of the sustainable development goals.¹ The actual purpose of this tool is to facilitate formation of the common idea of national development priorities and tasks and to ensure financing thereof with account of the country's current development,

challenges and obstacles and opportunities by coordination efforts to achieve the sustainable development goals by all the stakeholders.

The experts of the United Nations Development Programme (UNDP) have developed several tools for efficient implementation of the INFF, including the Development Finance Assessment (DFA).² The assessment aims at finding the opportunities to improve performance of the available development finance and to mobilise additional financing. Moreover, the assessment is effected based on the sustainable development goals in order to clearly see which financing sources are most important for implementation of the respective goals and national policy priorities accordingly. The available development finance and areas of use thereof need to be understood to develop the policy actions both at the national and local levels, and implementation thereof will facilitate an increase in such financing.

The work group responsible for implementation of the INFF was established in Ukraine in spring 2021. The development finance assessment project was implemented in May to December 2021 with the support of the UNDP for Ukraine and two regions, Donetsk and Kherson Regions; the project was implemented by the Institute for Economic Research and Policy Consulting (Kyiv). The importance of drafting separate DFA reports for the regions is explained with the decentralisation reform as well as different development level and different challenges and tasks faced by the regions. The assessment is mostly associated with the period from 2016 to 2020.

¹ UN Financing for Sustainable Development Report 2019, <https://developmentfinance.un.org/fsdr2019>

² DFA – Development Finance Assessment.



This report is on Development Finance Assessment in Donetsk Region. It presents financing of regional development in 2016 to 2020 by various sources, public and private, external and internal, for seventeen sustainable development goals³. It should be noted that the research contains expert assessment of allocation of financing by the SDGs since there is no formal classification of budget expenditures, external financing and capital investment based on the sustainable development goals. Moreover, all the financing is assumed to be used for the tasks that help achieve the SDGs 2030 by some means or other.

Donetsk Region has traditionally been one of the most economically developed regions of Ukraine. In 2014, it faced the challenges of the Russian military aggression and loss of some of the area with the developed industrial facilities. A lot of internally displaced persons (IDPs) have been registered in the region, which creates additional social protection needs. Recovery of the regional economy, high-quality

water supply and continuous electric power supply are the regional priorities. However, investors are reluctant to work with the region due to the high risks of military escalation, so the financing hopes are vested in the international financial institutions. Still, the region has a major development potential.

The report starts with description of the regional economy that helps understand peculiarities of its development and major challenges. The following sections describe the strategic planning system, analyse budget revenues and expenditures, financing of development by municipal companies, private investors and international partners. The final section contains the opinions and recommendations of what the government must do to raise additional resources and finance development in a more efficient manner. Since one of the important regional priorities is access to clean water, which is consistent with SDG 6 "Clean water and sanitation," its financing case is considered separately.

³ Annex 10.1 presents the list of the financing sources, and Annex 10.2 contains the SDGs and progress in achievement thereof in Ukraine.



Chapter 2.

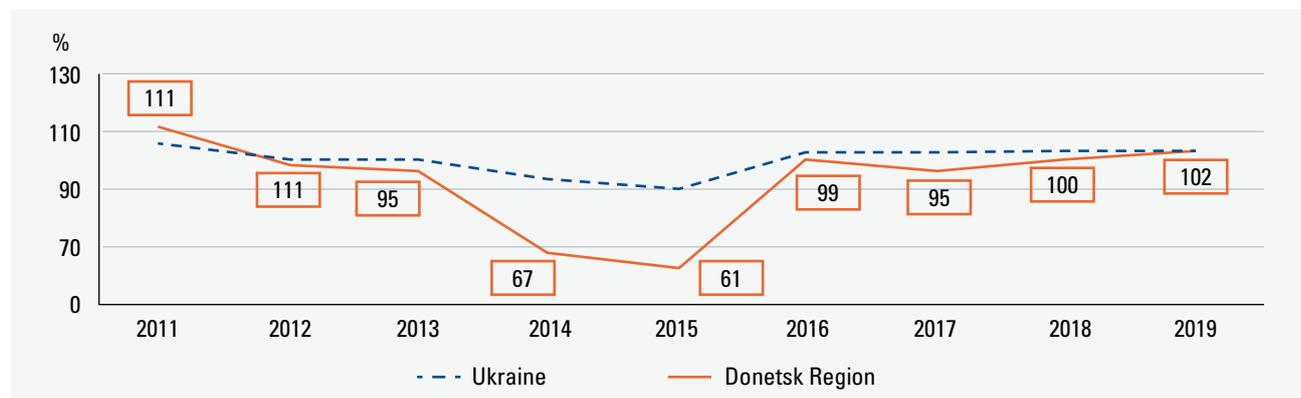
REGIONAL ECONOMY

Donetsk Region has historically been one of the Ukrainian regions with the highest economic capacity. Considerable mineral reserves were a basis for industrial development of the region, as a result of which Donetsk Region had been one of the most important regions of Ukraine in economic terms before the war: in 2004-2013, the region ranked second following Kyiv by its GDP contribution to Ukraine and had the specific weight of about 12%.

As a result of the Russian armed aggression, the region lost some of its assets, and its share

in the total national GDP in 2014-2018 made 6% on average, which made it fourth. Loss of the territory resulted in contraction of production and services as some of the companies were in the temporarily occupied area, and the traditional supply chains were broken. The regional economy kept contracting until 2018. In 2018 and 2019, the regional economy started to recover slowly: the physical production scope grew by 0.2% and 1.8% respectively. However, the economic recovery pace in Donetsk Region was slower than the average one in Ukraine (Figure 1)⁴.

Figure 1: Physical GRP index in Donetsk Region and Ukraine, 2015-2019, % in the prices of the previous year



Source: Statistics Service

As for the gross value added (GVA) in the region, the largest share pertains to the manufacturing industry – 49.9% of all the GVA in the region in 2019 (see Annex 10.2). A material contribution is also made by public administration, defence and social insurance – 8.1%; wholesale and retail and trade, repairs – 7.1%; real estate transactions – 6.5%. The share of agricultural, forestry and fish industries in the gross value added in Donetsk Region in 2019 made 6.2%,

which is less than in Luhansk Region, where the equivalent indicator is 19.6%.

Due to the loss of the large cities as a result of the temporary occupation and armed aggression by Russia, the regional economy suffered major structural changes. Thus, the trade and repairs contribution into the economic growth decreased considerably while the agricultural contribution went up. It should be pointed that

⁴ Some figures for this Section are presented in Annex 10.3.



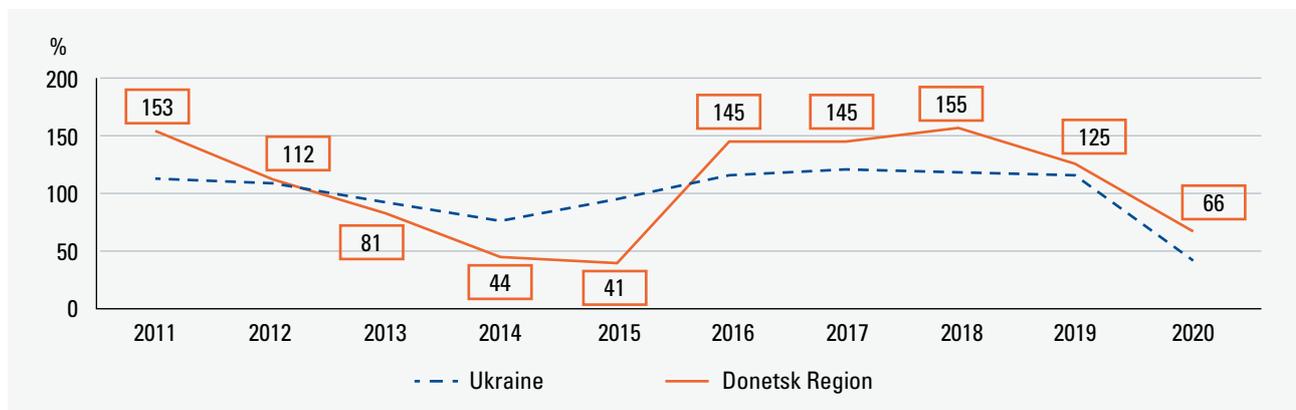
the share of trade and transport in 2016 was high, but, after the blockade of the uncontrolled portions of the Donetsk and Luhansk Regions (ORDLO) in 2017, Donetsk Region lost its transit and trade significance for good: the share of transport and postal services in the gross value added went down to 4.8%. The weight of the mining and processing industry as well as the public administration and defence sector went up because the scope of the institutional power remained unchanged (the RSA is now located in Kramatorsk) while defence in the region turned into one of the important systemic survival factors.

The manufacturing industry and agriculture in Donetsk Region faced additional challenges as a result of the Russian armed aggression. In particular, the business environment deteriorated due to the security issues in the first place, which, in addition to the physical threat for assets, also makes the corporate and public access to credit financing more complicated and limits the flow of investment into the regional economy. Foreign governments do

not recommend their citizens to visit Donetsk Region, which affects trade and business contacts. Businesses are reluctant to invest into new enterprises due to the threat of resumption of full-scale hostilities, which is of prejudice to prospects of the overall economic recovery and creation of jobs in particular.

Due to the military and political risks, the capital investment in Donetsk Region shrank considerably in 2015 and started to recover in 2016 at the very low base (Figure 2). In 2016-2019, the investment grew by 45-55% against the respective period of the previous year, which was considerably faster than the rest of Ukraine. The coronacrisis caused another decline in the scope of investment: in 2020, the capital investment in Donetsk Region fell by 34% in real terms (whereas they went down by 38% in Ukraine on average). Moreover, due to poor access to lending and lack of foreign investors, the enterprises mostly invest capital with their own funds (77% of the investment in 2020).

Figure 2: Capital investment indices, % against the respective period of the previous year



Source: Main Statistics Department in Donetsk Region, Statistics Service

Economic development is also affected by the poor entrepreneurship culture of the local people who have negative attitude to entrepreneurship and prefer to work at large enterprises. The small and medium-sized businesses in the region have few role models.

Industry. The metallurgic industry was hit both by loss of several metallurgic enterprises and access to the coking coal and limestone reserves used in the manufacturing process. In order to compensate for loss of their own coking coal, the regional enterprises had to

increase its import. The supply chains in the chemical industry were broken while one of the major enterprises in the Ukrainian chemical industry, Stirol plant, remained in the temporarily occupied territory.

Machine building in Donetsk Region, which is an industry with the largest added value, lost lots of enterprises from different areas in the occupied territories, including the military manufacturing industry, railway coach manufacturing and refrigerator manufacturing. Now the largest machine building enterprises in the



region are MRMZ and Magma that produce equipment for the metallurgic industry, ASK and Azovelectrostal that produce spare parts for railway coaches, SRZ Ship Repair Yard, and Kauchuk Industrial Rubber Products Plant.

Numerous food-industry enterprises were also occupied: a number of flour milling and bakery plants, dairy industrial enterprises, confectionery plants, Sarmat Beer Plant, and Slavoliia Oil and Fat Integrated Plant. Only one new enterprise in the industry has been constructed since 2014: oil extraction plant in Sloviansk. There is no foreign investment into the food industry.

The enterprises in Donetsk Region are key players of the ceramic production in Ukraine owing to major reserves of raw materials. There is an export expansion potential since raw materials rather than finished ceramic products are mostly exported now. The manufacturing scope of the end-consumption products (plumbing equipment, crockery) is still low.

The consumer goods industry in Donetsk Region has traditionally been associated with the heavy industry and has mostly produced special clothing for metallurgic, coal and other enterprises. The demand for military clothing grew in 2014, so some of the enterprises started the production. The industry keeps growing, but it depends on imported fibre and fabric.

Agriculture. Donetsk Region mostly rears winter wheat and sunflowers: the crop yield of winter wheat in Donetsk Region was a bit higher than the average one in Ukraine (4 t/ha against 3.88 t/ha), and the crop yield of sunflowers was a bit smaller (1.76 t/ha against 2.06 t/ha). Most cereals and legumes are exported while sunflowers are processed into oil. Imperfection of the transport infrastructure limits agricultural development in the region: the road infrastructure around Mariupol does not meet the needs of the exporters that use the city port as one of the principal terminals to dispatch their products abroad. As for the Port of Mariupol itself, the new grain terminal and the oil facility that are supposed to increase its capacity still have not been commissioned.

The climate in Donetsk Region is dry so the amelioration systems must be restored in

order to increase the yield of the main crops and encourage agricultural production with the higher added value, such as corn and soy.

One of the tragic consequences of the Russian aggression in Donetsk Region is landmine contamination of fields. Due to the landmine contamination and erection of fortification structures, some of the agricultural lands cannot be used by agricultural producers although the owners of such land plots are still assessed the land tax.

Foreign trade. Donetsk Region has traditionally been one of the major exporters in Ukraine and ranks second following Dnipropetrovsk Region (without taking into account the city of Kyiv). In 2016, the indicator was 3.4 billion US dollars or only 9.4% of the aggregate export of the goods, and it made 3.9 billion US dollars in 2020 (8% of the aggregate export of the country). The region has a positive trade balance: in 2020, Donetsk Region imported the goods worth of 1.4 billion US dollars, which is 2.5 billion US dollars less than the export.

Logistic challenges limit the regional export. At the same time, the structure of the commodity export in Donetsk Region is non-diversified. The share of black metals and their products made 79.7% of the total commodity export in the region in 2020. Volatility of metal prices in the global markets results in vulnerability of export proceeds. Only 7.8% of the commodity export pertains to machines, equipment and mechanisms; 6.2% is mineral products (salt, ore etc.). Agriculture covers up to 3% of the export, including 1.5 percentage points for export of cereal crops (see Annex 10.2). In 2016-2020, the export structure remained practically unchanged: the lion's share of export is black metals and their products.

There have been major changes in the geographical structure of the regional export for the last seven years. The share of the Russian Federation, which used to be the most important country for export in 2013, keeps going down: from 19.7% in 2013 down to 17.1% in 2016 and, finally, down to 12.4% in 2020. In the first place, it resulted from the legislative restriction of export to Russia by Ukraine as well as the decision of the RF to restrict import from Ukraine. However, the share of export to Italy grew: from 10.7% in 2013



up to 20.7% in 2016 and up to 21.9% in 2020. Products of the metallurgic plants are exported to Italy and used for further manufacturing. The important trade partners of the region are Turkey, Poland and the USA.

Transport. The Russian aggression has broken most of the transit routes in the region. Donetsk Region has fully lost its flight connections since the main regional airport, Donetsk International Airport, was destroyed during the long-term battles while the air space above the region has been closed down for safety reasons, which prevents operation of the airports in Mariupol and Kramatorsk.

The rail routes have also been disrupted. The situation in Mariupol turns out to be especially grave as the only railway connecting it with the rest of Ukraine is the single track from Volnovakha to Komysh-Zoria. In 2019, the project was implemented to expand the railway up to two tracks, but lack of electricity at the track materially limits the cargo traffic capacity. Implementation of the railway infrastructure development project in the region will enable reducing passenger carriage time, improving the cargo accessibility of Mariupol and decreasing the pressure on the rolling stock of Ukrainian Railways since the electric locomotives will not have to be replaced with diesel locomotives at the non-electrified sites.

A major threat for the logistics via the Port of Mariupol, which is a sea gate to Donetsk Region, is the Russian control over the Kerch Strait: closure of the strait by Russia for passage of military ships until October 2021 demonstrated that the RF could limit access to the Ukrainian ports in the Azov region any time to put political and economic pressure.

The railway challenges resulted in more pressure on the motor roads. Redistribution of traffic to bypass the occupied territories, the need to ensure passage for heavy vehicles (both cargo and military ones) are additional factors in more pressure on the motor roads in Donetsk Region. Some of the road infrastructure was damaged or ruined during the years of the war. Twenty-two priority objects in the region were restored within the Large Construction Programme, including eighteen roads and four bridges in 2020.

Power industry. The Russian aggression has caused lack of balance in the electric power infrastructure. Firstly, the anthracite and lean coal reserves for electric power plants are in the occupied territories, so three fourth of the capacity of the electric power plants face shortage of coal and the need to import or make material investment into transfer to other types of fuel. Secondly, reduced electric power consumption as a result of losing the significant portion of the industrial enterprises has increased the costs to distribute power to consumers: the power distribution value is among the highest ones in the country. It is difficult to get connected to the electric power system in Donetsk Region the same way as in the other regions of Ukraine because the connection process on average takes 267 days. It adds complexity to the challenges in the investment attractiveness of the region.

There are several large coal mines left in the controlled areas in Donetsk Region: around 20,000 people work for the state-owned coal mines in Donetsk Region. Given the unsatisfactory financial results of the mines and the green economy development tendency, the issue of "fair transformation" of the coal regions is as pressing as never before.

Human capital. The war has materially affected the demographic situation. Following the temporary occupation and as a result of the migration, approximately 1.9 million people have stayed in the areas controlled by Ukraine, against 4.3 million people who resided in Donetsk Region in 2013. As a result of the Russian armed aggression, many people from Donetsk and Luhansk Regions were forced to leave their homes, but the data collection challenges prevent fully objective assessment of the migration processes. According to the Ministry for Reintegration of the Temporarily Occupied Territories of Ukraine, as of 2020, 490 thousand people who had moved to the settlements in Donetsk Region controlled by Ukraine were registered as internally displaced persons (IDPs). For the last few years, the displaced persons have mostly preferred Kharkiv and Zaporizhzhia Regions as well as Kyiv whereas the citizens who actually reside in the occupied territory can also be registered as IDPs in Donetsk Region. The overall demographic crisis and continuous outflow of the



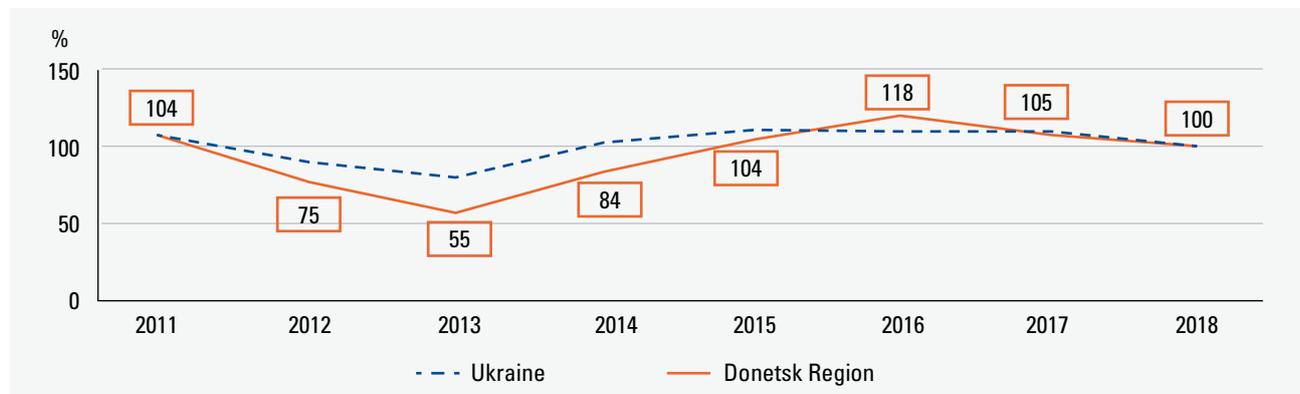
work force add complexity to the economic recovery of the region.

The indicators of the educational level in Donetsk Region are close to the average Ukrainian ones: 30% of the workers have the complete higher education, and 31% have the vocational education. Half of the employed population works in two industries: manufacturing industry (26% of the employed population as of 2019, against the average Ukrainian level of 15%) and trade (25% of the employed population). The agricultural and transport industry

give jobs to 16% of the employed while 17% work for the budget areas: education, health care, defence, public administration etc.

The real disposable household income in the region is lower than it used to be before 2013 (Figure 3). Following the rapid decline in 2014-2015, the income started to grow at the pace comparable with the average Ukrainian one. In 2020, the coronacrisis decelerated the household income growth pace all over Ukraine and in Donetsk Region as well.

Figure 3. Real disposable income, % against the respective period of the previous year



Source: Statistics Service

Labour pay takes up a lion's share of household income (62.3% of all the income in 2019). The income from pensions, scholarships and social allowances made 27.1% of the household income, which is higher than in Ukraine on average (19.2%).

Starting from 2016, the real salary in Donetsk Region started to grow following the decline in 2014-2015 (due to the economic crisis), but the growth pace in 2016-2020 fell behind the average ones (Annex 10.2). Anyway, the average monthly salary in Donetsk Region remains one of the highest in Ukraine (Figure 34 in Annex 10.3).

Moreover, due to the reduced economic activity, the unemployment level⁵ grew from 8.6% in 2013 up to 14.4% in 2015 and slowly went down to 13.8% in January to March 2020. However, Covid-19 pandemic in 2020 resulted in the average unemployment level of 14.9% in the region while the average one in Ukraine among the population aged 15 to 70 made 9.5%.

More than half of the expenditures of the population in the region in 2019 was for food (51.9%), which was more than in Ukraine on average (46.6%). It could mean the higher level of poverty of the population in the region. 13.2% of costs of the residents in the region were housing and utility payments.

Thus, Donetsk Region is now facing numerous challenges, the one of which is hostilities in the region and the threat of escalation of the armed conflict with Russia. The infrastructure, both transport and power one, needs investment that will facilitate development of the manufacturing industry and agriculture and export accordingly. The investment must also be made into development of new industrial capacities and upgrade of the existing ones in order to maintain the competitive ability of the industries and increase the added value of the products. However, the traditional manufacturing industries of the region will face the challenge of transition to the green economy.

⁵ Based on the ILO methodology for the population aged 15 to 70.



Chapter 3.

STRATEGIC PLANNING IN THE REGION

3.1. Local Strategic Planning

Strategic planning at the regional level is quite regulated. The local executive authorities adopt their regional development strategies based on the following key laws and regulations on strategic planning:

- Law of Ukraine “On Local Self-Governance” No. 280/97 dated 21 May 1997 (as amended and supplemented);
- Law of Ukraine “On the Local State Administrations” No. 586-XIV dated 9 April 1999 (as amended and supplemented);
- Law of Ukraine “On the Fundamentals of the State Regional Policy” No. 156-VIII dated February 2015;
- Resolution of the CMU “On the Procedure for Developing Regional Strategies and Action Plans for Implementation Thereof, and Monitoring and Assessment of Their Performance” No. 932 dated 11 November 2015 (as amended and supplemented).

According to the Law of Ukraine “On the Fundamentals of the State Regional Policy”, the State Regional Development Strategy is defined as the principal strategic planning document for implementation of the state regional policy and regional development strategies (level of region) as the principal strategic planning documents at the local level. The State Regional Development Strategy sets the benchmarks for amendments to the regional policies and strategic development goals.

Financing within the State Fund for Regional Development is allowed for the regional development programmes pursuant to the tasks set by the Strategy. In August 2020, the Cabinet of Ministers of Ukraine adopted the new State Regional Development Strategy for the Period of 2021 to 2027 (SRDS 2027)⁶ to replace the previous one in effect from 2014⁷.

Regional development strategies are developed and adopted pursuant to the State Regional Development Strategy. Then all the communities have to bring their Development Strategy into conformity with the strategies of the higher level. Such three-tier strategic planning system for regional development is aimed at consistency of the development priorities in all the regions of Ukraine, development of all the communities and maintenance of the accessible public services for all the population groups.

Territorial communities started to be formed in 2014 as a part of the decentralisation reform. 46 territorial communities were formed in Donetsk Region. The territorial communities include both cities (including 14 out of 28 major cities in the region; 14 others are in the areas uncontrolled by the Ukrainian government) and villages. As of October 2021, seven out of 20 largest communities formulated and adopted the development strategies for the period of up to 2025-2030; eleven communities were elaborating strategic development

⁶ Resolution of the CMU No. 695 dated 5 August 2020, <https://zakon.rada.gov.ua/laws/show/695-2020-%D0%BF#Text>

⁷ Resolution of the CMU No. 385 dated 6 August 2014, <https://zakon.rada.gov.ua/laws/show/385-2014-%D0%BF#Text>



plans, and two other communities still had not informed of start of their work with the new strategies. As for the major communities, the sustainable development goals are directly

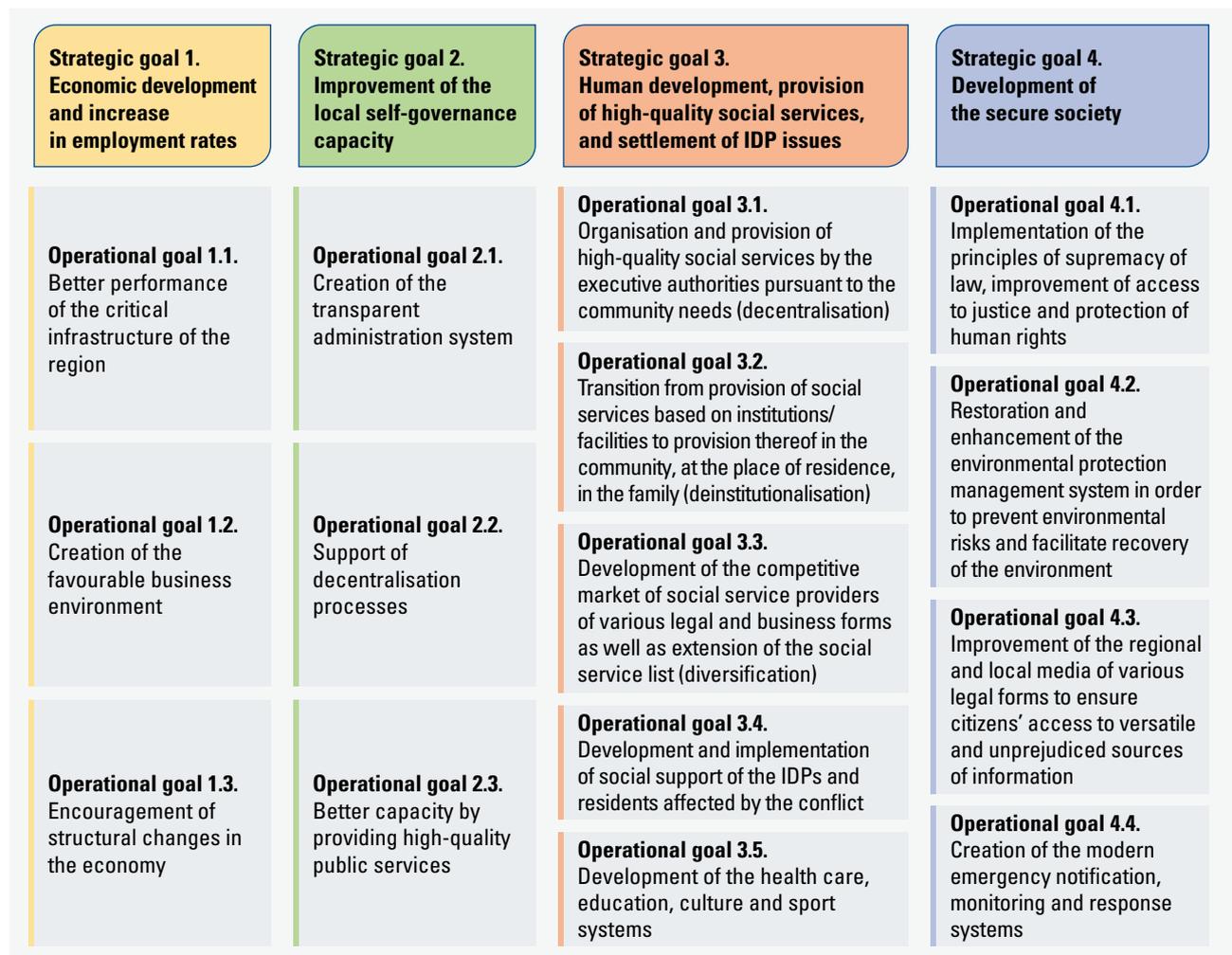
mentioned only in the strategy of Toretsk City Territorial Community. The other either refer to them indirectly or fail to mention their existence.

3.2. Regional Development Strategy of Donetsk Region

The Regional Development Strategy of Donetsk Region until 2020 was adopted in 2015 (Strategy 2020).⁸ The problem of the Strategy was that its development had started before the Russian armed aggression and the resulting loss of some of the areas so it failed to fully conform to the challenges arising. The updated strategy started to be developed a short term after. The new Regional Development Strategy of

Donetsk Region until 2020 was adopted by the Head of Donetsk Regional State Administration, the Head of the Regional Military and Civil Administration with his order in June 2016.⁹ The Strategy for the period until 2020 was developed in accordance with the State Regional Development Strategy for the period until 2020. The strategic and operational goals of Strategy 2020 are presented in Figure 4.

Figure 4: Structure of the goals in the Development Strategy of Donetsk Region until 2020



Source: Development Strategy of Donetsk Region until 2020

⁸ Joint Order of the Head of the RSA, Head of the Regional Military and Civil Administration No. 195/16p dated 12.05.2015 <http://donbassrada.gov.ua/?lang=ua&sec=02.01&iface=Public&cmd=showdoc&args=id:3262>

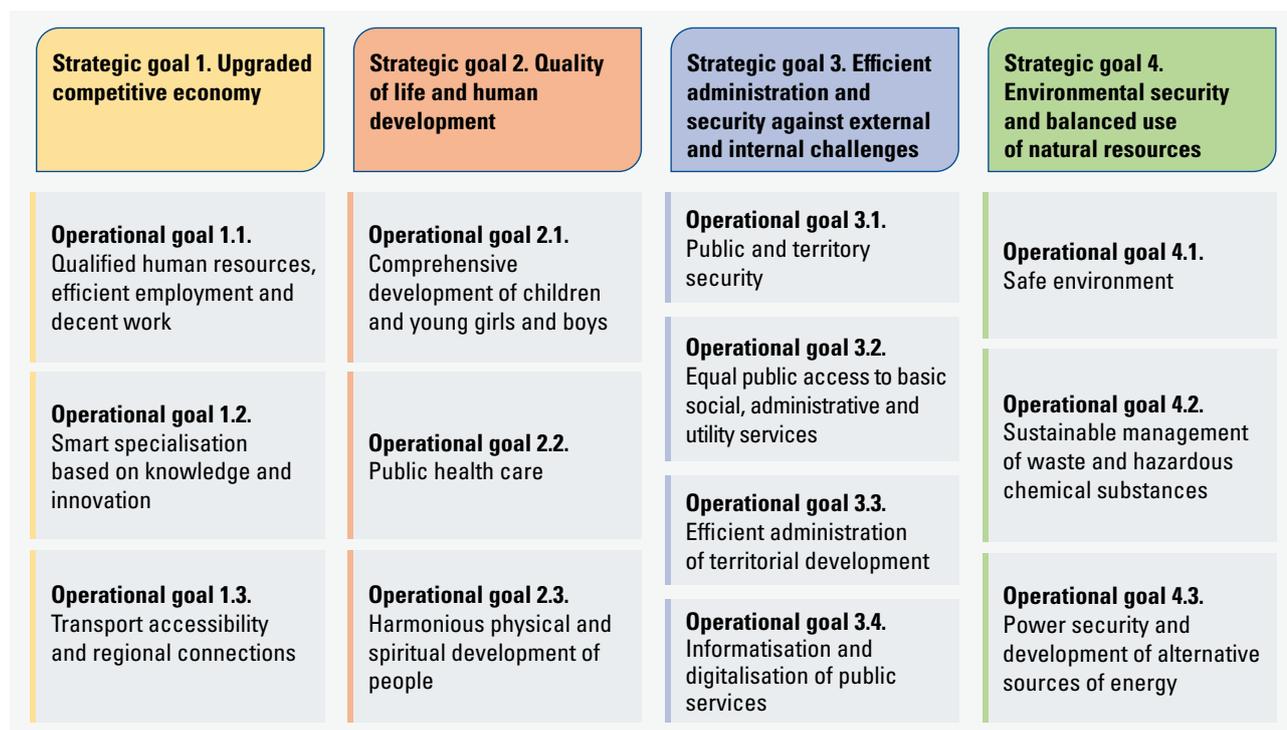
⁹ Order of the Head of the Regional State Administration, Head of the Regional Military and Civil Administration No 498 dated 21.06.2016 <https://ips.ligazakon.net/document/DO160090>



The new Regional Development Strategy of Donetsk Region until 2027 (Strategy 2027) adopted by the order of the Head of the Regional State Administration in February 2020 and developed with participation of the UNDP experts is in effect now.¹⁰ The Strategy had been adopted before the adoption of

the State Regional Development Strategy for 2021-2027, but, according to the Donetsk RSA, the regional Strategy is consistent with the State Regional Development Strategy until 2027. Figure 5 shows the principal strategic and operational goals of the new Strategy.

Figure 5. Structure of the goals in the Development Strategy of Donetsk Region until 2027



Source: Development Strategy of Donetsk Region until 2027

It should be noted that development of Donetsk Region is also considered in the Economic Development Strategy for Donetsk and Luhansk Regions adopted by the Government in 2021¹¹. This Strategy provides for the action

plan for economic recovery of two regions that suffer from material issues as a result of occupation of some areas, continued hostilities and loss of supply chains.

3.3. SDGs in the Development Strategies of Donetsk Region

The Strategy 2020 does not divide the tasks and goals by the sustainable development goals. Therefore, the tasks and financing thereof are divided by the SDGs fully based on the expert opinion of the authors of the report in the analysis of the Strategy 2020. At the same time, the Regional Development Strategy of Donetsk Region until 2027 describes achievement of the SDGs as one of the principal

long-term priorities and contains the table of conformity of the operational goals contained in the Strategy 2027 to the global sustainable development goals until 2030 and the sustainable development goals of Ukraine until 2030. The authors of the report took that division into consideration when they assessed the financing of the Strategy by the sustainable development goals.

¹⁰ Order of the Head of the Regional State Administration, Head of the Regional Military and Civil Administration 147 / 5-20 dated 17.02.2020 https://dn.gov.ua/storage/app/sites/1/strategy/strategy2027/2020/20.03.2020/rozp_147_17.02.2020.pdf

¹¹ <https://www.kmu.gov.ua/npas/pro-zatverdzhennya-strategiyi-ekonom-a1078r>



Goal 1. No poverty. One of the main tasks of Goal 1 is to reduce the poverty level and to eradicate absolute poverty, to ensure comprehensive social protection and equal access to economic resources.

In the Strategy 2020, the Goal “Eradicating poverty” is to be achieved with the Strategic Goal 1 “Economic development and increase in employment rates”, which aims at improving the business environment in the region and creating new jobs. Task 1.3.5 of the Strategic Goal is directed at expanding the state support of the unemployed by improving performance of the regional employment centres. Moreover, the tasks of Strategic Goal 3 “Human development, provision of high-quality social services, and settlement of IDP issues” are aimed at ensuring equal access to the high-quality social protection system. The Goal “Eradicating poverty” also provides for mitigation of the negative impact of environmental troubles (such as drought) and other social and economic perturbations; this clause is to be implemented with Operational Goal 4.4. “Creation of the modern emergency notification, monitoring and response systems”.

In the Strategy 2027, Goal 1 is to be achieved with Operational Goals 1.1 (“Qualified human resources, efficient employment and decent labour”) and 1.2 (“Smart specialisation based on knowledge and innovation”) of Strategic Goal 1 “Upgraded competitive economy”. The negative impact of environmental troubles and other perturbations is to be mitigated with Task 3.1.1 “Improvement of the region’s capacity to prevent, respond to and eliminate consequences of emergencies” and Operational Goal 3.3. “Efficient administration of territorial development”, which provides for development of the rural areas with the low population density, support of small mono-functional towns and elimination of consequences of the armed conflict in the settlements along the front line.

Goal 2. Zero hunger, development of agriculture. The principal tasks of Goal 2 include fighting hunger, improving food security and nutrient indices as well as supporting sustainable agriculture.

Both Regional Development Strategies of Donetsk Region until 2020 and 2027 do not contain express clauses directed at eradicating hunger in the region. It can be associated with the low level of food poverty: according to the UN¹², 13,000 among more than three million people feel the considerable food threat in the controlled areas of Donetsk and Luhansk Regions. However, this Goal is consistent with Task 1.2.4 “Development of the contemporary agricultural processing system based on the market needs” of Operational Goal 1.2 “Smart specialisation based on knowledge and innovation”.

Goal 3. Good health and well-being. The main tasks of Goal 3 include to improve health, to increase performance of the health care system and to popularise the healthy life style.

In the Strategy 2020, the Goal “Good health” is to be achieved with Operational Goal 3.5 “Development of the health care, education, culture and sport systems”, Tasks 3.5.1 and 3.5.4 of which provide for development of the health care system infrastructure and popularisation and development of physical education and sport in the region.

In the Strategy 2027, the Goal “Good health” is to be achieved with Operational Goal 2.2 “Public health care” as well as some of the tasks of Operational Goal 2.1 “Comprehensive development of children and young girls and boys” and Operational Goal 2.3 “Harmonious physical and spiritual development of people”, which provide for involvement of citizens into physical activities, educational services to children with special educational needs.

Goal 4. Quality education The principal tasks of Goal 4 include accessibility of inclusive and fair quality education.

In the Strategy 2020, the Goal “Quality education” is to be achieved with Operational Goal 3.5 “Development of the health care, education, culture and sport systems”, Tasks 3.5.2 and 3.5.3 of which provide for development of the educational and scientific infrastructure, introduction of innovation educational programmes in secondary schools in the region, and development of life-long education system.

¹² Ukraine: 2019 Humanitarian Needs Overview <https://www.humanitarianresponse.info/en/operations/ukraine/document/ukraine-2019-humanitarian-needs-overview-hno>



In the Strategy 2027, development of education is mostly covered by Operational Goal 2.1 “Comprehensive development of children and young girls and boys”. Also, Goal 4 is to be achieved with Tasks 1.1.2 “Upgrade of the regional vocational (vocational technical) education system”; Task 1.2.1 “Development and efficient use of the scientific and innovation potential”; and Task 3.4.2 “Improvement of digital skills of the population”.

Goal 5. Gender equality. One of the principal tasks of Goal 5 is to ensure gender equality and to create equal opportunities for women.

In the Strategy 2020, the Goal “Gender equality” is to be achieved with Operational Goal 2.3 “Better capacity by providing high-quality public services”; Task 2.3.1 of which is about consideration of gender aspects in coordination and support of development of the local strategies for social and economic development of the newly-established communities in the region.

In the Strategy 2027, the matters of gender equality and equal opportunities for women are included into three out of four strategic goals. For instance, Operational Goal 1.1 “Qualified human resources, efficient employment and decent labour” provides for support of the women completing their education after the child birth (Task 1.1.2); Operational Goal 2.1 “Comprehensive development of children and young girls and boys” provides for the communication, awareness-raising and information campaign on the fight against gender stereotypes among the youth (Task 2.1.3); Operational Goal 3.3 “Efficient administration of territorial development” provides for creation of equal opportunities for women and men in small mono-functional towns. The matter of gender equality is not mentioned only in Strategic Goal 4, which is dedicated to environmental challenges.

Goal 6. Clean water and sanitation. Some of the principal tasks of Goal 6 include accessibility and sustainable management of drinking water and adequate sanitation for all the populations.

In the Strategy 2020, the Goal “Clean water and sanitation” is to be achieved with Operational

Goal 1.1 “Better performance of the critical infrastructure of the region”; Task 1.1.2 of which provides for continuous water supply to the social, educational and health care facilities.

In the Strategy 2027, Goal 6 is to be achieved with Task 3.2.2 “Provision of water supply and disposal services”, which provides for supplying drinking water to everyone, improving the quality of drinking water, developing drinking water supply, guarding the drinking water supply sources and systems, and recovering drinking water reserves.

Goal 7. Affordable and clean energy. The principal tasks of Goal 7 include giving the public access to reliable, sustainable, modern and affordable energy and improving energy efficiency.

In the Strategy 2020, the Goal “Renewable energy” is to be achieved with Operational Goal 1.3 “Encouragement of structural changes in the economy”, namely Tasks 1.3.2 and 1.3.3. Task 1.3.2 provides for the energy audit and actions to reduce energy costs in administrative buildings and social infrastructural facilities. Task 1.3.3 provides for encouragement of investment into energy efficiency via the mechanisms of public-private partnership.

In the Strategy 2027, Goal 7 is to be achieved with all the tasks of Operational Goal 4.3 “Power security and development of alternative sources of energy”, which provide for fair transformation of the coal industry and better performance of management of traditional energy resources as well as development of alternative sources of energy.

Goal 8. Decent work and economic growth. The principal tasks of Goal 8 include to facilitate the long-term, inclusive and sustainable economic growth, full and efficient employment and accessibility of decent work for everyone.

In the Strategy 2020, the Goal “Decent work and economic growth” is to be achieved with Strategic Goal 1 “Economic development and increase in employment rates”, which provides for better performance of the critical infrastructure of the region, creation of the favourable business environment and encouragement of structural changes in the economy.



In the Strategy 2027, Goal 8 is to be achieved with Strategic Goal 1 “Upgraded competitive economy”; namely Operational Goal 1.1 “Qualified human resources, efficient employment and decent work”.

Goal 9. Industry, innovation and infrastructure. The principal tasks of Goal 9 include development of the reliable and sustainable infrastructure, facilitation of the inclusive and sustainable industrialisation, and encouragement of innovation.

In the Strategy 2020, the Goal “Innovation and infrastructure” is to be achieved with Strategic Goal 1 “Economic development and increase in employment rates”; which provides for better performance of the critical infrastructure of the region, creation of the favourable business environment and encouragement of structural changes in the economy.

In the Strategy 2027, Goal 9 is to be achieved with Strategic Goal 1 “Upgraded competitive economy”; which provides for better transport accessibility of the region, implementation of the smart specialisation of the region, and support of the qualified human resources.

Goal 10. Reduced inequalities. The main task of Goal 10 is to reduce the economic inequality and to ensure accessibility of social services.

According to the experts, the Strategy 2020 does not contain any goals that are clearly aimed at reduced inequalities. However, according to the assessment, achievement of SDG 10 is supported with the actions under Strategic Goal 1 “Economic development and increase in employment rates”; which provides for better performance of the critical infrastructure of the region, creation of the favourable business environment and encouragement of structural changes in the economy.

In the Strategy 2027, SDG 10 is to be achieved with Strategic Goal 1 “Upgraded competitive economy”; namely Operational Goal 1.1.3 “Development of small and medium-sized businesses as a driver of structural transformation” as well as Task 1.2.3 “Support of the industries with the economic and innovation development potential” of Strategic Goal 1 “Upgraded competitive economy” aimed at reducing the economic inequality.

At the same time, achievement of SDG 10 will also be supported by the tasks set for no poverty (SDG 1) and economic growth (SDG 8).

Goal 11. Sustainable cities and communities. The main task of Goal 11 is to increase the level of inclusion, security, resilience and sustainability of cities and all human settlements.

According to the experts, in the Strategy 2020, SDG 11 is to be achieved with Operational Goal 1.1 “Better performance of the critical infrastructure of the region”; Task 1.1.3 of which provides for introduction of the modern city and intercity transport management systems in order to increase accessibility and performance of transport services as well as preservation and development of electric transport. Also, Goal 10 is to be achieved with Strategic Goal 2 “Improvement of the local self-governance capacity” as well as Operational Goal 3.5 “Development of the health care, education, culture and sport systems”; Task 3.5.5 of which provides for preservation and development of the historical and cultural heritage.

In the Strategy 2027, SDG 11 is to be achieved with Task 1.3.2 “Development of environmentally-friendly transport” as well as tasks of Operational Goal 3.3 “Efficient administration of territorial development”.

Goal 12. Responsible consumption and production. The main task of Goal 12 is to maintain sustainable consumption and production models.

In the Strategy 2020, SDG 12 is to be achieved with Operational Goal 1.3 “Encouragement of structural changes in the economy”; Task 1.3.3 of which provides for encouragement of investment into recycling of secondary resources, production and household waste via the mechanisms of public-private partnership.

In the Strategy 2027, SDG 12 is to be achieved with all the tasks of Operational Goal 4.2 “Sustainable management of waste and hazardous chemical substances”; which provide for improvement of the solid domestic waste collection and recycling system, generation of less waste and improvement of the industrial waste management system.

Goal 13. Climate action. In the global system of the SDGs 2030, the main task of Goal 13 is



imperative fight against climate changes and consequences thereof. However, the only task for this goal in the Ukrainian national SDG system is to reduce the greenhouse gas emissions.

In the Strategy 2020, SDG 13 is to be achieved with Operational Goal 4.2 “Restoration and enhancement of the environmental protection management system in order to prevent environmental risks and facilitate recovery of the environment”.

In the Strategy 2027, SDG 13 is to be achieved with all the tasks of Operational Goal 4.1 “Safe environment”.

Goal 14. Life below water. The main task of Goal 14 is to preserve and use sea resources sustainably.

In the Strategy 2020, SDG 14 is to be achieved with Operational Goal 4.2 “Restoration and enhancement of the environmental protection management system in order to prevent environmental risks and facilitate recovery of the environment”.

In the Strategy 2027, SDG 14 is to be achieved with Task 4.1.3 “Protection of water resources from exhaustion and contamination”, which includes the actions to restore and maintain the favourable hydrological regime of the rivers in Donetsk Region and water area of the Azov Sea.

Goal 15. Life on land. The principal tasks of Goal 15 include protection, recovery and sustainable use of the land eco-systems, sustainable use of forests and fight against deforestation, termination of reduction of biodiversity and land degradation.

In the Strategy 2020, SDG 15 is to be achieved with Operational Goal 4.2 “Restoration and enhancement of the environmental protection management system in order to prevent environmental risks and facilitate recovery of the environment”.

In the Strategy 2027, SDG 15 is to be achieved with Task 4.1.5 “Preservation of the biological and landscape variety, land productivity”.

Goal 16. Peace, justice and strong institutions. The main tasks of Goal 16 include support of

peaceful and inclusive communities to ensure sustainable development, provide access to justice to everyone and create efficient and inclusive institutions at all levels.

In the Strategy 2020, SDG 16 is to be achieved with Strategic Goal 2 “Improvement of the local self-governance capacity” and Strategic Goal 4 “Development of the secure society”, which provides, without limitation, for implementation of the principles of supremacy of law, improvement of access to justice and protection of human rights.

In the Strategy 2027, SDG 16 is to be achieved with the tasks of Operational Goal 3.1 “Public and territory security”, which provides for personal security of women and men and prevention of crime. This goal is paid special attention in the region that has been directly affected by the armed aggression of the Russian Federation. The actions include, without limitation, to develop the territorial automated centralised notification system with new technologies, to organise humanitarian mine sweeping in the territories and water areas of the region, including at the facilities of the natural reserve fund, to prepare the available civil defence protection facilities fund for intended use, to equip the simplest shelters accessible by persons with disabilities, women and men with children, elderly people and other vulnerable populations, and to grant legal aid to the internally displaced persons and people affected by the armed conflict, to improve their legal awareness.

Goal 17. Partnerships for the goals. The main task of Goal 17 is to improve the means of implementation and revitalisation of global partnership for sustainable development, which, pursuant to the national SDG system, constitutes, without limitation, mobilisation of additional financial resources to finance development.

Both Regional Development Strategies of Donetsk Region until 2020 and 2027 do not contain express clauses directed at partnerships for sustainable development among the goals and tasks. However, cooperation with partners is often mentioned in the analysis of regional opportunities (SWOT), which contains information on the partners that help with the programmes for supporting development of



small and medium-sized businesses, resolving social, humanitarian and security issues. Global partnership is also an important part of

the analysis of opportunities in terms of the Association Agreement with the European Union.

3.4. Financing of the SDGs in the Strategy in 2020-2023

The Action Plans for implementation of the Strategy 2020 in 2015-2017 (amended following the modification of the Strategy in 2016) and 2018-2020 were adopted. The Action Plan for implementation of the Strategy 2027 was developed in 2021-2023. These plans contain the expected financing of tasks from the following sources of financing: state and local budgets, funds of private investors, funds of international financial institutions (IFIs), funds of state enterprises, international assistance and other legal sources. Performance monitoring and publication of the monitoring results are effected by the Department of Economy of the Regional State Administration: the website of the RSA publishes reports on implementation of the Strategy-2020 for 2015-2020.¹³

In general, 14.2 billion Ukrainian hryvnias, which are planned to be received as funds from the state and local budgets, funds of enterprises and international assistance, are provided for development finance in the Action Plan for implementation of the Strategy 2027. 900 million US dollars are going to be raised from private investors, which is the major category in financing of the actions to implement the Strategy 2027. This category includes the projects that will not be financed from the budget or own funds of state or municipal enterprises as well as private projects the implementation of which still has not started as of the period of Strategy development¹⁴.

According to the experts, as given in Figure 6, most private funds in the Action Plan are necessary for Goal 9 "Industry, innovation and infrastructure" (around 435 million US dollars). Investors are also planned to be engaged to finance the tasks that can pertain to Goal 3 "Good health and well-being" (339 million US dollars), Goal 12 "Responsible consumption

and production" (108 million US dollars), Goal 7 "Affordable and clean energy" (25 million US dollars). However, contrary to the budget funds, such financing requires an interested investor and attractive working conditions for the latter. The risks of Donetsk Region associated with the Russian aggression add complexity to this process, which poses a threat for raising the funds. Therefore, it is important to consider additional guarantees for respective investors both at the state and local levels.

According to the expert opinion, the tasks within key **Goal 9** in 2020-2023 are going to be financed, in the first place, with the funds from the state and local budgets, funds of enterprises and international assistance: the aggregate financing makes 3.8 billion Ukrainian hryvnias. The next goal by the scope of the expected financing is **Goal 6** "Clean water and sanitation", with 2 billion Ukrainian hryvnias allocated for implementation of the tasks in the Plan (see the Figure).

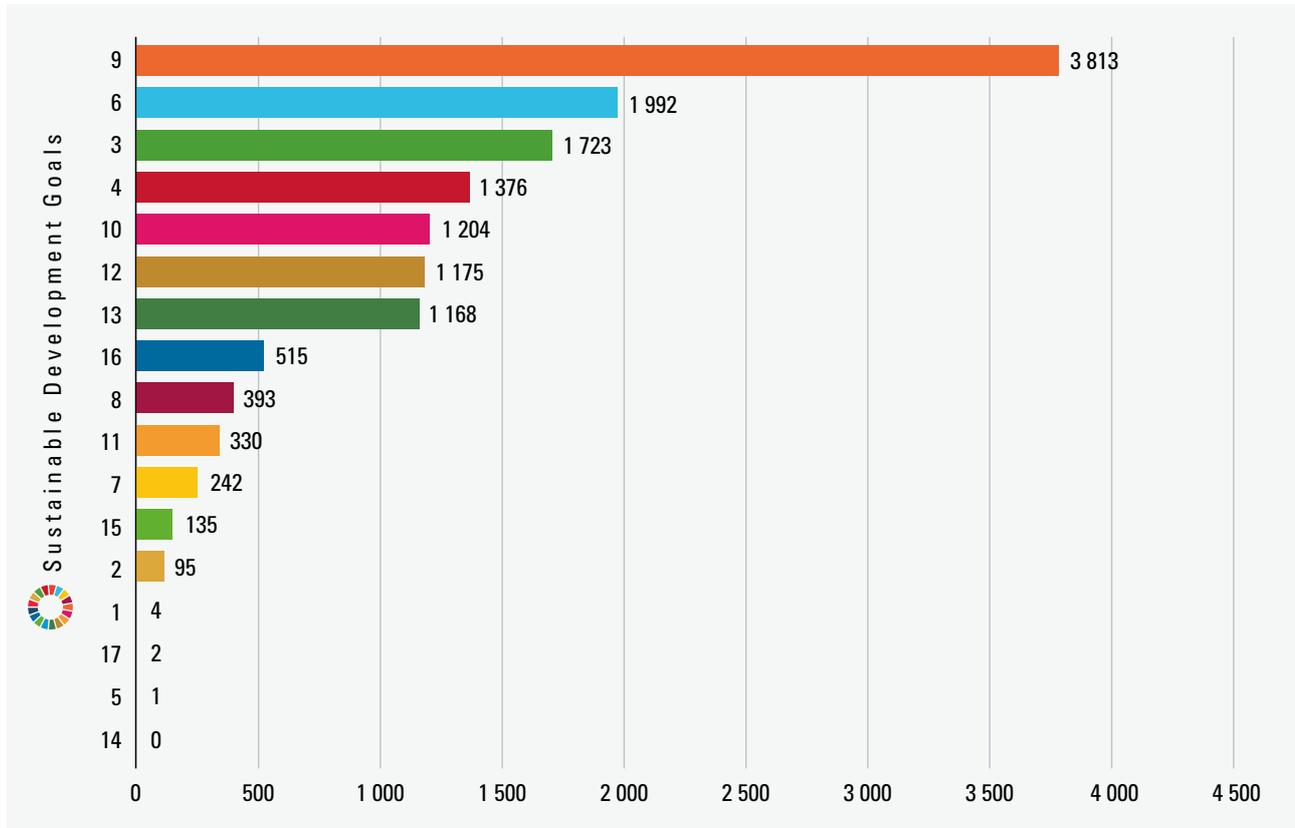
In 2021-2023, considerable funds are going to be spent to perform the tasks which, according to the experts, pertain to **Goal 3** "Good health and well-being" (1.7 billion Ukrainian hryvnias), **Goal 4** "Quality education" (1.4 billion Ukrainian hryvnias), **Goal 10** "Reduced inequalities" (1.2 billion Ukrainian hryvnias), **Goal 12** "Responsible consumption and production" (1.2 billion Ukrainian hryvnias). In general, the principal source of financing of these goals is the state and local budgets. Climate-related **Goal 13** "Climate action" is estimated to take up the financing of 1.2 billion Ukrainian hryvnias, including only 30.2 million Ukrainian hryvnias of the budget funds whereas the rest is going to be raised as investment by the industrial enterprises in the region that will implement the actions to reduce harmful emissions into the atmosphere.

¹³ Reports on implementation of the Development Strategy of Donetsk Region until 2020 <https://dn.gov.ua/ua/ekonomika/programi-rozvitku-regionu/strategiya-rozvitku-doneckoyi-Regioni/zviti-pro-vikonannya>

¹⁴ The private enterprises whose investment projects already have cost estimates and which are already being implemented pertain to the "funds of enterprises" rather than "funds of private investors" in the strategy.



Figure 6. SDGs financing assessment pursuant to the Action Plan for implementation of the Strategy 2027 in 2021-2023 (save for the funds of private investors), million UAH



Source: expert opinion based on the Action Plan for implementation of the Development Strategy of Donetsk Region until 2027 in 2021-2023

The budget financing constitutes the lion's share of funds to finance the tasks that are estimated to pertain to achievement of **Goal 16** "Peace, justice and strong institutions" (438 million Ukrainian hryvnias of the budget financing from the aggregate financing of the tasks within this goal in the amount of 516 million Ukrainian hryvnias), **Goal 11** "Sustainable cities and communities" (280 million Ukrainian hryvnias out of 330 million Ukrainian hryvnias accordingly) **Goal 7** "Affordable and clean energy" (financing from other sources, namely with the international assistance, makes only 250 thousand Ukrainian hryvnias out of 242 million Ukrainian hryvnias), **Goal 15** "Life on land" (127 million Ukrainian hryvnias out of 134 million Ukrainian hryvnias accordingly). The expenses to implement the tasks that can pertain to **Goal 8** "Decent work and economic growth" are going to be received almost equally as budget financing (217 million Ukrainian hryvnias) and international assistance (176 million Ukrainian hryvnias). The international assistance funds are planned to be the principal source of

financing for **Goal 2** "Zero hunger" (66 million Ukrainian hryvnias out of 95 million Ukrainian hryvnias).

Relatively small financing has been allocated for 2021-2023 to achieve **Goal 1** "No poverty" (3.6 million Ukrainian hryvnias, all from the budget), **Goal 17** "Partnerships for the goals" (1.8 million Ukrainian hryvnias equally divided between the budget and international assistance), **Goal 5** "Gender equality" (900 thousand Ukrainian hryvnias, all from the budget). At the same time, it should be noted that the tasks within Goal 5 are mostly performed by introducing new regulations, namely gender-responsive budgeting, rather than financing of specific actions.

The Action Plan for implementation of the Strategy 2027 in 2021-2023 does not provide for any projects associated with **Goal 14** "Life below water" although they are provided for by the Strategy. They will probably be implemented in the next years.



Chapter 4.

LOCAL BUDGETS

4.1. Local Budget Planning

The Budget Code of Ukraine (BCU) establishes the budget planning principles, rules and time frames both at the national and local levels. The Code clearly specifies the sources of revenues of the state and local budgets, the funds that are transferred to the general or special (targeted proceeds) budget funds as well as powers of different budget levels in financing of expenditures.

According to the BCU, the consolidated budget of Donetsk Region includes the indicators of the regional budget, district budgets and local self-government budgets in the regional areas. The local self-government budgets include the budgets of village, urban village and city territorial communities as well as district budgets. The decentralisation reform of 2015 has considerably reduced the number of local budgets and changed the structure of their revenues and expenditures.

On the one hand, the local self-government budgets were increased by creating the (amalgamated) territorial communities and consolidating the districts: as a result, the number of the local budgets in Donetsk Region was materially reduced. Thus, in 2021, the region has five districts and 46 territorial communities¹⁵ while there were 18 districts and many more local self-government budgets in 2016. Such changes are aimed at increasing the financial capacity of the local communities and establishing their direct inter-budget relations with the state level for more efficient budgeting. Most transfers from the State Budget are now directed at the community level rather than the regional or district

level, which is supposed to facilitate more transparency and performance of expenditures.

On the other hand, during the decentralisation reform, the local level was provided more financial resources and, therefore, more powers to finance expenditures, which was supposed to improve performance of expenditures and quality and accessibility of public services. Moreover, the important factor for financing of such services is the local financing itself and resolutions of the respective local self-government authorities.

Thus, the principal source of financing of school education is the educational subvention which, however, covers salaries of the pedagogical staff in the first place whereas the local authorities must finance the utilities and capital expenditures of the secondary educational facilities. Vocational educational establishments are owned by the local authorities and financed from their budgets. The local authorities are also responsible for financing pre-school education and art schools in their communities. The former medical subvention and the current payment for medical aid to health care facilities covers medical aid whereas repairs, procurement of equipment and payment for utilities of municipal health care facilities are financed from the local budgets. The municipal cultural and sport facilities are financed from the local budgets in the first place. The local authorities are mostly responsible for developing the network of the facilities that provide public services: educational, medical, cultural and sport ones.

¹⁵ Without taking into account the temporarily occupied part of Donetsk Region.



The local authorities can obtain financing of certain projects at the expense of the State Fund for Regional Development (SFRD), the social and economic subvention or other types of subventions that are actually targeted transfers¹⁶. The local budgets may also receive an alignment subsidy from the State Budget. At the same time, several communities pay a reverse subsidy to the State Budget instead.

According to the BCU, the local authorities have to consider the size of the inter-budget transfers approved in the State Budget when they develop and adopt their budgets. Moreover, the local budgets have to be approved at latest on 25 December of the year before the planned one. Also, if the State Budget is approved later, the local authorities have to make respective amendments to their budgets with account of the new transfers. Furthermore, gender-responsive budgeting (GRB) is mandatory both at the local and central levels.

Before the local budgets are developed and approved, three-year budget requests from principal budget owners at the local level that are considered to forecast the local budgets are prepared. According to the Code (Article 75), the forecast is made by the local financial

authority together with the other principal budget owners by 15 August of the year before the planned one, pursuant to the goals and priorities set in the forecast and programme documents on the economic and social development of Ukraine and respective territory. However, the local budgets do not always reflect the strategic priorities specified in the applicable documents. It is partly connected with the dispersal of the priorities and tasks set by the authorities and restricted budget resources available.

Starting from 2021, when they prepare their budget requests for future periods and forecast the local budgets, the local authorities also have to consider the indicators and priorities specified in the Budget Declaration¹⁷. The purpose of such forecasts is to improve predictability of the local policy and the business environment.

Budget requests and budget programme data sheets shall be based on the management by objectives (MBO). However, in fact, budget programmes mostly lack clear goals and indicators, which prevents assessment of performance of budget expenditures while the priorities and tasks are dispersed¹⁸.

4.2. Budget Revenues

The important source of financing of sustainable development is the consolidated budget, which includes the state and local budgets to which taxpayers pay taxes and effect non-tax budget payments (allocation of main payments between different budget levels is presented in Annex 10.4). The tax objects and rates are set by the Tax Code of Ukraine (TCU). The ratios for allocation of taxes between the state and local budgets (including by their levels) are specified in the Budget Code of Ukraine. The main source of revenues of the State Budget is the value-added tax (VAT), the corporate income tax (CIT) and the individual income tax (IIT). The most important sources of revenues of the local budgets include

the national IIT (divided between the state and local budgets) and local taxes (property tax and fixed tax in the first place, which are fully credited to the local budgets)¹⁹.

In addition to the taxes and levies, the unified social tax (UST), which is a source of budgets of the respective off-budget funds, is paid by employers for their employees and by individual entrepreneurs. The UST revenues are proportionally allocated for mandatory state social insurance against unemployment (4.8%), in connection with temporary loss of the ability to work and against the occupational accident and occupational disease that has caused loss

¹⁶ See the UNDP Report "Rapid Integrated Assessment: Example of government funding programmes for regional development and environmental protection of Ukraine".

¹⁷ In 2021, the Cabinet of Ministers adopted the mid-term Budget Declaration (for 2022-2024) for the first time.

¹⁸ See the UNDP Report "Rapid Integrated Assessment: Example of government funding programmes for regional development and environmental protection of Ukraine".

¹⁹ There is also mandatory pension insurance and two types of mandatory state social insurance: unemployment insurance and insurance against temporary loss of the ability to work, against an occupational accident and occupational disease. These types of insurance are administered by the off-budget funds and mostly financed with the unified social tax (UST), which is automatically directed to the Funds.



of the capacity for work (9.6%), mandatory state pension insurance to the solidarity system (85.6%). The UST revenues are fully used for current payments.

Insert: Local Taxes and Levies

According to the Tax Code of Ukraine, the local taxes and levies include two taxes and two levies. The local taxes include the property tax and the fixed tax. The property tax is made of: (1) land charges; (2) tax on the real estate different from the land plot; (3) transport tax. The land charges being a part of the property tax are paid as the land tax or lease charges for the state and municipal land plots.

The fixed tax is paid by the tax payers being individual entrepreneurs (groups I to III), legal entities (group III) and agricultural manufacturers (group IV) that have selected the simplified tax assessment, accounting and reporting system.

The local levies include the parking levy and the tourist levy.

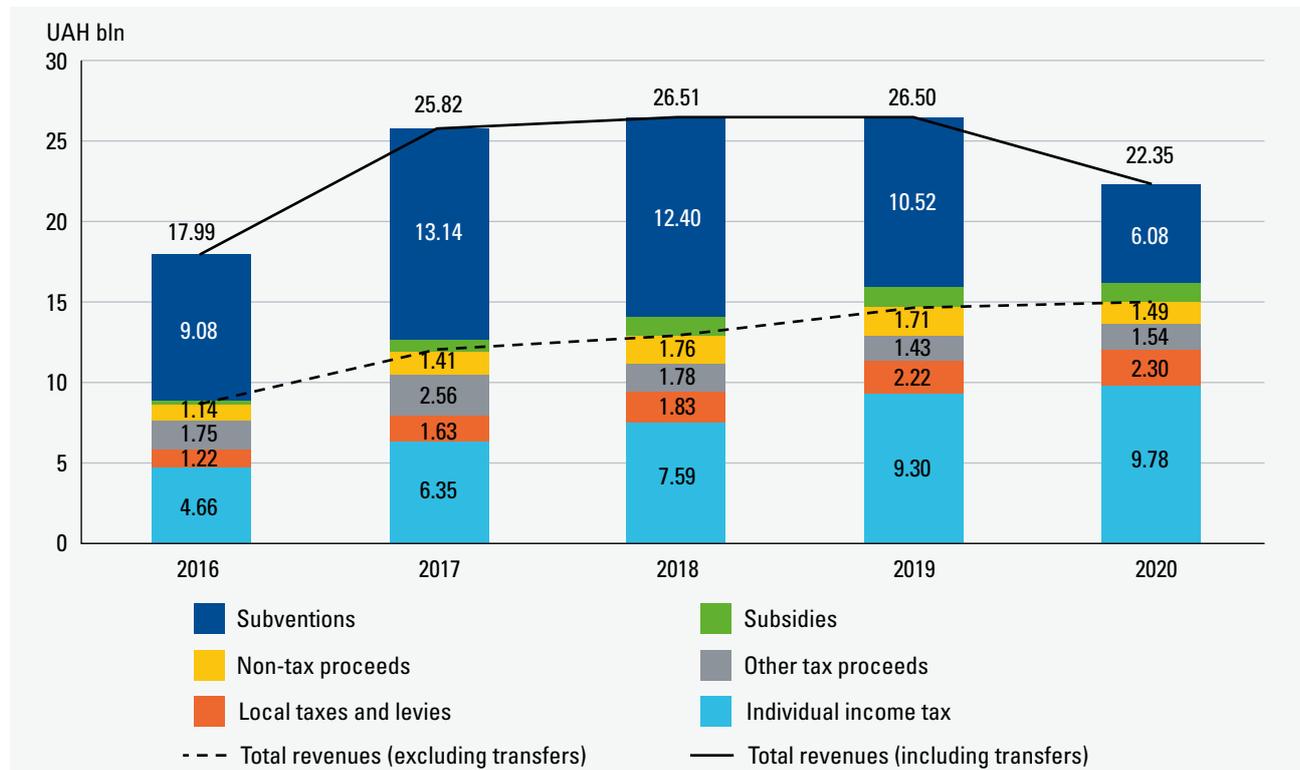
This Section analyses the revenues of the consolidated budget of Donetsk Region that unites revenues of all the local budgets of the region²⁰. The revenues of the consolidated budget of Donetsk Region are traditionally higher than average revenues in the other regions, but they were lower than the revenues of the consolidated budget

of neighbouring Dnipropetrovsk and Kharkiv Regions (Annex 10.4).

At the same time, the revenues of the consolidated budget of Donetsk Region per capita, without taking into account the transfers from the State Budget together with the respective indicator of Luhansk Region are the lowest among all the regions of Ukraine. The reasons are a large number of registered IDPs, the high unemployment level, prevalence of the elderly population in the demographic content, and registration of large companies in Kyiv and administration of their taxes at the large tax payer office.

The revenues of the local budgets in Donetsk Region include own revenues and transfers from the State Budget of Ukraine. The specific weight of own revenues made stable 46-49% in 2016-2018 and reached 55-68% in the next two years (Figure 7). It is connected with two factors: (1) growth of revenues from the taxes transferred to the local budgets, and (2) changes in approaches to financing of health care and social payments, i.e. transition to direct financing of expenditures from the State Budget rather than with subventions to the local budgets.

Figure 7. Dynamics and structure of revenues of the local budgets in Donetsk Region, billion UAH



Source: State Treasury Service of Ukraine, Statistics Collections "Budget of Ukraine" of the Ministry of Finance of Ukraine

²⁰ According to Part 4 of Article 6 of the BCU: the consolidated budget of the region includes the indicators of the regional budget, district budgets and local self-government budgets in the regional areas.



In the structure of own revenues of the local budgets of Donetsk Region, **tax revenues**, IIT in the first place, have the main specific weight. In 2020, the IIT proceeds in the local budgets made 9,779.0 million Ukrainian hryvnias. The biggest amounts were credited to the budgets of Mariupol (2,863.7 million Ukrainian hryvnias), the regional budget of Donetsk Region (1,955.8 million Ukrainian hryvnias), Kramatorsk (856.2 million Ukrainian hryvnias), Pokrovsk (550.2 million Ukrainian hryvnias), Sloviansk (379.3 million Ukrainian hryvnias), Bakhmut City ATC (317.0 million Ukrainian hryvnias).

The property tax and the fixed tax are the largest sources of revenues from the local taxes and levies in Donetsk Region. The revenues from the fixed tax paid by the IEs materially prevail the revenues from the local taxes paid by the legal entities. The biggest amounts of the fixed tax were paid to the budgets of the cities of Mariupol, Kramatorsk and Sloviansk. In terms of the types of activities, the major fixed tax payers are trade, agriculture, information and telecommunication industries.

A significant element of the property tax is land charges and tax on the real estate different from the land plot, namely the ones paid by the legal entities that own non-residential real estate. The least significant element in the structure of the property tax is the transport tax. The biggest amounts of the property tax were paid to the budgets of the cities of Mariupol, Kramatorsk and Bakhmut City ATC. In terms of the types of activities, the major property tax payers are the processing industry, transport and mining industry.

The tourist levy proceeds from which have been stably growing for the last few years play an important role in Donetsk Region. In particular, it is connected with sea resorts. However, its actual payment in 2020 was lower than planned and than in the previous year due to the restrictions imposed by COVID-19 quarantine.²¹ Also, the local budgets receiving the biggest proceeds from this levy have changed: in 2020, Mariupol and Manhush gave place to Kramatorsk and Sloviansk.

In 2017-2020, the significance of the excise tax on retail trade in excisable goods was considerably lower: the fuel was removed from the list of the items subject to assessment of the local retail excise tax. Instead, the local budgets included allocations from the national excise tax on the fuel manufactured and imported.

The unsatisfactory environmental condition of Donetsk Region defines the importance of environmental tax assessment. Mariupol ranked first in 2020 among the other cities of Ukraine, Kramatorsk ranked tenth, and Sloviansk ranked twenty-second by the level of air pollution²². Payment of the environmental tax to the local budgets was materially lower in 2018 due to the redistribution of proceeds from this tax to the State Budget, and then it resumed growth. The biggest amounts of the environmental tax in the region are paid by the large enterprises with the high levels of emission, namely DTEK Skhidenergo LLC, PJSC "Ilyich Iron and Steel Works", Azovstal Iron and Steel Works etc²³. The funds from that tax are used to finance environmental protection studies on these matters, actions to reduce the negative impact of environmental pollution in the respective areas and to eliminate damage to public health. However, monitoring of the environment shows that the actions taken are insufficient for a wide range of the pollution challenges.

The tax proceeds from rental charges are mostly accumulated by the regional budget. Their largest specific weight is rental charges for subsoil use to extract mineral resources and rental charges for special water use. The increase in rental and environmental payments is to encourage their payers to use natural resources more reasonably via tax restraint of anthropogenic pressure on the environment.

Use of tax evasion and mitigation schemes by the tax payers also has a negative impact upon dynamics of tax proceeds in Donetsk Region. Another problem is low trust of tax payers in the state represented by the regulatory tax and customs authorities due to possible corruption. The above in aggregate results in under-payment of considerable funds to the state and

²¹ The tourists paid almost 2.7 million Ukrainian hryvnias in Donetsk Region. *Main Directorate of the STS in Donetsk Region*. 28.01.2021. URL: <https://dn.tax.gov.ua/diialnist/zabezpechennya-nadhodjen/450538.html>

²² Environmental Pollution in Ukraine. *Central Geophysical Observatory named after B. Srezveskyi*. URL: http://cgo-sreznevskyi.kyiv.ua/index.php?fn=u_zabrud&f=ukraine

²³ Environmental taxes of Ukraine: Donetsk Region. *SaveEcoBot*. URL: <https://www.saveecobot.com/analytics/ecotaxes/donetska-Region>



local budgets as well as the UST. As a result, growth of expenditures to finance sustainable development of the region and the state in

general is limited and slow. These problems are typical of all the regions of Ukraine, and Donetsk Region is no exception.

Insert: Environmental Data Sheet of Donetsk Region²⁴: List of Main Challenges

The challenges to be faced at the international level include: 1) breach of integrity of operation of the environmental monitoring system in Donetsk Region; 2) contamination of water facilities and underground horizons as a result of release of mine and open-pit mine waters in the temporarily occupied territories.

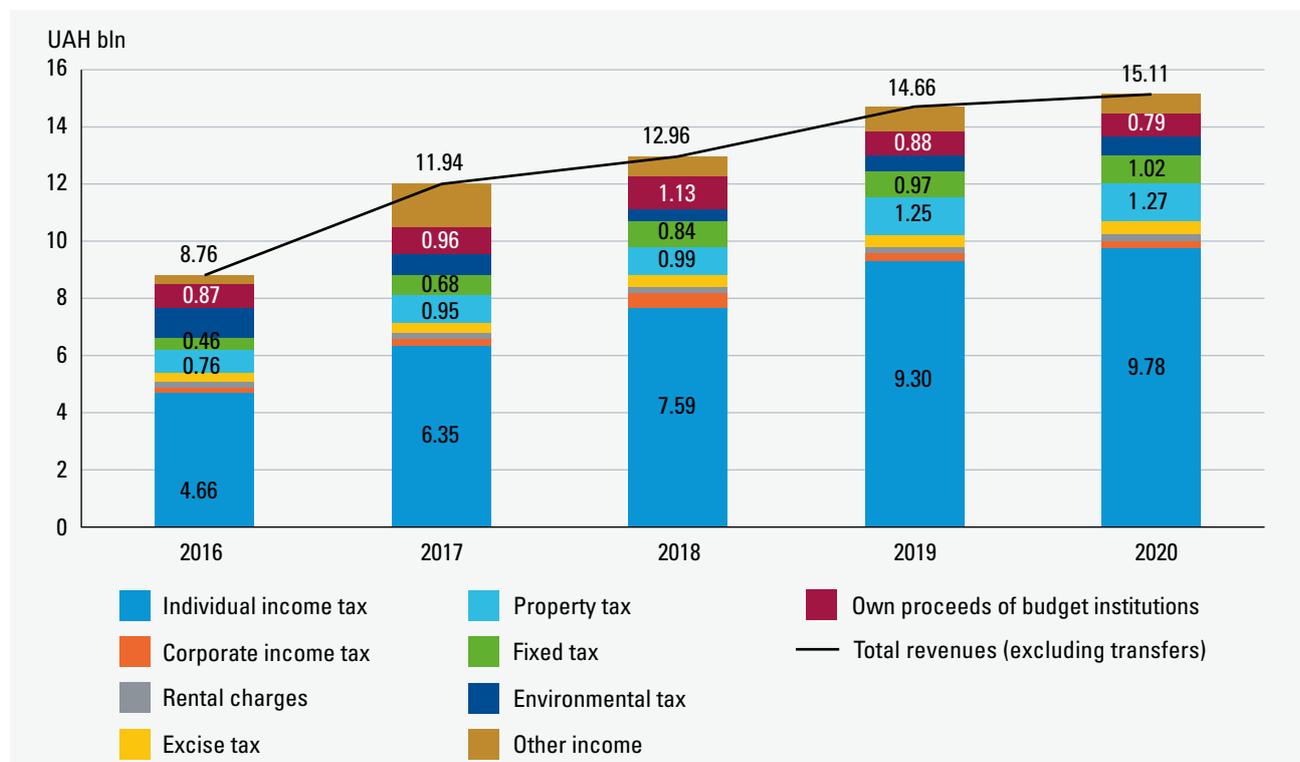
The challenges of national significance include: 1) lack of efficient actions to influence the industrial enterprises (coal, power, metallurgic and coke chemical industries, transport industry) and encourage the upgrade and reconstruction; 2) imperfect and inconsistent regulatory framework for air protection; 3) need to resolve the issue of recovery of the basin of the Siverskyi Donets.

The challenges of local significance include: 1) poor control of the local self-government authorities over adherence to the environmental protection laws on air protection by the economic operators; 2) inefficient operation of sewage treatment facilities caused by use of the obsolete technologies; 3) large volumes of generated industrial waste in the region; 4) poor domestic waste treatment; 5) reduction of the area of virgin natural steppe plots as a result of anthropogenic pressure on the flora; 6) lack of interest of the land users and land plot owners in creation of natural reserves (area of the natural reserve fund and ecology network).

Electronic services help reduce risks of the payers' failure to adhere to the tax laws, increase voluntary payment of taxes and improve the tax culture. The unique mobile application called Legal ZrPlat has been developed by the Main Directorate of the STS in Donetsk Region to engage conscientious citizens into counteraction to tax offences. It can be used to complain against unofficial

payment of the salary, violation of the laws on excisable goods and/or failure to issue a fiscal receipt. A complaint can be accompanied by photo records of the offence. More than 150 complaints were filed via the mobile application in 2021²⁵. All the complaints are processed by the respective units of the Main Directorate of the STS in Donetsk Region or sent to other regions as appropriate.

Figure 8. Dynamics and structure of own revenues of the local budgets in Donetsk Region, billion UAH



Source: State Treasury Service of Ukraine, Statistics Collections "Budget of Ukraine" of the Ministry of Finance of Ukraine

²⁴ Environmental Data Sheet of Donetsk Region. Department for the Environment and Natural Resources of Donetsk Regional State Administration. URL: <https://ecology.donoda.gov.ua/stan-dovkilliya/>

²⁵ Mobile app #Legal_ZrPlat downloaded by more than 1,400 users. Main Directorate of the STS in Donetsk Region. 10.12.2021. <https://dn.tax.gov.ua/diialnist/zabezpechennya-nahodjen/537929.html>



The principal items of **non-tax proceeds** are own proceeds of budget institutions that are fully credited to the special local budget fund (Annex 10.4). In particular, these are the funds received by the budget educational and health care facilities for paid services.

Different forms of transfers, including subventions (targeted transfers) and alignment subsidies, are transferred from the State Budget to the local ones. The biggest subvention is the Educational Subvention (KPKVK (Code of Program Classification of Expenditures and Crediting of Local Budgets) 41033900), which made 2,987.5 million Ukrainian hryvnias in 2020.

Also, the share of the Medical Subvention (KPKVK (Code of Program Classification of Expenditures and Crediting of Local Budgets) 41034200) had been large until 2020. In 2020, it was reduced as a result of the reform of health care financing. During the medical reform, the medical subvention was replaced with the separate budget programme in the State Budget, which provides for direct payment for medical services to the facilities by the National Health Service of Ukraine (NHSU).

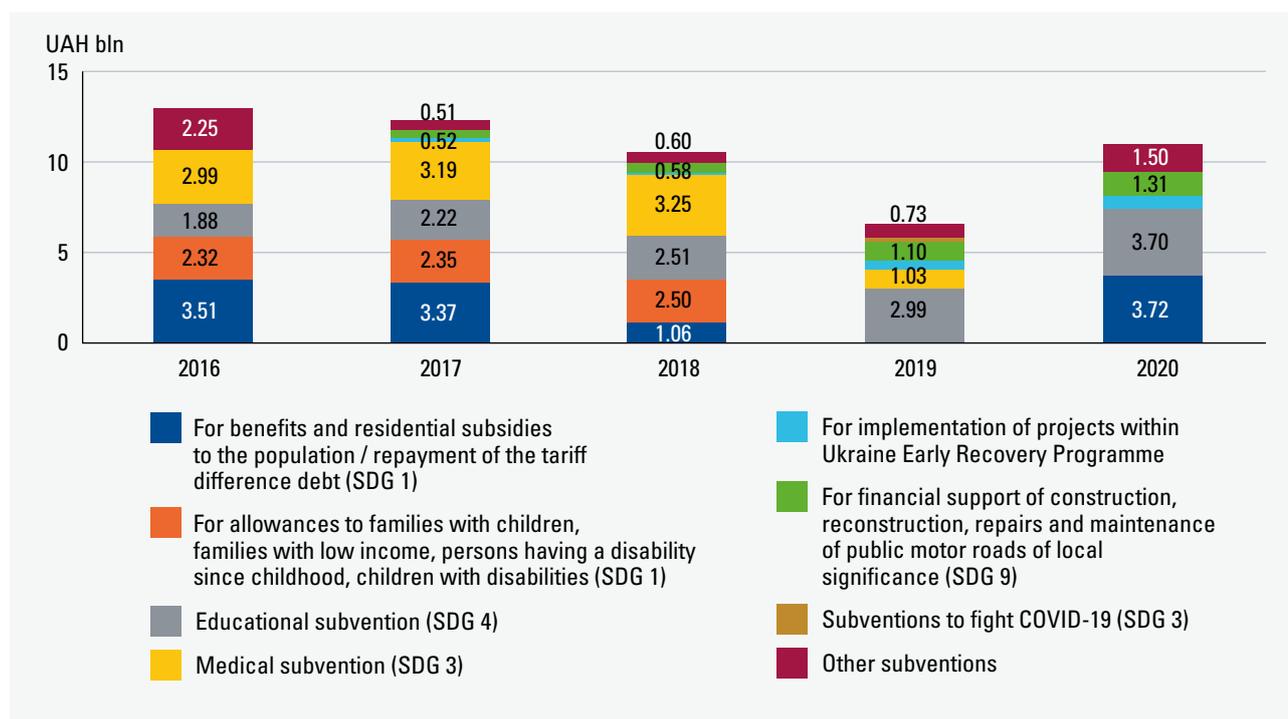
In 2020, the aggregate scope of subventions for social allowances and benefits also went

down because the applicable social subventions were cancelled, and the programmes were centralised at the level of the Ministry of Social Policy. That action was aimed at increasing the performance and promptness of applicable expenditures.

In order to fight COVID-19, the local budgets, including Donetsk Region, were given five new additional subventions from the State Budget at the expense of the Fund for Counteraction to the Acute Respiratory Disease COVID-19 (151.5 million Ukrainian hryvnias in total), including:

- 58.3 million Ukrainian hryvnias to supply oxygen to the bed capacity of the health care facilities (KPKVK 41036000);
- 50.8 million Ukrainian hryvnias to supply medical equipment to the basic health care facilities in the hospital districts (KPKVK 41037800);
- 17.6 million Ukrainian hryvnias to equip temporary health care facilities (specialised hospitals) (KPKVK 41034800);
- 15.0 million Ukrainian hryvnias to take actions to prevent occurrence and spread, to contain and eliminate COVID-19 (KPKVK 41034700);
- 9.7 million Ukrainian hryvnias to make additional payments to the staff of the health care facilities (KPKVK 41031900).

Figure 9. Dynamics of subventions to the local budgets in Donetsk Region, billion UAH



Source: State Treasury Service of Ukraine



Introduction of the national programme “Large Construction” in 2020 resulted in the considerable increase in the *Subvention from the state budget to the local budgets for construction, reconstruction, repairs and maintenance of the motor roads of local significance* (Figure 9). Roads of better quality enhance the investment attractiveness of the region (see Section 6).

Therefore, the share of own revenues of the local budgets in Donetsk Region is increasing. Their growth pace was considerably decelerated in 2020 as a result of the COVID-19

pandemic. The region received the material financial support from the government for the health care facilities and road infrastructure development. A decrease in the volume of a number of subventions and transformation of the mechanism for financing via the budget programmes are explained by an attempt to increase performance of use of budget funds.

More proceeds of the local budgets enable their predictable and efficient use for sustainable development of infrastructure of the settlements, higher quality of medical services, and adequate level of education and culture.

4.3. Budget Expenditures

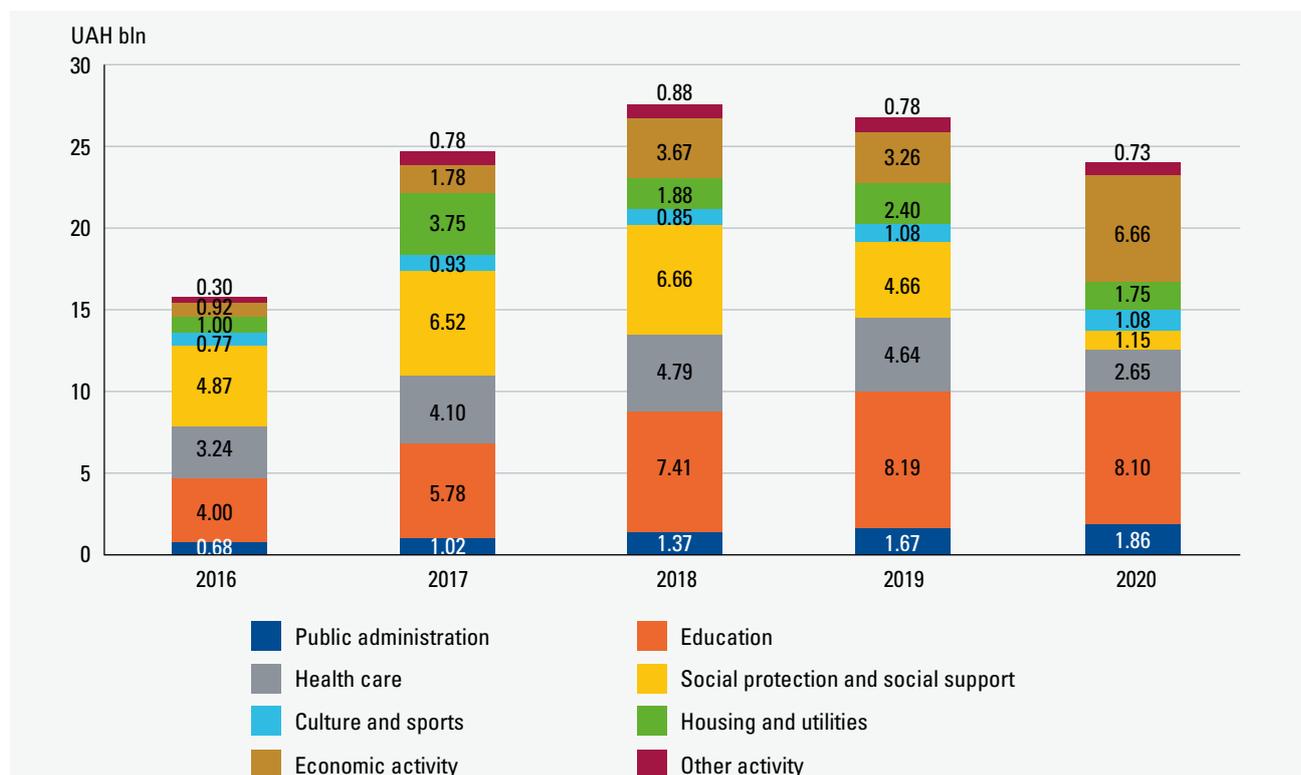
4.3.1 Dynamics of Expenditures of the Consolidated Budget of Donetsk Region

The Budget Code of Ukraine regulates the expenditures incurred at each budget level: regional, district and territorial community ones (see the Insert). In 2017-2018, the expenditures

grew owing to an increase in revenues and delegation of powers to the local level.

For the last few years, there have been considerable changes to financing of different governmental functions, which has materially influenced the structure of expenditures of the consolidated budget of Donetsk Region (Figure 10).

Figure 10: Structure of expenditures of the consolidated budget of Donetsk Region based on the functional classification



Note: the expenditures include both the ones incurred at the expense of own revenues and subventions among the local budgets.

Source: Statistical Budget Collections of the Ministry of Finance for 2016-2019, Budget for Citizens Portal (openbudget.gov.ua) for 2020



The main functions for which local expenditures are used are education, health care and economic activity.

Most expenditures of the local budgets of Donetsk Region are expenditures for education, which is, first and foremost, consistent with SDG 4. *Quality education*. However, it should be noted that expenditures for school education are primarily financed with the educational subvention²⁶ although the local authorities finance maintenance, development and utilities of the schools as well as salaries for the school staff other than teachers. The educational subvention has been growing for all the years due to the increase in the teachers' work pay. There is a number of smaller subventions, such as "Capable school" and "New Ukrainian school," the purpose of which is to improve the quality of school education. The local authorities finance vocational educational establishments and pre-school education owned by the respective community. The financing of education was reduced in 2020, probably as a result of the impact of Covid-19, when the local authorities faced a decline in revenues against the need to increase health care financing.

In 2019 and 2020, the expenditures of the local budgets for health care (*SDG 3: Good health and well-being*), which were traditionally financed with the medical subvention, were gradually reduced as a result of introduction of the medical reform: the subvention was gradually cancelled since it was replaced with direct payment for medical aid from the National Health Service of Ukraine to the health care facilities (HCF). At the same time, the local authorities still finance capital expenditures, maintenance, development and utilities of the HCF. If the influence of the traditional medical subvention is omitted, the health care expenditures of the local budgets in the region in 2020 were estimated to grow by around 20% as a result of the need to improve the capacity of the HCF to fight Covid-19.

The expenditures of the consolidated budget of Donetsk Region traditionally had a large share of social protection financing (*SDG 1: No poverty*). Most types of social support are governed by the national laws. Most of them have traditionally been financed with the subventions

from the State Budget: subventions for payments for children, subventions for housing benefits and subsidies etc.; in other words, a large share of the expenditures was influenced by the amounts transferred from the centre. In 2019, the housing and utility subsidy monetisation reform was gradually implemented, which meant that the respective subvention from the State Budget was first narrowed and then fully cancelled, and the subsidy was transferred to the accounts of the designated recipients. In 2020, the financing of social support from the local budgets was rapidly reduced because the respective social subventions were cancelled, and the programmes were centralised at the level of the Ministry of Social Policy in order to increase performance of the funds in the State Budget. Some of the local budgets introduce local social support drivers and programmes for different categories of the population subject to their priorities and availability of budget opportunities.

The expenditures of the consolidated budget of Donetsk Region for the economic activity (de facto associated with a large number of sustainable development goals) grew in twice in nominal terms in 2020. There are several reasons. In the first place, it is national introduction of the state programme "Large Construction" that financed construction of roads, construction and reconstruction of educational and health care facilities with subventions from the State Budget. The local authorities also increased their own financing of the respective programmes since their powers were expanded as a result of the decentralisation reform as well as the need to support the health care facilities during the fight against Covid-19.

The important source of development finance in the region and territorial communities is:

- Financing of projects from the State Fund for Regional Development (see Section).
- Various subventions and subsidies mentioned in Section 4.2.

According to the experts, financing of projects from the State Fund for Regional Development (SFRD) is an adequate approach to distribution of funds from the centre to the local level since

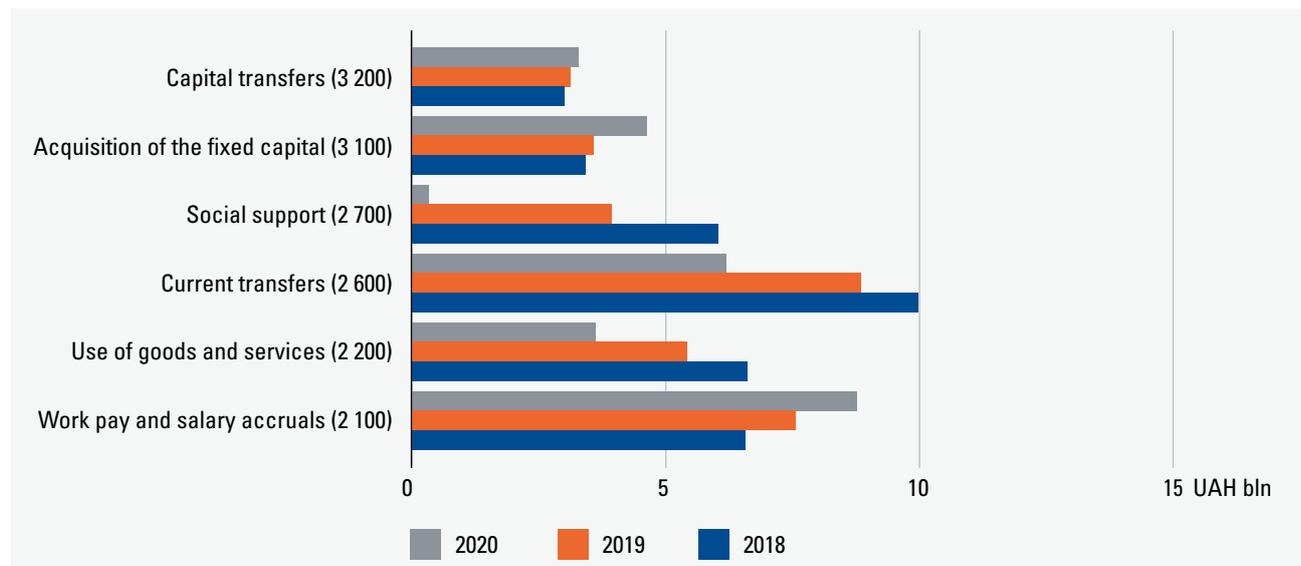
²⁶ Targeted transfer from the State Budget to the local budgets for school financing.



it provides for clear procedures and principles. At the same time, some of the funds of the SFRD, financing of which under the BCU is supposed to make at least 1% of the forecast volume of revenues of the general fund of the draft State Budget, are annually redistributed to finance the social and economic subvention. Political weight of the people's deputies plays a

major role in the distribution. The biggest portion of such subvention is used to finance the educational and health care facilities as well as sports and play grounds. It is important to refuse from directing funds at non-transparent social and economic subventions and to use financing from the State Budget for the SFRD projects.

Figure 11: Structure of expenditures of the consolidated budget of Donetsk Region based on the economic classification



Source: Budget for Citizens Portal (openbudget.gov.ua)

4.3.2 Expenditures of the Consolidated Budget by the SDGs

Budget classification and budget data sheets both at the central and local levels do not contain the coding that would allow to tie the expenditures within specific budget programmes to the specific sustainable development goals. That is why the INFF contains the separate task to develop the tool that would enable determining the directions of spending funds by the SDGs and assessing financing gaps at the planning stage.

The DFA includes the rapid expert assessment of using expenditures of the consolidated budget of Donetsk Region by the SDGs in 2018-2020²⁷. It must be noted that the assessment was based on the codes of the standard programme classification of

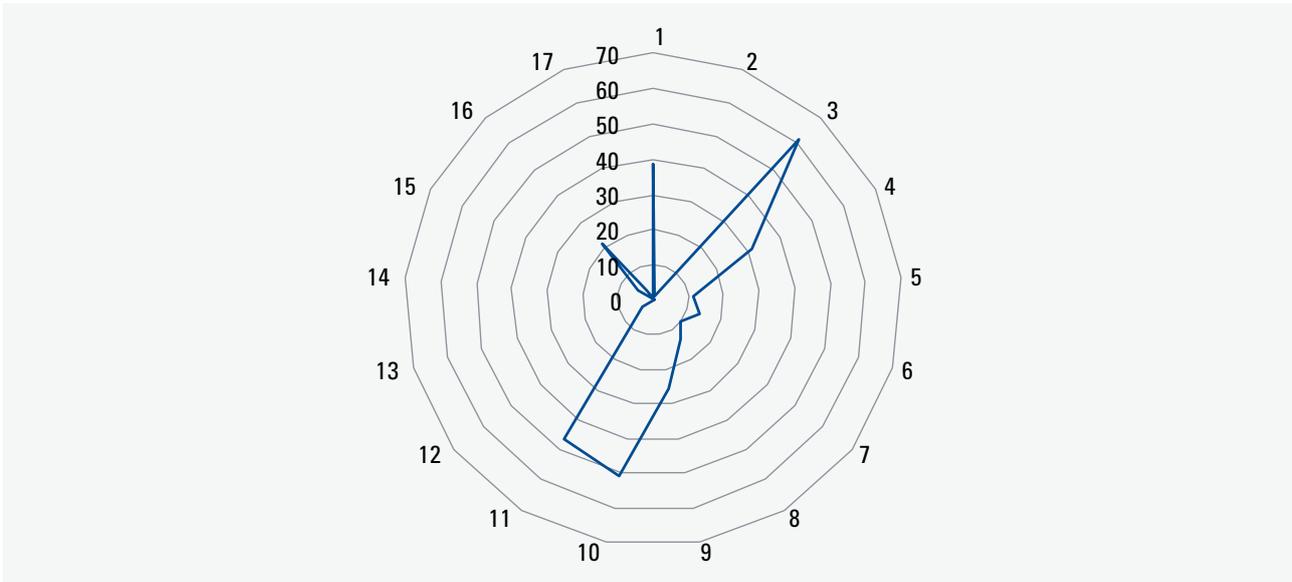
expenditures (four-digit codes) rather than detailed budget programmes. It is explained by the fact that all the local budgets have their own programmes and data sheets. Thus, that is expert assessment of the summarised distribution of expenditures by the SDGs that enables to understand how the priorities of or approaches to financing of development expenditures change.

According to the estimates, most programme classification codes are associated with performance of tasks for the sustainable development goals that are related to people: social support, education and health care. These goals are partly financed with the subventions from the State Budget rather than only own proceeds of the local budgets. The important thing is that the local authorities direct financing at the sustainable development of cities and communities, which pertains to the powers of the local authorities.

²⁷ Analysis is based on the data for 2018-2020, which are available on the portal of open data on public finance called Budget for Citizens, <http://openbudget.gov.ua>.



Figure 12: Distribution of the budget programmes by the SDGs, 2018-2020

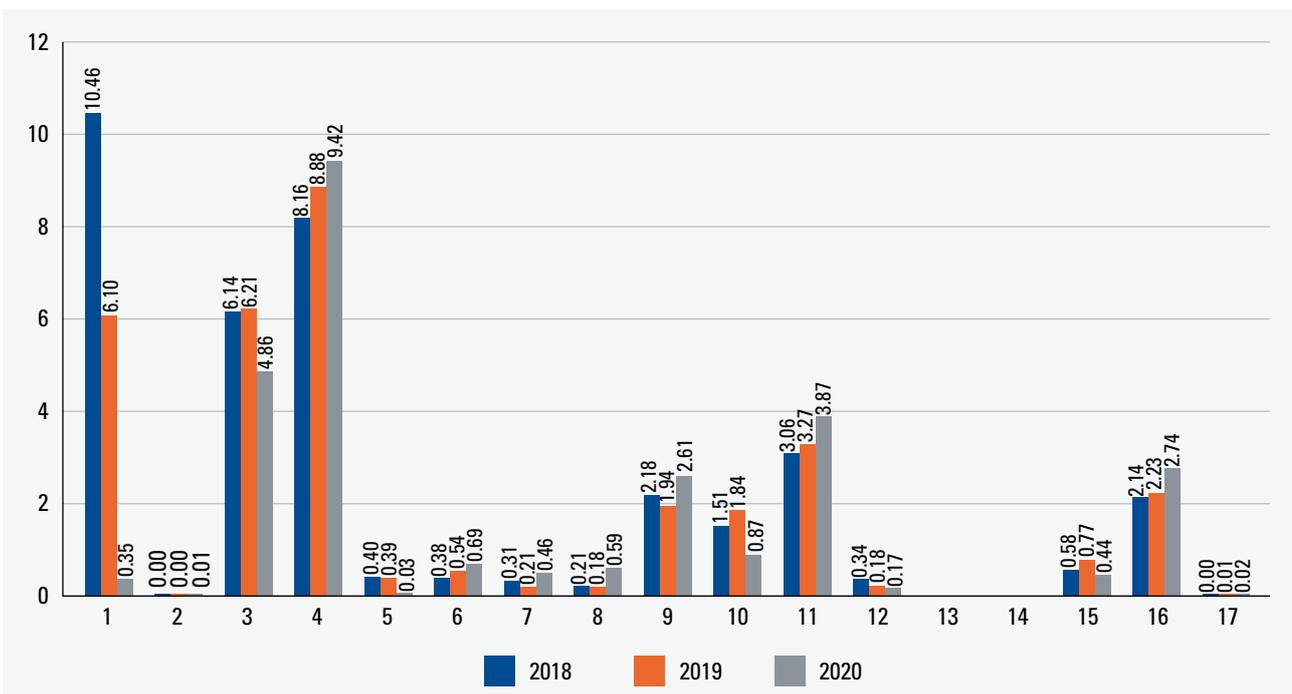


Source: expert opinion based on the data from the Budget for Citizens Portal (<http://openbudget.gov.ua>)

Most financing was allocated for *Goal 1 “No poverty”* in 2018. As a result of changes to the approaches to financing of social support at the local level, the scope of funds for this goal was considerably decreased in 2020. Today this goal is financed from the State Budget in order to maintain higher performance of respective expenditures and the same accessibility of social support for citizens in

different regions. However, the local authorities in Donetsk Region are estimated to pay more attention to *Goal 10 “Reduced inequalities”* rather than Goal 1, which is connected with the efforts to improve accessibility of social services. The significance of respective expenditures is also high given a large number of the internally displaced persons (IDPs) registered in the region.

Figure 13: Distribution of expenditures of the consolidated budget of Donetsk Region by the SDGs, 2018-2020, billion UAH



Source: expert opinion based on the data from the Budget for Citizens Portal (<http://openbudget.gov.ua>)



The local authorities do not allocate expenditures to support agriculture so the expenditures for *Goal 2 “Zero hunger, development of agriculture”* are not material. At the same time, according to the national DFA report, state aid to the agricultural enterprises and farmers is granted within the expenditures of the State Budget.

Goal 3 “Good health and well-being” includes all the budget programmes for health care, rehabilitation, recovery and development of sports. Some of these programmes are financed with the subventions from the State Budget. In 2020, the local authorities received the financing as subventions to increase their capacity for helping the people suffering from Covid-19. At the same time, development of the industry depends on the health care expenditures of the local authorities. Thus, according to the Budget Code of Ukraine, the local self-government authorities as owners of the municipal health care facilities (HCF) have to finance utility services and energy carriers of the respective HCF as well as local programmes for their development. In particular, they include procurement of devices and equipment as well as renovation of the facilities.

The expenditures for *Goal 4 “Quality education”* include the important items of financing by the local self-government authorities, and some of them are covered with the subventions from the State Budget. The educational subvention finances payment of salaries to pedagogical staff in the general educational establishments whereas utility payments and development expenditures in this area are within the responsibility of the local authorities. The LSGA also fully finance pre-school and extra-curriculum education and are responsible for financing the vocational education.

Moreover, the local authorities in Donetsk Region pay attention to financing the tasks that pertain to *Goal 11 “Sustainable cities and communities”*. Financing of this goal fully or partly includes the expenditures for 47 codes of the standard programme classification. They are expenditures that facilitate provision of housing, development of settlements, namely owing to planning, development of the cultural heritage etc.

The expenditures to finance the infrastructure are also important and pertain to *Goal 9 “Industry, innovation and infrastructure”*. Recovery of the infrastructure in Donetsk Region is an extremely important matter due to the destruction as a result of the hostilities in the east of the region.

Goal 16 “Peace, justice and strong institutions” includes the expenditures that encourage development of strong institutions at the local level as well as financing of the local election. At the same time, expenditures for security and defence are incurred from the State Budget by the respective authorities and their units. It is significant for the region due to the armed aggression of Russia.

However, according to the experts, there are no expenditures to achieve *Goal 13 “Climate action”* and *Goal 14 “Life below water”*. The first one is probably connected with the fact that the local authorities are now paying less attention to the climate policy beyond the tasks of *Goal 12* in form of waste reduction, and no expenditures for *Goal 14* are probably explained by the fact that the funds from the State Budget are spent for these goals.

4.3.3 Financing from the State Fund for Regional Development

One of the sources of development finance at the local level from the State Budget in Ukraine is the State Fund for Regional Development (SFRD), which is an important tool to finance implementation of the State Regional Development Strategy and regional development strategies.

The SFRD is a separate budget programme within the State Budget assigned to the Ministry of Regions. The funds are allocated to finance projects in the regions, which were initially selected by the local authorities and the special committee and then approved by the resolution of the Cabinet of Ministers of Ukraine.

The Ministry of Regions submits information on project financing by regions and areas of financing. The Figure shows the expert opinion on distribution of the projects that have been

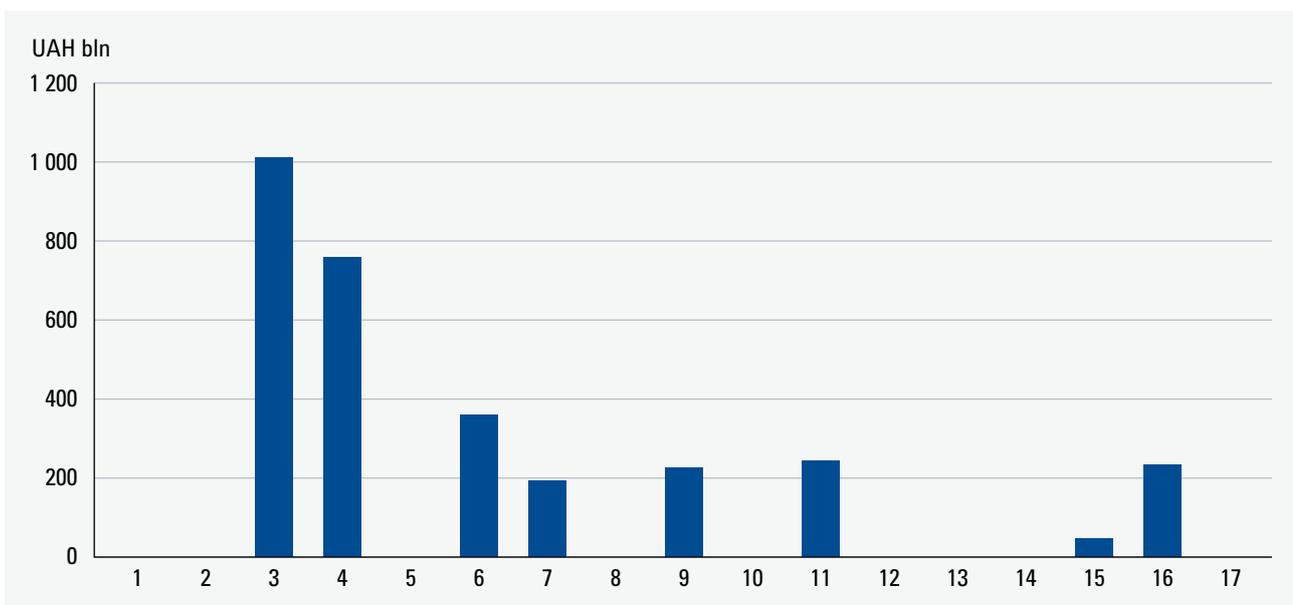


financed from the SFRD in Donetsk Region, by the sustainable development goals in terms of several years. The assessment was based on selection of the prevailing sustainable development goal since most projects financed with the SFRD can be indirectly associated with SDG 8 although it was unlikely to be the main one in those projects.²⁸ The projects that can pertain to SDGs 3 and 4 as well as 9 in 2016 are estimated to be financed most often. There are certain SDGs that were not defined as principal ones in financing of the projects from the SFRD: in the first place, they are the goals financed with the state or local budgets (namely Goals 1, 2, 5, 8, 10, 13, 14, 16 and 17). The SFRD projects provide for co-financing in

the amount of at least 10% of the entire project from the local budget.

The main problem is inconsistency of data on the official website of the State Fund for Regional Development²⁹ with the decree of the Cabinet of Ministers. This research only considers information from the decree of the CMU. Another problem is lack of information on the duration of implementation and the period during which the project is financed in the decree of the CMU as well as details of the project, for instance, whether financing is provided to implement the project or to repay the debt in the project that has already been financed with the borrowed funds.

Figure 14. Assessment of the ratio between project financing from the SFRD by the SDGs in Donetsk Region in 2016-2021, million UAH



Source: resolutions of the Cabinet of Ministers of Ukraine, expert opinion

In 2016, most financing was provided to the projects of the bridge overhaul at the motor road from Krasnyi Lyman to Artemivsk to Horlivka and the bridge construction at the motor road from Kyiv to Kharkiv to Dovzhanskyi.

In 2017, most financing was provided to the projects for the purchase of ten trolleybuses in order to improve passenger carriage by the municipal electric transport in Kramatorsk and overhaul of the hospital building, the building of the Infectious Disease Ward of Druzhkivka City Clinical Hospital No. 1 in Druzhkivka.

In 2018, most financing was provided to the projects of overhaul of the main Second Donetsk waterpipe in Sloviansk District and construction of the waterpipe from Selydove Waterpipe to the villages of Sribne, Yasenove, Novoandriivka, Zaporizhzhia, Bohdanivka, Troitske, Petrivske of Sribnenka Village Council, and the village of Novoielyzavetivka.

In 2019, most financing was provided to the projects of overhaul and improvement of the adjacent territory next to the building of Oleksandrivka Secondary School of

²⁸ The approach was selected to avoid duplication in consideration of project financing.

²⁹ <https://dfr.minregion.gov.ua/>



Oleksandrivka, and construction of the water-pipe from Selydove Waterpipe to the villages of Sribne, Yasenove, Novoandriivka, Zaporizhzhia, Bohdanivka, Troitske, Petrivske of Sribnenka Village Council, and the village of Novoielyzavetivka.

In 2020, most financing was provided to the projects of construction of the academic building for 400 pupils and students of the sports educational establishment, Donetsk Higher College of the Olympic Reserve in Bakhmut, and reconstruction of the stadium named after the municipal facility "Sports Club at the Place of Residence "Cultural and Sports Centre" in Sloviansk.

In 2021, most financing was provided to the projects of overhaul of the main Second Donetsk waterpipe in Sloviansk District, and construction of the academic building for 400 pupils and students of the sports educational establishment, Donetsk Higher College of the Olympic Reserve in Bakhmut.

Below is the expert opinion on division of the projects by the SFRD financing based on the sustainable development goals.

SDG 3. GOOD HEALTH AND WELL-BEING

This goal includes 100% of the investment projects in medicine, sports infrastructure (in case it is not the project that finances, for instance, winterising of the sports facility or technical re-equipment thereof within the sports infrastructure project, i.e. the investment activity also consistent with another SDG; in this case, 70% of the investment is calculated for Goal 3). In total, the investment was mostly made into reconstruction of the buildings as well as technical re-equipment of hospitals.

In 2016, the projects within SDG 3 included five projects, all with 100% investment into the SDG; the major ones were better quality of medical services in the municipal facilities of level II in Druzhkivka and installation of additional equipment as well as better medical services in the ME "City Hospital No. 1" in Kramatorsk. 13.52 million Ukrainian hryvnias and 13.14 were spent for the projects accordingly.

In 2017, twelve projects were financed, including eight projects where SDG 3 had 100% of the investment and four projects where the goal was estimated by the experts to have 70% of the investment. The projects with the biggest investment were: reconstruction of the buildings for the regional medical and physical training health centre, the water hospital with the pool, the municipal residence facility in Bakhmut with the value of 10.87 million Ukrainian hryvnias, and reconstruction of the maternity house in Sloviansk with the advanced technologies and the value of 10 million Ukrainian hryvnias.

According to the experts, in 2018, thirty financed projects conformed to the goal, including twenty-seven projects with 100% of the investment into the SDGs and three projects with 70% of the investment into the SDG. The projects with the biggest volume were: reconstruction of the building of Bakhmut Central District Hospital with the value of 33.61 million Ukrainian hryvnias and overhaul of the façade and surgical wards of the Municipal Enterprise "City Hospital No. 1" with the value of 29.71 million Ukrainian hryvnias.

According to the experts, in 2019, there were twenty-three projects related to that SDG: twenty projects with 100% of the investment, one project with 70% of the investment into the SDG, and two projects with 30% of the investment into the goal. The largest projects were reconstruction of the building of Bakhmut Central District Hospital with the value of 43.73 million Ukrainian hryvnias and reconstruction of the administrative building of the Municipal Enterprise "Regional Psychiatric Hospital" with the value of 33.37 million Ukrainian hryvnias.

In 2020, thirteen projects with that SDG were implemented in aggregate, including eleven projects with 100% of the investment, one project with 70% of the investment, and one project with 30% of the investment. The largest projects were construction of the academic building for 400 pupils and students of the sports educational establishment, Donetsk Higher College of the Olympic Reserve Named after S. Bubka with the value of 34.71 million Ukrainian hryvnias, and reconstruction of Shakhtar Stadium of the Children and



Youth Sports School with the value of 27.74 in Selydove.

In 2021, according to the assessment, two projects were financed for this SDG, including one with 100% of the investment and another one with 30% of the investment, namely construction of the academic building for 400 pupils and students of the sports educational establishment, Donetsk Higher College of the Olympic Reserve Named after S. Bubka with the value of 73.13 million Ukrainian hryvnias, and overhaul of the main therapeutic building of the hospital and the outpatient hospital in Volnovakha with the value of 14.51 million Ukrainian hryvnias.

SDG 4. QUALITY EDUCATION

The same way as with SDG 3, the investment into education is divided into the ones that have 100%, 70% and 30% of the volume pertaining to this SDG by the experts. This goal includes investment into schools, kindergartens and children culture and art centres.

In 2016, financing was allocated for eight projects that are assessed to fall within this SDG, including three projects with 100% of the investment and five projects with 70% of the investment. The largest projects were reconstruction of Snizhynka Kindergarten as a child development centre in Novohrodivtsi with the value of 15.87 million Ukrainian hryvnias as well as reconstruction of school No. 18 in Artemivsk, with winterising of the façades, roof, replacement of windows and doors (thermal upgrade) and the value of 2.33 million Ukrainian hryvnias.

Sixteen projects were financed in 2017: eight projects with 100% of the investment and eight projects with 70% of the investment into the SDG. The largest projects were reconstruction of Snizhynka Kindergarten as a child development centre in Novohrodivtsi with the value of 14.62 million Ukrainian hryvnias, and overhaul of the children and youth creative centre in Dobropillia with the value of 8.28 million Ukrainian hryvnias.

In 2018, the funds were invested into eleven projects: eight projects with 100% of the

investment and three projects with 70% of the investment into the SDG. The largest projects were reconstruction of the building of the pre-school orphan home No. 3 "Haiok" in Kramatorsk with the value of 16.23 million Ukrainian hryvnias, and overhaul of the building using the means of thermal upgrade of Intellect Gymnasium in Druzhkivka, with the value of 10.04 million Ukrainian hryvnias.

In 2019, ten projects were financed from the SFRD: eight projects with 100% of the investment into the SDG, and two with 70%. The largest projects were overhaul and development of the adjacent area of Oleksandrivka School with the value of 45.35 million Ukrainian hryvnias, and overhaul of the building of Torets School No. 6 with the value of 37.8 million Ukrainian hryvnias.

In 2020, fourteen projects that are assessed to fall within this SDG were implemented: twelve with 100% of the investment, one with 70% and one with 30%. The largest projects were overhaul and development of the adjacent area of Oleksandrivka School with the value of 22.5 million Ukrainian hryvnias, and overhaul of the building of the secondary school in the village of Novoekonomichne, Pokrovsk District, with the value of 18.55 million Ukrainian hryvnias.

In 2021, seven projects are financed for this SDG, including five projects that fully pertain to the goal and two projects with 70%. The largest projects are energy-efficient overhaul of the building of School No. 2 in Mariupol with the value of 40.09 million Ukrainian hryvnias, and overhaul of the building of School No. 2 in Bakhmut with the value of 39.4 million Ukrainian hryvnias.

SDG 6. CLEAN WATER AND SANITATION

The main projects for this SDG are repairs and reconstruction as well as construction of water pipes and pipelines as well as construction and repairs of water treatment facilities.

In 2016, five projects were financed for this SDG; all of them were fully consistent with the SDG. The projects with the largest volume that year were overhaul of the waterpipe site in Bakhmut with the value of 6.89 million Ukrainian hryvnias



as well as arrangement of water supply to the village of Kurytsynske, Oleksandrivka District, with the value of 3.55 million Ukrainian hryvnias.

In 2017, only two projects, which were also assessed as 100% consistent with the SDG, were financed. They were overhaul of the water supply systems in the village of Serhiivka, Krasnoarmiisk District, with the value of 1 million Ukrainian hryvnias as well as overhaul of the waterpipe in Bakhmut with the value of 0.54 million Ukrainian hryvnias.

In 2018, thirteen projects with 100% of the investment pertaining to the SDG were financed. The largest projects were overhaul of the second Donetsk waterpipe in Sloviansk District with the value of 60.26 million Ukrainian hryvnias as well as construction of the waterpipe from Selydove Waterpipe to the villages in Pokrovsk District, with the value of 31.9 million Ukrainian hryvnias.

In 2019, four projects with 100% of the investment pertaining to the SDG were financed. The projects with the biggest financing were construction of the waterpipe from Selydove Waterpipe to the villages in Pokrovsk District, with the value of 60.76 million Ukrainian hryvnias as well as overhaul of the waterpipe in Mariupol with the value of 6.72 million Ukrainian hryvnias.

In 2020, only one project with 100% pertaining to the SDG was financed. This project is reconstruction of the sewage system with the treatment facilities in the village of Spasko-Mykhailivka, Oleksandrivka District, with the value of 4.28 million Ukrainian hryvnias.

In 2021, two projects that were 100% consistent with SDG 6 were financed. The projects were overhaul of the second Donetsk waterpipe in Sloviansk District with the value of 92.88 million Ukrainian hryvnias as well as overhaul of the main waterpipe in Sloviansk District, with the value of 24.12 million Ukrainian hryvnias.

SDG 7. AFFORDABLE AND CLEAN ENERGY

This sustainable development goal is border-line for most of the projects since, for instance, overhaul of a school or hospital with account of the energy-efficiency requirements is focused

on upgrade of the school in the first place and only then on energy-efficiency. Therefore, most of the projects within this SDG are projects with the share of 30% of the total investment.

In 2016, there were five projects pertaining to the SDG, including one project 100% consistent with the SDG and four projects 30% consistent. The projects with the biggest financing of the goal were reconstruction of the non-residential building into the municipal residence facility and autonomous boiler room in Bakhmut, with 1.68 allocated for SDG 7. Another project was reconstruction of Lazurnyi Boiler Room and installation of the new boiler, with the value of 0.98 million Ukrainian hryvnias.

In 2017, eleven projects consistent with SDG 7 were selected; all of them were defined as secondary one with 30% of the project scope for the SDG. The project with the biggest financing were overhaul and winterising of the façades of the Mariupol Territorial Medical Association of Children's and Women's Health in Mariupol, with the value of 1.99 million Ukrainian hryvnias for SDG 7, and overhaul and thermal upgrade of the school in the village of Shakhtarske, Velyka Novosilka District, with the value of 1.99 million Ukrainian hryvnias for SDG 7.

In 2018, eleven projects consistent with the SDG were financed, including six with 100% consistency with the SDG and five with 30%. The projects with the biggest financing were construction of the gas boiler room in the urban village of Donske, Volnovakha District, with the value of 28.38 million Ukrainian hryvnias, and reconstruction and equipment of the module boiler room based on the solid fuel at the heat supply station in Pokrovsk, with the value of 20.46 million Ukrainian hryvnias.

In 2019, seven projects were financed, including three with 100% of the financing consistent with SDG 7, three with 70% and one with 30%. The projects with the biggest financing were reconstruction of the heating and heat supply system at the psychiatric hospital in Sloviansk, with the scope of financing of 6.1 million Ukrainian hryvnias for this SDG.

In 2020, five projects were financed, including none with 100%, one with 70% and four with 30%. The projects with the biggest financing



into SDG 7 were overhaul with energy-efficiency actions at the building of Children and Youth Sports School No. 2 of Mariupol, with the value of 5.86 million Ukrainian hryvnias, and overhaul and thermal upgrade of the building of the Petrivka Educational and Training Complex in the village of Petrivka, Pokrovsk District, with the value of 5.26 million Ukrainian hryvnias.

In 2021, only two projects were financed; both were defined as the ones investing into SDG 7 by 30%. These projects were overhaul and energy-efficiency actions at the building of Children and Youth Sports School No. 2 of Mariupol, with the value of investment into SDG 7 of 12.02 million Ukrainian hryvnias, and overhaul and thermal upgrade of the building of the Petrivka Educational and Training Complex in the village of Petrivka, Pokrovsk District, with the value of investment into SDG 7 of 8.41 million Ukrainian hryvnias.

SDG 9. INDUSTRY, INNOVATION AND INFRASTRUCTURE

Almost in all cases, the investment into Goal 9 in Donetsk Region for the period from 2016 to 2021 is investment into the infrastructure as well as improvement of passenger carriage. In the first place, that includes construction and repairs of bridges and motor roads. If the investment is made in cities, this Goal is often defined as auxiliary one to Goal 11.

Twelve projects were financed in 2016 for this Goal, including ten percent of the projects 100% consistent with Goal 7 and two with 30%. The ones with the biggest investment were construction of the bridge at the motor road from Kyiv to Kharkiv to Dovzhanskyi with the value of 33.08 million Ukrainian hryvnias as well as overhaul of the bridge of the motor road from Krasnyi Lyman to Artemivsk to Horlivka with the value of 36 million Ukrainian hryvnias.

Four projects were financed in 2017 for this SDG, including three projects financed for 100% and one financed for 30%. The projects with the biggest financing were overhaul of the motor road from Krasnyi Lyman to Artemivsk to Horlivka with the value of 10.28 million Ukrainian hryvnias and purchase of ten trolleybuses for Kramatorsk with the value of 8.03 million Ukrainian hryvnias.

Five projects were financed in 2018, including four projects with 100% financing of the SDG and one project with 30% financing of the SDG. The projects with the biggest financing were overhaul of the bridge and motor road in Selydove with the value of 19.67 million Ukrainian hryvnias as well as reconstruction of the road in Bakhmut with the value of 7.44 million Ukrainian hryvnias.

Two projects were financed in 2019, one with 100% financing into the SDG and one with 30% financing into the SDG. The projects were overhaul of the bridge and motor road in Selydove with the value of 1.66 million Ukrainian hryvnias as well as underground walkway in Kramatorsk with the investment into the SDG of 1.42 million Ukrainian hryvnias.

In 2020, neither investment was consistent with the SDG.

Two projects were financed in 2021, one with 100% financing into the SDG and one with 30% financing into the SDG. There was reconstruction of the area of the fish preserve plant into AzovAquaInvest Industrial Park with the value of 24.1 million Ukrainian hryvnias, for which the municipal authorities of Mariupol increased the co-financing since organisation of the park required utility systems, and hydroisolation of the bed of the Siverskyi Donetsk-Donbas Channel in the area of the Raihorod Village Council, Sloviansk District, with the scope of investment into the SDG of 18.47 million Ukrainian hryvnias. It should be noted that the industrial parks provide for the need of co-financing from the local budgets.

SDG 11. SUSTAINABLE CITIES AND COMMUNITIES

Financing of projects within SDG 11 is mostly investment into development of the city transport infrastructure as well as cultural and art establishments like museums, cultural centres, and creation of urban development documentations and construction of residential buildings.

According to the experts, in 2016, ten projects pertain to the SDG, including seven projects



with the complete investment into the goal and three projects with 70% investment into the SDG. The largest projects were purchase of ten trolleybuses for Kramatorsk as well as development of the recreation network in Sloviansk District with the investment of 5.02 million Ukrainian hryvnias.

In 2017, according to the assessment, five projects were financed for this SDG, including four projects with 100% financing and one project with 70% financing consistent with this SDG. The projects with the biggest financing were purchase of 10 trolleybuses in Kramatorsk, with 18.75 million Ukrainian hryvnias of financing allocated for this SDG, and overhaul of the municipal facility "Artemivsk District House of Culture" in the urban village of Opytne, Artemivsk District, with the value of 7 million Ukrainian hryvnias.

In 2018, six projects were financed within this SDG, including five projects with 100% financing for this SDG and one project with 70%. The largest projects were reconstruction of the municipal facility "Soiuz Cinema" into the Multi-Centre Social Office in Mariupol with the scope of 28 million Ukrainian hryvnias as well as construction within development of the recreation and recovery zone "Bilia Solonykh Ozer" (Veisove Lake) in Sloviansk, with the value of 16.31 million Ukrainian hryvnias.

In 2019, six projects were financed within this SDG, including four projects 100% consistent with the SDG and two – 70%. The projects with the biggest financing were reconstruction of the municipal facility "Soiuz Cinema" into the Multi-Centre Social Office in Mariupol with the scope of 28 million Ukrainian hryvnias, and reconstruction of the municipal cultural facility "Bakhmut Local History Museum" and adjacent area in Bakhmut, with the value of 8.85 million Ukrainian hryvnias.

In 2020, two projects were financed within this SDG, including one 100% consistent with the SDG and one – 70%. These projects were overhaul of the building of the cultural centre in Volnovakha with the value of 4.82 million Ukrainian hryvnias, and overhaul of the building and energy-efficiency actions and improvement of the adjacent area of the house of culture in the urban village of Sartana, near Mariupol,

with the scope of financing into the SDG of 3.01 million Ukrainian hryvnias.

In 2021, three projects were financed within this SDG, and all of them were 100% consistent with the SDG. The largest projects were creation of the information and educational centre via reconstruction of the existing building of the House of Culture in the urban village of Oleksandrivka, and overhaul of the premises on the ground floor of the non-residential building in Mariupol for the scientific and educational space called the Museum of Sciences, with the value of 17.1 million Ukrainian hryvnias.

SDG 15. LIFE ON LAND

In general, that SDG was hardly financed with the SFRD funds. The only project for this SDG for all the years was the project financed in 2021, the investment in which was 70% consistent with the SDG: hydroisolation of the bed of the Siverskyi Donetsk-Donbas Channel in the area of the Raihorod Village Council, Sloviansk District, with the value of 43.1 million Ukrainian hryvnias, which were defined as invested into the SDG.

SDG 16. PEACE, JUSTICE AND STRONG INSTITUTIONS

The absolute majority of the projects defined to be consistent with the SDG were construction and reconstruction of buildings into the administrative service centres (ASC).

In 2016, one project was defined as 100% consistent with the SDG: that was reconstruction of the canteen in Druzhkivka into an ASC with the value of 5.74 million Ukrainian hryvnias.

In 2017, nine projects were 100% consistent with the SDG. The projects with the biggest financing were reconstruction of the non-residential premises in Soledar into an ASC, with the value of 13.35, and extension of the administrative building in Pokrovsk with the value of 12.85 million Ukrainian hryvnias.

In 2018, six projects were financed for this SDG, all with the scope of investment 100%



consistent with the Goal. The largest projects were extension of the administrative building in Pokrovsk with the value of 18.33 million Ukrainian hryvnias, and reconstruction of the non-residential premises in Soledar into an ASC with the value of 11.57 UAH.

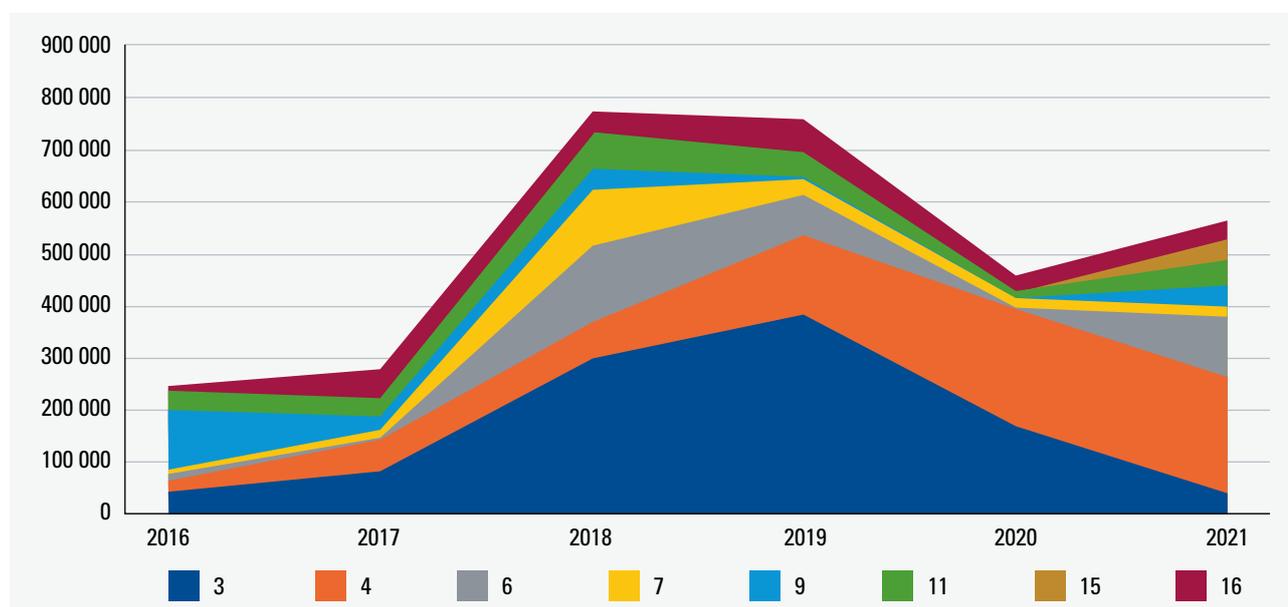
In 2019, only three projects were invested within that SDG, and all of them were 100% consistent with the Goal. The largest projects were construction of the ASC in Kramatorsk with the value of 38.3 million Ukrainian hryvnias as well as reconstruction of the kindergarten in

Svitlodarsk into an ASC, with the project value of 15.49 million Ukrainian hryvnias.

In 2020, only two projects fully consistent with the SDG were financed. The projects were construction of the ASC in Kramatorsk with the value of 28.33 million Ukrainian hryvnias as well as construction of the social service centre with the value of 9.3 million Ukrainian hryvnias.

In 2021, only one project 100% consistent with the SDG was financed: that was construction of the ASC in Vuhledar with the value of 34.25 million Ukrainian hryvnias.

Figure 15: Aggregate dynamics of SDG financing by years³⁰



Source: expert opinion based on the resolutions of the CMU on project financing from the SFRD

Therefore, the SDGs with most financing within the SFRD projects are Goals 3 and 4 as well as SDGs 6 and 7. The SDGs which are supposed to be financed at the local and regional levels and have not been financed at all are SDGs 15 and 8. Only one project has been financed within SDG 15.

4.4. Local Borrowing

According to the BCU, local borrowing may be effected by city budgets to finance development budgets.³¹ Local external borrowing may

The main peculiarity of investment from the SFRD is overhaul of buildings, roads and bridges whereas construction of new buildings and infrastructure and procurement of equipment are mostly not invested (except for several projects). Construction is effected within other state and local budget programmes.

only be effected by the Kyiv and Sevastopol City Councils, and councils of cities of regional significance, in particular, loans from international

³⁰ Financing of the SDG projects was defined as the one consistent with the direct most suitable Goal. Most projects can be defined as the ones consistent with SDG 8.

³¹ In this case, the aggregate borrowing scope of the local budget may not exceed the shortfall of the development budget of the local budget, and expenditures for local debt service shall not exceed 10% of expenditures of the general fund of the respective budget. Expenses to repay the local debt are incurred from the development budget of the respective local budget.



financial institutions that are an important source of financing of development projects. A borrowing decision is taken by the respective authority and approved by the Ministry of Finance.

According to the Ministry of Finance, several cities in Donetsk Region have effected local borrowing to finance development in 2019 and 2020 while there was no borrowing in 2016-2018. Thus, in 2019, the Mariupol City Council

obtain an external loan from the International Financial Corporation to upgrade the city transport. The loan was denominated in the foreign currency, which meant a forex risk for the local budget in case of devaluation. NEFCO granted the loan to the Bakhmut City Council to finance redecoration of kindergarten No. 40, and its benefit was the low rate and UAH nomination of the loan.³² In 2020, the Dobropillia City Council took a loan from the Ukrainian bank.

Table 1: Local borrowing by the cities in Donetsk Region

Borrowing date	Borrowing city council	Creditor	Borrowing type	Borrowed amount	Borrowed currency	Borrowing rate (%)	Borrowing term
18.02.2019	Mariupol City Council	International Finance Corporation	External loan	12,500.00	thousand EUR	EURIBOR 6M + margin 6.5%	13 years, final due date 15.04.2031
01.07.2019	Bakhmut City Council	NEFCO	External loan	12,800.00	thousand UAH	3%	5 years, final due date 15.03.2024
22.12.2020	Dobropillia City Council	JSC "State Export-Import Bank of Ukraine"	Internal loan	18,089.70	thousand UAH	adjustable, refinancing rate of the NBU + 8%	5 years, final due date 30.11.2025

Source: Ministry of Finance³³

The important thing is that the cities in Donetsk Region are also beneficiaries of the projects

implemented with the IFI loans received by the government of Ukraine (see Section 7.1).

4.5. Budget Monitoring and Fiscal Transparency

According to the BCU, budget control is exercised at all the stages of the budget process by its participants. It includes assessment of budget funds management, adequacy of accounting and credibility of financial and budget reports, analysis and assessment of the financial and economic activity of budget owners, and feasibility of planning of budget proceeds and expenses. Moreover, all the budget owners have to facilitate internal control and audit in their institutions and in the institutions and organisations subordinated to them.

The financial audit and performance audit by the Accounting Chamber conducted by it as an external auditor may be effected regarding:

- use of the state budget funds provided to the local budgets;

- receipt of the national taxes and levies assigned to the local budgets or a portion thereof, and use of the local budget funds in terms of the expenditures that are defined by the state functions and are transferred for use to the Autonomous Republic of Crimea and local self-government.

The State Audit Service of Ukraine (SASU) audits performance of expenditures of the local authorities. It is responsible for controlling the targeted, efficient and productive use of the local budget funds (including the state financial audit), reliability of establishment of the need for budget funds in the planned budget indicators; conformity of the budget indicators to the budget programme data sheet; accounting as well as financial and budget reporting, execution of budget programmes data sheets

³² See <https://www.nefco.int/news/школа-на-сході-україни-знову-відчиняє>

³³ <https://www.mof.gov.ua/uk/miscevij-borg-ta-miscevij-garantovanij-borg>



and reports on performance thereof, cost estimates and other documents.

Following the audits, the SASU gives recommendations on gap filling by the audit objects.

In 2020, the SASU monitored 150 procurement procedures in Donetsk Region for the amount of 961 million Ukrainian hryvnias³⁴. The bidding procedures in the amount of 294 million Ukrainian hryvnias and the contracts were terminated in the amount of 27 million Ukrainian hryvnias following the monitoring. Also, one audit of the local budgets was conducted in the region (namely the audit of the Mykolaivka City Amalgamated Territorial Community of Sloviansk District, Donetsk Region, for the period from 2017 until 31.10.2019), and five economic operators were audited³⁵. The audit findings were similar to most local budget audits in Ukraine:

- some of the possible revenue potential was not used; timely increase in the regulatory monetary land appraisal was not effected, which resulted in loss of revenues from the land tax; the minimum rather than average interest rate of the lease charges was used;
- there were gaps in municipal enterprise management;
- the community funds were used to finance the institutions that were already financed from the State Budget;
- the saving opportunities during procurement were not used.

Control over conformity of the indicators of the approved budgets, budget financing targets, cost estimates of budget institutions and other documents used in the budget process in relation with the district budgets and territorial community budgets with the budget laws is also exercised by the Regional State Administration. The website of the RSA contains the detailed information on utilisation of the regional budget and brief summary of utilisation of the local budgets in the region.

According to the laws of Ukraine, all the local self-government authorities shall publish

information on the local budgets, resolutions on the local budgets and quarterly reports on utilisation of the budgets. It can be done on their portals. They shall also publish resolutions on the local budget in the local newspaper. Some of the local authorities publish full information in the convenient form and also furnish information on budget programme data sheets and reports on performance thereof. At the same time, information is often provided as scanned copies, which makes its analysis complicated.

In order to increase accessibility of data on public finance and enable public control over the budgets of the local authorities, the open data platform in the area of public finance called E-data (<http://edata.gov.ua>) has been established and is made of several portals:

- Unified Web-Portal of Utilisation of Public Funds (<https://spending.gov.ua/new/>): it shows all the transactions of all the budget owners, including the level of territorial communities,
- Open budget (<https://openbudget.gov.ua/>): the portal presents data of budgets of all the territorial communities in terms of revenues, expenditures, lending and financing. The information is available starting from 2018. The portal contains the analytical tool of BOOST analysis that enables analysing budget indicators by communities;
- IFIs projects / register of IFI projects (<https://proifi.gov.ua>): it contains information on the social and economic development projects financed at the expense of IFIs.

Control over public procurement by the LSGA and municipal enterprise is also supported by the fully open information on procurement at ProZorro portal: there is information on the bidding procedure, bidders' documents, and the contract made.

Public access to information on the budget indicators of the territorial communities facilitates public control both by the community residents and journalists.

³⁴ Report on the operating results of the SASU for 2020, https://dasu.gov.ua/attachments/41c93f15-7eb7-49ab-b464-1934173c7f58_%D0%97%D0%92%D0%86%D0%A2_2020_%D1%80%D1%96%D0%BA.pdf

³⁵ <https://dasu.gov.ua/ua/plugins/userPages/70>



Chapter 5.

INVESTMENT BY MUNICIPAL COMPANIES

Municipal enterprises (Mes), which are companies established by the municipalities or regions to satisfy a specific need of the community or region that cannot be fully satisfied by the private business under the existing

conditions, are important for operation of the local infrastructure and household industry. Moreover, the local self-government authorities are not formally limited in the industries in which they can establish the MEs.

Insert: Assessment Methodology

In Donetsk Region, we analysed the reports of all the municipal enterprises established at the regional and lower local levels (districts, cities). There were 274 MEs in 2020. Legal entities of the municipal ownership in other legal forms (companies, budget institutions, organisations, company groups etc.) are not considered.

For the purposes of the analysis, we have defined the investment by these companies in 2016-2020 as changes in the initial value of fixed assets: only positive values representing investment were used for the analysis (the exception was detailed description of SDG 11). The financial reporting data for 2016-2019 were taken from the BvD Ruslana³⁶ data base, and the financial reporting data for 2020 were uploaded from the portal data.gov.ua, where they were first published by the State Tax Service as open data in 2021.³⁷

All the municipal enterprises are divided by the main codes of types of economic activity (KVED). The main KVED of the municipal enterprises generally represents their statutory type of activity. The experts divided the investment by the sustainable development goals based on the KVED. However, the principal activity of some MEs may differ or be broader than the main KVED, which can cause certain displacement in our assessment. The quantity and other indicators of the municipal enterprises are divided by the sustainable development goals. Certain types of activities have been included into several SDGs.

Also, the total amount of change in the value of the fixed assets was analysed for certain industries. In particular, it refers to the investment falling within SDG 11 "Sustainable cities and communities" due to a decrease in the scope of the fixed assets of the MEs being housing maintenance management companies.

In most cases, the local authorities have a material impact upon the financial resource of the municipal companies via the authorised fund, tariff policy, provision of budget subsidies and grants as well as benefits allocated from the local taxes.³⁸ Loss-making activity of many housing and utility and transport municipal enterprises is often associated with the tariffs set at the level that does not include an

investment component or is generally lower than the net cost of the service.

During the medical reform in 2018-2020, the local self-government authorities transformed the municipal health care facilities (HCF) into municipal non-profit enterprise out of budget institutions. Therefore, the number of the health care facilities (HCF) as budget

³⁶ <https://www.bvdinfo.com/en-gb/our-products/data/national/ruslana>

³⁷ The financial statements (statement of financial position (balance sheet), and profit and loss and other comprehensive income statement (profit and loss statement) submitted as an attachment to the reporting (reporting new) tax statements for the annual tax (reporting) period pursuant to Clause 46.2 of Article 46 of the Tax Code of Ukraine <https://data.gov.ua/dataset/24069422-5825-41f6-81f7-89567e5e2ac9>

³⁸ See Local Budget and Financial Support of the Amalgamated Territorial Community, Civil Society Institute, Kyiv, 2017.

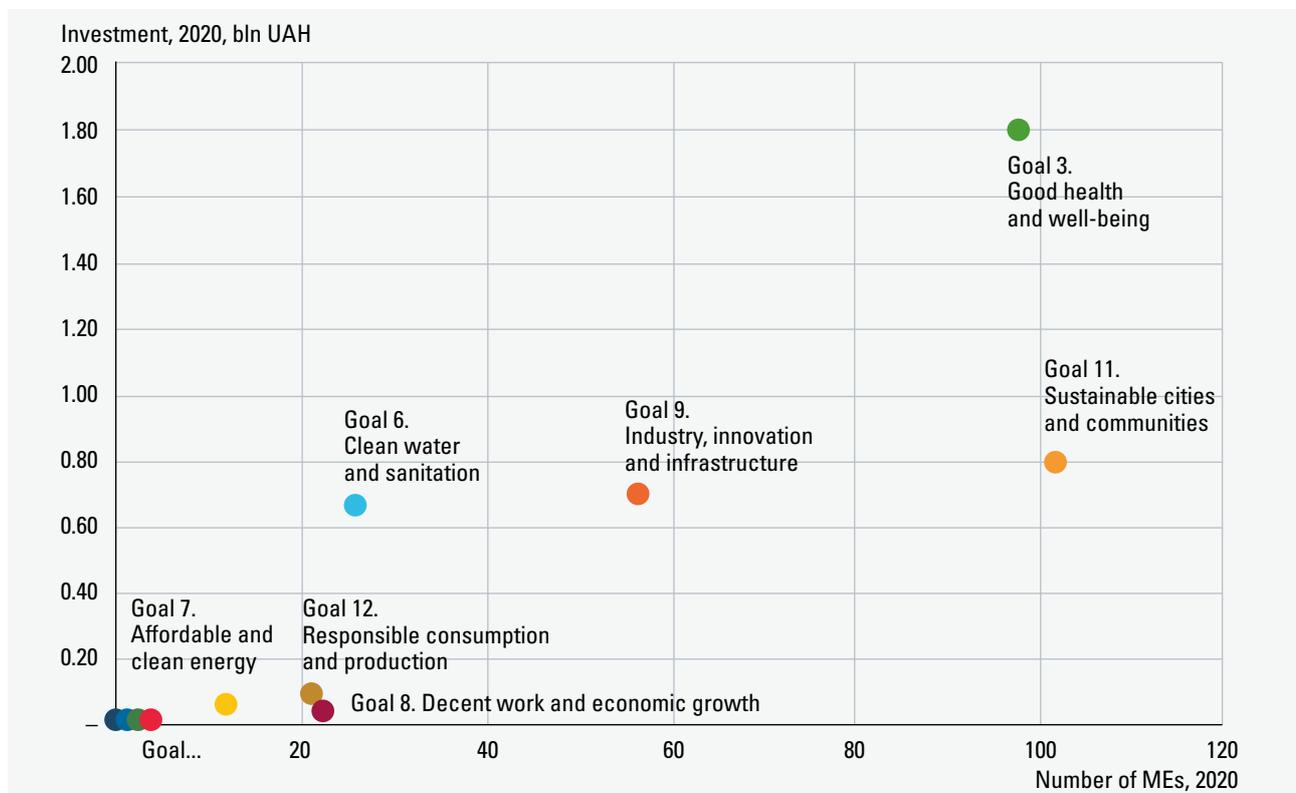


institutions went down whereas the number of HCF as MNE went up. The investment into health care grew accordingly. Thus, the dynamics shows changes in the organisational form and does not reflect changes in cash flows. The cash flows were influenced by the need to improve the capacity of the HCF for the aid during the Covid-19 pandemic.

According to the experts, in 2020, 3.2 billion Ukrainian hryvnias of the investment of the ME pertained to six out of seventeen sustainable

development goals (Figure 16) whereas the change in the initial value of the fixed assets for Goal 11 is negative (-2.4 billion Ukrainian hryvnias). Only 696 thousand Ukrainian hryvnias remains for the rest of the goals, which is less than 1% of the total investment. At the same time, the industry and the goal can be clearly compared only for three goals: Goal 3, Goal 6 and Goal 12. Also, we consider the main types of activity of the ME in the first place and do not take into account indirect impact of their investment upon the other SDGs.

Figure 16: Division of the investment of the municipal enterprises by the UN goals (bln UAH), 2020



Note: The division by the sustainable development goals is provisional: the indicators for some enterprises are allocated among two or three goals
Source: financial statements of the MEs, own calculations

Out of 274 municipal enterprises, most investment in 2020 was made in the health care and sport enterprises (Goal 3), i.e. 1.8 billion Ukrainian hryvnias, which was connected with implementation of the medical reform and counteraction to Covid-19. As for the water industry (Goal 6), the investment made 660 million Ukrainian hryvnias and was the largest for the last five years.

The investment into such goals as Goal 11 "Sustainable cities and communities" and Goal 9 "Industry, innovation and infrastructure" is, on the one hand, responsibility of the local

self-government authorities and, on the other hand, may be largely reflected in private and state investment.

Among the goals that fall within the responsibility of the local self-government authorities, but have not been included into the table above (because of the inconsiderable scope of the investment and number of the Mes), Goal 4 "Quality education" should be noted. The pre-school, school and special education establishments are owned by the communities, but have a legal form of budget institutions, so their investment does not pertain to the MEs.

**Table 2. Investment of the ME in Donetsk Region**

Sustainable development goal	Number of MEs (2020)*	Scope of investment 2016, mln UAH	Scope of investment 2017, mln UAH	Scope of investment 2018, mln UAH	Scope of investment 2019, mln UAH	Scope of investment 2020, mln UAH	Notes (main KVED pertaining to the Goal)
Goal 3. Good health and well-being	98	1.32	2.65	38.50	672.18	1,791.99	Including the hospitals transformed into the MNE during 2018-2020
Goal 6. Clean water and sanitation	26	164.42	216.12	569.63	268.25	660.60	Including the water supply and disposal MEs
Goal 7. Affordable and clean energy	12	24.95	18.58	75.19	52.36	53.00	Including heating and outdoor illumination MEs
Goal 8. Decent work and economic growth	22	24.49	17.64	11.23	63.71	31.38	Including the MEs with ten various KVEDs
Goal 9. Industry, innovation and infrastructure	57	151.55	445.02	430.20	688.08	689.13	Including the MEs with twelve KVEDs, mostly transport MEs
Goal 11. Sustainable cities and communities	102	1,950.00	2,775.12	1,853.80	1,361.37	804.00	Including the MEs with sixteen KVEDs. Decrease due to the transfer of apartment blocks from the balance sheet of the MEs to the apartment building co-owners associations and management companies
Goal 12. Responsible consumption and production	21	76.80	160.18	204.42	75.09	76.45	Including only the waste collection and disposal MEs
Others	9	0.19	0.19	0.58	0.56	0.72	
Total**	274	2,393.73	3,635.51	3,183.55	3,181.61	4,107.27	

Note: * The division by the sustainable development goals is provisional: the indicators for some enterprises pertain to two or three goals. Due to the above, the total number of the MEs is less than the sum for the SDGs.

** The total scope of the investment is only made of the positive indicators of the change in the initial value of the fixed assets.

Source: financial statements of the MEs, own calculations

It must be noted that we only consider the municipal enterprises of the part of Donetsk Region controlled by the government. At the same time, some regional MEs (such as ME "Voda Donbasu") perform the humanitarian function to supply water to the residents of the uncontrolled area. The opposite situation exists with the regional hospitals of level III that are located in the uncontrolled territory, in Donetsk. Therefore, the regional hospitals have been established in the recent years in the cities of Mariupol, Kramatorsk, Sloviansk and Lyman as well as wards based on the hospitals of level II.

Below is the description of the sustainable development goals that are mostly invested by the municipal enterprises in Donetsk Region.

GOAL 3 – GOOD HEALTH AND WELL-BEING

We have included the investment of the municipal non-profit enterprises, all the hospitals and some other MEs (100% of their investment), including parks (50% of the investment), into this goal. It must be noted that the latter may also operate based on the legal form of the



municipal establishment since there is no uniform approach to their activity (contrary to the health care facilities).

As it has been stated above, the peculiarity of Donetsk Region is lack of regional hospitals in the controlled territory. The facilities of the tertiary level have been gradually established in Donetsk Region for the last few years by reorganising the other health care facilities. In the first place, the investment into SDG 3 is procurement of devices and equipment, which is mostly obsolete, or expansion of the range of the medical services provided by the facilities, which is important within the medical reform.

GOAL 6 – CLEAN WATER AND SANITATION

The main sources of the centralised household, drinking and technical water supply in Donetsk Region is the Siverskyi Donetsk-Donbas Channel. The Second Donetsk waterpipe, the inter-district waterpipe used to deliver drinking water into the low-water areas of Donetsk Region, is also important for water supply. These facilities require urgent reconstruction and replacement of the equipment. The considerable part of the systems and facilities of the municipal infrastructure in Donetsk Region is extremely worn out. The systems constructed in the 50s to 70s of the previous century are mostly used, so there are frequent accidents in the water supply systems. Their operation is getting more expensive while the quality of the services is falling: water is supplied based on the schedule, water supply is disrupted by accidents etc. The hostilities add complexity to the situation.

Donetsk Region has the highest percentage of the sewage systems to be restored (61.0 % against 40.9% on average in Ukraine according to the Ministry of Communities and Territories). The accident indicator is also the highest in Donetsk Region: 25.3 per

square kilometre of the system. As for the water losses in the centralised water supply systems, they are high, the same way as in Ukraine on average. According to the National Report on the Quality of Drinking Water and the Condition of Drinking Water Supply in Ukraine in 2019, they were 49.5% against the volumes of the water raised in Donetsk Region, against 37.6% in Ukraine.

The investment of 26 MEs pertain to Goal 6. The biggest one, and one of the biggest in Ukraine, is the ME “Kompaniia “Voda Donbasu”, which employs 10.6 thousand people. The Regional Programme “Water of Donetsk Region for 2017-2023”³⁹ provided for the investment into the company in the amount of 2.5 billion Ukrainian hryvnias for 2020, which was quite an ambitious goal because the total initial value of the fixed assets of the company was 3.5 billion Ukrainian hryvnias. The main source was “other sources” (including own and raised funds of the ME) and a small share of the regional budget. In fact, 178.5 million Ukrainian hryvnias were invested. The problems of the ME “Voda Donbasu” include, without limitation, the need to supply water to the temporarily uncontrolled territory of Donetsk Region, which has a negative impact on the financial condition of the enterprise since the consumers there do not pay for water.

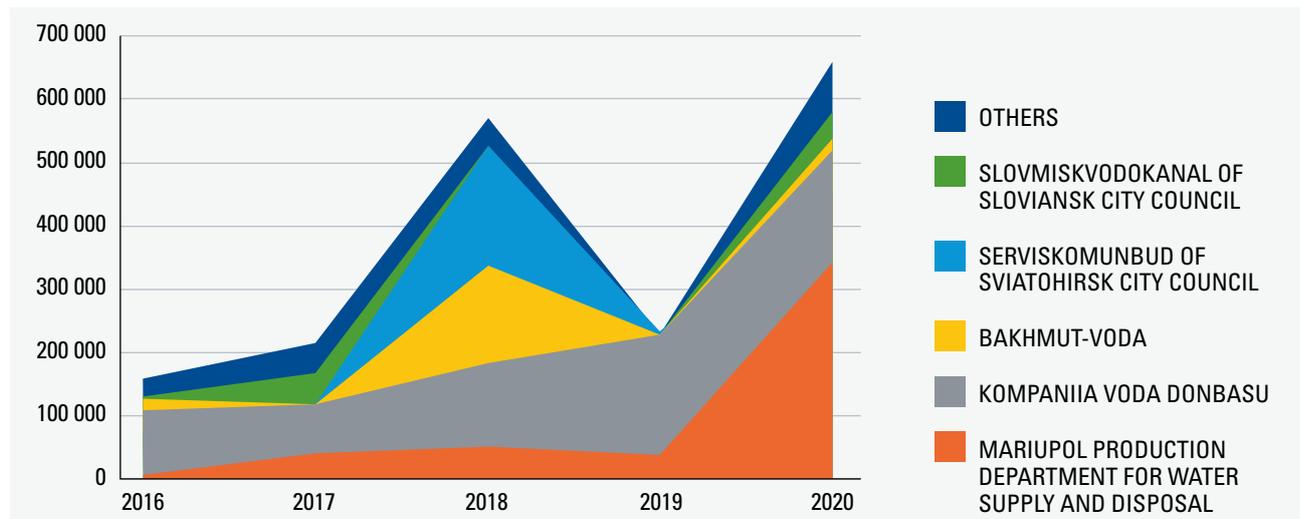
Additionally, 25 local municipal enterprises provide water supply services to citizens, but the investment into them is inconsiderable in comparison with the ME “Voda Donbasu”.

The total investment into the industry in 2020 made 660.6 million Ukrainian hryvnias. According to Chart 2, the investment of the municipal water supply enterprises changed, and the ME “Voda Donbasu” as one of the largest MEs in Ukraine does not always invest the most. Instead, in 2020 considerable contributions were made by the water supply ME in Mariupol and the MEs of the cities of Bakhmut and Sviatohirsk in 2018.

³⁹ <https://dn.gov.ua/npa/pro-vnesennya-zmin-do-rozporядzhennya-golovi-oblderzhadministraciyi-kerivnika-oblasnoyi-vijskovo-civilnoyi-administraciyi-vid-18-zhovtnya-2017-roku-13255-17>



Figure 17. Division of the investment of the water supply MEs by the largest enterprises



Source: financial statements of the MEs, own calculations

GOAL 7 – AFFORDABLE AND CLEAN ENERGY

This goal covers 50% of the investment of the thermal energy supply and distribution MEs as well as outdoor illumination MEs (the remaining 50% pertain to Goal 9 “Industry, innovation and infrastructure”).

The regional enterprise ME “Donetskteplo-komunenerho” stands out among the enterprises whose investment pertains to this goal (30.3 million Ukrainian hryvnias of the investment was made for the goal in 2020). The enterprise holds the assets worth more than one billion Ukrainian hryvnias and has the bad debt to NAK “Naftogaz” for the gas consumed, around 1.5 billion Ukrainian hryvnias as of March 2021⁴⁰, the same way as the other monopoly heating providers, which is partly connected with the establishment of tariffs by the local authorities.⁴¹

The important thing is that 57% of the housing in the villages of Donetsk Region are heated with heating stoves (mostly coal-based), which makes the region different from the rest of Ukraine. Given the national policy for decarbonisation and less production of mineral coal in Ukraine, the Regional State Administration and respective territorial communities should develop the projects of refusal from coal in the heating. Such projects could be financed both from the budget (SFRD) and international support (for instance, NEFCO).

GOAL 8 – DECENT WORK AND ECONOMIC GROWTH

Goal 8 includes the investment of various MEs, most of which with the weight of 50%, whereas the rest of the investment pertain to the other Goals. It is connected with the fact that investment into certain enterprises can be difficult to refer to the specific UN Goal, but any economic operator creates jobs and facilitates economic growth.

The MEs whose investment pertain to Goal 8 also include the enterprises operating in the competitive market. In particular, that is investment into three wholesale and retail trade MEs although most of the enterprises in the industry are private.

GOAL 9 – INDUSTRY, INNOVATION AND INFRASTRUCTURE

As it has been stated above, this Goal includes 50% of the investment of the heat supply and illumination MEs.

The investment associated with this goal also includes contributions made by ten public transport enterprises. In 2020, they made around 689 million Ukrainian hryvnias. The lion’s share (446 million Ukrainian hryvnias) was upgrade of the fixed assets of the ME “Mariupol Tram and

⁴⁰ <https://www.dw.com/uk/postachannia-hazu-dlia-donetskteplokomunenerho-prypyneno-cherez-zaborhovanist/a-56796550>

⁴¹ <https://www.president.gov.ua/news/kabinet-ministriv-ukrayini-nkrekp-naftogaz-ta-meri-mist-pidp-66433>



Transport Department". The situation was the same in the previous years. In the first place, it is explained by the fact that the enterprise received the loan from the European Bank for Reconstruction and Development to purchase 72 trolleybuses.⁴²

The public transport must be developed not only in Mariupol, but also in the other cities of the region, which will improve mobility of the region residents and encourage development of the cities.

GOAL 11 – SUSTAINABLE CITIES AND COMMUNITIES

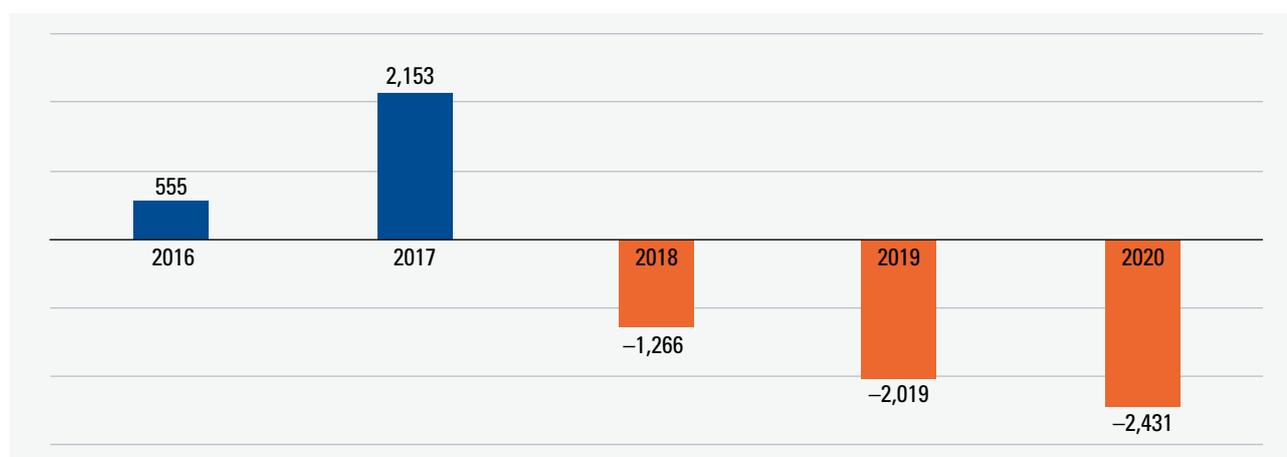
This UN Goal covers the investment of the MEs that maintain buildings and areas, including the residential housing management companies, as well as MEs in small cities (so called "one-customer services"), which conduct

various activities, but their main task is to maintain buildings and streets.

This is a specific type of activity since the housing fund maintenance is continuously delegated from the municipal enterprises to the management companies and apartment building co-owners associations. As of 1 January 2019, there were 9,980 apartment buildings in Donetsk Region, and 4,924 managers were appointed following the competition by the local self-government authority (in most cases, it was a local ME); the management form in 1,307 buildings was not selected.⁴³ Therefore, one can assume that around 60% of the apartment buildings are maintained by the municipal enterprises, but their number keeps going down.

Therefore, the change in the initial value of the fixed assets for 2018-2020 in this industry is negative (Figure 18).

Figure 18. Goal 11 – change in the initial value of the fixed assets, mln UAH



Note: the total scope of the investment is made of the positive indicators of the change in the initial value of the fixed assets.

Source: financial statements of the MEs, own calculations

GOAL 12 – RESPONSIBLE CONSUMPTION AND PRODUCTION

According to our estimates, investment within Goal 12 is made by 21 MEs that collect, remove and bury domestic and other waste. Some private companies selected by the local self-government authorities at the bidding procedure

may also operate in this industry: investment into such companies is considered in the other sections.

Although it cannot be claimed for sure that investment into the MEs being waste treatment operators is directed at sorting and recycling and, therefore, meets the criteria of

⁴² <https://www.ebrd.com/work-with-us/projects/psd/ukraine-public-transport-framework.html>

⁴³ As of 1 January 2019 according to the Ministry of Development of Communities and Territories <https://www.minregion.gov.ua/napryamki-diyalnosti/zkhk/zhitlova-politika/diyalnist-osbb/informatsiyno-analitichni-materiali-pro-upravlinnya-zhitlovim-fondom-2/attachment/informatsiya-pro-zhitloviy-fondta-upravlinnya-nimstanom-na-01-01-2019/>



responsible consumption development, the total investment into the industry in 2020 made 75.3 million Ukrainian hryvnias. Approximately one third of it (24.9 million Ukrainian hryvnias) was investment into the regional solid domestic waste landfill.⁴⁴

On the one hand, such situation does not fall within the paradigm of more responsible waste treatment. On the other hand, it is a national problem that requires the legislative, regulatory and methodological framework for waste treatment at the respective state level.

Investment into domestic waste sorting with separation of the recyclable materials (paper, cardboard, polymers, glass, metal) and recycling thereof as well as further waste clogging will considerably increase the useful life of landfills. Another important area of investment must be construction of rubbish recycling plants, rubbish transfer and sorting sites in the region pursuant to the Regional Development Strategy until 2027 (Operational Goal 4.2).

PUBLIC-PRIVATE PARTNERSHIP

PPP could be a significant source of investment into the municipal facilities of the region.

However, the military and political risks of Donetsk Region and the national Ukrainian problems (described in Section 6.1) prevent development of lease and concession as public-private partnership mechanisms. Additional challenges are insufficient awareness of the stakeholders, both local authorities and MEs, of peculiarities of the public-private partnership instruments.

As of the beginning of 2021, there were four public-private partnership contracts in effect in the region, namely in the following areas: *production, distribution and supply of electric power; production, transportation and supply of heat and distribution and supply of natural gas; waste treatment, except for collection and carriage.*⁴⁵

One of the PPP examples is the heat provider in Bakhmut, Bakhmut-Enerhiia LLC, which belongs to the Lithuanian group E-energija. In 2007, Bakhmut-Enerhiia LLC entered into the concession contract with the city council for 40 years and manages 36 city boiler houses. According to the company, the investment into upgrade of the heating mains and labour optimisation up to 2019 inclusive made around 1.78 million euros against the total plan for the amount of around 4.34 million euros.⁴⁶

⁴⁴ <http://ecology.donoda.gov.ua/doneckij-regionalnij-centr-povodzhennya-z-vidxodami/>

⁴⁵ <https://www.me.gov.ua/Documents/Detail?lang=uk-UA&id=9fc90c5e-2f7b-44b2-8bf1-1ffb7ee1be26&title=StanZdiisnenniaDppVUkraini>

⁴⁶ <http://www.erenergija.com/?id=37>



Chapter 6.

PRIVATE INVESTMENT

6.1. Obstacles and Drivers for Private Investment

In the context of private investment, Donetsk Region has a special status due to the armed aggression of the RF in its territory. The region historically being the industrial centre has the developed energy and transport infrastructure, direct sea access, a lot of work force and potentially powerful value chains. For the last few years, the front line, governance peculiarities (military and civil administrations) and military and political risks have turned it into an absolute outsider for the private capital, especially when it comes to direct foreign investment. The governmental policies for raising private investment into the region are extremely perplexed by these factors.

In addition to the general Ukrainian problems (see Section 8 of the National Report on the Development Finance Assessment), the key obstacle to investment into Donetsk Region is **operational military and political risks**. They limit private investment and lending due to the fact that assets, performance of contracts and safety of carriage in the vicinity of the front line are under the permanent threat. Moreover, private investors treat the entire region as the territory with the high risk of possible escalation of the military conflict, which has a negative impact not only on the investment climate, but also the tourist climate and demographic situation. Therefore, there is an outflow of active business representatives, qualified staff, youth and scientists. At the same time, according to the economic indicators (Section 2), businesses keep growing in the region, and there are employment opportunities in different industries. It can be partly mitigated by the national

investment insurance policy, which is already in the strategic plans of the government. Also, there should be active communication at the national and local levels regarding recovery of the competitive ability of the region, and the platform for exchange of the communities' success in raising investment and developing business should be established.

Another operational problem attributable to the region more than to the rest of the regions is rapid **outflow of the human capital**. The qualified employees try to get a job somewhere else, far from hazards and overall depressing conditions in the housing, social and cultural areas. The youth are not encouraged to stay in the region, and their outflow is especially noticeable, according to the interviews of the local entrepreneurs and local authorities. Moreover, it is practically impossible to obtain demographic data due to no reliable census and considerable migration typical of the region.

Those who have already invested into the **agriculture** have had the unpleasant experience due to the unregulated legal issues associated with the land near the front line: even in the controlled area, the agricultural lands seized for the defence needs and fortification structures were assessed the tax for some time although they could not be used for agricultural purposes. Landmine contamination of the territories is another problem for investment into agriculture near the front line while the climate changes and droughts considerably reduce the crop yield and increase costs of agricultural manufacturers.



The **infrastructure problems** also affect the investment attractiveness. They include the high price of connection to the systems and the longest disruptions in electric power supply among the other regions of Ukraine, logistic issues due to non-electrified railways and risks of blockade of the Mariupol Trade Port. The region has no flight connections at all. One can get to Mariupol or Kramatorsk from any other Ukrainian city by rail or road, and the trip is quite long.

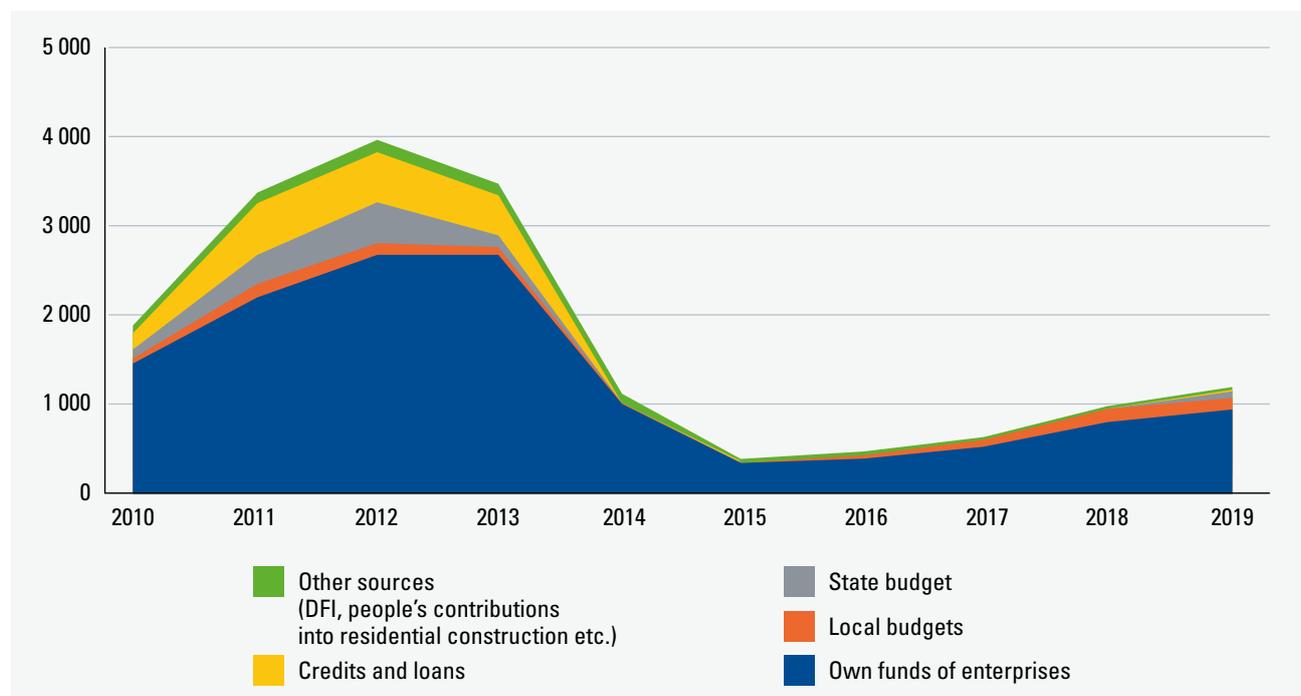
One of the obstacles to financing of investment is lower accessibility of bank lending in comparison with the average level in the country. The banks are more cautious lending to business in the region due to the military risks. Businesses also face bigger challenges when they obtain loans from banks within the state programme “Affordable Loans 5-7-9”, namely due to the negative credit history of the borrowers affected by the occupation of the part of Donbas and disrupted supply chains in 2014-2015. Also, due to the higher risks, the cost of the collateral does not always satisfy lending needs, so the government should probably consider other approaches to portfolio loan

guarantees within this programme for the businesses located in the region.

The Strategy for Economic Development of Donetsk and Luhansk Regions was adopted in 2021⁴⁷: the government suggests introducing regional drivers of investment and maintenance of the financial value of the collateral, namely the centralised business insurance against the military and political risks, finished infrastructure in industrial parks, simplified conditions for access to the existing national programmes (support of the projects with considerable investment, so called investment nannies, export promotion programmes, SME lending etc.).

In 2014-2015, the capital investment⁴⁸ into the region was scaled down: the decline in investment in Donetsk Region in two years made 82%. In 2019, the scope of capital investment into assets of the enterprises in real terms in the region did not reach the level of 2013. In 2019, the region had only 5.4% of all the capital investment in Ukraine while it was 15.7% in 2013 (which is mostly explained by the loss of Donetsk and a number of other cities).

Figure 19. Capital investment in Donetsk Region by the sources of financing in 2010-2019, mIn USD



Source: Main Statistics Department in Donetsk Region

⁴⁷ <https://zakon.rada.gov.ua/laws/show/1078-2021-%D1%80#Text>

⁴⁸ Volumes of capital investment into tangible and intangible assets of the enterprises that were actually utilised during the reporting period.



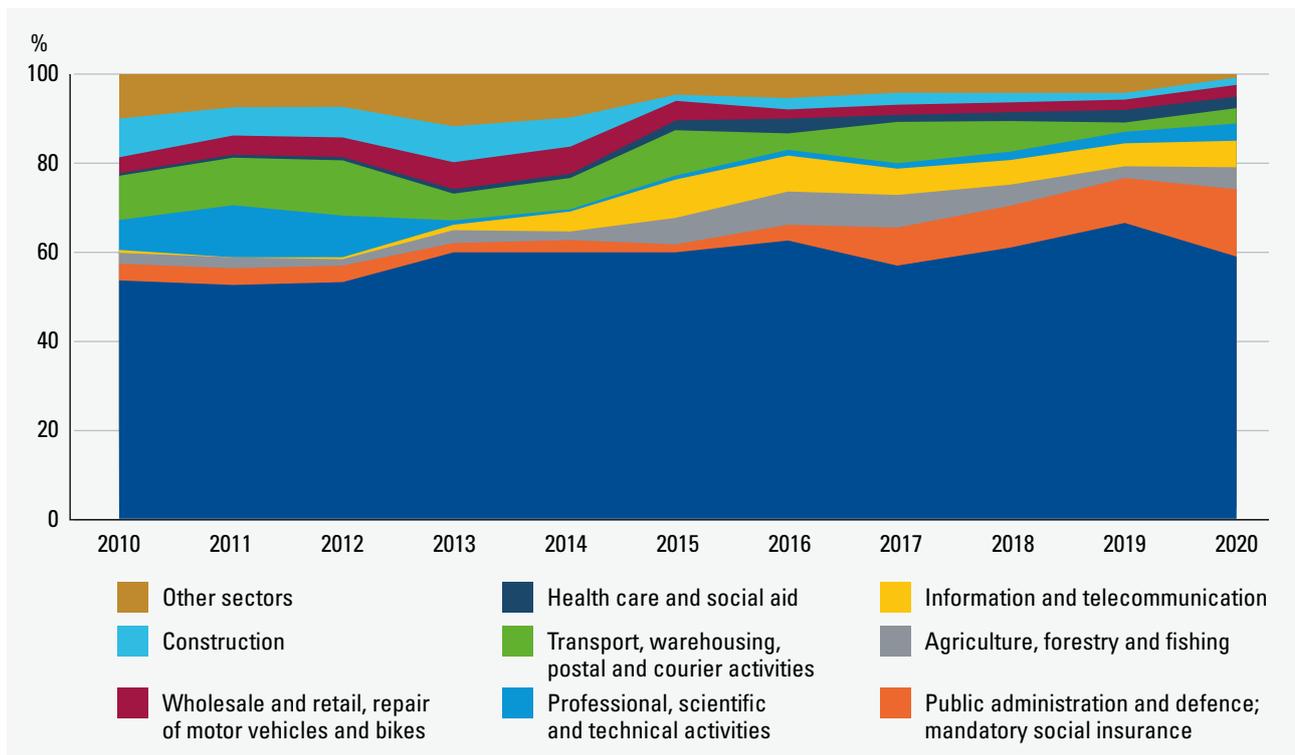
The same way as generally in Ukraine, own funds are the main source of financing investment of enterprises (81%). There is almost no lending due to the collateral risks. Residential construction, even at the people's expense, has ceased to be financed, which is one of the key social problems.

The fall of private capital investment against an increase in the capital expenditures at the expense of the state and local budgets has resulted in the growing role of the state: the share of public funds in capital investment grew from 6% to 17% from 2013 to 2019 although the amounts in nominal terms did not grow considerably – financing at the expense of the state and local budgets started to expand noticeably from the minimum only in 2018-2019. The share of public funds (from the state and local budgets) in capital

investment reached 12% in 2020, which is probably explained by the programme “Large Construction” and other state programmes.

Most investment is directed into the manufacturing industry by the types of economic activity since the large industrial enterprises still operate in the region. They do not generally provide for considerable business expansion, but even the flow of current investment (repairs, renovation, energy-efficiency etc.) ensures the leading role of the manufacturing industry. Due to the dramatic decline in the construction, trade, transport and logistics, the other sectors, and naturally against the background of the armed aggression by the neighbouring state, the capital investment into public administration and security have ranked second by the scope of investment, and budget health care has become noticeable.

Figure 20: Structure of capital investment by the types of economic activity for 2010-2020



Source: Main Statistics Department in Donetsk Region

Based on the KVED breakdown by the respective sustainable development goals, the dynamics of changes in the structure of capital investment in terms of the SDGs can be assessed. The manufacturing industry (mining and processing one) pertains to Goals 8 “Decent work and economic growth” and 9 “Industry, innovation and infrastructure”, which gives these two

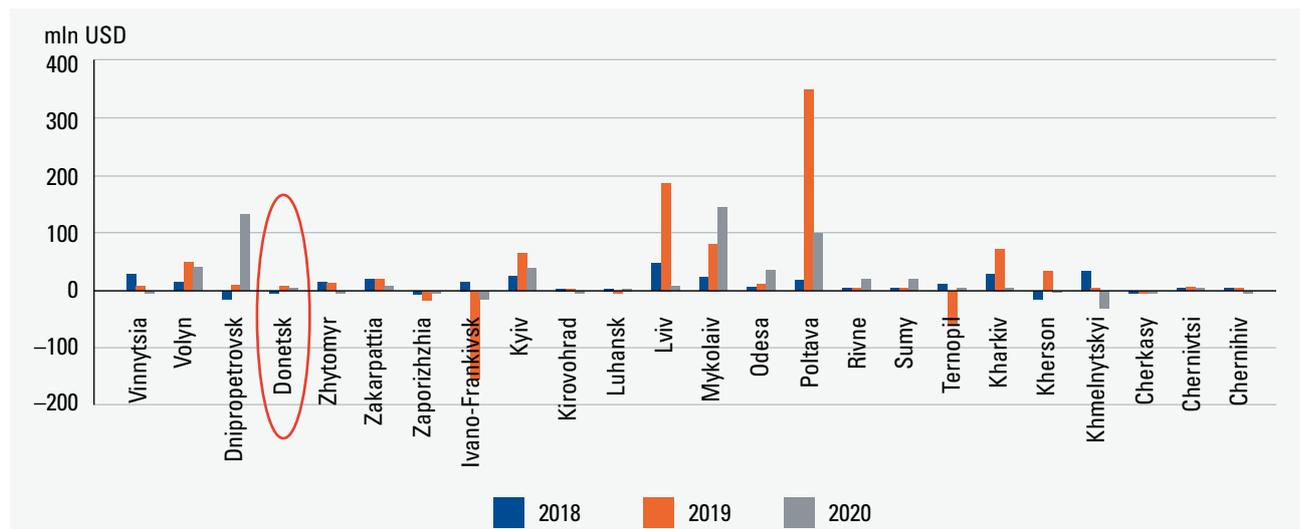
goals the biggest share in the capital investment structure. These two goals can also cover trade, transport, construction, professional, scientific and technical activities. The increase in the share of public administration and defence in investment for recent years has caused growth of Goal 16 “Peace, justice and strong institutions” as well as, to a smaller extent, Goal 10



“Reduced inequalities”: Except for the above, there have been no dramatic changes in division of capital investment in Donetsk Region by the goals since 2016: Goals 8 and 9 remain dominant, and there has just been redistribution of investment inside the goals, with an increase in the share of the manufacturing industry.

Direct foreign investment has practically failed to reach the region due to the above-mentioned reasons for the recent years. If the indicator is cleared off reinvestment of revenues, according to the NBU⁴⁹, it did not exceed 10 million US dollars in total in 2018-2020 (Figure 21).

Figure 21: Interest tools (except for reinvestment of revenues) for 2018-2020, mln USD



Source: National Bank of Ukraine

The industrial parks, three of which were registered in the region in 2017-2019, still have no residents. The companies still have not invested even into AzovAquaInvest (Mariupol), the only park where the construction of systems has started, and the needs of which have been allocated 21.83 million Ukrainian hryvnias from the budgets of different levels (half of the funds are from the local budget) in 2021. The region also has unregistered parks (Chemical and Metallurgic Plant, NIOCHIM State Institution, Donske, and Feniks-Vuhledar), with three more parks planned (in Bakhmut, Sloviansk and Toretsk).

The development challenges of the industrial parks are material risks of the region, lack of the

finished infrastructure and investors for construction. Moreover, there is insufficient focus on investment into the utility systems and park infrastructure by the SFRD. Development of the parks can be stimulated if park registration is accelerated, and requirements for the management companies are liberalised, their financing is set as a priority of the SFRD, and resident support tools are expanded: the list of the available infrastructure is expanded, construction of standard buildings is financed, and information and consultation support is granted. An important element of solution of the problem is insurance of the industrial park residents against military and political risks. It can reduce their concerns regarding reliability of the long-term investment into the region near the front line.

6.2. Capital Investment in Terms of the SDGs

Statistics are not enough to clearly establish how much private investment has been used to achieve the sustainable development goals,

and such data are not collected. According to the experts, the most efficient methodology is to divide enterprises by the types of their

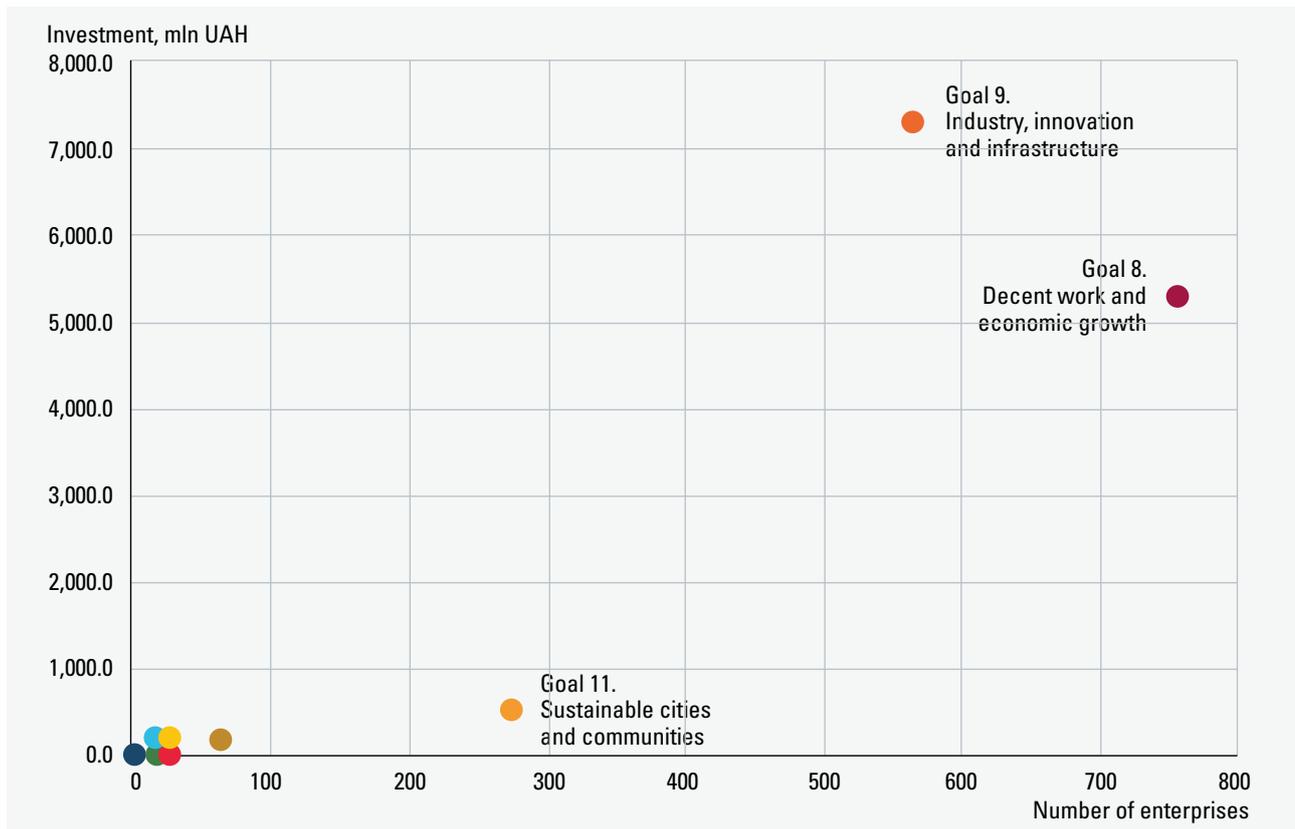
⁴⁹ The NBU statistics does not provide earlier data, and the statistics of the Statistics Service provides incomparable indicators. Data on the sectoral distribution of the DFI are also unavailable.



principal economic activity (KVED) and to refer their capital investment to a specific goal pursuant to the KVED. The scope of investment was calculated as the change in the fixed assets of the enterprise in a year; pertinence of the enterprise's activity to the specific

sustainable development goal was defined by means of the KVED of each enterprise (each KVED is consistent with one or several goals). Further analysis was based on the financial statements published by the State Tax Service for 2020.

Figure 22. Distribution of the capital investment of private enterprises in 2020



Source: STS

In 2020, 1,734 private enterprises in Donetsk Region increased or decreased the scope of their fixed assets. The total capital investment made 13.4 billion Ukrainian hryvnias. Most of the enterprises that invested into their activity pertain to **Goal 8** "Decent work and economic growth" and **Goal 9** "Industry, innovation and infrastructure" by their KVED – 761 and 569 enterprises accordingly (Figure 23). It is connected with the fact that these very sustainable development goals are mostly associated with the economic activity of the businesses. In 2020, the enterprises that can be referred to Goal 8 by their KVED increased the scope of their fixed assets by 5.3 billion Ukrainian hryvnias; 88% of the capital investment was made by medium-sized and large businesses. The scope of investment into their activity by the enterprises that can be referred to Goal 9 made 7.3 billion Ukrainian hryvnias in 2020;

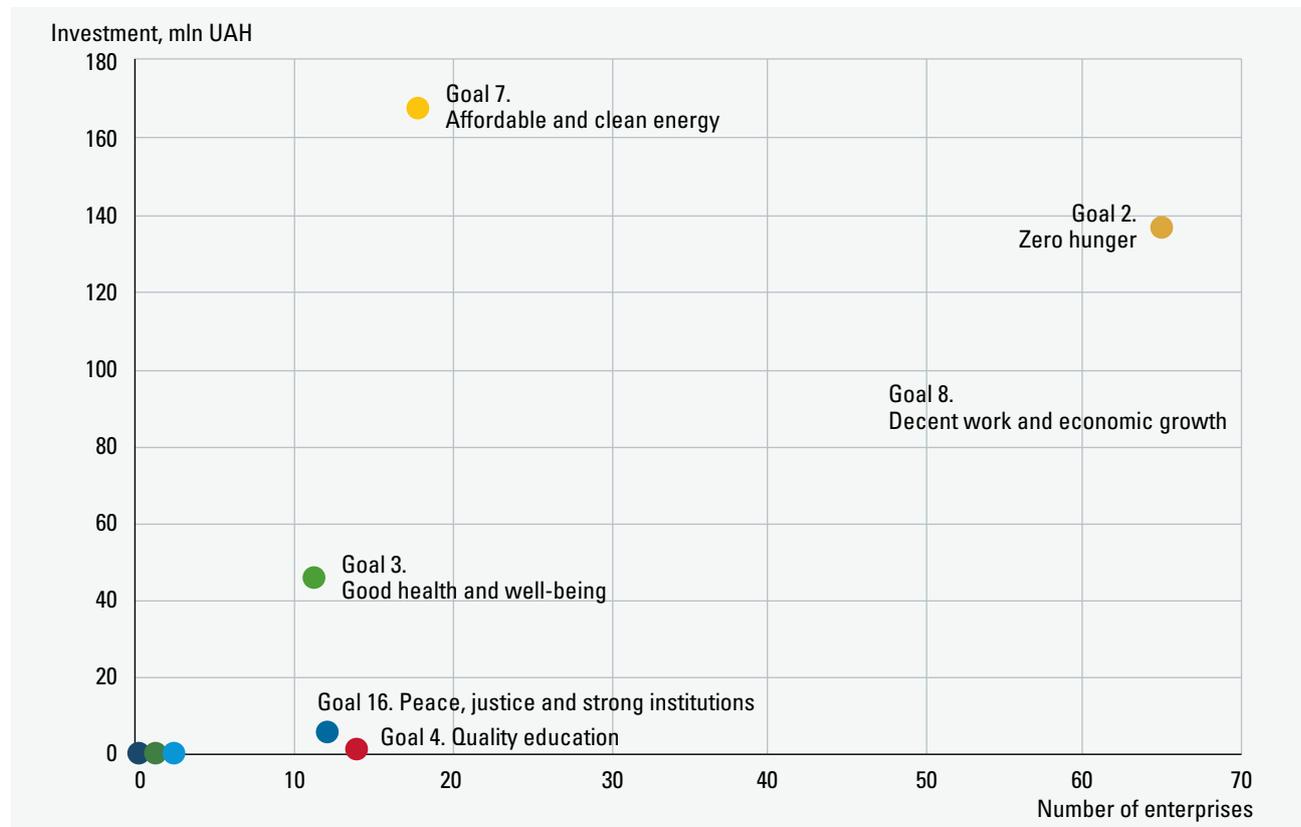
95% of the amount was provided by medium-sized and large businesses.

277 private enterprises can be referred to **Goal 11** "Sustainable cities and communities" by the type of their activity. The scope of capital investment by those enterprises in 2020 made 499 million Ukrainian hryvnias; most investment was made by small businesses – 71% of the total amount while the contribution by the medium-sized and large businesses made 24%.

The activity of 18 private enterprises in Donetsk Region can be referred to **Goal 7** "Affordable and clean energy"; the scope of the capital investment by those enterprises in 2020 grew by 168 million Ukrainian hryvnias, with almost 100% coming from medium-sized and large enterprises.



Figure 23. Distribution of the capital investment by the number of enterprises and their industry (except for three major industries) in 2020



Source: STS

65 agricultural enterprises, food industry enterprises and veterinary establishments of Donetsk Region whose activity can be referred to **Goal 2** “Zero hunger” increased the scope of their fixed assets by 137.5 million Ukrainian hryvnias in 2020.

The capital investment of eleven enterprises whose type of activity pertains to **Goal 3** “Good health and well-being” was increased by 46 million Ukrainian hryvnias in 2020; 71% investment was made by small enterprises, and 27% came from the medium-sized and large enterprises.

Twelve enterprises whose activity can be referred to **Goal 16** “Peace, justice and strong institutions” invested 4 million Ukrainian hryvnias into their work in 2020. 80% of the capital investment came from the small enterprises most of which provide security services.

The fixed assets of fourteen enterprises whose activity can be referred to **Goal 4** “Quality education” were increased by 632 thousand Ukrainian hryvnias in total; at the same time,

the increase was effected due to the increase in the initial value of the fixed assets of Technical University “Metinvest Polytechnic” LLC by 750 thousand Ukrainian hryvnias while the capital investment by small enterprises went down by 157 thousand Ukrainian hryvnias.

The activity of two companies is associated with **Goal 12** “Responsible consumption and production”: that is Green Company that recycles secondary raw materials, and Umwelt Bakhmut that removes rubbish. The capital investment by those companies in 2020 made 326 thousand Ukrainian hryvnias.

The capital investment of two private companies whose activity is associated with **Goal 6** “Clean water and sanitation” was increased only by 40,000 Ukrainian hryvnias in 2020. Most of the enterprises associated with this goal are municipal so there is little private sector investment.

In 2020, the only private enterprise of the region whose activity can be referred to **Goal 15** “Life on land” invested 21 thousand Ukrainian



hryvnias into its activity; two private enterprises associated with **Goal 14** “Life below water” increased the scope of their fixed assets by 16 thousand Ukrainian hryvnias.

Several sustainable development goals are hard to achieve within the principal activity of the enterprises so applicable corporate

social responsibility programmes are generally directed at them. The examples include **Goal 1** “No poverty”; **Goal 5** “Gender equality”; **Goal 10** “Reduced inequalities”; **Goal 13** “Climate action” **Goal 17** “Partnerships for the goals”, achievement of which cannot be traced based on KVEDS, but they can be covered with the corporate social responsibility.

6.3. SDGs in the Corporate Social Responsibility Programmes of the Major Enterprises in Donetsk Region

All 10 enterprises in Donetsk Region with the biggest proceeds gained in 2020 are private. Seven of them pertain to Metinvest group and DTEK, which are in their turn owned by SCM (System Capital Management of Rynat Akhmetov). These enterprises implement their corporate social responsibility (CSR) actions within the social responsibility group programmes. The list of the major enterprises of the region also include

Novokramatorsky Mashinostroitelny Zavod, Energomashspetsstal and Vesco, each of them having its own CSR programme.

The state and municipal enterprises are only on TOP 20 major enterprises of Donetsk Region: they are ME “Voda Donbasu”, SE “Artemsil” and SE “Mariupol Sea Trade Port”, and their websites contain no information on corporate social responsibility programmes.

Table 3: TOP 10 major enterprises of Donetsk Region by their proceeds in 2020

Enterprise	Proceeds, bln UAH (2020)	Group
Ilyich Iron and Steel Works	77.2	Metinvest
Azovstal Iron and Steel Works	50.6	Metinvest
Avdiivka Coke Plant	16.5	Metinvest
Novokramatorsky Mashinostroitelny Zavod	6.5	–
Donetsk Energy Services	4.9	DTEK
Metinvest Engineering	3.7	Metinvest
Energomashspetsstal	3.3	Rosatom
Vesco	2.8	Vesco
DTEK Donetsk Elektromerezh	2.7	DTEK
DTEK Dobropillivuhillia	2.4	DTEK

METINVEST

In its sustainable development report for 2019⁵⁰, Metinvest mentions that the company’s activity was focused on achievement of SDG 8 “Decent work and economic growth”, SDG 9 “Industry, innovation and infrastructure”, SDG 11 “Sustainable cities and communities”, and SDG 12 “Responsible consumption and production”. In 2020, the group planned to

focus its efforts on the tasks within SDG 13 “Climate action”.

In addition to achievement of these goals of priority for the company, the major enterprises of Metinvest in Donetsk Region implemented the following projects:

in 2019, Metinvest allocated 271 thousand US dollars for the upgrade of the central city

⁵⁰ Sustainable Development Report-2019. Metinvest <https://metinvestholding.com/ua/upload/sr-2019/>



hospital in Avdiivka, which helps achieve SDG 3 “Good health and well-being”. During the fight against the pandemic of COVID-19, Ilyich Iron and Steel Works supplies medical oxygen to the hospitals in Donetsk Region.

At Ilyich Iron and Steel Works, Azovstal and Avdiivka Coke Plant, Metinvest implemented a package of actions to improve energy efficiency in 2019, which helps achieve SDG 7 “Affordable and clean energy”.

In 2019, Azovstal and Ilyich Iron and Steel Works completed implementation of the large-scale environmental upgrade projects with the total value of 89 million US dollars, thus reducing the impact of their activity upon the environment and helping achieve SDG 13 “Climate action”.

DTEK

In its ESG report for 2019⁵¹, DTEK informs about implementation of twelve sustainable development goals out of seventeen in its programmes. In Donetsk Region, the major enterprises of DTEK implemented the following projects within the respective SDGs:

- SDG 6 “Clean water and sanitation”: the enterprise’s facilities in Dobropillia implemented the closed water use cycle, which allowed reducing the consumption volumes.
- SDG 7 “Affordable and clean energy”: 24 apartment building co-owners associations in Dobropillia used the funds of DTEK to implement various projects to improve energy efficiency in the residential buildings.
- SDG 8 “Decent work and economic growth”: In Dobropillia, DTEK opened the Business Support Centre that has been consulting local residents on business matters for four years.
- SDG 11 “Sustainable cities and communities”: DTEK has repaired the roof at the only cultural centre of Dobropillia.
- SDG 12 “Responsible consumption and production”: The equipment of DTEK Donetsk Elektromerezhni is used jointly with UNIDO

to implement the project of detection and disposal of hazardous compounds – polychlorinated biphenyls; in 2019, the second stage of construction of the facilities necessary for safe disposal of coal industry waste was completed in Dobropillia.

- SDG 15 “Life on land”: in Donetsk Region, the level of bird security at high voltage power lines has been increased, and more than thirty stork nests have been re-located.

NOVOKRAMATORSKY MASHINOSTROITELNY ZAVOD

The website of the Novokramatorsky Mashinostroitelny Zavod (NKMZ)⁵² contains information on four principal areas of the company’s social responsibility: health care and occupational safety, environmental protection, work with the youth, and charity programme “NKMZ for Kramatorsk”. The corporate social responsibility actions of the NKMZ are directed at implementation of SDG 3 “Good health and well-being”, SDG 4 “Quality education”, SDG 11 “Sustainable cities and communities”, SDG 13 “Climate action”, and SDG 15 “Life on land”. However, the enterprise does not specify how much has been spent.

In pursuance of SDG 3 “Good health and well-being”, NKMZ promotes sport among the children and youth in Kramatorsk. In pursuance of SDG 4 “Quality education”, the factory finances redecoration of the city schools and opens modern STEM classrooms there. In order to reduce the environmental impact of the plant’s activity and, therefore, implement SDGs 13 and 15, NKMZ reconstructs the plant equipment and erects new treatment facilities.

The largest-scale actions are the ones to implement SDG 11 “Sustainable cities and communities” where the plant finances various development projects in Kramatorsk, starting from equipment of public transport stops up to redecoration of apartment buildings.

⁵¹ ESG Report 2019. DTEK https://dtek.com/content/announces/1003esg-otchet-gruppy-dtek_2019_pdf_s1032_t3386.pdf

⁵² Social responsibility. NKMZ <http://nkmz.com/ua/socialna-vidpovidalnist/>



ENERGOMASHPETSSTAL

The enterprise's website has the section "Corporate social responsibility"⁵³, which describes various social actions of the enterprise, but they are only directed at the company staff rather than the community of Kramatorsk and do not provide for any charity actions or programmes to protect the environment, so such actions are not full-scale corporate social responsibility.

VESCO

Vesco's social responsibility projects⁵⁴ are directed at achievement of the following sustainable development goals: SDG 3 "Good health and well-being", SDG 4 "Quality education", SDG 11 "Sustainable cities and communities", and SDG 15 "Life on land".

The company popularises technical engineering education, improves the physical infrastructure of educational establishments. In 2020, the enterprise invested more than 600 thousand Ukrainian hryvnias into purchase of medical equipment for the hospital in Druzhkivka. These actions are aimed to pursue SDGs 3 and 4.

Vesco implements a number of social city projects in Druzhkivka. In particular, the programme "Hand-Made City" was started in 2017: the enterprise finances the projects that enjoy most popularity among the people in Druzhkivka. The company also helps achieve SDG 11 "Sustainable cities and communities".

Vesco's activity is associated with mining of natural resources (porcelain clay), which puts pressure on the environment. The company reclaims the lands used by restoring black soil or planting trees in order to mitigate negative impact and achieve SDG 15 "Life on land".

⁵³ Corporate social responsibility. Energomashpetsstal <https://emss.ua/o-kompanii/sosialnaya-otvetstvenost/korporativnaya-sotsial-naya-otvetstvennost/>

⁵⁴ Sustainable development. Vesco <https://www.vesco.com.ua/development>



Chapter 7.

FINANCING OF DEVELOPMENT WITH EXTERNAL SOURCES

7.1. Financing of IFI Projects in the Region

One of the important sources of development finance in Ukraine is concessional loans from international financial institutions (IFI) for implementation of economic and social development projects both at the central and local levels. Such loans are sometimes accompanied by a minor grant element used to improve the beneficiary's institutional capacity. Donetsk Region implements several projects financed by the IFIs.

One of the projects is Ukraine Early Recovery Programme (UERP), which has been implemented in nine regions of Ukraine, including Donetsk Region, since 2015 at the expense of the concessional loan⁵⁵ granted by the European Investment Bank (EIB)⁵⁶. The aggregate amount of the loan is equivalent to 242 million US dollars, which must be directed at the social infrastructure recovery projects. The deadline for an application for use of the funds (tranche) is 30 October 2021.

The programme provides for recovery of the infrastructure and improvement of the utility services, repairs and reconstruction of the administrative buildings and social infrastructural facilities: educational, extra-curriculum and medical facilities in Donetsk and Luhansk Regions controlled by the Government of Ukraine, in Kharkiv,

Dnipropetrovsk, Zaporizhzhia Regions, and other regions welcoming the IDPs.

The Ukraine Early Recovery Programme was initiated by the Ministry of Regions, which has long been responsible for development of socially significant infrastructure in Ukraine, which was on the down-grade due to lack of financing in the first place, and in Donetsk and Luhansk Region – mostly due to the hostilities.

Insert: Sources of Financing of UERP Sub-Projects

According to Resolution of the Cabinet of Ministers of Ukraine "Specific Matters of Use of the Funds to Implement the Projects of the Ukraine Early Recovery Programme"⁵⁷ dated 25 November 2015 No. 1068:

- The source of formation of the subvention for the special fund is funds borrowed by Ukraine from the European Investment Bank in accordance with the Financial Agreement. The subvention of the special fund is used in accordance with the terms and conditions of the Financial Agreement and the contracts made with the Ukraine Early Recovery Programme (hereinafter the "Programme") as well as pursuant to the agreements on transfer of the funds made in accordance with the Financial Agreement.
- The source of formation of the subvention for the general fund is funds of the State Budget. The subvention of the general fund is only used to pay a value-added tax that is added to the value of the goods, works and services purchased within the projects financed within the Programme.

⁵⁵ The EIB loan is granted at the adjustable interest rate (EURIBOR), without a liability fee and non-recurring facility fee. The financial agreement provides for a non-recurring fee for assessment of the EURP by the Bank in the amount of 60.5 thousand US dollars (equivalent).

⁵⁶ Financial Agreement between Ukraine and the European Investment Bank (Project "Ukraine Early Recovery Programme") Kyiv, 22 December 2014. URL: https://zakon.rada.gov.ua/laws/show/971_014#n831

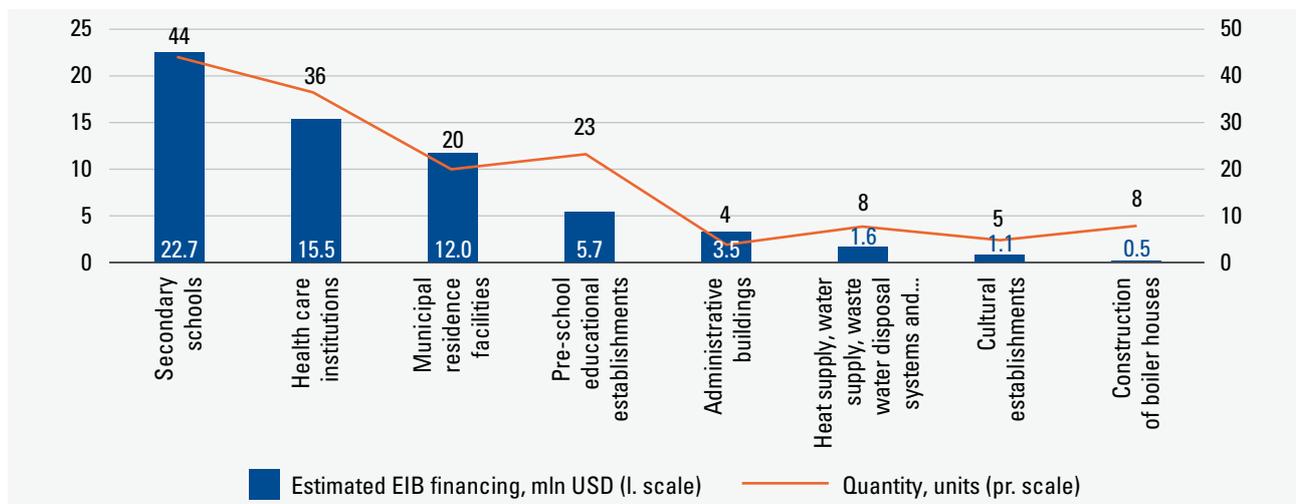
⁵⁷ Resolution of the Cabinet of Ministers of Ukraine "Specific Matters of Use of the Funds to Implement the Projects of the Ukraine Early Recovery Programme" dated 25 November 2015 No. 1068. URL: <https://zakon.rada.gov.ua/laws/show/1068-2015-n#Text>



Most credit funds of the EIB within the UERP, namely 62% (for Pools 1 and 2a) are provided for implementation of the sub-projects in Donetsk Region. In particular, in 2015-2020, implementation of 148 sub-projects started in Donetsk Region within the UERP for the total amount of 75 million US dollars, excluding the VAT⁵⁸. As of 1 August 2021, 97 contracts were made⁵⁹. Most credit funds for the EIB for Pools 1 and 2a are designated for the extremely important tasks, namely the repair works in

the educational establishments (28.4 million US dollars), health care facilities (15.5 million US dollars) and municipal residence facilities (12 million US dollars). Some of the sub-projects have already been implemented: in particular, the building of the therapeutics department has been overhauled in the Myrnohrad Central City Hospital, the window units have been replaced, and some of the premises of the surgery department building have been reconstructed.

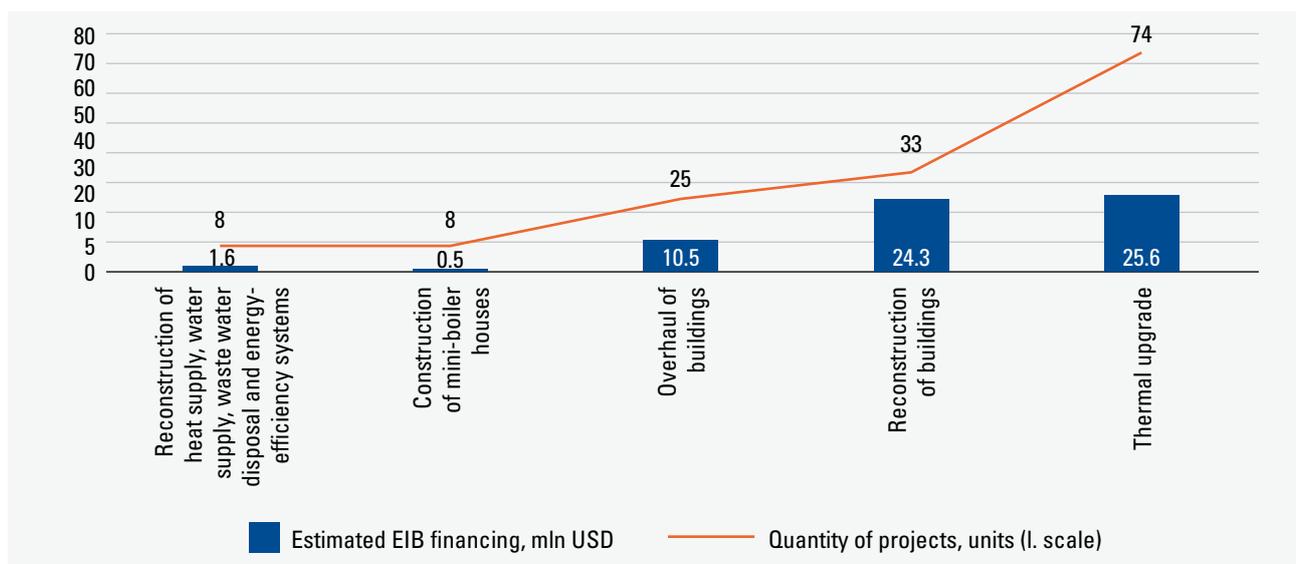
Figure 24: Division of financing by areas, mln USD (equivalent)



Note: the amounts are specified without VAT

Source: data from the website UERP Technical Coordination Group of the UNDP⁶⁰

Figure 25: Division of financing by types of work, mln USD (equivalent)



Note: the amounts are specified without VAT

Source: data from the website UERP Technical Coordination Group of the UNDP⁶¹

⁵⁸ All the amounts in this Section are specified without the VAT since the VAT is financed from the general fund at the expense of the State Budget.

⁵⁹ UERP Technical Coordination Group of the UNDP. URL: <https://uerp.org>

⁶⁰ UERP Technical Coordination Group of the UNDP. URL: <https://uerp.org>

⁶¹ UERP Technical Coordination Group of the UNDP. URL: <https://uerp.org>



Recovery of the socially significant infrastructure is an important stage of eliminating consequences of the conflict in the east of Ukraine. Thus, no wonder that 97% of financing for the sub-projects is provided for the reconstruction and overhaul of the social buildings, including thermal upgrade, replacement of windows and doors, winterising of façades and roofing.

Also, during 2016-2020, the water supply and waste water disposal system was reconstructed in Donetsk Region with the support of the IBRD and Clean Technology Fund (CTF)⁶² in Kramatorsk within the project "Second Project for Development of the City Infrastructure" for the total amount of 343 thousand USD.

Below is the expert opinion on the division of the project financing by the IFIs in 2016-2020 by the sustainable development goals.

Goal 3. Good health and well-being. We have referred 36 sub-projects with the weight of 70% to SDG 3. Achievement of this Goal in Donetsk Region provides for repairs and thermal upgrade in the health care facilities. In particular, the major sub-projects are: reconstruction of the buildings of the municipal facility "Centre of Primary Medical and Sanitary Aid No. 2 of Kramatorsk", and reconstruction of the radiology department, extension of the hospital building with 55 beds for the radiology department of the MMEU "City Oncological Health Centre of Kramatorsk" and premises for the MRT, for the amount of 4.2 million USD.

In total, implementation of SDG 3 requires 10.85 million US dollars (equivalent).

Goal 4. Quality education. 19.9 million US dollars (equivalent) have been allocated in pursuance of SDG 4 for reconstruction, overhaul and thermal upgrade of the pre-school educational facilities and secondary schools. Most funds, namely 2 million US dollars, have been allocated for reconstruction of Rodynske Secondary School of Levels I-III No. 8 of Pokrovsk City Council of Donetsk Region. In total, this Goal includes 67 projects with the weight of 70%.

Goal 6. Clean water and sanitation. We have fully referred only two projects to SDG 6: one project of reconstruction of the water supply and waste

water disposal system in Kramatorsk within the project "Second Project for Development of the City Infrastructure", and one UERP sub-projects "Reconstruction of the system for decontamination of the drinking water at the filtering station with installation of electrolysis plants producing sodium hypochloride in Kramatorsk". Seven more sub-projects for reconstruction of the existing heat supply, waste water disposal, water supply and power supply systems are partly consistent with the tasks of this Goal, with the weight of 50% and also associated with SDG 7.

Thus, implementation of SDG 6 requires 1.78 million US dollars (equivalent) within nine projects.

Goal 7. Affordable and clean energy. Most sub-projects referred to SDG 7 have the weight of 30%. In particular, the UERP sub-projects started in 2015-2020 in Donetsk Region include 107 sub-projects for the total amount of 58.7 million US dollars that are directed at thermal upgrade of the health care and cultural facilities, municipal residence facilities and educational establishments, by replacing windows and doors, winterising façades and roofing.

Eight other sub-projects (for the total amount of 473 thousand US dollars) with the weight of 100% are directed at construction of module mini-boiler houses to supply heat to seven secondary schools and one medical facility. SDG 7 also includes seven sub-projects (with the weight of 50%) for reconstruction of the existing heat supply, waste water disposal, water supply and energy efficiency systems to connect the module mini-boiler houses, for the total amount of 416 thousand US dollars.

In total, including the factors, implementation of SDG 7 requires 14.26 million US dollars (equivalent) of the credit funds of the EIB for implementation of 122 UERP sub-projects.

Goal 11. Sustainable cities and communities. We have fully referred 21 sub-projects directed at overhaul and reconstruction of domestic residence facilities for provision of housing to the persons with the status of the internally displaced persons from the ATO zone to SDG 11. The largest sub-projects include: overhaul (upgrade) of the municipal residence facility in Sloviansk for the internally displaced persons,

⁶² The Clean Technology Fund is one of two bilateral donor funds that operates within the Climate Investment Funds (CIF).



for the total amount of 2.1 million US dollars, and reconstruction of the municipal residence facility into the apartment building in Pokrovsk, for the total amount of 1.4 thousand US dollars.

Also, this Goal includes four sub-projects with the weight of 70%, which are directed at overhaul of the cultural facilities (libraries, clubs, houses of culture).

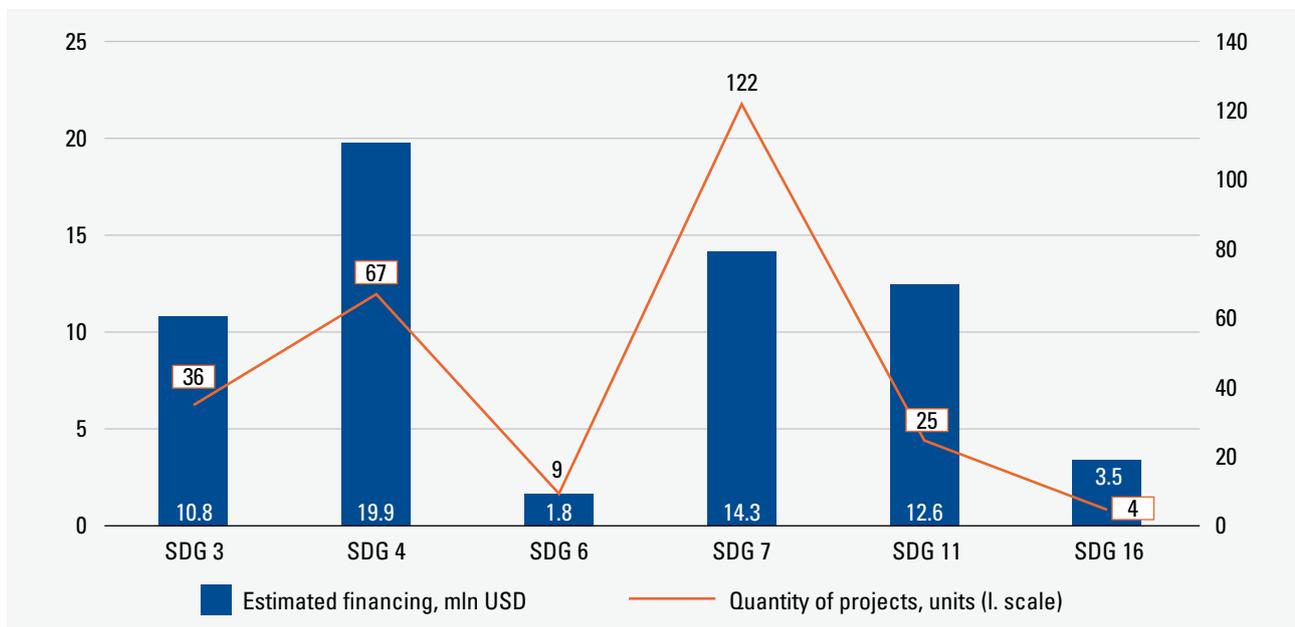
In total, implementation of SDG 11 requires 12.64 million US dollars (equivalent) for implementation of 25 UERP sub-projects.

Goal 16. Peace, justice and strong institutions.

SDG 16 provides for repair works to recover the administrative buildings. In particular, most funds were allocated for the overhaul of the administrative building of the Executive Committee of the Mariupol City Council, in the amount of 2.5 million US dollars.

Thus, 3.5 million US dollars (equivalent) have been allocated for implementation of four UERP sub-projects at the expense of the EUB credit funds in pursuance of SDG 16.

Figure 26: Financing by the SDGs for 2016-2020



Note: the amounts are specified without VAT

Source: author's calculations based on the data from the website of the UERP Technical Coordination Group of the UNDP⁶³

Two projects are being prepared in pursuance of the Programme for Development of the Municipal Infrastructure with the EIB Support. They are: project of "Reconstruction, Overhaul and Upgrade of the City (Outdoor) Illumination in Mariupol" (estimated value of 17 million US dollars) and project "Reconstruction of the Water Supply and Waste Water Disposal System in Mariupol" (estimated value of 39 million US dollars).

Owing to the outcome of implementation of the Ukraine Early Recovery Programme, the EIB is planning to grant an additional loan of 411 million

US dollars (equivalent) within the new project "Ukraine Recovery Programme," which provides for support of multi-industry investment sub-projects for the municipal, social and transport infrastructure aimed at eliminating the consequences of the conflict in the east of Ukraine. As of 1 August 2021, the project "Ukraine Recovery Programme" is being prepared.

It should be noted that the energy efficiency projects in Donetsk Region are also financed by NEFCO. Some of the funds are provided as loans while certain projects are financed at the expense of grant financing.

⁶³ UERP Technical Coordination Group of the UNDP. URL: <https://uerp.org>



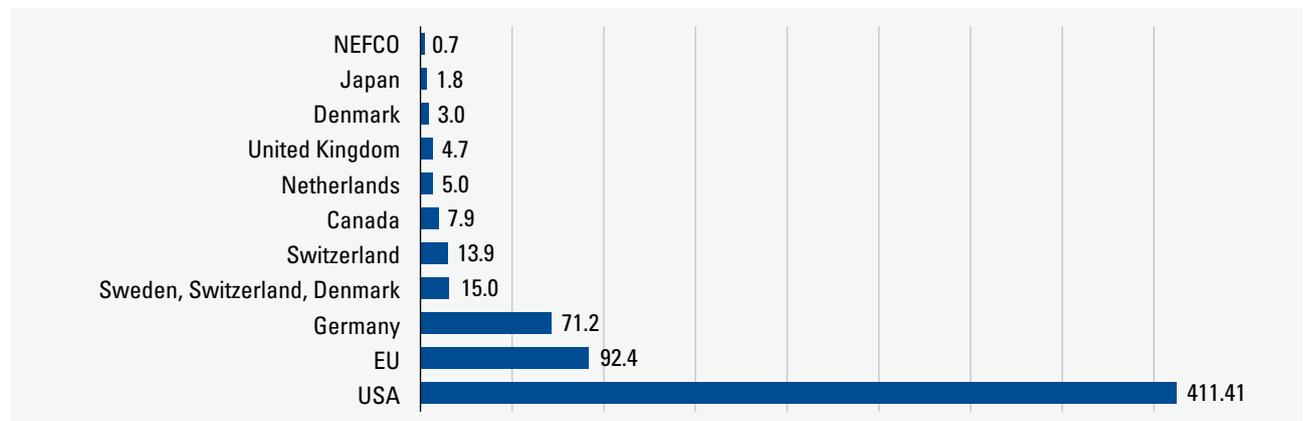
7.2. International Technical Assistance in the Region

International technical assistance is an important source of financing the implementation of the sustainable development goals. Ukraine is a recipient under many programmes in different industries. Donetsk Region is one of the focuses of the international donors alongside with Luhansk Region, the neighbouring region that has also been affected by the armed aggression of the RF. By providing partner aid to these regions, the donor countries support establishment of peace and justice in one of the European regions most affected by the hostilities. The peculiarity of the international assistance here is that it is most often concurrently directed at both affected regions, Donetsk and Luhansk Regions, and it is often impossible to separate the cash flows going to the specific region. Therefore, this Section analyses the aid directed at both regions affected by the armed aggression.

As of February 2021, in Donetsk and Luhansk Regions⁶⁴, 56 international technical assistance projects were being implemented for the total amount of 627 million US dollars (equivalent). The data have been provided by the Cabinet of Ministers of Ukraine by request of the Ministry for Reintegration of the Temporarily Occupied Territories of Ukraine.

The ITA projects in Donetsk and Luhansk Regions are generally mid-term and last two to five years. The major region development partners are the USA and the European Union, which have initiated 20 and 12 projects accordingly. Donetsk and Luhansk Regions are also supported by the UK, Denmark, Canada, the Netherlands, Germany, Switzerland, Sweden, Japan and Nordic Environment Finance Corporation (NEFCO). The largest partners by the financing volume are the USA, EU and Germany (Figure 27).

Figure 27. Volume of financing of the ITA projects in Donetsk and Luhansk Regions, mln US dollars



Source: SCMU

Since these two regions have fallen victim to the Russian aggression, all the projects can be classified as Goal 16 – Peace, justice and strong institutions. At the same time, the international technical assistance itself pertains to Goal 17 – Partnerships for the goals. The projects inside these two directions can be broken down into the ones aimed at the rest of the goals. Therefore, for the purpose of description of the international assistance

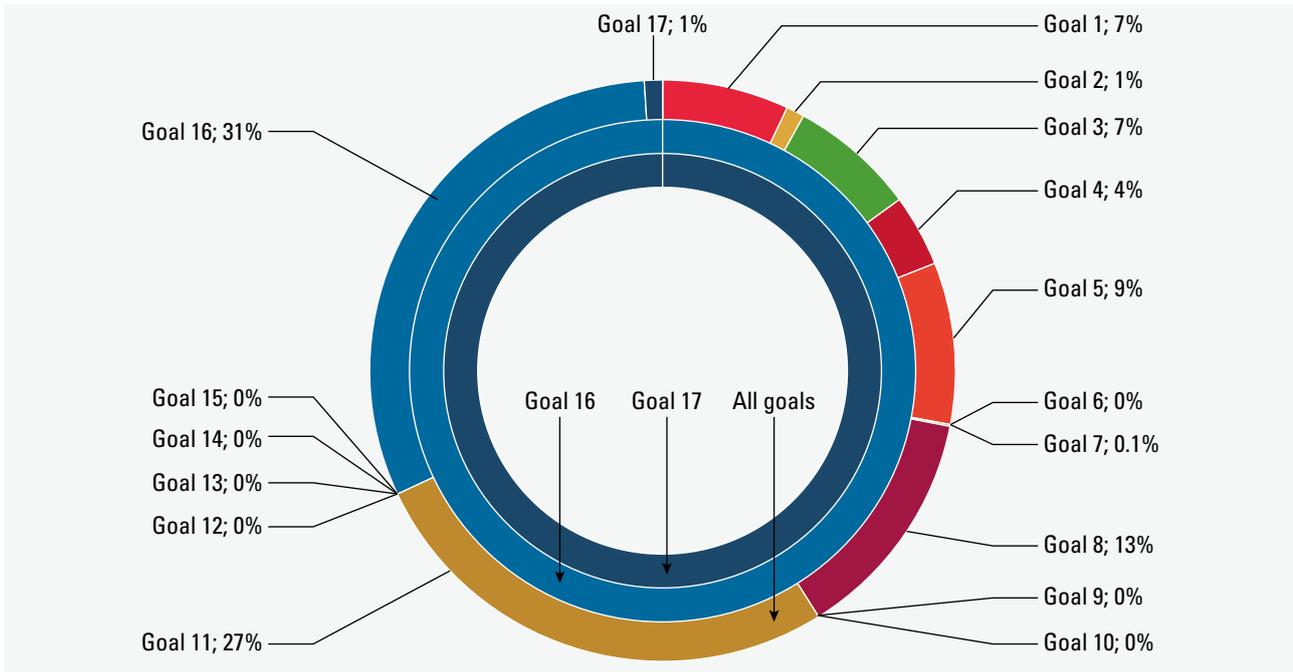
projects, each project should be considered to be concurrently directed at Goals 16 and 17 by default as well as achievement of its specific goal (Figure 28).

According to the internal division by the goals (keeping it in mind that all the projects pertain to Goals 16 and 17), the ITA in Donetsk Region is aimed at helping achieve the following sustainable development goals:

⁶⁴ The data include not only the projects implemented solely in Donetsk and Luhansk Regions, but all the international technical assistance projects where Donetsk and Luhansk Regions are the main or one of the implementation regions. Unfortunately, it is impossible to divide the project funds by the regions clearly due to the lack of data.



Figure 28. Division of the ITA projects in Donetsk and Luhansk Regions by the direction sectors, February 2021, % of the aggregate value of the projects



Source: SCMU, expert opinion

Goal 1. No poverty. This goal is of utmost importance for the region: many families suddenly found themselves poor, and the situation has not been fully resolved for seven years following the start of the armed aggression of the RF in the east of Ukraine. Now all eight ITA projects are aimed at eradicating poverty. The development projects within this goal are Canada, Germany, Switzerland, Japan and the European Union. Most projects are directed at fighting sudden poverty: their purpose is to help the internally displaced persons (IDPs), the people who have concurrently lost accommodation, job and subsistence means due to the aggression of the RF. They include improvement of the living conditions (temporary and permanent accommodation, municipal residence facilities), development of the social infrastructure and chain of administrative service centres, legal aid services for the most vulnerable and marginalised populations affected by the conflict in Ukraine, increase in the level of employment of the internally displaced persons and local population of the selected communities that welcome the internally displaced persons, creation of professional integration opportunities, other humanitarian and social and economic support of the internally displaced persons and affected population in the east of Ukraine.

The total funds designated for this goal within all the projects can be estimated to be 45 million US dollars (equivalent) or 7% of all the technical assistance.

Goal 2. Zero hunger. In general, the matter of hunger in Donetsk Region is not a top priority problem: only 13,000 among more than three million people feel the considerable food threat in the controlled areas of Donetsk and Luhansk Regions (around 0.5%). However, the goal of promoting zero hunger is specified alongside with the other goals (good health, decent work) in the project of the European Union "EU Support to the East of Ukraine – Recovery, Peacebuilding and Governance", which is being implemented via the United Nations Development Programme (UNDP) in partnership with the United Nations Population Fund (UNPF), the Food and Agriculture Organization of the United Nations (FAO), and the United Nations Entity for Gender Equality and the Empowerment of Women (UN Women).

The funds allocated for zero hunger can be estimated to make 8 million US dollars (equivalent) or 1% of all the ITA.

Goal 3. Good health and well-being. The issue of accessibility and quality of medical services



is especially pressing now during the pandemic of COVID-19. Four ITA projects are aimed at achievement of Goal 3 in Donetsk Region: US projects “Supporting Actions to Fight Tuberculosis in Ukraine” and “COVID-19 Response”, which provides for prevention of the spread of the coronavirus in the east of Ukraine; EU project “EU Support to the East of Ukraine – Recovery, Peacebuilding and Governance”, and the German project “Special Programme for Support of Eastern Ukraine (Territories Controlled by the Government)”, which provides for, without limitation, improvement of the medical services in the unoccupied territories.

Achievement of Goal 3 uses approximately 46 million US dollars (equivalent) or 7% of all the technical assistance.

Goal 4. Quality education. Improvement of education is another important direction of the international technical assistance. More and more students from the temporarily occupied territories of Donetsk and Luhansk Regions as well as occupied Crimea enter educational establishments within the controlled territories year by year. The educational establishments in Donetsk Region are among the most popular ones with the students, so it is extremely important to maintain the high academic level. Fourteen ITA projects are designated for this goal. The principal development partner for this goal is the European Union. Switzerland also takes part in development of education in Donetsk Region. Eleven out of fourteen ITA projects that pertain to achievement of this goal are aimed at development of the regional universities. The other projects are dedicated to decentralisation to develop the educational system, to fill the educational security gaps and to develop digital competences of the school teachers and all citizens.

Within all the projects, the funds directed at achievement of Goal 4 can be estimated to make 27 million US dollars (equivalent) or 4% of all the ITA.

Goal 5. Gender equality. Support of gender equality plays one of the key roles in the Development Strategy of Donetsk Region and in the international technical assistance projects. Many of the projects have a gender component, but

the project focused on the gender equality is the US project “Ukraine Confidence Building Initiative (UCBI-II)”, the purpose of which is to expand the circle of reform support based on tolerance and western values as well as the UK project “Improvement of the National and Regional Mechanisms for Development of the Adaptive, Accountable and Economically-Efficient System for Fighting and Preventing Gender-Based Violence” within which the National Police of Ukraine is supported.

Achievement of Goal 5 requires a total of 54 million US dollars (equivalent) or 9% of all the technical assistance.

Goal 7. Affordable and clean energy. The matter of environmentally-friendly energy and energy-efficiency is especially applicable in the region where cheaper coal with more harm to the environment has historically dominated in generation of electric and thermal energy. However, there is little technical assistance in this area. The project financed by the Nordic Environment Finance Corporation (NEFCO) “Nordic Initiative for Energy Efficiency and Humanitarian Support (Ukraine) – Selydove”, which provides for implementation of the energy-efficiency actions in two educational facilities of Selydove, is aimed at achievement of this goal. In pursuance of Goal 7, approximately 700 thousand US dollars (equivalent) or 0.1% of the international technical assistance have been allocated for this project.

In general, according to Donetsk RSA, eleven ITA projects for energy efficiency the beneficiary of which was the Regional State Administration (Bakhmut, Vuhledar, Dobropillia, Druzhkivka, Kramatorsk, Mariupol, Myrnohrad, Novohrodovka, Sloviansk) were implemented in the region in cooperation with NEFCO in addition to the project in Selydove during 2016-2021. Within those projects, energy-efficient windows and doors were installed, the façades and ceiling on the top floors were winterised, overhaul of the roof was performed, individual thermal plants were installed, the basement was winterised etc. in the kindergartens, schools and hospitals. The total value of the works made around 6.0 million euros.

Goal 8. Decent work and economic growth. The population and economy of Donetsk and



Luhansk Regions have been strongly affected by the Russian aggression so it is critically essential to support them in order to maintain the high level of well-being and economic recovery of the region. Five ITA projects are directed at achievement of Goal 8. The development partners are Denmark, Germany, the USA, Japan and the European Union. The projects within Goal 8 are designated for supporting small and medium-sized enterprises in the region (in particular, by providing access to financing) as well as decent work for the IDPs by supporting entrepreneurship and development of employment (including among the IDPs), and for recovering the economic infrastructure of the regions.

The total funds allocated for achievement of this goal can be estimated to make 80 million US dollars (equivalent) or 13% of all the ITA.

Goal 11. Sustainable cities and communities.

Donetsk Region is the region with complex social and political conditions so the city development and community sustainability support projects are important. Nine ITA projects are directed at achievement of this goal. The development partners are Denmark, the Netherlands, Germany, the USA, Switzerland, Sweden and the European Union. The main directions of the projects are development of the communities and efficient governances, namely by facilitating improvement of ties and trust between the citizens and authorities, improving the quality of the administrative service centres, supporting decentralisation and electronic governance; development of the social infrastructure and restoration of residential buildings for the IDPs.

The funds allocated for achievement of Goal 11 can be estimated to make 167 million US dollars (equivalent) or 27% of all the assistance.

Goal 16. Peace, justice and strong institutions. The security issue is most pressing for Donetsk and Luhansk Regions so the sustainable development goal directed at settlement of security issues is naturally a priority for the regional development partners. Seventeen ITA projects are now focused on achievement of Goal 16. The development partners are the UK, Canada, the Netherlands, Germany, the USA, Switzerland and the European Union. The main

direction in many of the projects is anti-landmine activity. Moreover, these projects are focused on increasing readiness of the authorities and population for the conflict-related risks, improving security at the front-line areas, overcoming the information barrier between the occupied and controlled territories as well as fighting nuclear smuggling and export of weapons of mass destruction.

The total funds allocated for achievement of Goal 16 can be estimated to make 196 million US dollars (equivalent) or 31% of all the ITA, which is the biggest share among all the sustainable development goals.

Goal 17. Partnerships for the goals. In general, all the international technical assistance projects facilitate development of partnership for sustainable development, but one project focused on achievement of this goal is being implemented in Donetsk and Luhansk Regions: the USA project “Analytical Services in Support of the USAID Project “Economic Support of Eastern Ukraine (ERA)”, the purpose of which is to analyse, monitor and assess performance of the respective USAID project.

3.8 million US dollars or 1% of all the ITA have been allocated for this project.

Several sustainable development goals are beyond the focus of the international technical assistance projects. The goals include:

- **Goal 6 “Clean water and sanitation.** There are credit financing projects here. In the first place, that is a large-scale project of Mariupol water supply system upgrade, which provides for construction of the drinking water production plant at the expense of the French loan of 64 million euros, as well as reconstruction of the municipal water supply and waste water disposal system, for which 27 million euros have been granted by the European Investment Bank. There are plans to finance the ongoing and investment activity of the ME “Kompaniia “Voda Donbasu” and “Popasnianskyi Raionnyi Vodokanal”. Moreover, UNICEF and ADRA are jointly implementing two humanitarian projects in Donetsk Region: “Enhanced and Sustainable Access to Drinking Water in 21 Villages and Small Cities (Decentralised Water Systems) in Donetsk Region



(Controlled Territory of Ukraine)”; which upgrades and expands the water supply systems and is implemented with the financial support by the German government via the German National Development Bank KfW in the amount of 10 million euros for 2021⁶⁵ ⁶⁶, as well as WASH project within which clean bottled water for drinking and technical purposes is delivered to the settlements of Donetsk and Luhansk Regions that have no centralised water supply.⁶⁷ WASH is implemented with the financial support of USAID/OFDA. 2.5 million US dollars were allocated for the needs of the project in 2021.⁶⁸ Despite the great significance of this direction for the region, it is not covered by the international technical assistance.

- *Goal 9 “Industry, innovation and infrastructure.”* Use of expertise and resources to increase the share of the added value in the GRP, demonopolisation, development of the manufacturing industry could help create jobs, reduce inequalities and poverty, and shape demand for qualified staff. However, this direction is not financed by the assistance projects in the region.
- *Goal 10 “Reduced inequalities.”* The international technical assistance for Donetsk and Luhansk Regions does not contain any projects focused on reduction of economic inequalities, but achievement of this sustainable development goal is assisted by the other projects, namely the ones within Goals 1 (No poverty), 4 (Quality education), 8 (Decent work and economic growth) and 11 (Sustainable cities and communities).

- *Goals 12-15 “Responsible consumption and production;” “Climate action;” and “Life below water;” “Life on land”.* No international technical assistance funds are allocated for these goals. As the region geographically pertains to the water area of the Azov Sea and has high risks of environmental disasters due to the hostilities and has very high pressure on the environment (metallurgic industry, coal mining), the government and local authorities should pay more attention to possible cooperation and partnership projects, namely within the EU Green Deal where environmental protection and climate neutrality are among the highest priorities.

Therefore, the SDGs are unevenly presented in the goals and tasks of the international technical assistance projects. It is generally logic because some areas do not need expert support, but there are directions that rather lack communication of priorities to the international donors, or the local priorities do not coincide with the priorities of international partners. That is why the local authorities, both at the level of the region and separate communities, should consider the findings of the ITA project analysis on presentation of the SDGs when they formulate their own regional development strategies. There must be no gaps in achievement of the SDGs. Clear communication between the authorities and international partners will help direct the ITA projects at the immediate actions within such strategies. In the first place, environmental areas should be considered because they coincide with the goals of the European Green Deal, and the organisations providing such assistance will be driven to work with the region.

⁶⁵ Enhanced and Sustainable Access to Safe Drinking Water – ADRA <http://www.adra.ua/project/pokrashhenij-ta-stijkij-dostup-do-bezpechnoyi-pitnoyi-vodi/>

⁶⁶ List of Ongoing KfW Projects in Ukraine https://www.kfw-entwicklungsbank.de/Internationale-Finanzierung/KfW-Entwicklungsbank/Projekte/Projektdatenbank/index.jsp?query=%3A*&page=1&rows=10&sortBy=relevance&sortOrder=desc&facet.filter.language=de&facet.filter.fzregion=%22Europa%20Kaukasus%22&facet.filter.country=%22Ukraine%22&facet.filter.sector=%22all%22&dymFailover=true&groups=1

⁶⁷ ADRA Ukraine Delivers Water to Most Vulnerable Populations <https://adventist.ua/news/ukraine/adra-ukraina-dostavlyae-vodu-najbilsh-urazlivim-kategoriyanaseleniya/>

⁶⁸ USG humanitarian funding for the Ukraine response in FY 2021 https://www.usaid.gov/sites/default/files/documents/03.16.2021_-_USG_Ukraine_Complex_Emergency_Fact_Sheet_2.pdf



Chapter 8.

CONCLUSIONS AND RECOMMENDATIONS

8.1. General Conclusions and Recommendations

Donetsk Region has historically been one of the Ukrainian regions with the highest economic capacity. Considerable mineral reserves were a basis for industrial development of the region. The region has the well-developed coal mining industry, metallurgic industry and relevant high share of export. In 2014, the Russian armed aggression resulted in occupation of the material part of the region where large industrial enterprises as well as important mines (with the anthracite reserves) were located, and caused closure of a great number of enterprises and migration of the population and partial loss of the RF market. The infrastructure was physically damaged while the main sea port in Mariupol was under the threat of isolation. The enterprises had to set new supply chains and find new distribution markets.

Thus, as a result of the Russian aggression, the region lost the considerable part of its mining⁶⁹ potential as well as 40% of the manufacturing industry in the temporarily occupied territories. The major share of the manufacturing industry has the low added value today. Due to lack of stability and high risks within the region, only four large enterprises, some of which had begun to be constructed before the war, have been constructed for the last years. Recovery of supply chains is not always easy and rapid.

Anyway, despite the considerable challenges and problems, the main of which is probability of military escalation, Donetsk Region remains the powerful industrial centre of Ukraine. However, the region requires financing to develop and increase its competitive ability.

This report is the first systemic attempt to compare the available development finance in Donetsk Region with the sustainable development goals. Thus, the Development Finance Assessment shows that Donetsk Region has all the development finance sources, and they have the growing potential. For this purpose, the local authorities should improve the quality of tax collection and performance of budget expenditures, expand cooperation with the IFIs, engage private businesses into priority financing, namely by creating the high-quality infrastructure. The important private financing tools may be establishment of industrial parks and public-private partnership projects. At the same time, settlement of many issues and increase in the regional financing require institutional and financial support by the central authorities.⁷⁰ Thus, given the military risks that are elevated for the region, the state guarantees and asset insurance mechanisms as well as balanced and comprehensive communication

⁶⁹ In the first place, the mineral reserves of the region are rich in fuel and energy raw materials (mineral coal, coal bed methane, liberated gas). Iron ore for the metallurgic industry is received from the neighbouring regions. Donetsk Region also has considerable reserves of non-metal reserves, namely construction, mining and chemical, non-ore raw materials for the metallurgic industry etc.

⁷⁰ The recommendations for the national level are given in the report "Development Finance Assessment: Ukraine".



campaign on the existing development opportunities gain importance.

The data on development finance sources are not mutually exclusive so their total scope is difficult to assess. At the same time, the key assessment outcome is the understanding what priorities are financed with specific sources as well as what financing gaps exist. It will enable developing the actions of importance for mobilisation of development finance.

The analysis findings have helped find the main financing sources for specific sustainable development goals (see Table 4). Mobilisation of development finance from different sources will facilitate achievement of respective SDGs 2030. In general, in consideration of the major financing needs, the central and local authorities must join their efforts to raise more financing from all the possible sources and to direct it at clear and coordinated priorities.

Table 4: Main development finance sources by the SDGs

Sustainable development goal	Main financing sources	Comment
Goal 1. No poverty	<ul style="list-style-type: none"> – State Budget – Financing by IFIs – ITA projects 	<p>Many IDPs as well as the people whose property was damaged during the hostilities or who live in the “grey” zone at the front line face the poverty challenge in Donetsk Region. In future, as the Green Deal is introduced, and country refuses from fossil fuels, the poverty challenge might also apply to the residents of the mining mono-cities.</p> <p>Most costs to overcome poverty should be financed at the expense of the State Budget: social benefits, housing and utility subsidies, social allowances etc. Improvement and better performance are possible in terms of monitoring and verification of payments to the IDPs, pensions and other social allowances, and must be effected at the central level. The government should also consider expansion of these programmes for the residents of the region.</p> <p>At the same time, the local authorities can introduce local initiatives to help the most vulnerable populations.</p> <p>Since economic growth is the most efficient way to fight poverty, the IFI funds and other financing should be directed at development of work places and small business opportunities: a provisional “fishing rod instead of fish” should be given.</p>
Goal 2. Zero hunger, development of agriculture	<ul style="list-style-type: none"> – Private investment – State Budget – ITA and IFI funds 	<p>The zero hunger goal is financed with private investment into development of the regional agriculture in the first place. The state and local authorities must take certain actions to promote it.</p> <p>Thus, agricultural development in Donetsk Region is prevented by climate issues and insufficient irrigation. Solution of these issues requires budget financing, namely from the SFRD, PPP projects and concessional loans from the international financial institutions for large-scale infrastructural irrigation projects.</p> <p>It is also important to invest into development of the rail and road carriage infrastructure by means of the same tools (Goal 9), which will facilitate development of logistics that now is an obstacle to export development in general and agrarian export in particular. In their turn, the local authorities can simplify land allocation for crop storage capacities, mostly for the grain cereals, and other logistics projects in the region.</p> <p>Within the existing and future ITA projects, there should be tasks of helping the agricultural manufacturers in the region adapt to the EU standards and new Green Deal requirements by expanding the production potential. The local authorities can receive the assistance within the ITA projects for development of the PPP projects (see Goals 8 and 9 in more detail for the actions to be taken to receive private investment) or preparation of the projects submitted to the SFRD for financing in order to set up the irrigation systems and improve the infrastructure.</p>



Sustainable development goal	Main financing sources	Comment
Goal 3. Good health and well-being	<ul style="list-style-type: none"> – State Budget (SFRD, NHSU) – Local budgets – Financing by IFIs – MNE investment 	<p>Donetsk Region has the pressing issue of access to medical aid. So, the large-scale regional hospital construction project is necessary since the hospital operating before 2014 remained in the temporarily occupied territory. Such construction should be financed at the expense of the State Budget, concessional loans from the IFIs and private investors within the PPP (joint use of equipment, premises etc.).</p> <p>The other medical establishments reorganised as municipal non-profit enterprises may invest their profit (from the funds received from the NHSU and provision of paid services) into the statutory activity. However, this financing source is quite limited since the NHSU rates mostly cover the salaries.</p> <p>The SFRD is already financing health care investment within specific projects and may remain an important financing source for the tasks of Goal 3.</p> <p>The local authorities can introduce local drivers to expand the citizens' access to medical aid. Such drivers are generally introduced by the communities but, give the regional challenges, they can be proposed and financed by the RSA for the communities that have biggest staff issues. For instance, they can be provision of accommodation to doctors, additional payments "on appointment", extra payments in addition to the salary etc.</p> <p>Also, PPP can be introduced in health care facilities. Moreover, the region should be included into the ITA projects and health care projects with the IFI financing that are implemented in Ukraine in general or in specific regions in particular.</p>
Goal 4. Quality education	<ul style="list-style-type: none"> – State Budget – Local budgets 	<p>The investment projects in education can be implemented at the expense of the State Budget, in particular, within the special programmes or SFRD, as well as local budgets, including an element of the "public budget".</p> <p>Higher educational establishments may finance development expenditures at the expense of the funds received from the paid services or charity.</p> <p>Private financing has recently gained more significance owing to the private educational establishments as well as philanthropy. Such financing can also be supported by the local authorities by simplifying the mechanisms for authorising opening of private pre-school and other educational establishments.</p> <p>The projects of attracting private investors into financing of quality education via dual education in the higher education and vocational establishments should be developed (there are examples of cooperation between universities and colleges and businesses at the national Ukrainian and regional levels).</p> <p>The ITA projects in the sphere of adult education, namely retraining, advance training, business education etc., will be of use, especially in the mining mono-cities.</p>
Goal 5. Gender equality	<ul style="list-style-type: none"> – ITA – State Budget 	<p>The gender budgeting elements should be expanded at the local level.</p> <p>The region receives quite a lot of financing for the ITA projects directed at the gender equality. The dialogue between the local authorities and international organisations and proper collection of data on violence, female employment and other problems caused by the gender inequality should be maintained.</p>
Goal 6. Clean water and sanitation	<ul style="list-style-type: none"> – ME investment – Private investment (PPP) – IFI projects – Humanitarian aid 	<p>The problems with the financial condition of the ME "Kompaniia "Voda Donbasu" should be resolved at the top national level (NSDC, government) since the company works in the territory controlled and uncontrolled by the government. In particular, compensation to the company for the de-facto humanitarian mission of providing drinking water to the population in the part of the region uncontrolled by the government should be considered; it requires publication of indicators of the metering devices at the front line. In addition, to make it easier to raise financing for IFI projects and humanitarian aid, the company should consider the higher level of transparency and accountability of the company.</p> <p>The local water supply and waste water disposal MEs do not have funds for the investment, which they need due to the worn out water pipes. Therefore, ITA funds should be raised to develop prospective water supply plans, and inter-government loans and IFI funds should be raised for upgrades.</p>



Sustainable development goal	Main financing sources	Comment
Goal 7. Affordable and clean energy	<ul style="list-style-type: none"> – Private investment – Financing by IFIs 	<p>For the PPP tools to be used to draw private investment into the local water companies, awareness of the local self-government authorities of this matter should be increased, and the dialogue between potential investors and the LSGA should be established. The respective workshops and webinars can be conducted by the existing ITA projects that deal with the communities.</p> <p>The critical task for the industry is to resolve the matter of difference in the tariffs. Thus, the tariffs should be set at the economically feasible level, and vulnerable populations should be helped via the targeted social programmes.</p> <p>The state and private investment must be made into the electric power infrastructure to reduce losses in the distributions networks, which are high in Donetsk Region. The tariff regulation that includes the investment component will facilitate upgrade of the systems and reduction of electric power losses as well as long disruptions in electric power supply.</p> <p>Housing and premises thermal upgrade projects must be introduced for the goal of affordable energy (concurrently with elimination of the energy power, i.e. achievement of Goal 1). They can be financed at the national level (partly from the Energy Efficiency Fund), via the SFRD projects as well as local budgets. At the same time, the most probable source of financing of such projects can be loans from the IFIs. NEFCO can still be an important source of financing of the projects. In this case, the mechanisms via which the local authorities that can borrow funds from them pursuant to the BCU will be able to borrow in UAH or provide for existence of exchange swaps under beneficial conditions should be developed and approved.</p> <p>The local authorities can introduce the local drivers for the companies that produce materials, offer energy efficient technologies, provide winterising services etc.</p> <p>The reform of coal mining enterprises will be important for the region. Today they receive material support from the State Budget, but they will be closed down in the next years. It can facilitate development of alternative sources of energy in the region. At the same time, coordinated actions of the central and local authorities as well as support within the ITA projects are necessary.</p>
Goal 8. Decent work and economic growth	<ul style="list-style-type: none"> – Private investment 	<p>In the first place, the goal is achieved with the private investment, and recommendations on drawing them can be found in the national DFA report. Due to the high risks associated with the armed aggression of Russia in Donetsk Region, there is almost no bank investment lending or direct foreign investment, and the national efforts are insufficient.</p> <p>Thus, the situation can be changed by protecting investors and lenders from the military and political risks at the level of the separate state insurance programme that can be financed at the expense of the IFI.</p> <p>Where there is a programme, the local authorities can submit industrial park projects to be financed from the SFRD. If they already have the finished infrastructure and connections to the systems and are insured, the investors will believe that the risks are lower.</p> <p>A possible source of financing of economic development could be export lending under the condition of efficient export insurance.</p> <p>In pursuance of Goal 8, it will be useful to raise the ITA for business education and projects associated with development of small and medium-sized businesses in the region. Special attention should be paid to the projects focused on improvement of the export capacity of the businesses since the local demand is limited, and prospects of its quick growth are unclear.</p>



Sustainable development goal	Main financing sources	Comment
Goal 9. Industry, innovation and infrastructure	<ul style="list-style-type: none"> – Private investment – SFRD – Financing by IFIs 	<p>Investment into the manufacturing industry of the region is mostly made into the existing industrial enterprises: the region is rich in mineral resources and has the historically developed metallurgic industry, machine building and other industries. For the investment to grow, support for export of the industrial goods of Donetsk Region via the state policy of international trade agreements, promotion at the level of embassies can be considered. At the national and local level, it can be financing of participation in international fairs for the regional manufacturers that do not have massive export yet etc.</p> <p>The state investment into the infrastructure, the transport one, in the first place, will also help achieve Goal 8 since business development is limited by expensive logistics. Construction of roads, electrification of the railway, reconstruction of access ways to the sea port and resolution of the matters of security of the Kerch Strait for the trade vessels are the tasks for the central government, which will demand financing from the State Budget.</p> <p>The local budgets can partly co-finance the infrastructure projects, but their own funds are limited so concessional loans from other governments and IFIs can be considered at the level of cities and SFRD.</p> <p>Public transport is generally procured at the expense of concessional loans from the IFIs. To consider achievement of this Goal in public transport procurement, transport system planning, priority should be given to use of vehicles with the smaller carbon footprint that have the longer useful life and are inclusive (including the municipal electric transport, personal electronic transport and bicycles). Therefore, the infrastructure for such transport should be developed with account of the ongoing and future needs of the community, which will also help achieve Goal 11.</p> <p>Private investment into the infrastructure is possible via the PPP projects, but their implementation in Donetsk Region is difficult due to the military and political risks. So a separate PPP format that would consider the above and enable raising private funds while assigning the risk to the state needs to be developed.</p> <p>Innovation in the manufacturing industry is a matter of private investment: the region has problems in this area due to the high risk for the investors as a result of the armed aggression by Russia. The special insurance programme should be introduced at the national level to partly mitigate these risks.</p> <p>Introduction of innovation in the manufacturing industry can potentially be accelerated due to the benefits (duties and VAT) in connection with import of equipment for the industrial parks proposed in the Strategy for Economic Development of Donetsk and Luhansk Regions.</p> <p>The innovation can also be stimulated by cooperation between businesses and universities and scientific establishments. Where there is an opportunity, the local authorities can encourage such cooperation by organising and holding meetings and discussions between the higher education establishments and businesses as well as via cooperation with the ITA projects in science for the local higher education establishments (training on Horizon grants, publication of articles in international editions etc.).</p>
Goal 10. Reduced inequalities	<ul style="list-style-type: none"> – State Budget – Local budgets 	<p>Accessibility of the social services is ensured at the expense of the state and local budgets. Grant funds can be allocated to construct and equip certain types of premises or service stations (for instance, shelters for the women affected by domestic violence, mobile ASCs etc.), which can be managed by the state or local authorities. Such tasks are also set by a number of charitable foundations and organisations: their activity could be encouraged by changes in tax assessment for charitable donations. However, most tasks within this goal are within the dimension of functions of the central government.</p> <p>Accessibility of social services in the region depends on transport connections (Goal 9, public transport infrastructure) while the regional peculiarity is the front line and check points. Special financing is allocated for the above, and there is a special action plan for 2021-2023⁷¹.</p>

⁷¹ <https://www.kmu.gov.ua/npas/pro-zatverdzhennya-planu-zahodiv-z-a246r>



Sustainable development goal	Main financing sources	Comment
Goal 11. Sustainable cities and communities	<ul style="list-style-type: none"> – Local budgets – SFRD – Financing by IFIs 	<p>Affordability of housing in the region is one of the sorest points with the biggest financing challenges due to high investment and lending risks as well as the low level of the demand with the paying capacity in most settlements. The market methods (for instance, mortgage lending) cannot be efficient now, especially when it comes to the IDPs. The prospects of resolution of the affordable housing issue in the region lie in the dimension of reduction of the geopolitical risks.</p> <p>As for efficient maintenance of the housing and improved energy efficiency of the residential buildings, establishment of apartment building co-owners associations (take Mariupol as an example) should be encouraged since the buildings of such associations are a priority for the national thermal upgrade programmes, such as Enerhodim. The problem in some settlements in the region can be associated with the fact that some apartments in apartment buildings are empty, and their owners have left. The programmes for repairs and thermal upgrade of municipal and private housing at the expense of the local budgets and IFI projects could be considered for such settlements.</p> <p>The municipal enterprises of the communities operate to perform the socially important functions and do not pursue maximum profit. They often suffer from lack of investment and circulating assets as well as staff. In order to make their activity sustainable, the communities must develop the ownership policy at their MEs by setting the commercial and non-commercial operating goals for each of them and by processing the tariff policies at the local level.</p> <p>The local development strategies have been developed and implemented in the region for several years. Monitoring of implementation of the strategies, namely by the SDGs and financing sources, could help get the clearer picture for more efficient decision-making in the future.</p>
Goal 12. Responsible consumption and production	<ul style="list-style-type: none"> – Private investment – Financing by IFIs – ME investment 	<p>The region has the developed manufacturing industry and, therefore, high level of pollution. The anti-emission policies and financing thereof are of national significance and are applicable to the region.</p> <p>The waste treatment infrastructure in the region is municipally owned (regional ME that maintains the solid domestic waste landfill and smaller local MEs that carry waste and maintain the solid domestic waste landfills). The landfills are natural monopolies so they have the potential of drawing loans from the international financial institutions as well as public-private partnership tools. At the same time, they must obtain loans in UAH or insure forex risks via swaps.</p> <p>Another important condition for such enterprises is the balanced policy of the local authorities during establishment of the utility tariffs for the population (the tariffs do not often provide for the companies' ability to invest into their development).</p> <p>The same way as in the other regions, development of sorting and other waste disposal methods (save for burial) depends on amendments to the national laws. Yet, behavioural changes can also be stimulated via communication and awareness raising. They can be initiated by the local authorities either on their own or by encouraging the local NGOs as an element of cooperation with the ITA projects.</p>
Goal 13. Climate action	<p>At present, there is lack of financing.</p> <p>Potentially:</p> <ul style="list-style-type: none"> – State Budget – Financing by IFIs – Private investment – Need of ITA 	<p>Private financing to achieve the goal – actions of the large plants to reduce greenhouse gas emissions. The scope depends on the national policy, which is applicable to the region: there is a lot of metallurgy and thermal generation, one of the principal sources of emissions. The tools to finance such investment have to be presented within the Green Deal.</p>
Goal 14. Life below water	<p>At present, there is lack of financing.</p> <p>Potentially:</p> <ul style="list-style-type: none"> – State Budget – Financing by IFIs – Private investment – Need of ITA 	<p>The region has access to the Azov Sea and the trade sea port in Mariupol. Therefore, sea resources must be protected and preserved. This activity can potentially be financed via cooperation with the global environmental protection organisations and donor funds aimed at ecology and climate action.</p> <p>At the same time, according to the national DFA, regulatory changes at the national level must be introduced first.</p>



Sustainable development goal	Main financing sources	Comment
Goal 15. Life on land	At present, there is lack of financing. Potentially: – State budget – Financing by IFIs – Private investment – Need of ITA	Protection and recovery of life on land are necessary for Donetsk Region and are financed from the regional budget. The scope of financing can potentially be increased via the international assistance within the Green Deal.
Goal 16. Peace, justice and strong institutions	– State Budget – Local budgets – IFI funds	This goal is financed from the State Budget, local budgets and IFIs. More cooperation with the international partners at the state level can raise more financing for this goal. There can be donor programmes at the local level to increase regional security in cooperation with the local authorities.
Goal 17. Partnerships for the goals	– IFI funds – Local borrowing – Private investment (PPP)	The region is overfilled with cooperation: the RSA reported on 105 international delegations hosted only during the first half of 2021. Mechanisms for closer cooperation of donors and more coordinated organisation of their efforts should be considered. In particular, they could be quarterly donor meetings at the RSA level attended by representatives of the key projects and communities. The ITA matrix is important for coordination and must be presented at the website of the RSA to be used by different ITA projects and communities and NGOs.

This report presents the development finance assessment, determines the main financing sources for the tasks in terms of the sustainable development goals. Then the government and local authorities of Donetsk Region should

develop and calculate the cost of the actions necessary in pursuance of the SDGs. To start with, the SDG targets need to be set for the region.

8.2. Recommendations: Strategic Planning

Strategic planning in the region is already based on the sustainable development goals (Strategy 2027). At the same time, it is important to monitor achievement of the goals and assess financing thereof pursuant to the indicators set by the regional strategy.

Planning based on the sustainable development goals at the community level will require separate training and support resources. Now few local communities with the strategies include the SDGs there. It could take a separate ITA project to include the SDGs into the

community strategic planning and monitoring of implementation (at the example of reform support governmental offices).

In this case, the task of utmost importance is to set the targets for the indicators of SDGs 2030 in the region and to monitor them. Also, monitoring of achievement of the indicators is important for the biggest communities too. Furthermore, the number of the communities' indicators can be considerably lower than at the national level to avoid increased pressure on the communities.

8.3. Recommendations: Budget Planning, Revenues and Expenditures

In the first place, the territorial communities have impact upon financing of development within their budgets. That is why local budget planning, efficient administration of local taxes

as well as establishment of the clear priorities of development finance by the local authorities are extremely important.



Budget planning:

- The local authorities must take up mid-term budget forecasting to provide for financing of the priorities set in the strategic documents. It will enable assessing available financing and developing plans for raising financing from other development finance sources.
- Clear priorities financed at the expense of the local budgets must be set.
- Efficient introduction of the management by objectives at the local level will allow efficient budget utilisation and assessment of impact of the funds spent upon achievement of the goals set. In particular, the budget programme data sheets must set the goals, tasks and key performance indicators based on the SMART approach⁷²: they have to be specific, measurable, assignable, realistic, time-related. In particular, such performance indicators for specific budget programmes may be the indicators and tasks set for achievement of the sustainable development goals.

Budget revenues:

- In order to ensure efficiency of the local tax system, cooperation of the tax authorities and local authorities must be improved to counteract tax evasion and mitigation, namely payment of unofficial salaries, illegal circulation of excisable goods, illegal mining of mineral resources etc. The citizens who lease out their land plots and accommodation (houses, apartments, rooms) without official registration must also pay taxes.
- The important step is to promote the national electronic services of the State Tax Service (Payer's Electronic Cabinet and software cash registers in the first place) and the State Customs Service of Ukraine (possible customs simplification for the status of an authorised economic operator, transit system of the NCTS in the first place) among the regional tax payers to ease and simplify and to ensure complete and time-

ly budget payments. The role of the central authorities is most important here, but the local authorities can also inform the public of such services and opportunities.

- In order to mitigate tax evasion, actions should be taken to engage famous and successful local celebrities from the cultural industry (actors, singers, writers, artists etc.) and sports who were born and/or work in Donetsk Region into the promotional campaigns for the tax culture, with a view to increasing voluntary payment of taxes, namely during the personal income declaration campaign.
- The local authorities and the regional employment centres and STS departments can join the awareness raising campaign based on the digital platforms (Zoom, Skype, Google Meet) regarding the tax and labour laws, in particular, among novice businessmen and public organisations of entrepreneurs.
- Based on the financial dialogue, the local authorities and businesses can jointly analyse the available mechanisms for sustainable development finance, comprehensive information support of micro, small and medium-sized businesses by the local self-government authorities in Donetsk Region and develop the new ones. In particular, these could be broad opportunities of tax benefits for the newly-established economic operators for the purposes of transformation of small mining towns due to closure of the major budget revenue generating mines⁷³ in pursuance of the *Strategy for Environmental Security and Adaptation to the Climate Change until 2030*⁷⁴, and prospects of introduction of the special business regime in the priority development territory in Donetsk and Luhansk Regions⁷⁵ in pursuance of the approved *Strategy for Economic Development of Donetsk and Luhansk Regions until 2030*⁷⁶.
- One of the major sources of tax proceeds, which is not fully used at the local level according to various estimates, is property (real estate and land) tax assessment. Thorough assessment and monitoring can be ef-

⁷² SMART – specific, measurable, assignable, realistic, time-related

⁷³ Law of Ukraine dated 30.11.2021 No. 1914-IX.

⁷⁴ Decree of the CMU dated 20.10.2021 No. 1363-p.

⁷⁵ Draft Law No. 6403 dated 07.12.2021 with the accompanying amendments to the Tax, Customs and Budget Codes of Ukraine.

⁷⁶ Decree of the CMU dated 18.08.2021 No. 1078-p.



ected at the regional level to determine the communities with the lowest statutory land appraisal and the lowest land tax rate. In this case, the causes of rate differences must be analysed. This potential tax resource can materially expand financing development opportunities.

Budget expenditures:

- The local authorities should clearly define the priority expenditures financed at the expense of the local budgets. In this case, adequate determination of the key performance indicators will allow assessing impact of expenditures upon achievement of the goals set and indicators. Expenditures must be sub-classified by the sustainable development goals in order to assess financing of the SDGs at the local level at the expense of the local budgets.
- It is also important to overview expenses for the selected budget programmes with participation of the public and experts.
- The local authorities must assess and review the chain of their establishments that provide public services in education, health care, culture and sports. The efficient chain will allow more efficient spending and better public ac-

cess to public services of higher quality. In particular, it is about optimisation of the chain of schools and health care facilities.

- In order to efficiently prepare the workforce at the educational vocational establishments, the permanent dialogue between the local authorities, the regional employment centres and businesses is of paramount importance to assess future workforce needs.
- The local authorities should improve their capacity for submission of projects to the SFRD as well as available projects financed by the international donors for financing.

Local borrowing:

- Today the local authorities do not borrow funds to finance development (save for the projects financed by the IFIs, which go through the State Budget in the first place). To expand such financing, the financial capacity of the local communities must be increased although amendments to the BCU or extension of the list of the communities eligible for such borrowings should not be discussed. So the mechanisms for hedging the forex risk in borrowing in the foreign currency must be established at the central level. In particular, they can be swaps.

8.4. Recommendations: IFI and ITA projects

Due to the aggression of the RF, the region is one of the major recipients of donor assistance within the ITA: the region has reported on more than a hundred different meetings with international delegations for the last six months. However, such a large number of meetings also demonstrates probable lack of efficient coordination between different projects and donors. It is important to establish donor coordination since it will enable directing funds at the regional priorities and avoiding financing duplication. In particular, the Regional State Administration should conduct joint donor meetings every three or six months. The regional ITA matrix will also be important for all the stakeholders, which, on the one hand, will help coordinate project transparency better and, on the other hand, will help the citizens understand which projects will help face the existing challenges.

For the ITA projects to be focused on the priority areas (in particular, the ones where this development finance tool is found to be efficient to achieve certain sustainable development goals), the information based and the regional map should be created and maintained in English, with information on the existing projects, the SDGs they conform to, and the SDGs that are omitted. This base can also be financed within the available IFI funds within the projects aimed at improvement of the institutional capacity of the local administrative authorities.

Recovery of the socially significant infrastructure is an important stage of eliminating consequences of the conflict in the east of Ukraine. That is why almost all the financing of the projects supported with concessional loans of the IFI in Donetsk Region is directed at reconstruction and overhaul of social buildings, including



thermal upgrade thereof: replacement of windows and doors, winterising of façades and roofing. However, it is not the only area that requires financing under the conditions existing in the region as a result of occupation of the considerable part of the area. The important areas that require closer attention with account of maintenance of the adequate living conditions for the residents of the region and that are represented in the targets of national SDGs are water supply and waste water disposal, waste treatment and public transport. In order to ensure the balance approach to sustainable development of Donetsk Region, financing of projects in the respective area shall be considered in the priorities of IFI loans.

The national indicators of the SDGs approved for the period until 2030 are mostly suitable to substantiate the need to direct the IFI and ITA funds into the projects associated with water supply and waste water disposal, waste treatment and public transport, and may be used both to determine the priority projects and to monitor implementation thereof (see Section 9). Application of these indicators in strategic planning creates a basis for sustainable development of the territories.

Introduction of the mandatory assessment of project proposals by their conformity to the sustainable development goals before a decision on feasibility studies of the respective projects is taken should also be considered as it will help save the funds allocated for the feasibility studies for the projects that will not be selected for financing in the future.

It is important to create and maintain the regional information base of the projects that are already being implemented in the region as well as the projects in which Donetsk Region still can take part, in Ukrainian and English. Such base must contain all the applicable information on the progress of implementation and monitoring of the IFI projects in the region and represent the focus of the projects on achievement of the regional and national targets of the SDGs. In general, it should be done at the national level for all the regions within the portal *Register of IFI Projects*.

Systematic (quarterly and annual) monitoring and control over progress of the projects,

performance of the borrowed funds and achievement of the efficient targets at the regional level and further publication of the results should be ensured.

In order to inform the stakeholders (at the national and local levels) about the possibility of IFI loans, explanations must be given on the procedure and peculiarities of financing by the IFI for project implementation, and regular training on these matters must be conducted for the public authorities, with workshops and conferences organised.

For the possible concessional loans to be received from the IFIs:

- The Government of Ukraine and the RSA should negotiate with the IFIs to increase the share of concessional loans to the local authorities in order to finance the social and economic development projects in UAH. At the same time, possibility of exchange swaps should also be developed to mitigate the risks of considerable pressure in case of foreign currency debts following UAH devaluation.
- The capacity of beneficiaries and contractors within the economic and social development projects financed with concessional loans from the IFIs must be improved. It requires introduction of the grant component in the form of international technical assistance.
- At the regional level, there must be ITA projects within which standard feasibility studies could be developed for implementation of the water supply, waste water disposal, waste treatment and other projects.
- Given the low capacity of beneficiaries and contractors, clear prioritisation of the IFI projects is necessary. Thus, clearer priorities as to raising IFI funds for project financing should be defined. This can be facilitated by the focus on the sustainable development goals.

Also, the local authorities, both at the level of the region and separate communities, should consider the findings of the ITA project analysis on presentation of the SDGs when they develop their own regional development strategies. There must be no gaps in achievement of the SDGs. Clear communication between



the authorities and international partners will help direct the ITA projects at the immediate actions within such strategies. In the first place, environmental areas should be considered

because they coincide with the goals of the European Green Deal, and the organisations providing such assistance will be driven to work with the region.

8.5. Recommendations: Private Investment

The national measures of private investment mobilisation are specified in the report *“Development Finance Assessment: Ukraine”*. At the same time, some of the actions address the specific challenges faced by Donetsk Region:

- Asset insurance in order to align (as much as possible) the risks of the region with the rest of the Ukrainian territory. It will be aimed at protecting the assets from the military and political risks by reducing the threats and at financial security.
- Simplified access to the national business support programmes and financing programmes via the reduced criteria of programme access by the scope of investment and other parameters.
- Infrastructural development of industrial parks – use of technical assistance and expert support for development of the projects, submission to the SFRD and receipt of financing to prepare the industrial site for commissioning of the park.
- Development of the transport, agricultural and power infrastructure, in particular, owing to the IFI support. It will make business in the region easier and simplify logistics for the exporters.

In order to draw private investment into the area based on the specific sustainable development

goal, the state in general and the local authorities in particular should establish the conditions that stimulate emergence of respective markets and development of companies in these sectors. For instance, it can be an energy-saving technology market (services for apartment building co-owners associations), market conditions for general practitioners (as it was, for instance, when private hospitals and doctors were allowed to participate in the state system), a market of rubbish collection and disposal services and recycling of secondary raw materials (stimulating local tariffs), or a market of hire of compact personal mobility devices in cities (electric scooters, bicycles etc.) owing to installation of the CCTV cameras in the city, designated paths and hire stations, provided that the respective environment and rules and formed by the state.

In Donetsk Region, private investors are reluctant to invest into Goal 4 “Quality education”. The demand with the paying capacity is necessary to develop private education, which can probably be done via the business investment into dual education in the vocational educational establishments. Such cooperation may be popular due to lack of qualified staff. Metinvest’s plans to open the private university and numerous examples of cooperation between the academic community and businesses in other regions prove that private co-financing of education is possible.

8.6. Recommendations: investment by municipal enterprises

The main obstacles to investment by municipal enterprises in Donetsk Region are:

- Disposal of the municipal property based on the right of operational management or economic jurisdiction (according to Article 78 of the Economic Code), which reduces investment drivers.
- Failure to pay crisis, which is much stronger than in the other regions, as people leave the region, and there are no available resources to invest.
- High depreciation of the systems of the municipal enterprises, which shifts the resource priorities to ongoing repairs (the situ-



ation is additionally deteriorated by destruction of systems as a result of the shelling).

- Tariffs lower than the feasible level, which results in loss-making of the enterprises.

The municipal enterprises are managed by the local self-government authorities at the regional and community levels. Therefore, there can be the following important actions to improve the financial capacity of the MEs:

- Wording of the operational goals of the ME must consider the progress in achievement of the respective SDGs. The MEs made the majority of investment pursuant to their own operational goals, which have to be published on the website of the ME or its governing body according to Article 78 of the Economic Code.
- Expediency of description of the investment made should be considered, with division by the SDGs in the following documents to be published according to Article 78 of the Economic Code:
 - annual reports of the senior executive and supervisory board (if established);
 - description of the material predictable risk factors that may affect operations and operating results of the municipal unitary enterprise, and risk management actions;
 - structure, principles of formation and amount of the remuneration due to the senior executive and members of the supervisory board (if established).
- Also, the respective local self-government authority should include investment based on the SDGs relevant for the enterprise into the key performance indicators (KPIs) in the contracts with the head of the ME.
- If the enterprise receives financing of capital expenditures pursuant to one or several local target programmes, the local self-government authority is recommended to specify to which sustainable development goals certain financing items pertain.

The ME “Kompaniia “Voda Donbasu” is a unique ME, a wholesale provider of water to the water companies of Donetsk Region that operates within the controlled and uncontrolled territory. The problems of its critical

financial condition must be resolved at the national level (NSDC, government). In particular, one of the tools can be compensation from the State Budget for the humanitarian function: water supply to the uncontrolled territory. For this tool to be introduced, the company should publish readings of its metering devices for the water supplied to the uncontrolled territory (more information can be found in Section 9).

As for other large regional municipal enterprises: ME “Donetsk Regional Waste Treatment Centre”, RME “Donetskteplokomunenerho”. Their main problems are depreciation of assets, lack of qualified staff and lack of the investment component in the tariff. Such enterprises need to improve their institutional capacity for raising investment from the international financial institutions. It requires introduction of corporate management elements, regular independent financial and operational audit and publication of its results. The economically substantiated tariff policy will also be determinant for them.

According to the experts, investment by all the operating municipal enterprises in Donetsk Region are directed at Goals 3, 6, 9 and 12 in the first place:

- Goal 3. Most health care facilities are municipally owned (due to the health care reform, budget institutions have been transformed into municipal non-profit enterprises). The pressing need to upgrade the fixed assets of the regional hospitals, to create the capable chain of hospitals to satisfy the needs of the existing territorial communities, and importance of creation of the tertiary-level facilities within the controlled territory are the most important factors to facilitate an increase in the scope of investment pertaining to Goal 3 “Good health and well-being”. In this case, the primary source of financing capital expenditures of the medical MNEs are local budgets (according to the Budget Code).
- Goals 6, 12. The water supply and waste treatment infrastructure in the region is also municipally owned. Most of the facilities in these industries are natural monopolies. Thus, they have the potential of drawing loans from the international financial institutions as well as public-private partnership tools. Investment into better water supply



and domestic waste disposal are especially important for Donetsk Region, due to dependence of water supply via the Siverskyi Donets-Donbas Channel, performance of the humanitarian mission of water supply to the occupied territories, and contamination of the environment with the industrial waste. Another extremely important condition for such enterprises is the balanced policy of the local authorities during establishment of the utility tariffs for the population (the tariffs do not often provide for the companies' ability to invest into their development).

- Goal 9. Public transport development is also necessary for the cities in Donetsk Region. Loans from the international financial institutions must be obtained in this industry not

only in large cities, but also in small towns, to preserve the existing systems of electric and bus public transport.

- Goal 11. Creation of apartment building co-owners associations must be actively promoted, and private management companies must be engaged into management of the apartment building housing fund, which is now on the books of the specialised MEs. The local authorities in the other communities of the region must adopt the experience of this city, including regarding engagement of resources from the national programmes for supporting energy efficiency of the apartment building co-owners associations, namely Enerhodim Programme and local programmes.

8.7. Improvement of the Communities' Capacity for Mobilisation of Development Finance

The regional communities need help improving their institutional capacity. In particular, most communities do not have approved regional development strategies. However, the region has a number of ITA projects that help develop these Strategies pursuant to their own techniques. Instead, the coordinated policy of different donors and development of the joint technique to prepare such Strategies would be important. The efficient strategy targets include the most important targets by the sustainable development goals that can be set at the local level.

Also, the local authorities, which were given extended powers in decision making and financing of community development, need further training on how to raise financing, conduct the dialogue with businesses, the civil society and the public. In particular, there must be training on establishment of industrial parks

and engagement of private businesses into public-private partnership projects.

The communication and information campaigns are important to spread information on Donetsk Region as not only the region that has been partly occupied, but also the region that gives personal and business development opportunities. Successful experience of specific communities in implementation of changes as well as information on the businesses of the region that work both for the domestic and foreign markets should be shared. In this case, such communication must be effected not only by the RSA, but also the central authorities.

Another meeting of international partners in Mariupol should be considered to cover the changes that have occurred in several years. The meeting must also present the new projects in need of donor financing.



Chapter 9.

EXAMPLE OF SEPARATE ANALYSIS: BETTER ACCESS TO QUALITY WATER

9.1. Current Situation

In Donetsk Region, only 53% of the population in the region have access to centralised water supply, which is less than on average in Ukraine. The water quality in the region is low. The cause of the problems is lack of natural sources of drinking water: 94% of the water for 3.2 million residents of the region is supplied via the Siverskyi Donets-Donbas Channel, whose pumping stations and water pipes are worn out. 63.5% of the water supply systems need to be upgraded.⁷⁷

In order to improve access to the quality water, according to the estimates of the local authorities presented in the regional strategy “Water of Donetsk Region for 2017-2025”, around 10 billion Ukrainian hryvnias need to be invested. Around 95% of the investment is supposed to be received from off-budget sources. In particular, they include own funds of the water companies, but their capacity is limited by the tariff regulation, consumer debt and inability to raise investment.

The ME “Kompaniia “Voda Donbasu”, whose systems partly go through the uncontrolled territory, feel these problems the most. Due to the consumer debt, the financial condition of the largest ME of the region is critical, and its electric power arrears in the first quarter of 2021 reached 4.6 billion Ukrainian hryvnias.

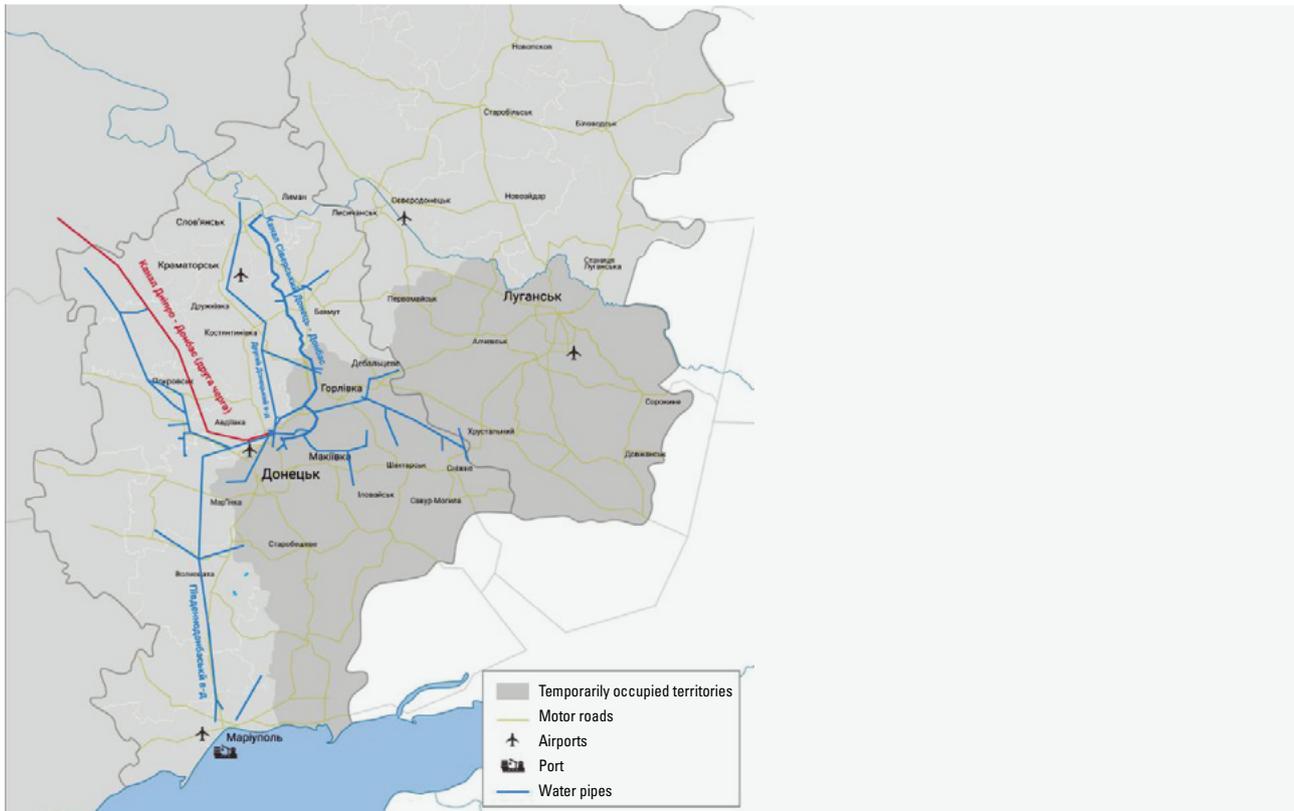
Most water is supplied to consumers via the Siverskyi Donets-Donbas Channel (270 km), which connects the River of Siverskyi Donets, the main water artery of the region, and the central districts of the region. The Second Donetsk waterpipe and the Southern Donbas waterpipe that supply water to the low-water districts of Donetsk Region are also important. They are on the books of the ME “Kompaniia “Voda Donbasu”. Additional water supply in the region is effected from the underground sources, which are unevenly located. The main underground water reserves are located in the northern part of the region.

The population of Donetsk Region is covered by the centralised water supply and waste water disposal services worse than most of the Ukrainian regions. On average, the indicators of coverage with water supply and waste water disposal are lower than in general in Ukraine: 53% against 58.7% for water supply and 31.4% against 37.6% for waste water disposal. The largest coverage percentage is in the cities (Figure 30). Water is supplied according to the schedule in 40 settlements, including seven cities. Where there is no centralised water supply, residents use their own wells or are forced to use delivered water. The residents of the urban villages of Vysoke and Maiak of the occupied Makiivka District, namely 1.6 thousand people, use the delivered drinking water only.

⁷⁷ Regional Programme “Water of Donetsk Region for 2017-2025” <https://dn.gov.ua/npa/pro-vnesennya-zmin-do-rozporядzhennya-golovi-oblderzhadministraciyi-kerivnika-oblasnoyi-vijskovo-civilnoyi-administraciyi-vid-18-zhovtnya-2017-roku-13255-17>

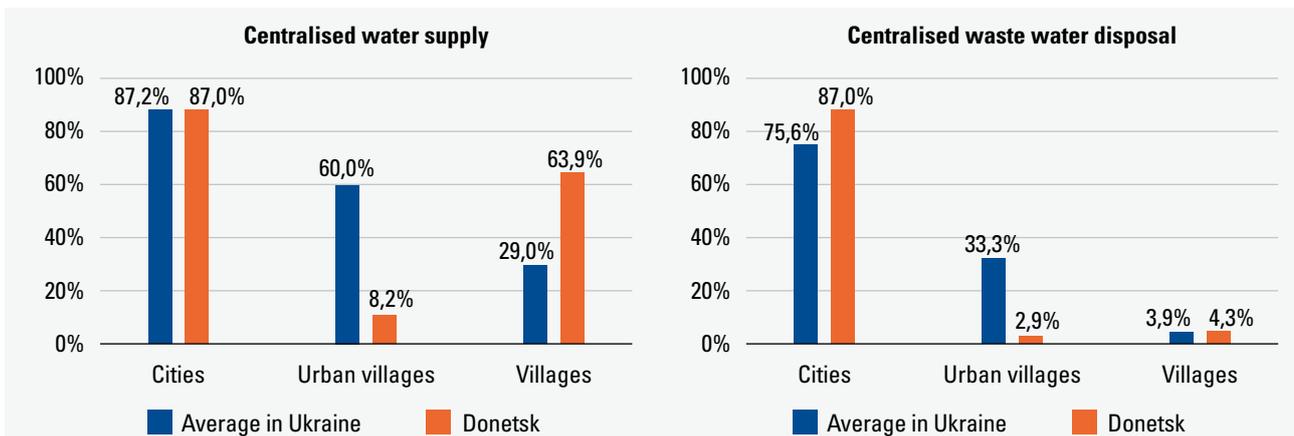


Figure 29. Map of the systems of the ME “Kompaniia “Voda Donbasu”



Source: ME “Kompaniia “Voda Donbasu”

Figure 30. Share of the population of Donetsk Region covered by the centralised water supply and waste water disposal services, %



Source: National Report on the Quality of Drinking Water and the Condition of Drinking Water Supply in Ukraine in 2019

Donetsk Region has the highest percentage of the sewage pipes that need to be recovered – 61%, whereas the average indicator in Ukraine is 40.9%.

The quality of water in the region is worse than on average in Ukraine due to the worn out systems. The difference is especially notable as to the bacteriological quality indicators: in Donetsk Region, more than twice the amount

of water samples failed to meet the standards (17.4% of the samples). Almost a quarter or 22.8% did not meet the standards of sanitary and chemical indicators.

Also, there are most frequent water pipe accidents in Ukraine in Donetsk Region. In 2019, there were 25.3 accidents per kilometre of the water pipe whereas most regions had fewer than three accidents per kilometre.



Water supply can be disrupted not only because of the worn out pipes, but also due to shelling from the uncontrolled territories. Moreover, water supply is under threat not only at the front-line areas, but also such large cities as Mariupol: for instance, in April 2021 when the shelling cut the power off at the first-rise pumping station at the Southern Donbas water pipe.⁷⁸

All the water collection stations are located in the territories controlled by the Ukrainian government, but the cities of Mariupol, Toretsk, Mariinka, Krasnohorivka and Avdiivka are supplied water via the temporarily occupied territory.

To supply water to those cities, the ME “Kompaniia “Voda Donbasu” has to direct water through the uncontrolled territories. The consumers from there do not pay the Ukrainian ME for the water supplied, and the charges paid are used to pay salaries and perform minor repairs within the uncontrolled territory. The tariffs set for the water supply and waste water disposal services within the uncontrolled territories are considerably lower than in the controlled territories. It actually makes the ME the deeply loss-making institution whose main source of financing is the State Budget. It also delegates the ME the humanitarian mission of supplying water to the residents of the uncontrolled part of the region.⁷⁹

9.2. Water Companies in the Region

The water supply and waste water disposal facilities of the region can be divided into the following groups, subject to their managing entity:

- “Wholesale” water supply system facilities (channels, water pipes, pumping stations etc.) on the books of the regional **ME “Kompaniia “Voda Donbasu”**
- Water supply and waste water disposal systems at the community level that are maintained by the units of the regional ME and **seven specialised city MEs (water companies)**
- Water treatment facilities, that may be on the books of the specialised MEs and city **multi-industry MEs (around 20 enterprises)**

The principal wholesale drinking water supplier in Donetsk Region is **the Municipal Enterprise “Kompaniia “Voda Donbasu”**. It provides water supply and waste water disposal services to 289 settlements in the region (including the ones in the uncontrolled territory), where approximately 3.9 million people reside. This enterprise has a status of the “wholesale” supplier of the local water companies and is one of

the largest enterprises of the kind in Europe⁸⁰. It is subordinated to the Donetsk Regional Military and Civil Administration.

The financial position of the company is critical. The level of consumers’ settlements with the ME “Kompaniia “Voda Donbasu” for the water supply and waste water disposal services is one of the lowest ones among the licensees of the National Commission for State Regulation of Energy and Public Utilities – 71% for the first quarter of 2021 against 88% of the settlements on average.⁸¹ The level of consumers’ debt to the ME is one of the highest among the licensees of the National Commission for State Regulation of Energy and Public Utilities (1.3 billion Ukrainian hryvnias, including more than one billion Ukrainian hryvnias formed as of the end of 2016). Approximately the same amount is due by the consumers to the municipal water supply enterprises of Kharkiv and Kyiv, but the debt structure of the ME “Kompaniia “Voda Donbasu” is specified since 47% is the debt of the “wholesale” consumers, city water companies of Donetsk Region. 46% more are due by the population.

⁷⁸ 50 Settlements Have No Water in Donetsk Region due to Shelling <https://www.ukrinform.ua/rubric-regions/3222581-cerez-obstril-na-doneccini-50-naselenih-punktiv-zalisilisa-bez-vodi.html>

⁷⁹ Ukraine Supplies Water to ORDLO Despite Million Debts <https://www.0629.com.ua/news/3140920/ukraina-postavlaet-vodu-v-ordlo-nesmotra-na-milionnye-dolgi>

⁸⁰ UNICEF, 2019. Water Supply Risk Assessment of the ME “Kompaniia “Voda Donbasu” – 2017 https://www.unicef.org/ukraine/media/8966/file/UNICEF_Risk%20Assessment_Sep2019_UKR.pdf

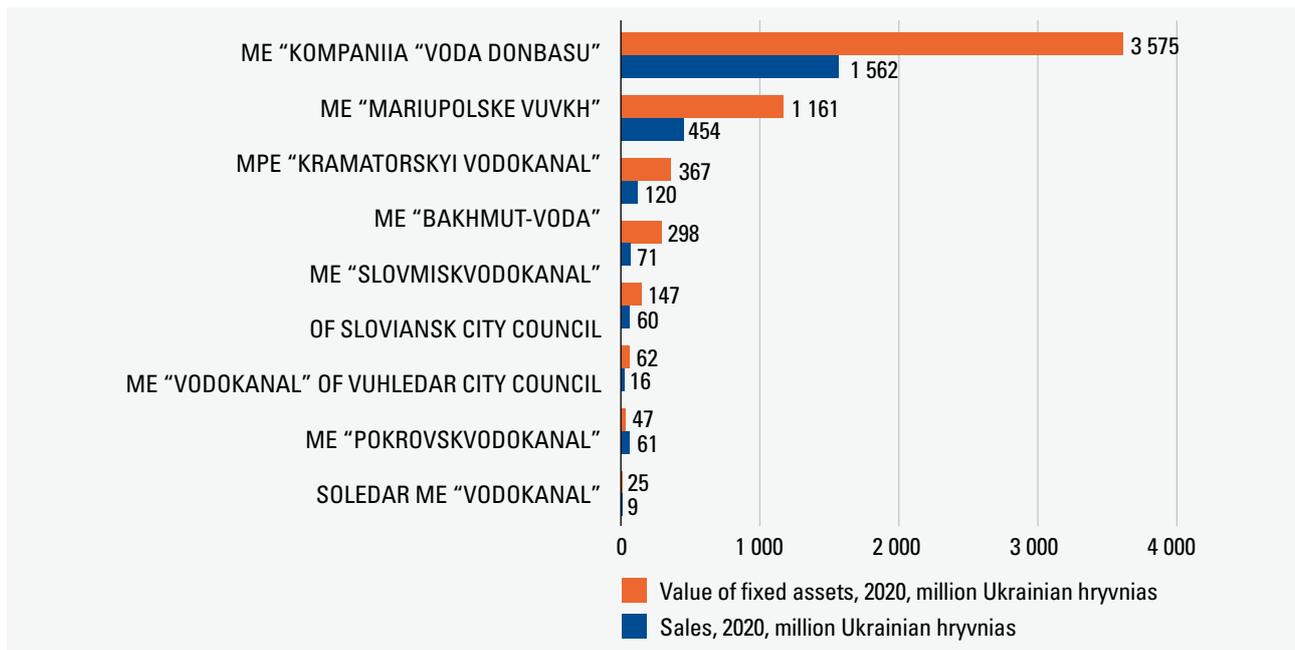
⁸¹ Results of Monitoring the Licensees of the National Commission for State Regulation of Energy and Public Utilities in Centralised Water Supply and Centralised Waste Water Disposal for the First Quarter of 2021 <https://www.nerc.gov.ua/?news=11702>



Due to the financial difficulties, the ME “Kompaniia “Voda Donbasu” has the dramatically low level of settlements for electric power: 6% for the first quarter of 2021, whereas the average level among the licensees of the National Commission for State Regulation of Energy and Public Utilities is 97%. This ME also has the largest debt in absolute terms: 4.6 billion Ukrainian hryvnias.

The regional ME provides water to the **specialised water supply MEs (water companies)**, which are subordinated to the local councils (Figure 31). These are seven water companies of the large cities located in the controlled territory (Mariupol, Kramatorsk, Bakhmut, Sloviansk, Vuhledar, Pokrovsk, Soledar).

Figure 31. Water supply and waste water disposal enterprises in Donetsk Region, 2020



Source: financial statements of the enterprises

The second largest specialised enterprise in the region (after the ME “Kompaniia “Voda Donbasu”) is the **ME “Mariupol Production Directorate of the Water Pipe and Sewage System (VUVKH)”**. It provides services to the largest city located within the controlled territory of the region, Mariupol. In 2020, the ME made most investment among the water supply enterprises of Donetsk Region: the change in the value of the fixed assets made 349 million Ukrainian hryvnias (see Section 9 “Investment

by Municipal Companies”). It is connected with the fact that the ME started the project of upgrade of the water supply system for which Ukraine obtained the French concessional loan for the amount of 64 million euros.

The other municipal water companies of the region, the same way as the ME in Mariupol, provide services to their own communities, but are much smaller and make investment only with their own limited funds and local budgets.

9.3. Financial Transparency

An important aspect of raising investment is transparency and accountability of enterprises. The Economic Code obliges the MEs to publish their financial statements for the last three years and a number of other documents.⁸²

At the same time, only the ME “Kompaniia “Voda Donbasu” and the city water companies licensed by the National Commission for State Regulation of Energy and Public Utilities (in Mariupol, Kramatorsk, Bakhmut and Sloviansk)

⁸² Economic Code of Ukraine <https://zakon.rada.gov.ua/laws/show/436-15>



generally adhere to these requirements while three small water companies comply only partly. It is also prescribed by the law that the local councils may establish supervisory boards at such MEs and conduct an annual independent audit of financial statements.

- ME “Kompaniia “Voda Donbasu””: on its website, the company has published the financial statements for 2017-2020 and auditor’s opinions for 2018-2020.⁸³ However, it should be noted that the auditor of one of the largest MEs in Ukraine is a small company (with ten employees) registered in Odesa Region.⁸⁴ There is a risk that this fact will not increase the level of trust in the ME among potential creditors and partners.
- The ME “Mariupolske VUVKH” has been publishing its financial statements and reports on operations of the ME since 2016; the auditor’s opinions for 2018-2020 have also been published.⁸⁵
- MPE “Kramatorskyi Vodokanal” has published its financial statements for 2014-2020.⁸⁶
- The ME “Bakhmut-Voda” has published its financial statements for 2016-2020 as well

as annual reports of the enterprise. The ME has also established the supervisory board with independent members.⁸⁷

- The ME “Slov miskvodokanal” has published its annual financial statements for 2015-2020 and auditor’s opinions for 2018-2020.⁸⁸
- The ME “Vodokanal” of Vuhledar City Council has published financial statements for 2019-2020 at the website.⁸⁹
- The ME “Pokrovskvodokanal” has published financial statements only for nine months of 2020 and for 2019.⁹⁰
- The Soledar ME “Vodokanal” has published the balance sheet and statement of financial results at its own website only for 2020.⁹¹

As it can be seen, some of the MEs fail to comply with the legal requirements for publication of financial statements for the last three years, only one ME has the supervisory board, and the largest ME “Kompaniia “Voda Donbasu” hires a small auditing company from Odesa Region despite the formal adherence to the legal requirements.⁹²

9.4. Main Stakeholders

The Cabinet of Ministers of Ukraine carries out public administration in protection and reasonable use of water resources and acts as a guarantor for the loans granted by the foreign states, banks and international financial institutions.⁹³

The Ministry of Finance of Ukraine coordinates the projects with foreign financial support in addition to drafting of the budget and approval of the budget programmes. The Ministry of Finance also takes decision on feasibility of such projects and monitors implementation thereof. The Ministry additionally approves the

⁸³ As of August 2021

⁸⁴ Procurement of the Audit of the Financial and Economic Activity of the ME “Kompaniia “Voda Donbasu” and Provision of the Auditor’s Opinion (Independent Auditor’s Opinion) on the Annual Financial Statements for the period from 01.01.2020 until 31.12.2020 <https://tender.uub.com.ua/tender/UA-2021-02-11-008908-a/>

⁸⁵ Municipal Enterprise “Mariupol Production Directorate of the Water Pipe and Sewage System” <https://mariupolrada.gov.ua/departament/komunalne-pidpriemstvo-%C2%ABmariupolske-virobniche-upravlinnja-vodoprovodno-kanalizacijnogo-gospodarstva%C2%BB>

⁸⁶ <https://kramvoda.com/index.php/ru/o-predpriyatii/informatsiya-pro-svoyu-diyalnist/finansova-zvitnist.html>

⁸⁷ <https://artemrada.gov.ua/18881>

⁸⁸ <https://www.slavvoda.com.ua/finansovaya-otchetnost/>

⁸⁹ <http://vodokanal.ugledar.info/?cat=70>

⁹⁰ <https://pokrovsk-rada.gov.ua/uk/organizations/item/67>

⁹¹ <http://soledarvoda.dn.ua/>

⁹² Procurement of the Audit of the Financial and Economic Activity of the ME “Kompaniia “Voda Donbasu” and Provision of the Auditor’s Opinion (Independent Auditor’s Opinion) on the Annual Financial Statements for the period from 01.01.2020 until 31.12.2020 <https://tender.uub.com.ua/tender/UA-2021-02-11-008908-a/>

⁹³ Law of Ukraine “On the Cabinet of Ministers of Ukraine” <https://zakon.rada.gov.ua/laws/show/794-18#Text>



scope of and conditions for the local loans and guarantees.⁹⁴

The Ministry for Communities and Territories Development of Ukraine (Ministry of Regions) develops and implements the national regional policy and the national housing and utility policy. The Ministry assesses and conducts bidding procedures to select investment programmes and regional development programmes that can be implemented at the expense of the State Fund for Regional Development (SFRD). The Ministry of Regions also approves the conditions of the bidding procedure for lease or concession of the municipal water supply and waste water disposal facilities.⁹⁵ The Ministry of Regions is often a responsible contractor in the investment projects implemented with support of the international financial institutions.

The Ministry for Reintegration of the Temporarily Occupied Territories of Ukraine facilitates recovery and development of the infrastructure in Donetsk and Luhansk Regions. In particular, the Ministry is a contractor within the budget programme “Implementation of the Drinking Water Supply Project in Mariupol”⁹⁶ (at the expense of the loan by the Government of France). The Ministry also develops the Strategy for Economic Development of Donetsk and Luhansk Regions that contains the initiatives of quality drinking water supply.⁹⁷

The National Commission for State Regulation of Energy and Public Utilities carries out tariff regulation and annually approves investment programmes of the water supply and waste water disposal enterprises for its licensees: regional ME “Kompaniia “Voda Donbasu” and four largest water companies. If the MEs implement long-term investment projects, it is important that the National Commission for State Regulation of Energy and Public Utilities allow to include the investment

component into the tariff and approve the respective investment programme.

The Regional State Administration, the Military and State Administration performs the functions of the owner of the ME “Kompaniia “Voda Donbasu” and is generally responsible for access to quality water in the region. The RSA also develops and carries out monitoring of implementation of the programme “Water of Donetsk Region” until 2025. The regional budget finances a minor part, 1.2% of the investment under the programme. The RSA approves the investment programmes of three smallest water companies (the other four are approved by the National Commission for State Regulation of Energy and Public Utilities).

The local councils, their executive bodies and military and civil administrations are responsible for the services of water distribution and waste water disposal within their communities. They own specialised MEs (water companies) and multi-profile MEs for this purpose. The local councils may initiate the projects supported by the IFIs and submit projects to be financed by the SFRD. The more the community is, the higher capability it has to finance its own facilities. In the Regional Programme “Water of Donetsk Region,” the share of the projects that have to be financed from the community budgets is 3.3%. Also, the local councils may be concessors or lessors in respect of their own water companies within the public-private partnership.

The municipal enterprises are limited by tariff regulation and the fact that they administer rather than own the property (the owner is a community or region). At the same time, they can improve internal operating processes, disclose information to stakeholders and involve professionals as well as initiate the projects that can be financed by the IFIs.

⁹⁴ On Approving the Regulations on the Ministry of Finance of Ukraine <https://zakon.rada.gov.ua/laws/show/375-2014-%D0%BF#Text>

⁹⁵ Regulations on the Ministry for Communities and Territories Development of Ukraine <https://www.minregion.gov.ua/about/about-min/polozhennya-pro-ministerstvo-rozvitku-gromad-ta-teritoriy-ukrayini/>

⁹⁶ Report on Utilisation of the Budget Funds by the Ministry for Reintegration, Namely for the Separate Budget Programmes <https://www.minre.gov.ua/page/zvit-povykorystannyu-byudzhetnyh-koshtiv-mtot-zokrema-za-okremymy-byudzhetnymy-programamy>

⁹⁷ Public Discussion of the Decree of the Cabinet of Ministers of Ukraine “On Approving the Strategy for Economic Development of Donetsk and Luhansk Regions until 2030” Started <https://minre.gov.ua/page/rozpochato-gromadske-obgovorennya-rozporjadzhennya-kabinetu-ministriv-ukrayiny-pro>



9.5. Possible Financing Options

Approximately 10 billion Ukrainian hryvnias need to be spent in 2020-2025 to provide access to the quality drinking water to the population. It has been estimated for the Regional Programme “Water of Donetsk Region” for 2017-2025 that contains the actions to restore and develop the water supply and waste water disposal systems. The programme does not provide for financing from the State Budget, and the share of financing from the regional and local budgets is 1.2 and 3.3% accordingly. The rest of the funds are “other sources”, including own funds of the MEs.

Around four billion was supposed to be invested in 2020⁹⁸, but the capacity only covered 762 million Ukrainian hryvnias (see Section 9 “Investment by Municipal Companies”).⁹⁹

In general, additional investment resources to upgrade the infrastructure (including water supply and waste water disposal) can be raised from the following sources:

- state and local budgets;
- loans from the international financial institutions (EIB, EBRD, IBRD, IFC);
- inter-governmental loans (France, China, USA);
- grants and humanitarian aid;
- own funds of the MEs;
- PPP mechanisms;
- private investment.

FINANCING FROM THE STATE BUDGET

A source of funds for small local projects can be the State Fund for Regional Development. The Ministry for Reintegration may initiate new budget programmes to be financed with the State Budget or concessional loans of the IFIs for the projects of larger scale. In particular, a specific programme can be considered

to compensate for the expenditures associated with the humanitarian mission of the ME “Kompaniia “Voda Donbasu”: to supply water to the uncontrolled territories. There is no compensation now, and losses are incurred by the enterprise. Provided that there is adequate metering and control of the water supplied to the uncontrolled territories, both technical and financial, the state programme will enable the company to free funds to finance its current and investment activities.

FINANCING FROM THE REGIONAL BUDGET

The regional budget is one of the sources to perform the Regional Programme “Water of Donetsk Region” although its capacity is limited. Certain works to restore the water supply and waste water disposal facilities are financed to maintain their operability. Thus, seven municipal facilities with the value of 5.6 million Ukrainian hryvnias were financed from it in 2016-2019.¹⁰⁰

PROJECTS OF THE INTERNATIONAL FINANCIAL INSTITUTIONS

The main water supply and waste water disposal infrastructure development projects in Ukraine are financed by the IBRD, EBRD, KfW and EIB. The important thing that they are mostly the projects implemented at the city level, with the Ministry of Regions being a responsible contractor and the water company being a beneficiary. The projects may be initiated both by cities and water companies and ministries.

Main relevant projects being implemented:

- World Bank, Clean Technology Fund (IBRD), *Second Project for Development of the City Infrastructure* – 350 million US dollars (the

⁹⁸ Regional Programme “Water of Donetsk Region for 2017-2025” <https://dn.gov.ua/npa/pro-vnesennya-zmin-do-rozporjadzhennya-golovi-oblderzhadministraciyi-kerivnika-oblasnoyi-vijskovo-civilnoyi-administraciyi-vid-18-zhovtnya-2017-roku-13255-17>

⁹⁹ ACMC <https://acmc.ua/problema-na-milyardy-shho-vidbuvayetsya-z-vodopostachannyam-na-donechchyni/>

¹⁰⁰ “Voda Donbasu”: What Has Been Done for Stable Water Supply in Donetsk Region <https://dn.gov.ua/news/voda-donbasu-shcho-zrobleno-dlya-zabezpechennya-stabilnogo-vodopostachannya-na-donechchini>



beneficiaries include the Kramatorsk Water Company).¹⁰¹

- KfW, *Municipal Water Facilities Project in Chernivtsi, Stage 1* – 23.5 million euros¹⁰²

Main relevant completed projects:

- EBRD, *Project for Investment and Development of Water Supply and Cleaning System in Zaporizhzhia* – 28 million US dollars¹⁰³
- EIB, *Development of the Water Supply and Waste Water Disposal System in Mykolaiv* – 31.08 million euros.¹⁰⁴

Based on the available experience, the potential projects of international financial institutions in Donetsk Region are more realistic to initiate and implement at the level of local water companies.

The general challenges in raising loans from the IFIs for recovery and development of the water supply systems in Ukraine are as follows:

- The water supply enterprises lack qualified professionals so advisers need to be engaged to implement the projects.
- At the national level (Ministry of Regions), the institutional support of technical implementation of major projects at water companies is insufficient so the success of the project largely depends on senior executives of the water company.
- Implementation of the projects is often delayed by the need of long-term approval procedures at the level of the central executive authorities.
- The management issues typical of state and municipal unitary enterprises (operational management of assets, political impact upon appointment, dismissal and activities of senior executives etc.).

In Donetsk Region, these issues are aggravated by the temporary occupation of the part of the

territory. A solution could be engagement of the Ministry for Reintegration as a responsible contractor (instead of the Ministry of Regions) and establishment of the subordinated centre for institutional support of technical implementation of projects.

INTER-GOVERNMENT LOANS

A benefit of inter-government loans could be use of the part of such loans to procure goods and services from the companies in the lender's country. Such companies generally have sufficient expertise and reputation in the respective industry.

An example could be a large-scale water supply system upgrade project in Mariupol, which provides for construction of the drinking water production plant and is financed with the French concessional loan in the amount of 64 million euros.

The borrower is the Government of Ukraine. The Ministry of Finance of Ukraine provides credit funds within the sub-loan agreement with the entity responsible for implementation of the project (ME "Mariupol Production Directorate of the Water Pipe and Sewage System") against the guarantee of the city council.¹⁰⁵ All the works must be completed by 31 July 2025. According to the loan agreement, at least 70% of the goods, works or services will be purchased from the specific French companies or companies designated by the French party. The loan has been granted for 30 years, including the beneficial period of ten years. The interest rate at the loan is 0.08% per annum, and the loan will be repaid by the municipal enterprise.

The loan from the government of France also provides for development of the Master Plan for Improvement of the Municipal Water Supply and Waste Water Disposal System by 2040 in order to mitigate the risks of disruption

¹⁰¹ Second Project for Development of the City Infrastructure (CTF) Updated on: 25.06.2021 <https://proifi.gov.ua/projects/233832130>. The principal amount was allocated by the World Bank at 0.45% per annum, and 17% was provided by the Clean Technology Fund at 0.75%.

¹⁰² Municipal Water Facilities Project in Chernivtsi, Stage 1 <https://proifi.gov.ua/projects/250302865>

¹⁰³ (EBRD) Project for Investment and Development of Water Supply and Cleaning System in Zaporizhzhia <https://proifi.gov.ua/projects/677>

¹⁰⁴ Development of the Water Supply and Waste Water Disposal System in Mykolaiv <https://proifi.gov.ua/projects/229034492>

¹⁰⁵ Sub-loan agreement within implementation of the project "Investment Drinking Water Supply Project in Mariupol", which is financed by the Government of the French Republic <https://mariupolrada.gov.ua/uploads/18/92981-7.54-5493.pdf>



of water supply via the uncontrolled territories by the ME “Kompaniia “Voda Donbasu”.¹⁰⁶

can raise funds to implement respective water resource saving actions.

GRANTS AND HUMANITARIAN AID

The grants and humanitarian aid from the donors are mostly limited to supply of materials or delivery of drinking water although funds are sometimes used to purchase equipment and reconstruct facilities.¹⁰⁷

During 2016-2019, the aid in the amount of 111.5 million Ukrainian hryvnias was received from the international humanitarian missions within the controlled territories.¹⁰⁸ In particular, the materials and machines were received from the UNICEF, IRCC, and the government of Switzerland. Also, emergency, recovery and construction works are performed at the expense of the international organisations.

Water supply to the uncontrolled territory by the ME “Kompaniia “Voda Donbasu” could potentially be financed with grants from the international organisations (alternatively, via the programme of the special fund of the Ministry for Reintegration that has been mentioned above). For this purpose, the municipal enterprise must control reliable operations of the measuring equipment at its own facilities at the points of entry to the uncontrolled territory and provide transparent information. It will help calculate financial losses of the enterprise more precisely and substantiate the financial needs.

Also, the plans and technical documentation on water supply diversification at the community level may be financed as grants (by the analogy to the respective plan that will be developed in Mariupol) since the resources of local budgets are limited and do not allow financing of such plans. Based on such plans, the communities

PUBLIC-PRIVATE PARTNERSHIP

In Ukraine, public-private partnership projects in the water supply and waste water disposal industry are not common, contrary to the other world countries. Some examples of such agreements include lease of the asset group of the water company in Odesa as well as concession of the city water company in Bila Tserkva. Whereas Odesa faced challenges implementing the PPP project¹⁰⁹, the agreement in Bila Tserkva is considered to be a successful case of PPP in natural monopoly. Bilotserkivvoda LLC became the concession holder of the water company in Bila Tserkva in 2013 for fifteen years¹¹⁰: the concession holder pays the concession charges in the amount of approximately 4 million Ukrainian hryvnias and makes investment pursuant to the investment programme.¹¹¹

There are two common basic concession models in the world: user pay when the concession holder is paid by users of the specific facility, and government pay when the state pays.¹¹² The second model is more suitable for the water supply facilities in Donetsk Region. It is caused by the gradual decrease in the share and quantity of the financially reliable water consumers in the region and, therefore, the risk of failure to pay and incomplete coverage of fixed costs (for instance, maintenance of the main pipes).

In general, the PPP option (lease or concession) can be considered in Donetsk Region only for small facilities at the local level, with the low risk of loss of demand and payment for the services by the local councils. For instance, they could be treatment facilities

¹⁰⁶ Ukrinform, 27 October 2020. Water Supply Upgrade in Mariupol: Project with the French Company Initiated <https://www.ukrinform.ua/rubric-regions/3124922-modernizacia-vodopostacanna-mariupola-rozpocavsya-proekt-z-francuzkou-kompanieiu.html>

¹⁰⁷ Ukrinform, 23.07.2020. Switzerland Provides 17 Trucks of Humanitarian Aid for Donbas – Zelenskyy <https://www.ukrinform.ua/rubric-ato/3068596-svejcaria-nadala-17-vantazivok-gumdopomogi-dla-donbasu-zelenskij.html>

¹⁰⁸ Donetsk RSA. “Voda Donbasu”: What Has Been Done for Stable Water Supply in Donetsk Region, 9 2020. <https://dn.gov.ua/news/voda-donbasu-shcho-zrobleno-dlya-zabezpechennya-stabilnogo-vodopostachannya-na-donechchini>

¹⁰⁹ Centre of Economic Strategy. How to Deal with Lack of Performance of Municipal Enterprises? <https://ces.org.ua/municipal-enterprise-ownership-presentation/>

¹¹⁰ Bilotserkivvoda LLC <https://bcvoda.com.ua/zviti>

¹¹¹ Centre of Economic Strategy. How to Deal with Lack of Performance of Municipal Enterprises? <https://ces.org.ua/municipal-enterprise-ownership-presentation/>

¹¹² PPP Contract Types and Terminology <https://pppknowledgelab.org/guide/sections/6-ppp-contract-types-and-terminology>



on the books of the MEs of the territorial communities.

OWN CAPITAL OF THE MES

The investment programmes approved by the National Commission for State Regulation of Energy and Public Utilities for most water supply enterprises in Donetsk Region are only made of the depreciation charges and are several times smaller than the financing under the Regional Programme “Water of Donetsk Region”.

For instance, the investment programme of the largest and principal supplier, the ME “Kompaniia “Voda Donbasu”, for 2021 for water supply and waste water disposal is 63.4 million Ukrainian hryvnias and is financed solely with the depreciation charges.¹¹³ The investment programmes approved by the National Commission for State Regulation of Energy and Public Utilities during the previous years were a bit smaller and were also financed from the depreciation charges only: for 2020 – 50.5 million Ukrainian hryvnias, for 2018 – 44.5 million Ukrainian hryvnias¹¹⁴.

The situation is the same in the other enterprises that provide water supply and waste water disposal services at the community level. Financing of enterprises from the local budgets is a typical situation due to the consumer debt, high share of expenses for labour remuneration and electric power in the tariffs, and imperfect tariff regulation.

PRIVATE INVESTMENT

Possibility of raising private capital for the infrastructural facilities faces the obstacles similar to the ones for PPP: the need of the high return on investment and respective financing guarantees or payment for access. In addition to the general issues, Donetsk Region also has military and political risks.

Private capital can prospectively be considered as a source of investment into specific infrastructural facilities in the cities with the considerable development potential, namely in Mariupol, Kramatorsk etc.

9.6. Recommendations on Raising Investment into Water Supply

The most important thing is to increase the scope of investment into the facilities of the ME “Kompaniia “Voda Donbasu” since stable water supply all over the region and to the large majority of consumers depend on it.

There is very low probability of implementation of public-private partnership in operations of the company “Voda Donbasu” since some of the company’s assets are within the temporarily uncontrolled territory, and the company is loss-making due to the tariff lower than the net cost and water supply to the uncontrolled territories. Such risks are unacceptable for investors. Financing of investment from the company’s own funds is also unlikely due to the critical financing condition. Therefore, the following

sources of financing are more probable in the current situation:

- Transfer from the State Budget to the local level within the development of the critical water supply and waste water disposal infrastructure¹¹⁵ – coverage of the consumer debt in the uncontrolled territory of the region by the ME “Kompaniia “Voda Donbasu”.
- Financing of the feasibility study and the technical project for upgrade of the company’s fixed asset and development of the prospective water supply plans at the community and district level within the international technical assistance project in Donetsk and Luhansk Regions to support the affected districts.

¹¹³ National Commission for State Regulation of Energy and Public Utilities. Resolution dated 24.03.2021 No. 489 “On Approval of the Investment Programme of the Municipal Enterprise “Kompaniia “Voda Donbasu” for 2021”. <https://www.nerc.gov.ua/index.php?id=60225>

¹¹⁴ The resolution on approval of the investment programme for 2019 has not been found.

¹¹⁵ The Ministry for Reintegration of the Temporarily Occupied Territories of Ukraine has suggested the new budget programme.



- In particular, the grant component in the ITA format within the loans of the IFIs should be included to finance the upgrade of the fixed assets in the water supply sector in the region. Thus, development of the prospective water supply plans will allow to reduce the dependence on the Siverskyi Donets-Donbas Channel, which is especially vulnerable if the hostilities escalate, as well as on the parts of the systems located within the temporarily occupied territories.
- Financing of water supply diversification within the inter-government loans.

The important aspect of raising investment into the ME “Kompaniia “Voda Donbasu” (and

possible compensation for losses from the humanitarian mission of water supply to the uncontrolled territories to the enterprise) is an increase in the transparency level. In particular, the Donetsk RSA as the owner and the ME itself should:

- start the corporate management reform in the company;
- order the financial reporting audit by the international audit firm with the relevant experience;
- ensure openness and accessibility of data from the water metering equipment at the points of entry to and exit from the uncontrolled territory.



Chapter 10.

ANNEXES

10.1. Map of Stakeholders in Public / Private and Internal / External Terms

	Public	Private
Internal	<ul style="list-style-type: none"> - Linear ministries - Local authorities - State Fund for Regional Development - Business Development Fund - Startup Fund - State and municipal enterprises 	<ul style="list-style-type: none"> - Private companies - Commercial private banks - Credit unions and other financial organisations - Investment funds - Business associations - Non-governmental organisations (NGOs)
External	<ul style="list-style-type: none"> - International financial institutions <ul style="list-style-type: none"> o World Bank Group (World Bank and IBRD) o IMF o EBRD o EIB o KfW o Others - Bilateral partners <ul style="list-style-type: none"> o EU in general and different EU Member States in particular o USA, Canada, Japan and other countries of the OECD DAC o other countries 	<ul style="list-style-type: none"> - Commercial banks - Investment companies - International NGOs - Expatriate community

Respective development finance sources:

- Public / private internal financing
- Public / private external financing
- Combination of financing:
 - o Public-private partnership
 - o Social and investment projects from the IFIs against the state guarantees or as loans to the state
 - o Commercial loans against the state guarantees



10.2. Current Progress in Achievement of the Sustainable Development Goals

2020	2021	SDG Tasks
Goal 1. No poverty		
Green	Green	1.1. To reduce the level of poverty four times, namely by remedying its extreme forms
Green	Red	1.2. To increase coverage of the poor people with targeted social support programmes
Yellow	Yellow	1.3. To improve the viability of socially vulnerable populations
Goal 2. Zero hunger, development of agriculture		
Yellow	Yellow	2.1. To ensure accessibility of balanced diet at the level of scientifically substantiated standards for all the populations
Green	Yellow	2.2. To increase agricultural performance twice, in the first place, by using innovation technologies
Yellow	Yellow	2.3. To facilitate creation of sustainable food production systems, which helps preserve eco-systems and gradually improves the quality of land and soil, in the first place, owing to innovation technologies
Green	Grey	2.4. To reduce the volatility of food prices
Goal 3. Good health and well-being		
Green	Red	3.1. To reduce maternal mortality
Green	Green	3.2. To mitigate the deaths that can be prevented among children younger than five
Yellow	Yellow	3.3. To stop the epidemics of HIV/AIDS and tuberculosis, including by means of innovation practices and treatment
Yellow	Green	3.4. To reduce early deaths as a result of non-infectious diseases
Yellow	Yellow	3.5. To reduce early deaths, including by introducing innovation diagnostic approaches
Green	Green	3.6. To reduce the level of severe injuries and deaths as a result of road accidents, including by means of innovational intensive care, treatment and rehabilitation practices for those affected by the road accidents
Green	Green	3.7. To ensure general quality immunisation of the population with innovation products
Yellow	Yellow	3.8. To reduce the level of tobacco smoking by using the innovation means of raising awareness of negative consequences of tobacco smoking
Yellow	Yellow	3.9. To reform the health care financing system
Goal 4. Quality education		
Grey	Grey	4.1. To ensure access to quality education for all the children and teenagers
Red	Red	4.2. To ensure access to quality pre-school development for all the children
Grey	Grey	4.3. To ensure access to vocational education
Grey	Grey	4.4. To improve the quality of higher education and to ensure its close connection with science; to promote formation of cities of education and science in the country
Yellow	Yellow	4.5. To increase the spread of the knowledge and skills necessary to find a decent job and do business among the population
Red	Red	4.6. To eliminate gender inequality among school teachers
Green	Green	4.7. To create modern training conditions in school, including inclusive education based on innovation approaches
Goal 5. Gender equality		
Green	Green	5.1. To create conditions for eliminating all the forms of discrimination of women and girls
Green	Green	5.2. To reduce the level of gender-based and domestic violence, to ensure efficient prevention thereof and timely help to its victims
Grey	Grey	5.3. To promote joint responsibility for housekeeping and upbringing of children
Yellow	Green	5.4. To create equal representation opportunities at the top decision-making levels in the political and social life
Green	Green	5.5. To expand public access to family planning services and to reduce the level of teenage pregnancies
Green	Yellow	5.6. To expand economic capacity of women
Goal 6. Clean water and sanitation		
Green	Red	6.1. To facilitate accessibility of quality services of safe drinking water supply, construction and reconstruction of the centralised drinking water supply systems by means of advance technologies and equipment



2020	2021	SDG Tasks
		6.2. To facilitate accessibility of modern waste water disposal systems, construction and reconstruction of water collection and sewage treatment facilities by means of advance technologies and equipment
		6.3. To reduce the volume of untreated waste waters, namely by means of the innovation water treatment technologies at the state and personal levels
		6.4. To increase water use performance
		6.5. To facilitate introduction of the integrated water resource management.
Goal 7. Affordable and clean energy		
		7.1. To expand the infrastructure and to upgrade the systems to ensure reliable and sustainable power supply based on the innovation technologies
		7.2. To ensure diversification of supply of primary power resources
		7.3. To increase the share of power from the renewable sources in the national energy balance, in particular, by introducing the additional capacities of the facilities that generate power from renewable sources
		7.4. To increase the energy-efficiency of the economy
Goal 8. Decent work and economic growth		
		8.1. To ensure sustainable GDP growth based on production upgrade, innovation development, increase in the export potential and placement of products with the high share of the added value to the external markets
		8.2. To increase production performance based on sustainable development and development of high-technology competitive production facilities
		8.3. To increase the level of public employment
		8.4. To reduce the share of the youth who do not work, do not study and do not acquire professional skills
		8.5. To facilitate creation of reliable and safe working conditions for all the workers, namely by means of innovation technologies in occupational and industrial safety
		8.6. To create the institutional and financial capacity for self-fulfilment of the potential of the economically active part of the population and development of the creative economy
Goal 9. Industry, innovation and infrastructure		
		9.1. To develop the quality, reliable, sustainable and accessible infrastructure based on use of innovation technologies, including environmentally-friendly means of transport
		9.2. To facilitate wide use of electric transport and respective infrastructural network
		9.3. To facilitate availability of the road and transport infrastructure based on the innovation technologies, namely by expanding the forms of participation of the government in various infrastructural projects
		9.4. To facilitate rapid development of high- and medium-to-high-technology sectors of the processing industry formed based on the chains "education – science – production" and cluster approach in the following areas: development of the innovation eco-system; development of the information and telecommunication technologies (ITC); use of the ITC in the agroindustrial industry, power industry, transport and manufacturing industry; high-technology machine building; creation of new materials; development of the pharmaceutical and bioengineering industries
		9.5. To increase the financial and institutional systems (innovation infrastructure) that will facilitate research and (experimental) development
		9.6. To ensure access to the Internet, especially in the countryside
		9.7. To increase participation of the youth in scientific research
Goal 10. Reduced inequalities		
		10.1. To ensure rapid increase in income of 40% of the population with the lowest income
		10.2. To prevent discrimination in the society
		10.3. To ensure accessibility of social services
		10.4. To apply the labour remuneration policy based on equality and justice
		10.5. To reform the pension insurance based on justice and transparency
Goal 11. Sustainable cities and communities		
		11.1. To ensure affordability of accommodation
		11.2. To ensure development of settlements and territories solely based on comprehensive planning and management with participation of the public



2020	2021	SDG Tasks
		11.3. To ensure preservation of the cultural and natural heritage with participation of the public sector
		11.4. To inform the public of emergencies on time by means of information technologies
		11.5. To reduce the negative impact of contaminants, including upon the environment, namely by means of innovation technologies
		11.6. To ensure development and implementation of the local development strategies directed at economic growth, creation of jobs, development of tourism, recreation, local culture and production of local goods
Goal 12. Responsible consumption and production		
		12.1. To reduce the resource intensity of the economy
		12.2. To reduce food losses in the production and distribution chains
		12.3. To ensure sustainable use of chemical substances based on innovation technologies and production facilities
		12.4. To reduce the volume of generated waste and to increase the recycling and re-use volume based on the innovation technologies and production facilities
Goal 13. Climate action		
		13.1. To reduce greenhouse gas emissions in the economy
Goal 14. Life below water		
		14.1. To reduce sea contamination
		14.2. To ensure sustainable use and protection of sea and shore eco-systems, to improve their resilience and recovery based on innovation technologies
		14.3. To introduce efficient regulation of production of sea bioresources
Goal 15. Life on land		
		15.1. To ensure preservation, recovery and sustainable use of land and internal fresh water eco-systems
		15.2. To promote sustainable forest management
		15.3. To restore degraded lands and soils by means of innovation technologies
		15.4. To ensure integrity of mountain eco-systems
Goal 16. Peace, justice and strong institutions		
		16.1. To reduce the spread of violence
		16.2. To improve the level of detecting those affected by human traffic and all forms of exploitation
		16.3. To increase the level of trust in court and to ensure equal access to justice
		16.4. To enhance the system for preventing and fighting money laundering, financing of terrorism and proliferation of weapons of mass destruction
		16.5. To reduce the illegal circulation of weapons, ammunition and explosives
		16.6. To reduce the scope of corruption
		16.7. To increase performance of governmental and local self-government authorities
		16.8. To restore the territory affected by the conflict (Donbas)
		16.9. To improve social resilience, to promote peace-building and public safety (conflict and post-conflict regulation)
Goal 17. Partnerships for the goals		
		17.1. To raise additional financial resources by encouraging investment by foreign and national investors
		17.2. To gradually reduce the debt pressure upon the economy
		17.3. To develop partner relations between the authorities and businesses to achieve the sustainable development goals

Legend:

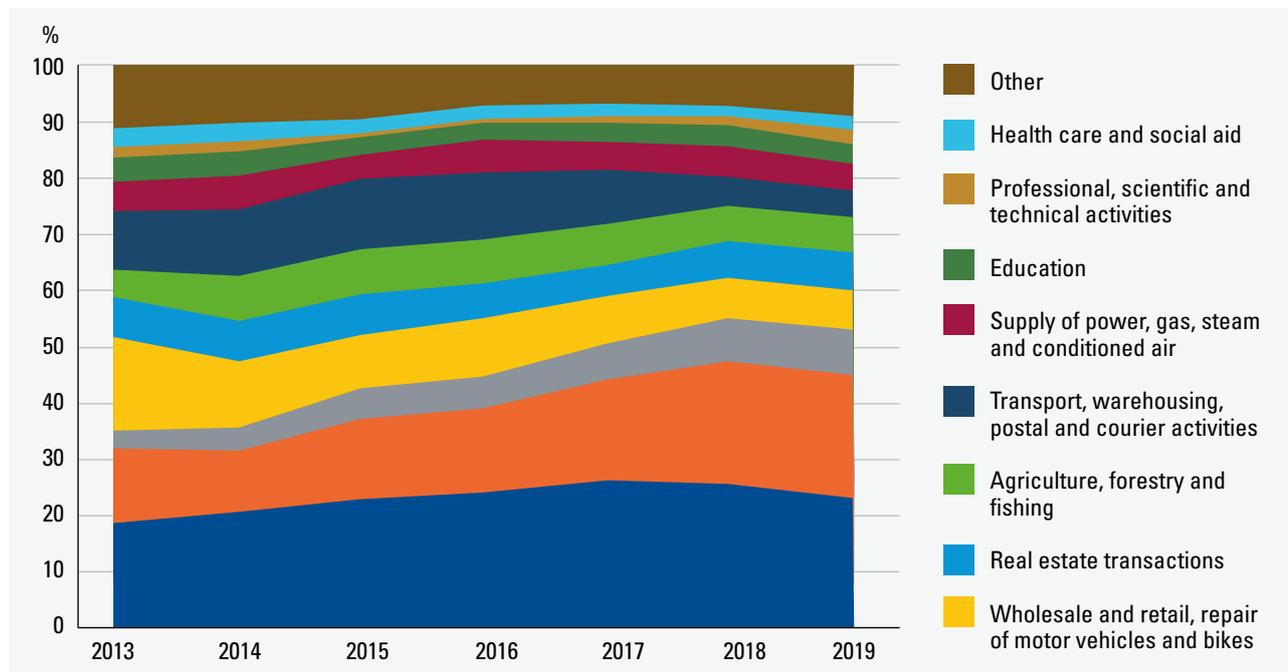
■	Sufficient progress to perform the task
■	Acceleration necessary to perform the task
■	Reverse trend in performance of the task
■	Impossible to measure

Source: Statistics Service (http://ukrstat.gov.ua/csr_prezent/ukr/ukr4/index.html#)



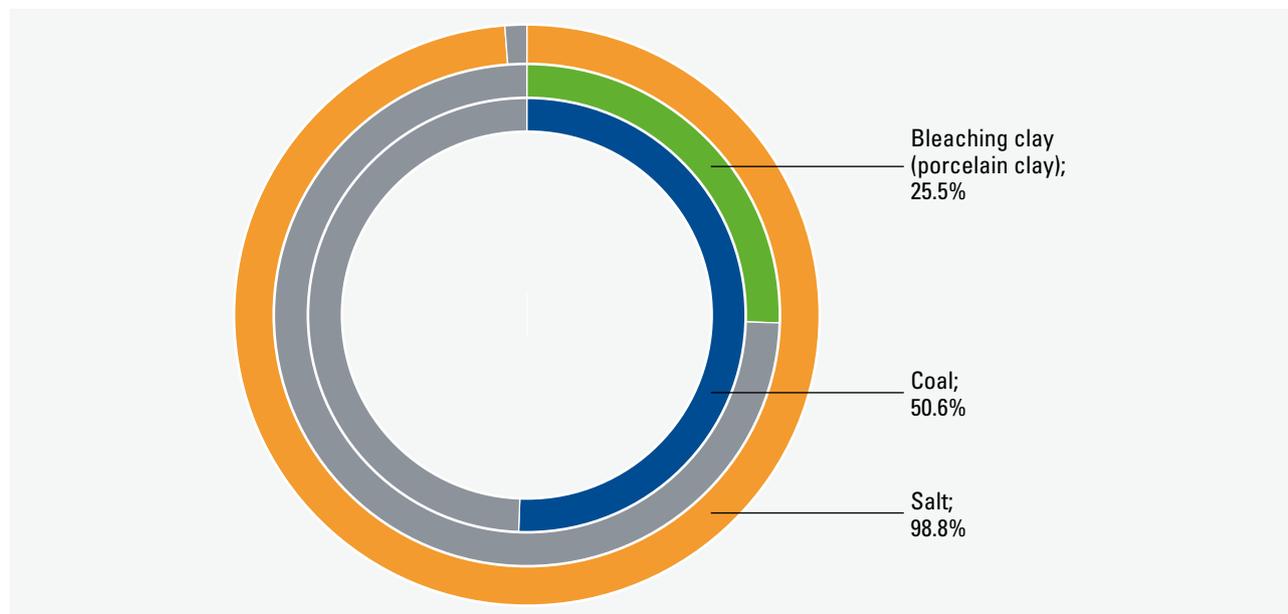
10.3. Annex to the Section “Economy of the Region”

Figure 32: Distribution of the gross value added by the types of economic activity in Donetsk Region in 2013-2019



Source: Statistics Service

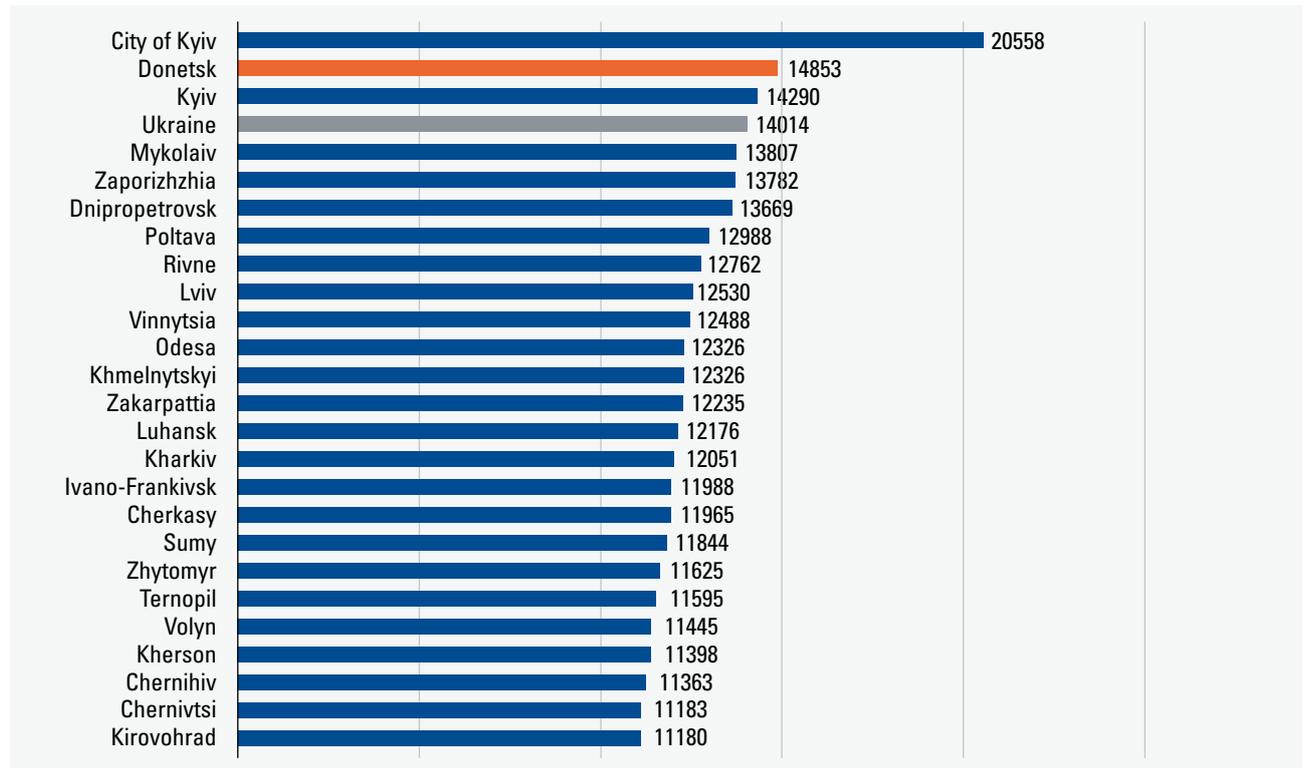
Figure 33: Share of Donetsk Region in the national production of specific types of the mining products in 2019



Source: Main Statistics Department in Donetsk Region, Statistics Service

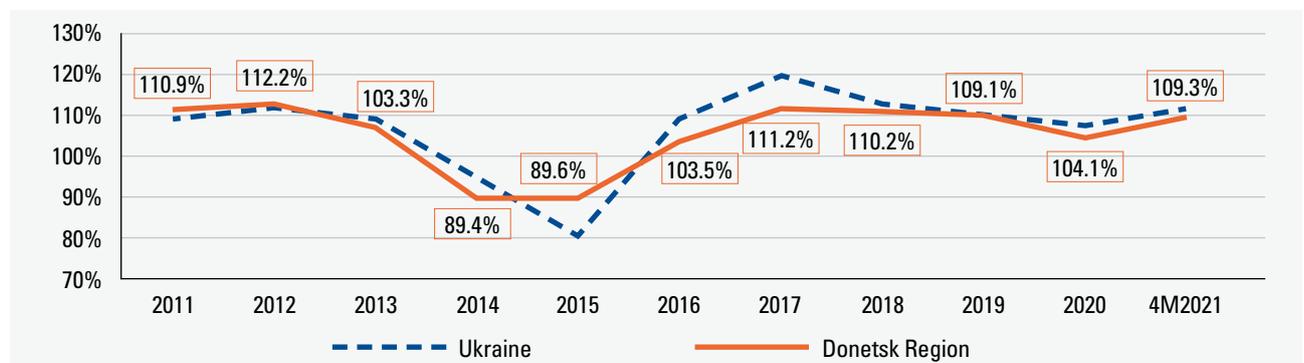


Figure 34: Average salary by the regions of Ukraine, 2021



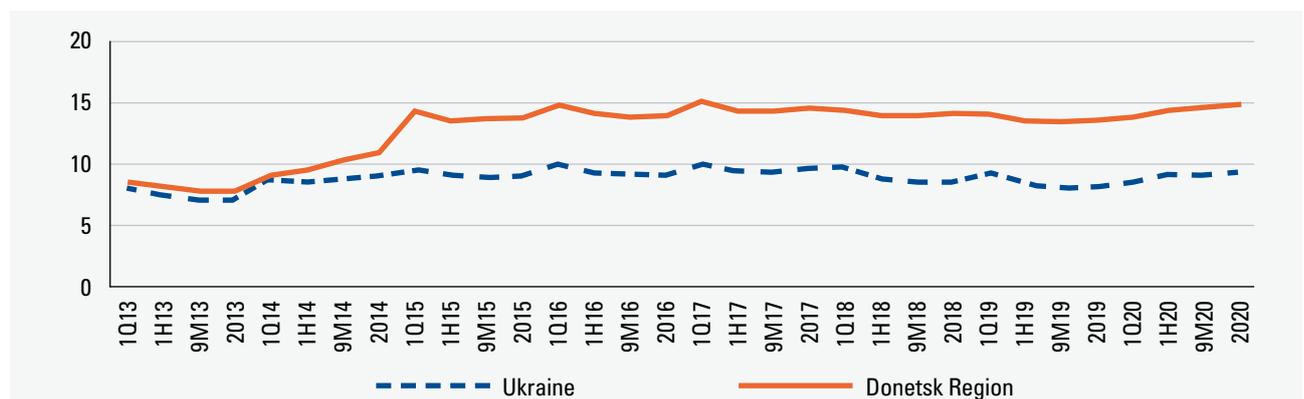
Source: Statistics Service

Figure 35: Real salary index, % against the previous year



Source: Main Statistics Department in Donetsk Region, Statistics Service

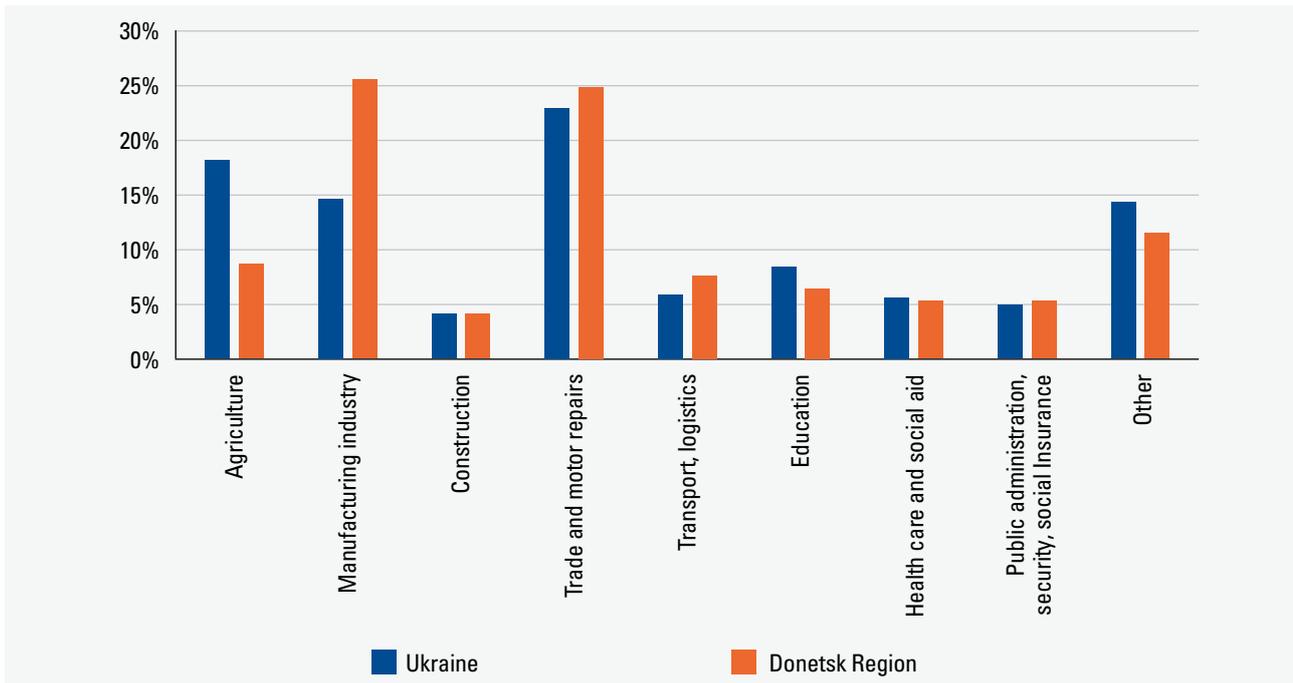
Figure 36: Unemployment level among the persons aged 15 to 70, %



Source: Statistics Service

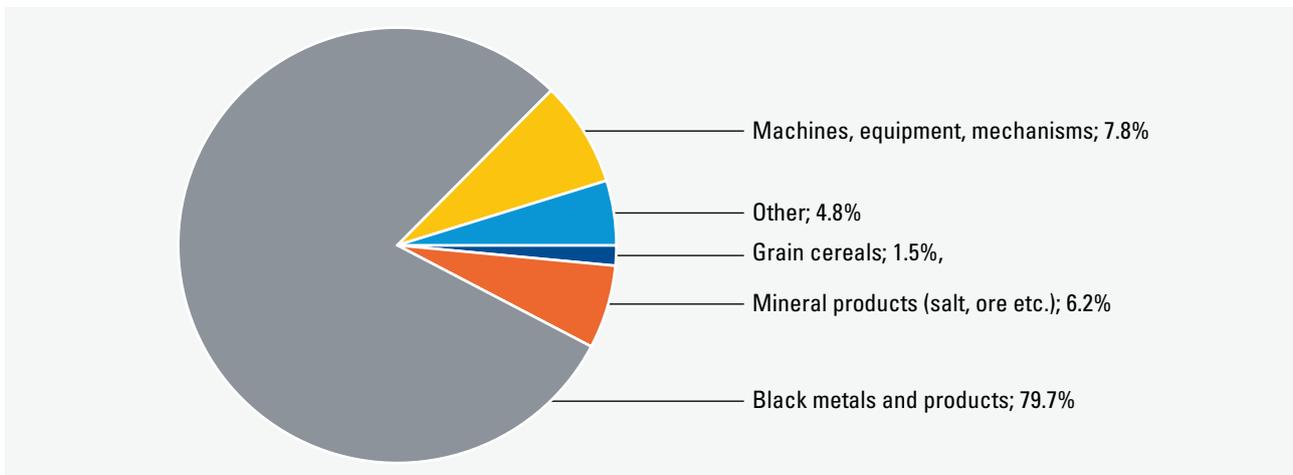


Figure 37: Employment by the types of economic activity as of 2019, % of the employed aged 15 to 70



Source: Statistics Service

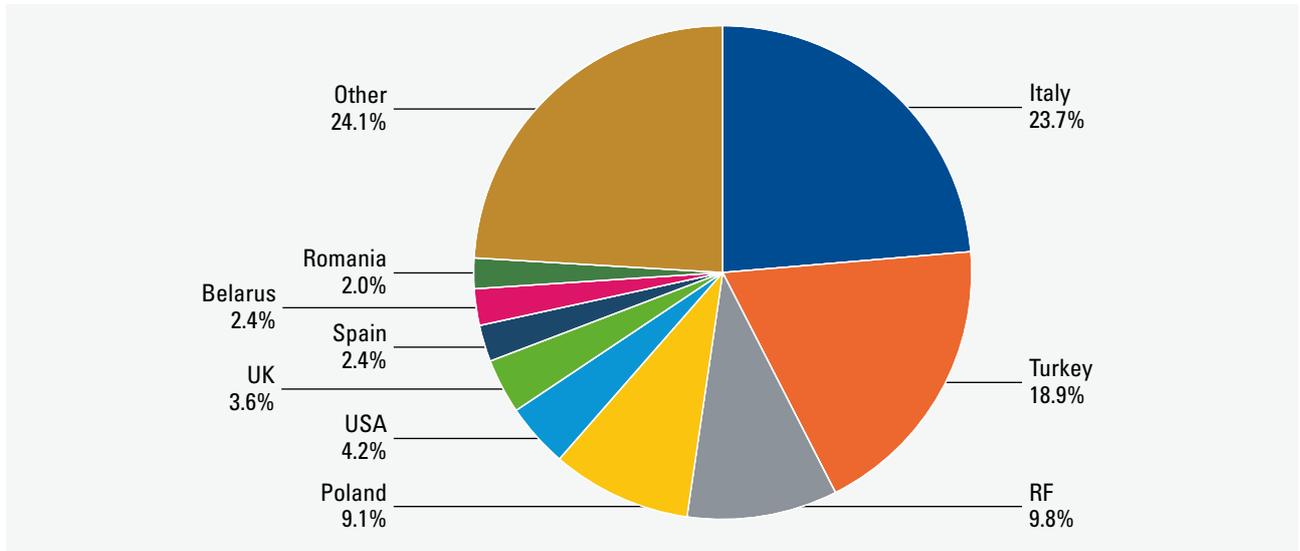
Figure 38: Structure of the commodity export in Donetsk Region, 2020



Source: Main Statistics Department in Donetsk Region

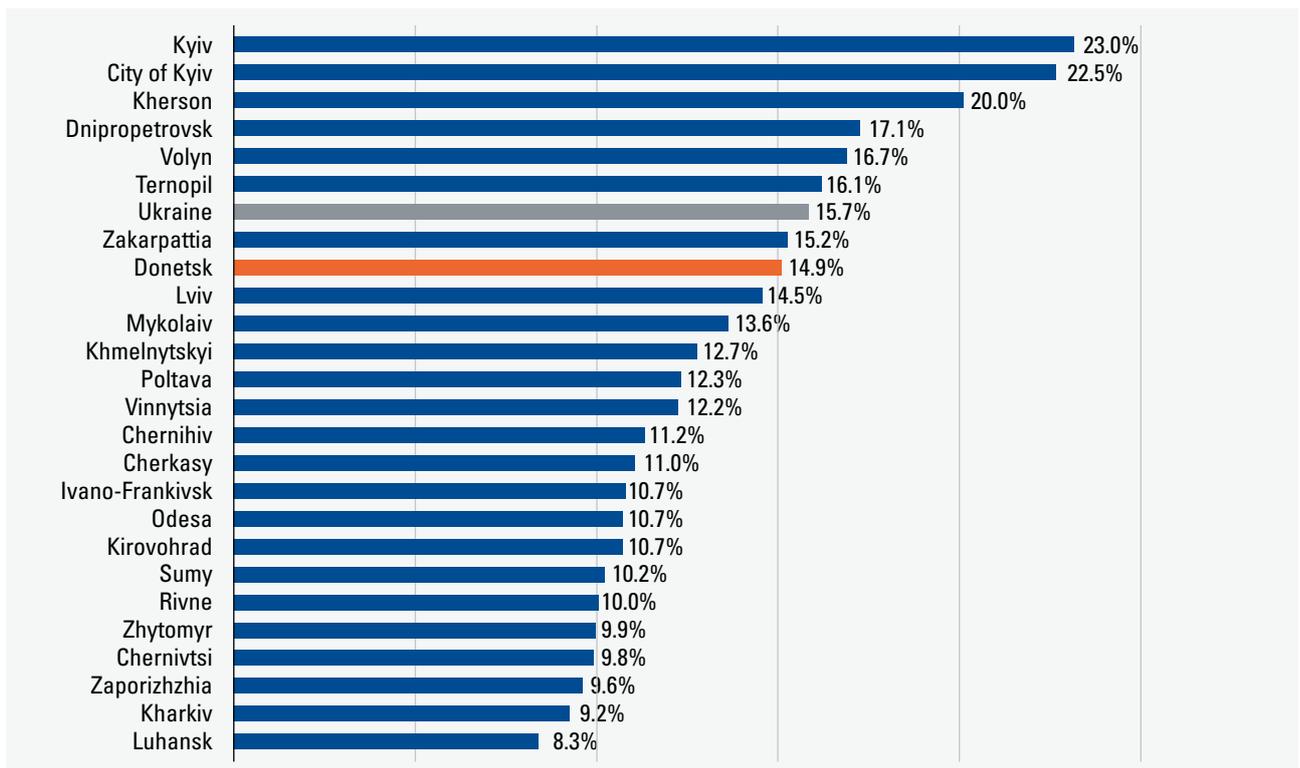


Figure 39: Main trade partners by the geographic structure of the commodity export in Donetsk Region, I quarter of 2021, % of the entire commodity export



Source: Main Statistics Department in Donetsk Region

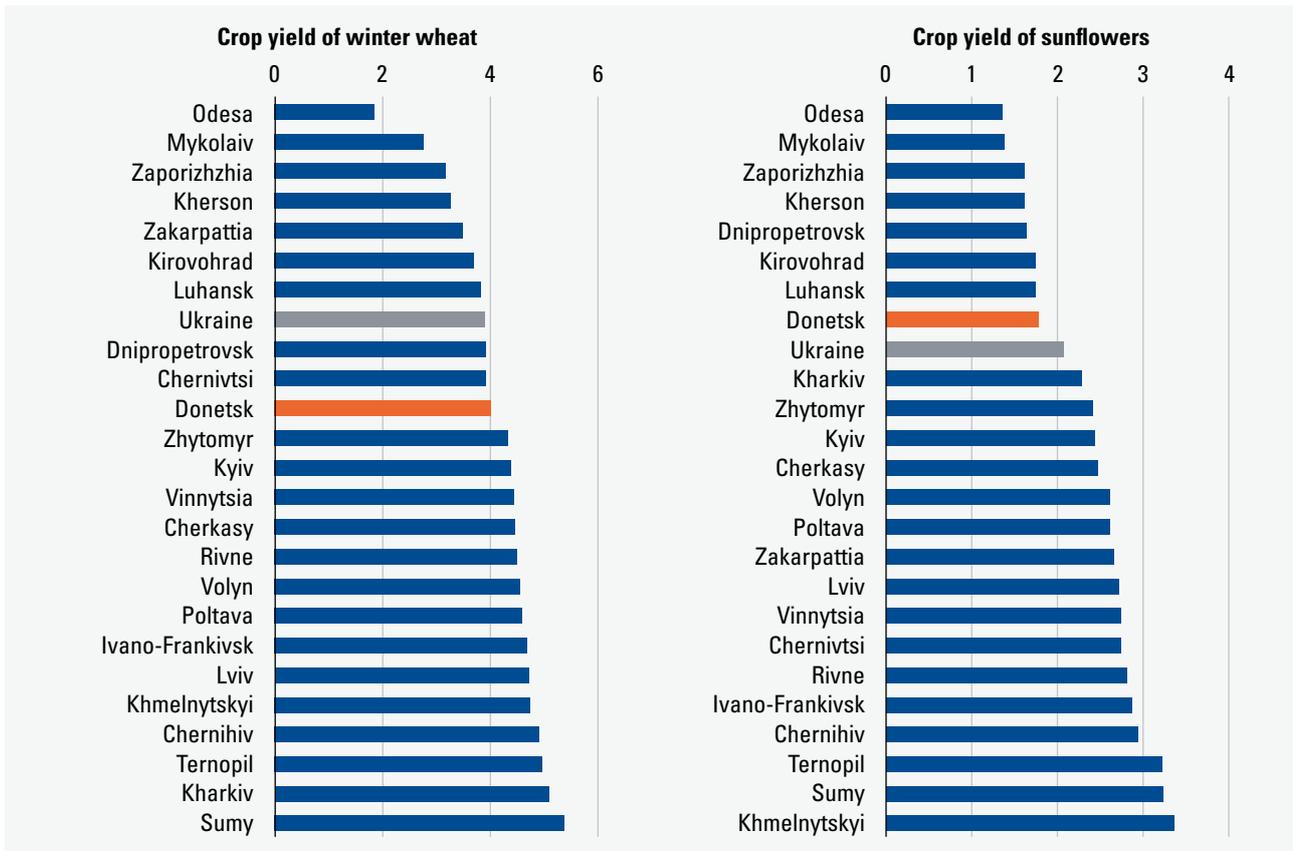
Figure 40. Investment to GRP ratio, 2019, %



Source: Statistics Service



Figure 41: Crop yield, t/ha, 2020

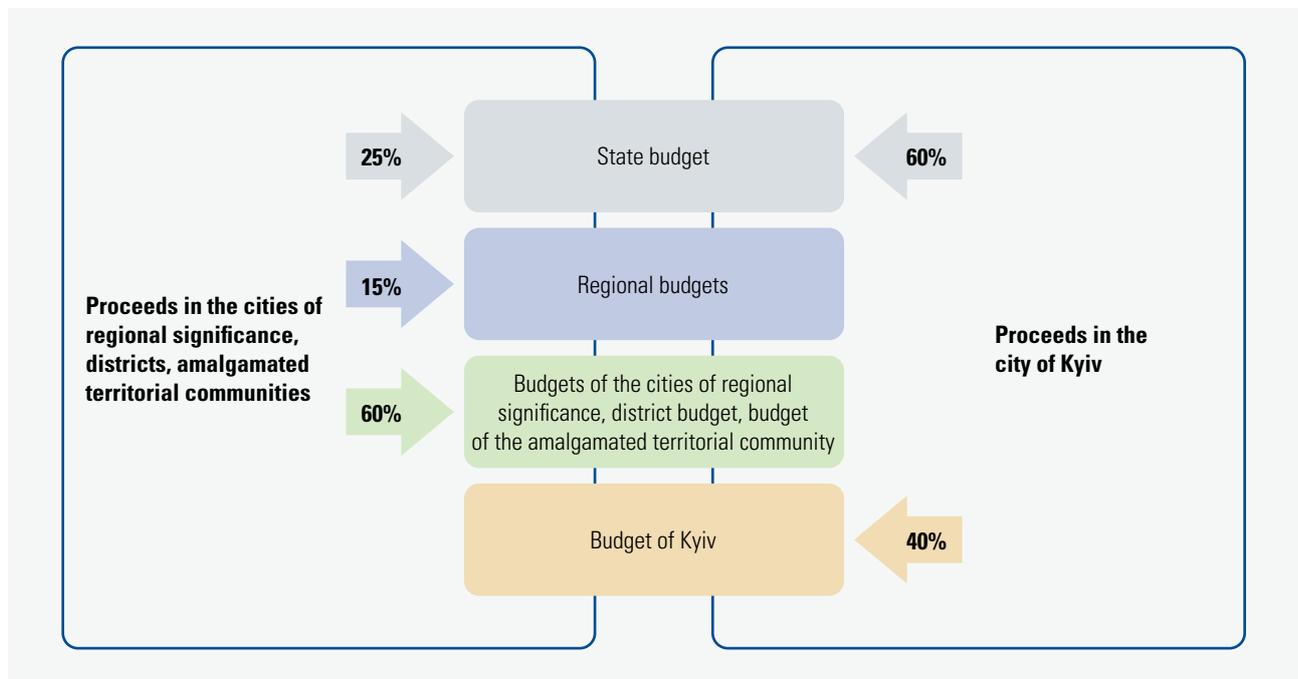


Source: Statistics Service



10.4. Tax Administration and Allocation of Budget Revenues among the Budget Levels

Figure 42. Ratios of division of the individual income tax according to the Budget Code of Ukraine



Source: Ministry of Finance of Ukraine

Table 5. Division of tax proceeds among the budget system levels and the unified contribution to the mandatory state social insurance

Tax and non-tax payments by the payers		Unified contribution to the mandatory state social insurance
Consolidated budget	Local budgets*	
State Budget of Ukraine	Local budgets*	The unified contribution to the mandatory state social insurance is the consolidated insurance contribution that is collected to the system for the mandatory state social insurance on a regular basis, in order to ensure protection as prescribed by the law, to protect rights of the insured to their insurance benefits (services) for the effective types of the mandatory state social insurance.
Individual income tax (60% in Kyiv, 25% in the other regions of Ukraine), IIT from tax assessment of the passive income (100%)	40% in Kyiv, 75 in the other regions of Ukraine	
Military tax		
Corporate income tax (90%)	10%	
Rental charges for special use of forest resources (partly)	Partly	
Rental charges for special water utilisation (partly)	Partly	
Rental charges for subsoil use (partly)	Partly	
Rental charges for use of radio frequency resources of Ukraine		
	Charges for use of other natural resources	
Rental charges for transportation		
Excise tax on the excisable goods (products) made in Ukraine	13.44% excise tax on the manufactured fuel	
Excise tax on the excisable goods (products) imported into the customs territory of Ukraine	13.44% excise tax on the imported fuel	



	Excise tax on retail trade in excisable goods by economic operators	The amount of the unified contribution to the mandatory state social insurance is divided into:
VAT on the products (works, services) made in Ukraine		
VAT on the goods imported into the customs territory of Ukraine		
Import duty, export duty		mandatory state social insurance against unemployment – 4.8058%;
	Local taxes and levies (property tax, parking levy, tourist levy, fixed tax)	mandatory state social insurance against temporary loss of the ability to work and mandatory state social insurance against an occupational accident and occupational disease that have caused the loss of the ability to work – 9.5727%;
Environmental tax (partly)	Partly	
Part of net profit of state enterprises	Part of net profit of municipal enterprises	mandatory state pension insurance (to the solidarity system) – 85.6215%.
Funds transferred by the NBU		
Payment for placement of the idle cash from the State Budget	Payment for placement of the idle cash from the local budgets	
Payment for administrative services	Payment for other administrative services effected at the place of provision thereof	
Court fee and proceeds from foreclosure for the benefit of the state		mandatory state pension insurance (to the solidarity system) – 85.6215%.
Funds received for consular actions		
Enforcement duty		
Proceeds from lease charges for using the asset group and other state property	Proceeds from lease charges for using the asset group and other property in municipal ownership	
	State duty	
Fixed levy paid at the checkpoints (control points) at the state border of Ukraine		
Revenues from lending transactions and provision of guarantees (from the State Budget)	Revenues from lending transactions and provision of guarantees (from the local budgets)	
Levy for the social and economic compensation for the risk of the population residing in the territory of the observation zone		
Levies for the mandatory state pension insurance for the specific types of economic transactions		
Concession charges for the state facilities	Concession charges for the municipal facilities	
	Funds received from equity interests in development of the infrastructure in the settlement	
Own proceeds of budget institutions	Own proceeds of budget institutions	
Revenues from capital transactions	Revenues from capital transactions	
Official transfers from the European Union, governments of foreign states, international organisations and donor institutions	Official transfers from the European Union, governments of foreign states, international organisations and donor institutions	
Target funds, Proceeds to the Fund of Social Protection of Persons with Disabilities	Target funds established by the VR of the ARC, local self-government authorities and local executive authorities	
Official transfers from the public administrative authorities – reverse subsidies, subventions from the local budget to the State Budget for the social, economic and cultural development programmes of the regions	Official transfers from the public administrative authorities – subsidies and subventions from the State Budget	

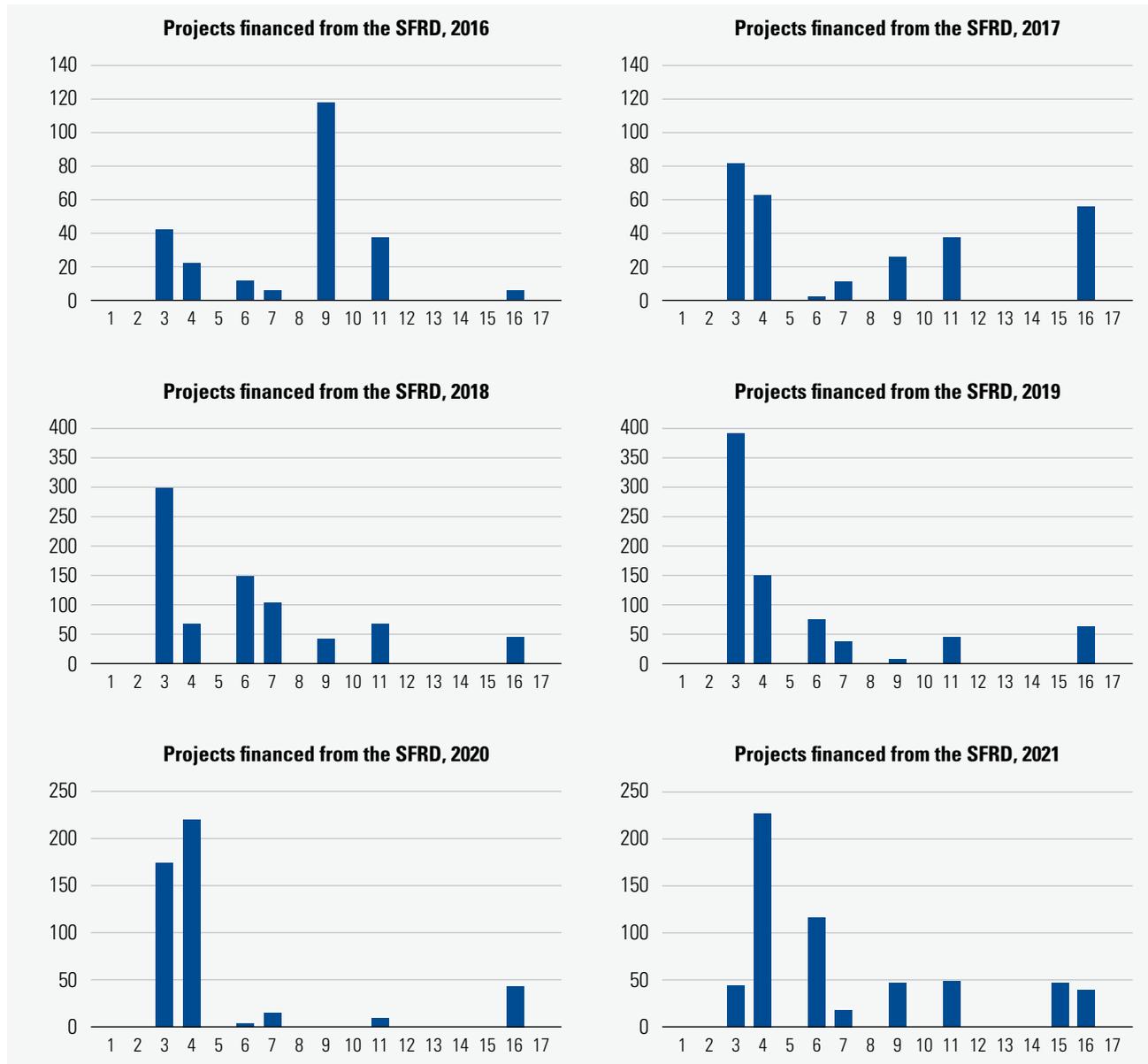
Note: local budgets – budget of the ARC, region, district budgets and local self-government budgets (budgets of village, urban village, city territorial communities as well as budgets of districts in the city in case city district councils are established).

Source: Tax Code of Ukraine, Budget Code of Ukraine



10.5. Financing Projects from the SFRD

Figure 43: Ratio between financing of projects from the SFRD by the sustainable development goals, mln UAH



Source: Resolutions of the Cabinet of Ministers of Ukraine on distribution of funds of the SFRD, expert opinion



DEVELOPMENT FINANCE ASSESSMENT: DONETSK REGION

ANALYTICAL REPORT