

## Still together, but apart? Kyiv's policy towards the Donbas

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The peace deal agreed on 5 September 2014 concerning the ceasefire in the region covered by the conflict in the Donbas brought about a significant reduction in the scale of military clashes. However, in mid-January the separatist forces, supported by the Russian military, started an offensive along the entire front line. For example, they seized the airport in Donetsk and the village of Krasnyi Partyzan. About a third of the Donetsk and the Lugansk oblasts currently remain outside Kyiv's control (see Map). Before the war, these areas were inhabited by 6.6 million residents, 15% of Ukraine's total population. The process launched in September 2014 in Minsk, which was intended to regulate the conflict within the so-called trilateral contact group (Ukraine, Russia, the OSCE and representatives of the separatists), resulted in an exchange of some prisoners of war, although it failed to have any political effects. Attempts at regulating the political situation were additionally complicated by the illegal 'elections' of leaders of the two separatist regions, the so-called Donetsk and Lugansk People's Republics (the DPR and LPR). In connection with the situation in the Donbas, in November 2014 the Ukrainian government launched a series of actions to adapt the country to the *de facto* loss of control over part of the Donbas. These actions included withholding payments of social benefits for local residents, and of government subsidies for state institutions whose functioning had been suspended on the territories outside Kyiv's control. In December 2014 and January 2015 decisions were taken to partly restrict passenger traffic in these areas.

The above-mentioned measures launched by Kyiv are intended to minimise budgetary spending and prevent the spread of the conflict beyond the area covered by anti-terrorist operations. It is evident that Kyiv is not hoping to regain the occupied territories in the immediate future, and is trying to maintain a *status quo* in the region, considering this as one of the best options currently available. The Ukrainian government initiatives have been poorly coordinated and extremely uncomfortable for the residents who have remained on the territory of the so-called DPR and LPR. Combined with the monopoly on information held by Russia and the separatists, these measures have aggravated the Ukrainian government's negative image among the region's residents.

Kyiv's policy towards the Donbas, launched in response to Russia's aggression, has served as a warning for neighbouring oblasts and has limited the separatist tendencies there. Paradoxically, it has also enabled the current government to justify the slow pace of reforms, and also to keep the armed voluntary battalions, which are perceived as a potential threat to the state's internal stability, far away from the capital city. At the same time, however, Kyiv's actions have boosted the sense of rejection among residents of the separatist-controlled areas, which further complicates the chances for their future social integration with the rest of Ukraine.

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## Kyiv's actions towards the part of the Donbas remaining beyond its control...

In Minsk on 5 and 19 September 2014, representatives of Ukraine, Russia, the OSCE and the separatists signed a protocol and a memorandum respectively. These documents provided for the introduction of a ceasefire; the release of both sides' prisoners of war and hostages; the withdrawal of armed separatist troops, mercenaries and military equipment from the territory of Ukraine; the establishment of a 30-kilometre buffer zone to separate the warring sides, and other measures<sup>1</sup>. In the political sphere, the documents included provisions for organising early local elections on the separatist-controlled territories in December 2014, in accordance with Ukrainian laws, and for granting these territories separate rights in the fields of the economy and

### Facing the effective failure of the Minsk agreements Kyiv suspended the functioning of state institutions and payments of social security benefits on the territories outside Kyiv's control.

culture. These rights were defined in the special act for Donbas adopted by parliament in Kyiv on 16 September 2014<sup>2</sup>. The ceasefire led to the separatist troops supported by Russian military units suspending their offensive, and decreased intensity of military operations. The separatists criticised the provisions of the new act as insufficient, and held their own elections on 2 November<sup>3</sup>. Facing the effective failure of the Minsk agree-

ments, Kyiv introduced regulations to adapt the state to the new situation. On 4 November the National Security and Defence Council of Ukraine (NSDC) passed a decision (enacted by a presidential decree of 14 November) to suspend the functioning of state institutions and enterprises operating on the territories outside Kyiv's control, relocate their assets and documents and evacuate the employees. A recommendation was formulated for the National Bank of Ukraine (NBU) to oblige commercial banks to suspend their operations on these territories and to stop maintaining current accounts owned by businesses and individual customers. Additionally, a resolution by the Ukrainian government of 7 November<sup>4</sup> suspended the payment of grants and subsidies for the coal-mining industry. It also provided for the withholding of financial transfers for the state budget sector and payments of social security benefits to those individuals who did not register as displaced persons on the territories controlled by the central government by 1 December (at the end of December, the deadline was moved back to 1 February 2015). According to the document, those individuals who failed to register would receive the outstanding benefits when these territories are brought back under Kyiv's control.

As a consequence, in late November 2014 the central bank demanded that the commercial banks suspend their financial operations in the parts of the Donbas outside Kyiv's control. The banks were requested to stop maintaining current accounts owned by legal and natural persons, to disconnect their ATMs, and to block all credit and debit card transactions. The decision accelerated the process of closing bank outlets in the region and suspended all cash-free transactions. On 21 November, the state-owned Oshchadbank decided to relocate its Donetsk and

<sup>1</sup> Rafał Sadowski, Agata Wierzbowska-Miazga, 'The ceasefire in eastern Ukraine', *OSW Analyses*, 10 September 2014, <http://www.osw.waw.pl/en/publikacje/analyses/2014-09-10/ceasefire-eastern-ukraine>

<sup>2</sup> Tadeusz Iwański, 'Ukraine's parliament passes a special act for Donbas', *OSW Analyses*, 17 September 2014, <http://www.osw.waw.pl/en/publikacje/analyses/2014-09-17/ukraines-parliament-passes-a-special-act-donbas>

<sup>3</sup> Tadeusz A. Olszański, 'Illegal elections in Donbas', *OSW Analyses*, 5 November 2014.

<sup>4</sup> Постанова від 7 листопада 2014, № 595, Деякі питання фінансування бюджетних установ, здійснення соціальних виплат на селеннюта надання фінансової підтримки окремим підприємствам і організаціям Донецької та Луганської областей

Lugansk branches to Kramatorsk and Severodonetsk (towns controlled by government forces) respectively. On 27 November Raiffeisen Bank Aval withdrew from the region. Other banks, including the largest privately-owned bank PrivatBank, had closed their outlets before that date. Previously, universities, hospitals and other health care centres had been partly relocated onto Kyiv-controlled territories (to Krasnyi Liman in the Donetsk oblast and to Rubizhne and Severodonetsk in the Lugansk oblast). On 27 November Ukrainian Post announced that it would suspend its operations, and a day later the Ministry of Energy issued a regulation obligating 252 companies controlled by the ministry to suspend their activities.

### ...and the consequences thereof

Explaining the grounds for the decision to freeze the payments of social benefits Prime Minister, Arseniy Yatsenyuk emphasised the lack of consent to “finance Russian terrorism”, while the presidential administration emphasised the attacks on vehicles used to transport cash, and the seizing of the NBU’s branch office in Donetsk. The central government’s actions towards the Donbas have called forth a wide range of opinions. Politicians from the ruling coalition, the pro-Western media and experts jointly agreed that the decision was difficult, yet necessary. Opposition politicians<sup>5</sup>, on the other hand, have criticised the government’s actions. Criticism has also been voiced by the media related to opposition circles, including the daily *Segodnya*<sup>6</sup> owned by the oligarch Rinat Akhmetov, a Donbas native. Similar reactions to Kyiv’s actions were expressed by the separatists, who accused the government of imposing an “economic blockade on the Donbas”.

<sup>5</sup> For example Nestor Shufrych in Інна Ведернікова, Міжфедералізацією та блокадою, *Дзеркало Тижня*, 21 November 2014 (which also includes positive opinions).

<sup>6</sup> See for example Irop Ветров, На Донбасі починається голодомор: жителі виходять на голодні бунти, *Сьогодні*, 25 November 2014.

It seems that the underlying cause of the NSDC’s decisions was the government’s intention to cut budgetary spending, motivated by the catastrophic condition of the Ukrainian economy, and also required by the International Monetary Fund as a condition enabling the payment of subsequent loan instalments. According to calculations prepared by the government, the total sum of grants and subsidies offered to the parts of the Donetsk and Lugansk oblasts outside Kyiv’s control in 2014 amounted to 19.6 and 14.6 billion hryvnia (around US\$1.3 and 1 billion)<sup>7</sup> respectively. By withholding the payments, the government tried to offset the state’s losses resulting from the absence of the tax revenues and customs duties which should have been collected in the two oblasts. These outstanding payments for the period between January and October 2014 have been estimated at 6.7 billion hryvnia (around US\$450 million)<sup>8</sup>.

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There are no grounds for supposing that the Ukrainian government intended to force Russia and the separatists to make political concessions in exchange for revoking the decision, or to worsen the situation of local residents in order to fuel their anti-separatist mood. Despite the unpaid bills for the supply of gas and electricity to the occupied territories, Kyiv has not so far decided to cut the utilities off. According

<sup>7</sup> Вступне слово Прем’єр-міністра Арсенія Яценюка на засіданні Кабінету Міністрів України від 5 листопада 2014 року

<sup>8</sup> However, the types of taxes have not been specified. Державний бюджет не доотримав 6,7 млрд гривень податків з Донбасу.

to government representatives, this suggests that the state is still willing to take care of its citizens. It is likely that this was one of the conditions for Russia signing the contract to continue supplying coal and electricity to Ukraine<sup>9</sup>.

**Kyiv's actions indicate the government's intention to isolate the separatist-controlled areas, or possibly even to build a specific cordon sanitaire in the future.**

The above-mentioned actions carried out by Kyiv in the region have resulted in a situation which is beneficial for the government in the context of the state's domestic political interests. Russia's aggression and the on-going conflict in the east of Ukraine can be used as justification for the slow pace of reforms and for the worsening economic situation. Moreover, they enable the government to foster a narration according to which any criticism of its actions is wrong *a priori*, as being equivalent to Russian propaganda. Additionally, the conflict in the east of the country enables the government to keep armed voluntary battalions far away from the capital city. These units partly have their roots in the Euromaidan Self-Defence groups, and enjoy a high level of confidence among the public<sup>10</sup>, but their return from the front is seen by the government in Kyiv as a threat to the country's social stability. The current situation limits the influence of politicians linked to the region and to Russia, including representatives of the Opposition Bloc, on central-level politics. It is also weakening the position of these groups' sponsors, in particular Rinat Akhmetov. However, the economic aspect seems to be of key importance. Maintaining the current situation in the east is costly; according to the

Ukrainian government estimates daily expenditure on military actions amounts to approximately US\$5.5 million. However, regaining the Donbas or regulating the conflict in such a way as to bring the region back under Kyiv's control would require investing huge funds in its reconstruction (according to one estimate presented by Arseniy Yatsenyuk in August 2014, a sum of around US\$8 billion; currently, the amount is much higher). Kyiv's actions towards the Donbas in response to Russia's policy can be referred to as a 'freezing strategy'. These moves may prove to be risky for the government in the context of the current social mood. Military actions to defend the Donbas are supported by over 60% of Ukrainians who are largely disappointed with the lack of progress one year after the Euromaidan's victory, and almost half of respondents have expressed their readiness to take part in protest actions<sup>11</sup>.

### **The government's actions in the security and military spheres**

According to the memorandum signed on 19 September 2014 in Minsk, a taskforce composed of Russian and Ukrainian military people, assisted by OSCE observers, was expected to delineate a so-called demarcation line and create a 30-kilometre security zone around it, from which the warring sides would withdraw their troops and heavy military equipment. The taskforce launched its work in late September but the line has not been delineated so far, and the January offensive suggests that Moscow will not abide by these agreements. At the same time, since then Kyiv has launched a number of actions on its side of the front line (which is expected to form the basis for delineating the demarcation line) to prevent military operations spreading into the remaining parts of Ukraine. The territories adjacent to this line

<sup>9</sup> <http://www.pravda.com.ua/news/2015/01/20/7055629/>

<sup>10</sup> 7 points on a 10-point scale, where 10 stands for full confidence. See KMIS survey for *Dzerkalo Tyzhnya* <http://opros2014.zn.ua/authority>

<sup>11</sup> KMIS survey <http://www.kiis.com.ua/?lang=ukr&cat=reports&id=494&page=1>

have been divided into four sectors, and the Ministry of Defence has launched engineering works to build three lines of 410-kilometre defences, composed of a network of fortifications, trenches and check points. In early November the first line was completed, the second (located approximately 15–20 km west of the first line) is 50% complete<sup>12</sup>. Kyiv's aim is to limit the activity of the separatists who intend to 'align the border' in order to seize certain strategic towns and objects, in the hope that these locations could reinforce the region's independence in the future (such as the heat and power plant in Shchastie, and the transport hub in Debaltseve).

On 26 January 2015 Prime Minister Arseniy Yatsenyuk announced that a 'state of emergency situation'" would be introduced in the Donetsk and Lugansk oblasts, under which rescue services and civil defence units would operate in an emergency mode. Previously, the government in Kyiv had limited the scale of passenger traffic between the area covered by military operations and the rest of Ukraine. On 3 January 2015 the secretary of the NSDC, Oleksandr Turchynov, announced that the Ukrainian side had delineated seven road corridors linking the separatist-controlled areas with Ukraine, and that the border guards and customs service posts located along these corridors would perform detailed controls of people, goods and vehicles. It was also announced that the remaining communication routes might be mined. On 15 January 2015 the Ukrainian Security Service published rules<sup>13</sup> for crossing the demarcation line (through three cargo points and four passenger points), and for obtaining passes without which any travel would be forbidden. These rules were

<sup>12</sup> Дмитро Денков, Три "шари" захисту від ДНР-ЛНР, *Українська Правда*, 7 November 2014.

<sup>13</sup> Information provided by the Ukrainian Security Service. Оновлений тимчасовий порядок в'їзду на неконтрольовану територію та виїзду з неї громадян України та іноземців (осіб без громадянства) від 22.01.2015 року.

to come into force on 21 January. They are strict and observing them can be time-consuming; among the documents required are identity cards (both the original and a copy), statements confirming the purpose of the traveller's entry/exit, their travel destination and a detailed travel plan. Passes can be obtained in only four cities on Kyiv-controlled territory: Mariupol, Debaltseve, Starobelsk and Velyka Novosilka.

Kyiv's actions indicate the government's intention to isolate the separatist-controlled areas, or possibly even to build a specific *cordon sanitaire* in the future. These actions are considered to be temporary measures, and were launched in response to a growing number of acts of sabotage organised in south-eastern Ukraine<sup>14</sup>.

**Maintaining a status quo in the region will most likely contribute to loosening its economic ties with the rest of Ukraine and poses a threat that certain production cycles in which Donbas-based companies are involved will be broken.**

They are aimed at containing the conflict within its current borders and limiting the transit of weapons and individuals who might pose a threat to the state's law and order to the remaining areas. It is currently impossible to verify the effectiveness of these actions. What is certain, however, is that they are having a negative impact on the Donbas residents' perception of Kyiv's policies.

### The economic consequences for Ukraine

So far Kyiv has not devised any specific principles to govern the functioning of business enterprises operating on the separatist-controlled territo-

<sup>14</sup> Since the end of December 2014, regular series of explosions have been heard in Odessa, Dnepropetrovsk, Kharkiv and Zaporizhye as well as other locations.

ries<sup>15</sup>. Announcements made to date suggest that trade contracts will be signed only with those companies which have re-registered their principal place of business to areas controlled by Kyiv, and funds will be transferred to accounts opened with Ukrainian state-owned banks. Such transactions are already being effected, for example in the case of steam coal, which is extracted almost exclusively on separatist-controlled territories and consumed by Ukrainian heat and power plants. In January, the deputy minister of energy Yuri Zyukov announced that the first supplies would arrive by the end of the month, and that the suppliers would include companies such as Luganskvuhilya and Anratsyt<sup>16</sup>. The current situation has opened the way to corrupt activities.

**It is evident that the government does not treat the initiatives targeted at the Donbas residents as a priority. The real priority remains to reduce budgetary spending and protect the rest of the country from the wave of destabilisation.**

Although a Ministry of Finance statement suggested that VAT refunds can be obtained only by those companies which have re-registered their business onto Kyiv-controlled territory<sup>17</sup> (the number of such companies is very small), refunds have in fact also been offered to those which have not done so<sup>18</sup>. The beneficiaries include Ukrainian oli-

garchs such as Serhiy Taruta and Rinat Akhmetov. Regardless of the legal actions, the consequences of the loss of part of the Donbas for the Ukrainian economy are likely to be enormous. As a result of the Russian aggression towards Ukraine, the most industrialised and most densely populated areas of the Donetsk and Lugansk oblasts (which in fact are made up of several industrial conurbations hosting dozens of huge industrial plants) have come under the control of the separatists. Before the outbreak of the armed conflict, the Donbas had a 16% share in Ukraine's GDP; approximately 70,000 companies were registered there; moreover, the region generated 25% of Ukrainian exports and 30% of foreign exchange revenues. At the same time, the region's industry, including the heavy, mining and chemical industries in particular, was rather inefficient and had not been modernised for years. Over recent years, industrial output in the Donbas had been decreasing, which resulted in above-average unemployment levels and a growing number of individuals entitled to obtain concessions and old age pensions (in amounts higher than in the rest of Ukraine). In 2012 the Lugansk and Donetsk oblasts transferred revenues to the state budget tax amounting to 8.2 billion hryvnia (US\$1 billion according to the then exchange rate), and received subsidies to the tune of 22.5 billion hryvnia (around US\$4 billion)<sup>19</sup>. Indications suggesting the region's lack of economic self-sufficiency were also evident in 2013. The Donetsk oblast's income was 16.3 billion hryvnia (US\$2 billion), while its expenditure was 41 billion hryvnia (US\$5 billion); in the case of the Lugansk oblast the respective figures were 9.4 billion and 21.35 billion hryvnia (US\$1.2 and 2.8 billion). The difference was offset from the central budget<sup>20</sup>.

<sup>15</sup> The Act on temporary actions during the period of anti-terror operations, adopted on 2 September, is currently in force. [http://search.ligazakon.ua/l\\_doc2.nsf/link1/T141669.html](http://search.ligazakon.ua/l_doc2.nsf/link1/T141669.html) The NSDC's decision has obligated the government to specify the rights and obligations of businesses operating in the occupied territories; so far, this has not been done.

<sup>16</sup> According to deputy minister they have re-registered to Kyiv-controlled territories. See note: <http://www.ostro.org/general/society/news/461634/>

<sup>17</sup> Information from the Ministry of Finance. Підприємцяміззони АТО, які перереєструвалися на території підконтрольній українській владі, відшкодуватимуть ПДВ, 20 November 2014.

<sup>18</sup> According to the State Register of Natural Persons and Legal Persons-Businesses as of mid-January 2015.

<sup>19</sup> For more see the report compiled by the Liga.net portal: Что может потерять Украина вместе с Донбассом, 22 April 2014.

<sup>20</sup> Ярослав Ковальчук, Державні рішення, *Українська Правда*, 21 November 2014.

Although the implementation of the NSDC's decision and of government regulation will contribute to a reduction of state spending by at least 15 billion hryvnia<sup>21</sup> (around US\$1 billion), the drop in the industrial output caused by the war and lower tax revenues have negatively affected Ukraine's 2015 economic indicators. According to the NBU's forecasts, recession and a drop in GDP of at least -4.3% should be expected, along with a reduction in the foreign trade balance and an increase in the state budget deficit. Maintaining a *status quo* in the region will most likely contribute to loosening its economic ties with the rest of Ukraine. It also poses a threat that certain production cycles in which Donbas-based companies are involved will be broken, which in turn may have a negative impact on the functioning of the Ukrainian industrial sector. The most prominent of these cycles are coal-related, and include (1) extraction and enriching of steam coal, the generation of electricity in other regions of the country and (2) coal extraction, coke production, and the production of steel in metallurgical conglomerates such as Azovstal, the Ilyuch Iron & Steel Works and Zaporizhstal. Ukraine is also likely to lose a large portion of its internal market.

### **The government's policy towards the residents of the Donbas**

The government in Kyiv offers financial assistance and access to social security benefits to those residents of the DPR and LPR who decided to flee these areas. To support those who decided to stay, the government organises humanitarian convoys (which are often blocked by separatists), provides gas and electricity supplies and introduces tax reliefs. These activities seem to be chaotic, and have not been given proper publicity; sometimes they also contra-

dict other regulations, or have only been introduced to legalise the existing situation. It has also been evident that the government does not treat the initiatives targeted at the Donbas residents as a priority. The real priority remains to reduce budgetary spending and protect the rest of the country from the wave of destabilisation. This means that the actions carried out by the government in Kyiv have not been sufficient to convince the Donbas residents that remaining in Ukraine would be worth it.

**When the conflict is over, any possible actions aimed at integrating the residents of the breakaway regions with the rest of Ukraine will be even more complicated by the growing anti-Russian mood within the Ukrainian society, running in parallel with pro-European and pro-NATO attitudes.**

The decision to freeze the payments of social security benefits has contributed to an aggravation of the humanitarian situation in the region – it has made it increasingly difficult for disabled and old-age pensioners to obtain basic means for living, especially in winter. On the other hand, those who decided to re-register were faced with bureaucratic chaos and queues. Although the government in Kyiv points to the increasingly rebellious mood among the residents of the separatist-controlled territories (including in Yenakiyev, Chervonopartyzansk and Krasnyi Luch, where several so-called hunger rebellions have broken out), so far the protests have been few and involved groups of no more than several hundred people. Their main causes included the lack of means of subsistence and the unfair distribution of humanitarian aid provided by Russia<sup>22</sup>. No slogans demanding the region's return to Ukraine's jurisdiction were

<sup>21</sup> Estimates by the Director of CASE-Ukraine Dmytro Boyarchuk in: *Иван Зайцев, Сколько Украина сэкономит на финансовой блокаде Донбасса*, Liga.net, 18 November 2014.

<sup>22</sup> Piotr Andrusieczko, *Donbasowi grozi głód*, *Gazeta Wyborcza*, 29 November 2014.

presented. Although dissatisfaction with the separatists' rule on these territories is growing, any hope for an improvement of the current situation is linked to the possible annexation of the region by Russia. Moreover, it seems that the hostile mood among the residents of these territories has been targeted not only at the government in Kyiv, but also at Ukrainian society as a whole. This suggests that when the conflict is over, any possible actions aimed at integrating the residents of the breakaway regions with the rest of Ukraine will be even more difficult than before the war. The process is likely to be further complicated by the changes which have occurred in Ukrainian society over the last year, including in particular the growing anti-Russian mood, running in parallel with pro-European and pro-NATO attitudes. The situation of those Donbas residents who fled the region remains difficult. According to estimates, as of January the conflict-ridden region had been abandoned by as many as one million people (a sixth of all the residents)<sup>23</sup>.

**A public opinion poll conducted in Kramatorsk and Slovyansk in December 2014 stated that 65% of both towns' residents claim that the activities carried out by the central government are insufficient; over 50% believe that the situation will remain unchanged or will become worse in the future.**

The President of Ukraine signed a law securing the rights and freedoms of internally displaced persons (passed by the Ukrainian parliament on 20 October) as late as 19 November. When signing the document Petro Poroshenko admitted that the law was far from perfect and

<sup>23</sup> Marta Jaroszewicz, *Ukraina: Jak rozwiązać problem uchodźców?*, *Analizy OSW*, 17 December 2014.

should be amended. For example, the law provides for granting financial assistance (US\$150 per month per family, US\$50 for a person who is unable to work, US\$25 for a person able to work), and facilitated the path to obtaining the necessary documents for those individuals who have registered on Kyiv-controlled territories. The law could serve as an efficient instrument to convince the residents of the occupied territories to support Ukraine and to challenge the position of the self-declared separatist leaders; however, the ever-present bureaucracy and the insignificant amounts of the financial assistance have considerably reduced this positive effect. The introduction of restrictions on passenger traffic between the separatist-controlled territories and the rest of Ukraine and of special passes for travellers has also had a negative impact on Kyiv's image. This decision seems to be contrary to the policy of encouraging local residents to relocate to Kyiv-controlled areas. The restrictions are very likely to cause a drop in passenger traffic, and the obligation to change one's address (as the basis for obtaining the right to social security benefits) was not listed as a possible purpose for travel.

Kyiv has not been conducting any information policy on the separatist-controlled territories, which can only partly be explained by the ban on broadcasting and by the fact that Ukrainian media are being jammed. The media are dominated by Russian propaganda which unilaterally blames Ukraine for shelling residential buildings and for civilian losses. This further aggravates the negative attitude towards the government in Kyiv. It cannot be ruled out that this is why the amnesty for those supporters of the breakaway republics who had not committed any serious crimes brought rather mediocre effects.

Similarly, there are too few examples of positive government policy on territories regained from the separatists. No separate law to create a special administrative regime on these territories has been adopted; no legal amendments have



been made to accelerate the payments of subsidies from the state budget; nor has the Agency for the Reconstruction of the Donbas been established as planned. Supplies of electricity and gas have been resumed and the infrastructure has been partially rebuilt; however, the rather unimpressive amount of 300 million hryvnia (less than US\$20 million) which the government had promised to grant to these territories<sup>24</sup> has not been fully paid out. A public opinion poll conducted in Kramatorsk and Slovyansk in December 2014 stated that 65% of both towns' residents claim that the activities carried out by the central government are insufficient; over 50% believe that the situation will remain unchanged or will become worse in the future; and over 70% of the respondents blame the current Ukrainian government for the unfavourable situation in both towns (with 30% of the respondents blaming Russia)<sup>25</sup>. The creation of a new ministry of information, and the declaration by the new minister that its head office will be located in Kramatorsk, may promise an improvement of Kyiv's information policy. At the same time, the government's neglect of the territories regained may have far-reaching consequences in the context of a possible new offensive by the combined Russian-separatist forces.

## Prospects

The negotiations on ending the Donbas conflict have reached a deadlock resulting from immense differences between the concepts which the parties involved have for its resolution. The government in Kyiv has repeatedly emphasised

that the only possible scenario for a peaceful resolution of the conflict is the implementation of the Minsk agreements made in September 2014. These provide for maintaining Ukraine's territorial integrity and the central government's sovereignty in both domestic and foreign policy. For the above-stated reasons these provisions are unacceptable for Russia which, by escalating tensions in the Donbas, is trying to force Kyiv and the West to make concessions leading to subordinating the whole of Ukraine to Moscow (federalisation, special status for the Donbas, etc.). Due to Ukraine's financial and military inability to resume military operations and regain the Donbas, and to Russia and the separatists sabotaging the Minsk peace deals, Kyiv has been implementing an indirect scenario which means a *de facto* 'freezing' of the Donbas conflict. The aim of this scenario is to isolate the Donbas in the field of security to minimise the region's destabilising impact on the rest of Ukraine, and to reduce spending on the functioning of state institutions and the public sector. The government has come to think that continued financing of the region, with no tax revenue contribution from it, could pose the threat of Ukraine going bankrupt.

At the same time, this strategy seems risky in the context of society's expectations of the government concerning a solution to the Donbas conflict. Less than 2% of the public favour giving the Donbas up; over 60% support a continuation of the fighting for the region's liberation, and less than 20% believe that this goal can be achieved solely through peaceful negotiations. Moreover, Ukrainians are frustrated by the lack of change in their country. They are growing ever-poorer due to the rapid depreciation of the hryvnia (the value of which has halved since January 2014) and the growing inflation rate (25%). Combined with a high potential to stage protests, a complete 'freezing' of the conflict could be seen as a betrayal of the national interest, and could trigger a new wave of protests.

<sup>24</sup> See the newswire <http://tyzhden.ua/News/123478> At the same time, Yatsenyuk suggested that those oligarchs who have massive assets in the Donbas should take part in the reconstruction of the region. See: Уряд: на відновлення Донбасу не вистачить 8 млрд гривень, ВВС, 16 July 2014.

<sup>25</sup> A survey conducted by the Kyiv-based Democratic Initiatives Foundation in November 2014. Общественное мнение освобожденных районов - Краматорск, Славянск.

In the immediate future Kyiv will be likely to continue its actions aimed at adapting the Ukrainian state to the new situation. These actions might include declaring the separatist-controlled areas as occupied territory<sup>26</sup>. The separatists are likely to continue their military offensives; it should also be expected that the number of acts of terror in the rest of Ukraine might rise. Also, a further limited military intervention by Russia, undertaken to force Kyiv into making concessions, cannot be excluded. Any permanent solution to the conflict in the Donbas in a short-term perspective is very unlikely. It will depend to some extent on the development of the economic situation in Russia and Ukraine, and on the possible softening of their positions should the crisis become aggravated.

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<sup>26</sup> A relevant document is reportedly being prepared by the government: Галина Калачова, До зони АТО застосують кримський сценарій?, *Економічна Правда*, 18 November 2014.

At the same time, the separatist 'rule', which has been maintained in the Donbas for almost a year, combined with the strong anti-Ukrainian propaganda spread by Russia, have deepened both the negative attitudes among the Donbas residents towards the government in Kyiv and their sense of cultural and regional independence. Regardless of the political prospects for solving the Donbas conflict, it can be said even as early as today that any full integration of the residents of the occupied territories with the rest of Ukraine in the future will be extremely difficult, if not impossible.

*The work on the text was completed on 1 February 2015*

# MAP

## Situation in the eastern Ukraine (5 February)



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**The views expressed by the authors of the papers do not necessarily reflect the opinion of Polish authorities**

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