

# 4 YEARS IN THE WAR. THE CRISIS OF THE EMPLOYMENT AT DONBAS







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# 1. METHODOLOGY

The **purpose of the study** was to evaluate the effectiveness of the state programs for employment incentives in the Donbas region and frontline areas.

The main tasks within the study:

- to highlight the employment problems faced by the citizens;
- to find out the problems that business faces in terms of providing employment in the Donbas region and frontline areas;
- to identify disadvantages of existing employment incentive programs;
- to propose actual solutions for employment issues in the Donbas region and frontline areas to the Cabinet of Ministers of Ukraine, Verkhovna Rada of Ukraine, regional and local authorities and international donors;
- to sum up the economic effects of the proposed measures.

Research methods:

- 1) desk study on the analysis of current publications on the subject, statistics and analytical reports on the socio-economic status of the region, current legislation and previous studies aimed at improving the employment situation in problem regions;
- 2) content analysis based on in-depth interviews.

In-depth interviews were conducted with 26 respondents representing 4 target groups:

- 1) unemployed — 9 respondents;
- 2) recently employed — 5 respondents;
- 3) employers — 8 respondents;
- 4) representatives of the authorities — 4 respondents.

## 2. RECOMMENDATIONS

The analysis of in-depth interviews with different categories of citizens resulted in defining three groups of key issues:

1. Low level of the entrepreneurship development, small share of entrepreneurs and newly created businesses.
2. Candidates' low adequacy rate for the vacancy requirements and outflow of skilled motivated personnel from the region, especially abroad.
3. Inefficiency of the Center for Employment as the major place which helps with employment issues (people go there only for unemployment benefits; few people use the proposed programs to launch their own business; the Center for Employment is practically not used for informative purposes or searching vacancies).

Other problems include age discrimination, unofficial employment, absence of a social package (paid holidays and sick leaves).

The result of the analysis helped to identify the key regional needs that would be aimed at developing the region and increasing employment capabilities. This allowed us to sum up some effective recommendations for solving the identified problems.

### **Verkhovna Rada of Ukraine should**

- Introduce tax holidays for new companies in the frontline areas or for existing companies that increase personnel.
- Optimize the legislation governing the provision of unemployment benefits and create harsher conditions to stimulate job search.
- Develop and introduce changes to legislation on rights and freedoms, socio-economic adaptation of Internally Displaced People (IDP) and creation of mechanisms that will foster the development of the region.
- Develop legislation on special economic territories, in particular in frontline areas.

### **Cabinet of Ministers of Ukraine should**

- Involve IDPs in the retraining process.
- Develop programs with well-defined goals regarding the number of employed IDPs.
- Provide soft loans for business development in Donetsk and Luhansk regions; especially paying attention to microcredits.
- Expand the list of positions in social institutions that do not require higher education;
- Provide infrastructure for job search and training based on employment centers and educational institutions.
- Approve the financing of infrastructure projects in Donetsk and Luhansk regions.
- Create a centralized vacancy database — a resource that will be maintained by employment centers and will combine vacancies from existing resources, social networks and employment centers.

### **Regional and local authorities should**

- Create mobile training courses.
- Monitor job vacancies on work.ua (and other typical job search services) and establish communication with employers as for these vacancies.
- Expand the list of well-paid job vacancies by establishing communication with local businesses.

- Adjust budgets to allocate targeted support to entrepreneurs (including loans).
- Fast-track the pace of granting permits at the local level.
- Implement electronic e-gov services.
- Implement retraining programs for specialists with the involvement of University teachers.
- Develop programs for supporting graduates in the regions (trainings, courses).
- Support entrepreneurs in transporting workers by city and intercity transport within the frontline area. There are several options for such support and cooperation. The first is the provision of municipal transport on differential rent, the second is the granting travel privilege on the condition of partnership between business and transport operators.
- Provide free transportation for people undergoing training at employment centers.
- Improve the quality of informing citizens and businesses about existing support and communications programs.
- Encourage enterprises to organize external training courses for potential new employees housed by enterprises and employment centers with the right to first recruit people who passed these courses.
- Increase the costs for information related to the activities of employment centers, the distribution of vacancies and outdoor advertising in cities.
- Form a unit similar to the format of recruitment agencies for temporary work on the basis of employment centers (seasonal work in the agricultural sector, care services for people with disabilities, children and the elderly people). On the one hand, this will stimulate labor market in the sector, and, on the other hand, will provide an opportunity for IDPs to have additional work.
- Develop a marketing program to promote courses at employment centers.

### **International donors should**

- Finance courses of advanced training, in particular the study of foreign languages.
- Provide information support and consultation on the possibilities of legislative support of business and individuals in the frontline territories in crisis zones.
- Provide advisory services for business to optimize business processes and make business more efficient and competitive.
- Finance courses for trainers from employment centers and volunteer organizations.
- Establish an information policy on the results of donors' projects.

### 3. ECONOMIC SITUATION

The armed conflict in the eastern part of the country caused significant damage to the Ukrainian economy. Obviously, the regions affected by the antiterrorist operation are the most damaged.

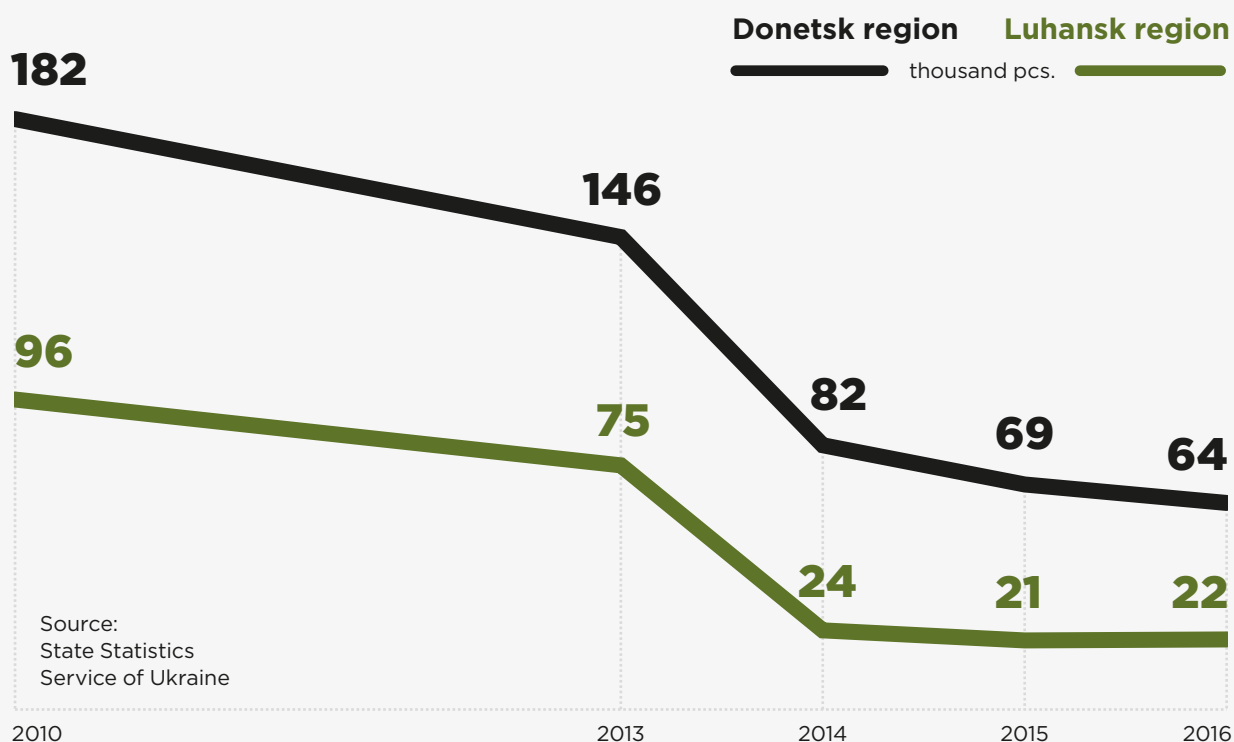
In the context of the region economy analysis, depending on the primary recipient of the negative consequences, the problem can be divided into two groups:

- 1) problems of enterprises;
- 2) problems of personnel.

**The first group: problems of enterprises.** Loss of control over the territories has led to the **loss of the operational centers of the region**. There were control centers for a significant number of Ukrainian enterprises in the region centers, even if the main capacities were outside their borders. These enterprises have suffered significant losses due to the displacement of administrative capacities or direct damage from terrorist activities.

One element of the cause effect relationship is visible through the dynamics of the number of enterprises and private entrepreneurs. During the studied period, this indicator dropped by 56% in Donetsk and by 71% in Luhansk regions.

#### THE DYNAMICS OF THE NUMBER OF BUSINESS ENTITIES IN DONETSK AND LUHANSK REGIONS IN 2010–2016



Despite the decrease in the number of enterprises, from 2013 to 2016 the total share of profitable enterprises in the Donetsk region increased from 67.6% to 76%, and in Luhansk region — from 66.5% to 79.5%. The general surplus of regional enterprises during the period of the strongest impact of the crisis (in 2015) exceeded UAH 113 billion, there was almost no way to expand the capacity of companies, in particular, to increase the personnel under these financial conditions.

Other issues include:

- **Logistics and transportation.** Control of the transport hubs and the infrastructure as a whole, which ensured the movement of goods and people, was lost as such centers are on the occupied territories.
- **Loss of sales markets.** Russia was the main sales market for goods from small and medium-sized enterprises in the region, but trade restrictions led to a drop of exports.
- **Loss of labor.** The fighting led to a massive outflow of people from the region. The outflow of labor has accelerated due to the availability of competitive offers for specialists in neighboring regions and large cities and the intensification of proposals for Ukrainian workers abroad. Another problem is that the supply of labor in the domestic market (especially in technical specialties) has fallen more than demand for it. As a result, there was a shortage of personnel with technical specialties.

“ *My son and a lot of my friends have left this region because it is nearly impossible to find a job here.* ”

People constantly move from small to big cities, especially to Kyiv. In a new city people often choose other specialties.

The outflow of labor abroad is a typical problem for Ukraine. First of all, people move to Poland.

“ *I know a lot of cases when people were in the employment center but there was no work for them, especially if they have narrow specialties. My friend's husband is a jeweler. He didn't find a job, so they were forced to move to Poland. He works as a hired worker at the plant there. There is a stable work and stable earnings and they can make a normal living. They could not do it here. He wouldn't find a job in his specialty for three years of living here.* ”

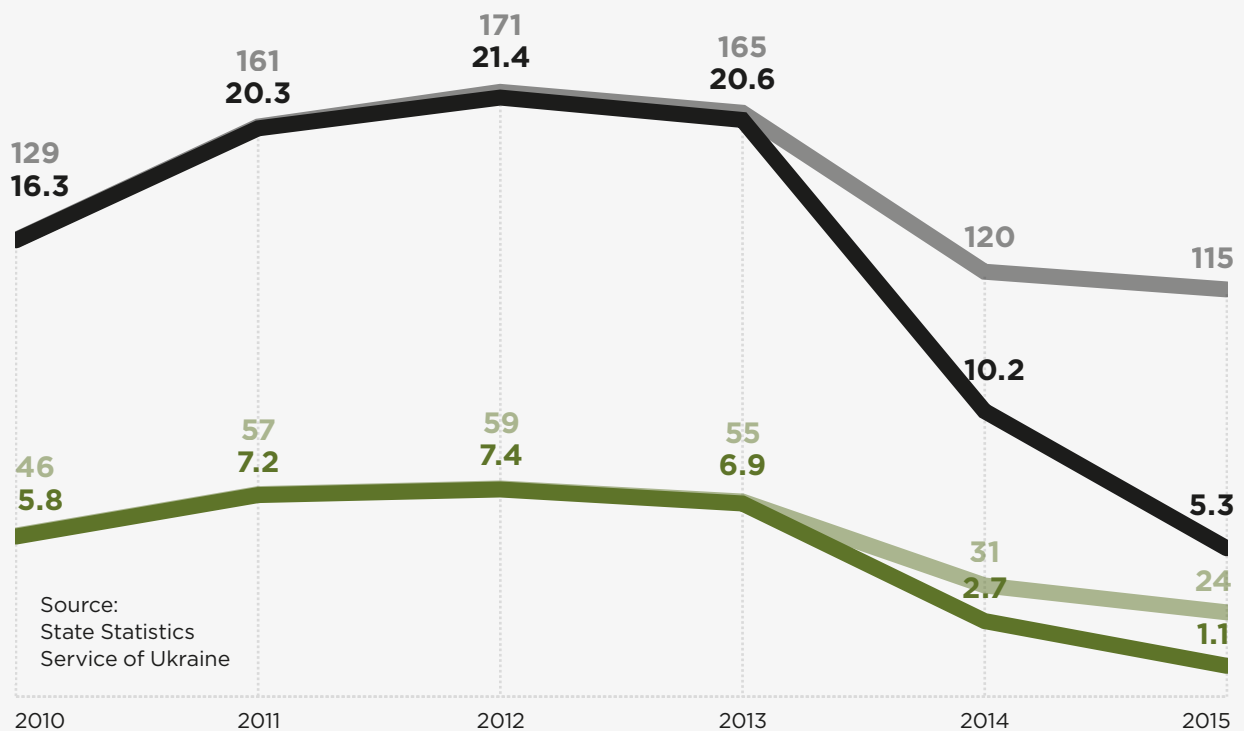
A sharp decline in key indicators was the result of events in the region and the impact of negative factors on the development of the region's economy. The gross regional product is most important of them. Compared to 2013, GRP dropped by 30% in Donetsk region and by 56.8% in Luhansk region.

In 2013–2015, the fall of the GRP in HRN in Donetsk region amounted to 29%, in Luhansk region — to 56%, while throughout Ukraine the GDP growth amounted to 38.6%.

The reduction of the region's GRP was a consequence of the cumulative effect of the actual loss of control over the territories. There is no statistics for the consequences of these events for other territories.

Increase of the population also had a negative impact on local residents.

## DYNAMICS OF THE GROSS REGIONAL PRODUCT OF DONETSK AND LUHANSK REGIONS IN 2010–2015



**Donetsk region**

**Luhansk region**

billions UAH

**Donetsk region**

**Luhansk region**

billions \$

“ It is also hard to find a job for locals. They face the same problems, especially young people, who do not have work experience yet. You also need knowledge of the language. But they are at home, so they have parents and friends here. We, who are the IDP, lost all. It would be ten times easier for me to get a job in Donetsk. I would just have to spend one evening on calls. I would not need an employment center. I would learn firsthand all the nuances like where and with whom I have to work, where are any vacancies, whether I am satisfied with the place where the institution is located, whether I am satisfied with the staff and payment. And here you worry about the collective and do not know where to go.

The dynamics of investment attractiveness is another indicator, which shows a deterioration of the state and prospects for the development of regions. The negative development of investment attractiveness has led to a sharp decline in the level of capital investment. This indicator fell by 43.3% in Donetsk (from UAH 64.7 to UAH 36.7 billion) and 54% in Luhansk (from UAH 19.8 to UAH 9.1 billion) in the regions for 2014–2016. Most of investments were made through the decentralization reform.

“ Talking about the city, I see how the roads are being repaired, and the grounds are being opened. Something is changing. Nevertheless, there is a dynamic, the city is coming back to life.



The second group of problems related to activities in the frontline areas **relates directly to the workforce**. The main factors influencing living, work, and life conditions of the population in the region are the following.

**Reduced revenues** as a result of declining industrial production, general economic indicators and inflationary processes.

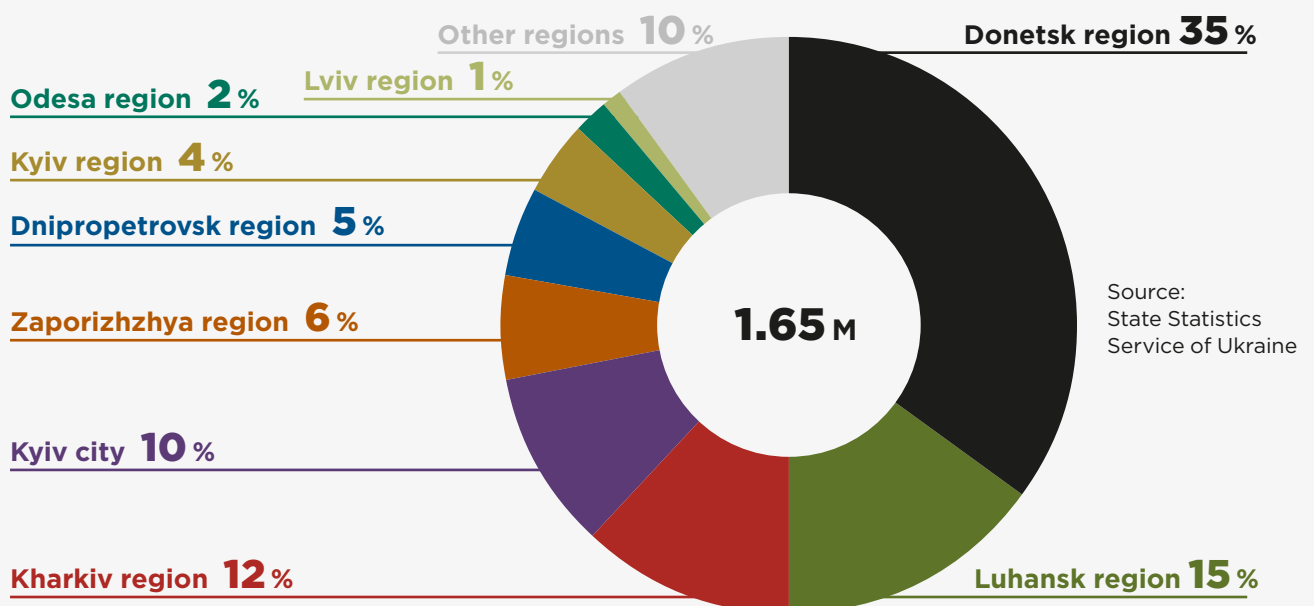
“ I go to the store and understand that I could buy more with the same money before. It worries me a little, but it seems to me that this is a general instability in the country.

**Limited access** to a wide range of goods and services. This was the consequence of the relocation of a significant number of companies from the region and the complexity of supplies after the start of hostilities.

The sharp decline in retail turnover was the result of a decrease in the range and purchasing power of the population. The second reason for such a fall was the emergence of the shadow segment of the retail market (57% and 64% in Donetsk and Luhansk regions).

**Forced relocation** to other cities in the region. Many people continued to live in the frontline territories due to the financial condition of individual households or other personal reasons that prevented long-distance relocations. According to the Ministry of Social Policy, as of April 2018 the number of the registered IDPs from Donetsk and Luhansk regions and Crimea was 1.49 million. Half of the IDPs have moved to the Government control areas of Donetsk and Luhansk regions.

## THE STRUCTURE OF THE NUMBER OF OFFICIALLY REGISTERED IDPs IN UKRAINE AT THE BEGINNING OF 2017



More than half of those who left their homes in the occupied territories moved to neighboring districts of Donetsk and Luhansk regions. This was another blow to the socio-economic situation in the region due to excessive demand for supply in all aspects of public life, including job creation.

“ There were 125,000 people in Kramatorsk. Now there are 60,000-70,000 IDPs. Even earlier, not all residents of Kramatorsk had a job because the existing jobs were occupied, finding a job was very difficult.

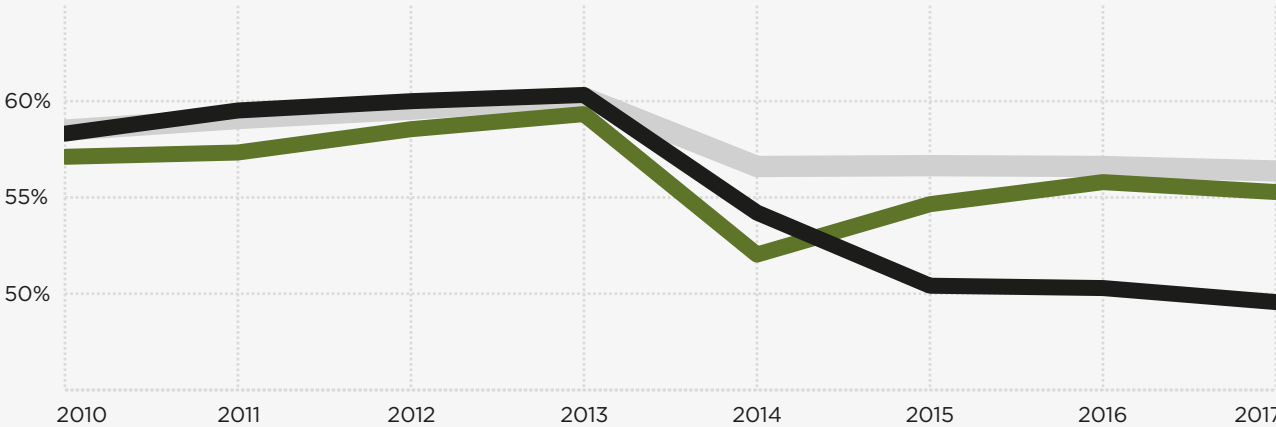
“ I was in L'viv, and they said that they registered 4,000 IDPs, but actually there live only 2,000 of them. And in such a small city as Kramatorsk there are 165,000 inhabitants and 76,000 IDPs.

Thus, after the commencement of hostilities in Donetsk and Luhansk regions, the main economic indicators of the region (e.g. industrial production and volume of rendered services) decreased significantly. This has led to a number of other negative processes in the economy, such as inflation processes and the decline in investment, retail turnover, the number and income of enterprises. As a result, the gross regional product as a whole and per capita declined significantly.

These factors led to a significant inconsistency in the social and labor relations in the region.

Another consequence of the deterioration of the economic situation in the region was the decline in employment rate. After a peak of about 60% in 2013, the official figure for employment fell by 6.1 and 7.4 points in Donetsk and Luhansk regions in 2014. The following years have shown that the employment level in Donetsk region continued to decline. By the end of 2017, less than 50% of the population had an official job in the region. In Luhansk region official data testify the equalization of the employment rate with the whole country. The difference reached 0.9 points, the same as before the crisis.

**DYNAMICS OF EMPLOYMENT IN UKRAINE, DONETSK AND LUHANSK REGIONS IN 2010-2017, %**



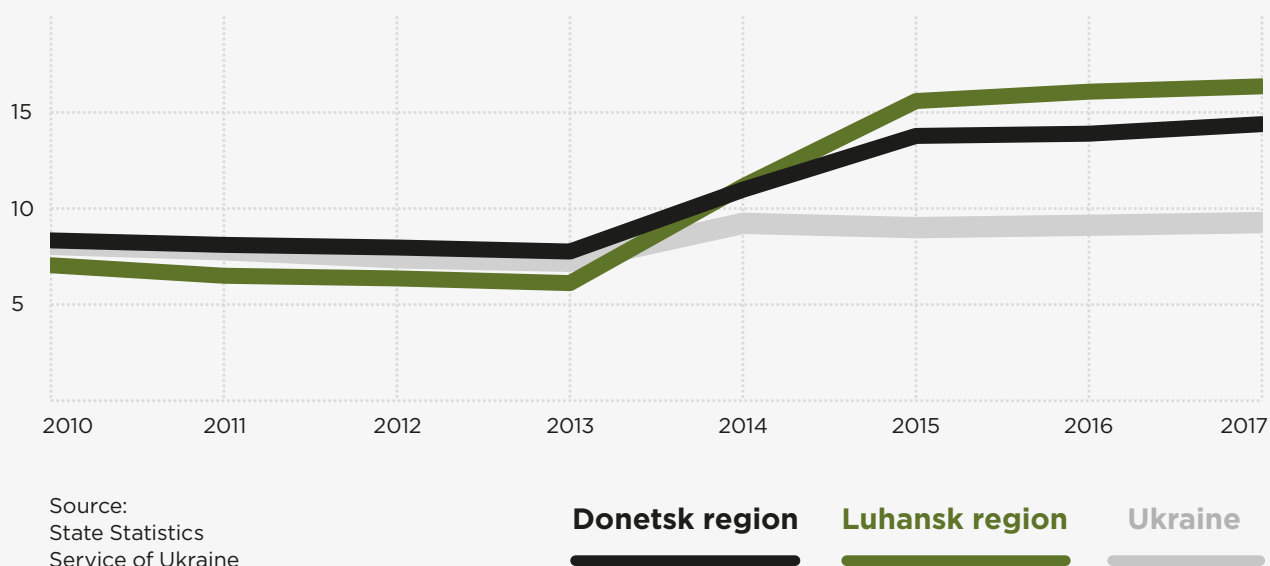
Source:  
State Statistics  
Service of Ukraine

**Donetsk region**    **Luhansk region**    **Ukraine**

Half of all employed people in both Donetsk and Luhansk regions work for industry and trade. Industry is the flagship of the region's economy, while trade has developed in proportion to other sectors. Other key areas include agriculture, education, transport and public administration. The riskiest sectors are industry and public administration. Industry is largely based on the historical paradigm of the region's development and has additional risks of shifting demand for labor. Public administration includes the risks associated with public administration reform because one of its the main objectives is reduction of the staff of officials.

The next indicator is **registered unemployment rate**. All components of the economic crisis also affected unemployment rate.

## DYNAMICS OF UNEMPLOYMENT RATE ACCORDING TO THE ILO METHODOLOGY IN UKRAINE, DONETSK AND LUHANSK REGIONS IN 2010-2017, THOUSAND PEOPLE



Business has even more painfully felt the crisis, primarily because of the region's focus on cooperation with Russia. However, there is a stabilization of a situation that gives hope for development:

“ Compared to 2016, the situation is relatively stable. However, if we compare the today's situation with the prewar situation, we can see a serious crisis.

“ There is a partial rise in the heavy industry compared to the time of the beginning of the war, so nowadays its volumes return to the prewar level. At the same time, revenues in the dollar equivalent are still far from the prewar period. There is a serious optimization of the enterprises, e.g. replacement of technical equipment for more efficient and economical.



“ *The first reason is the current situation. In 2014 there were massive reductions, people were transferred to part-time job. There is an improvement now. It has traditionally been that we have a monoeconomy. Monopolies lost their portfolio of orders after communications and enterprises were broken. So, if there are no orders, there is no work. People who do not have the opportunity to return to large enterprises have the opportunity to engage in entrepreneurial activity.*

“ *The market in one way or another negatively reacts to the traditional (for us) price increases.*

“ *In the Employment Center they said that there are various organizations that are willing to provide grants for training and private business. I know that there is one new portal where vacancies appear. There are a video and multimedia resume in the Employment Center. It seems to me that only those who do not want to work can't find work.*

The economic crisis has forced to search for ways to optimize and automate processes. This provides the opportunity to reduce the number of people involved in the work.

“ *I would say that we do not grow by the quantity, we try to grow in quality. By the way, we have not grown in quantity for a long time. Before the 2008 crisis, the company had 370 workers, after the crisis – 250, after the war – 230, but we do not produce less. We work a lot on the organization, on management, computerize and simplify management processes.*

Companies are making additional efforts to enter new markets, including European ones, take part in exhibitions and host potential foreign customers. There is a patronage program in which more experienced workers on machines help less experienced and receive an additional payment.

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## 4. ANALYSIS OF THE EMPLOYMENT INCENTIVE PROGRAMS

The only state initiative on employment promotion is the comprehensive state program for support, social adaptation and reintegration of Ukrainian citizens who moved from the temporarily occupied territory of Ukraine and areas of anti-terrorist operation to other regions of Ukraine until 2017.

There is also a number of laws on the rights to IDPs for employment. However, in practice, existing official regulations do not have a list of specific targets and tools for business development, job creation and capacity-building for IDPs.

In fact, neither the Government of Ukraine nor the profile ministries have implemented effective measures to stimulate the employment of the local population.

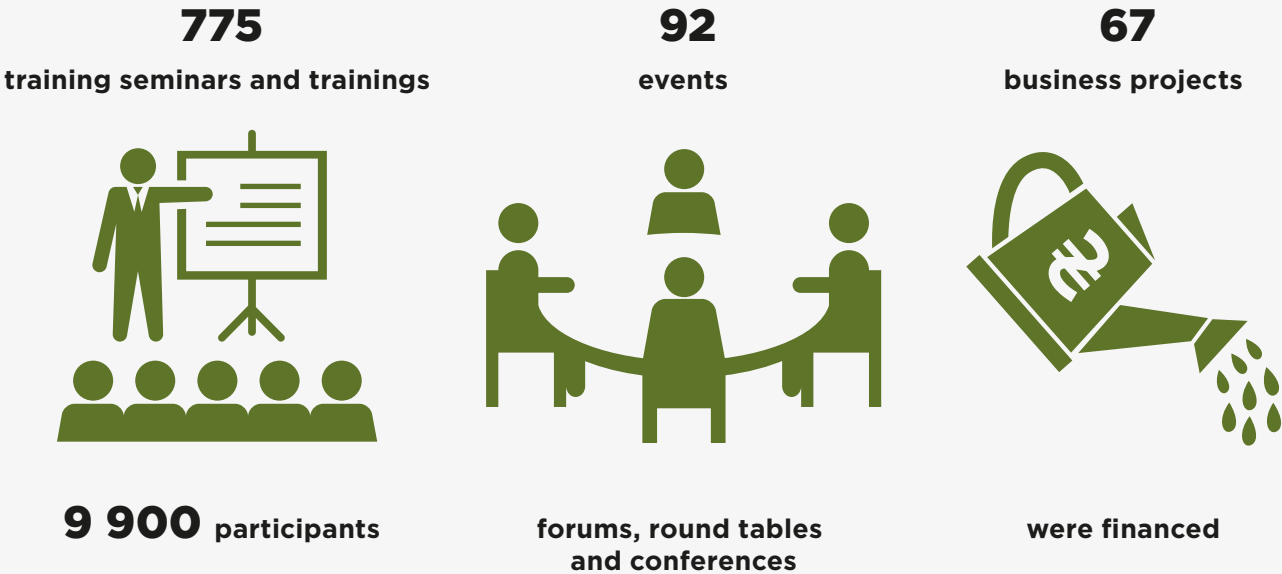
The Donetsk Kurkul program for entrepreneurship support in the region was established in the budget of the Donetsk region.

The result of the program was that 107 projects of entrepreneurs were funded for the total amount of 31.9 million UAH in 2017. Entities provided 64 reports, according to which 69 working places were created as of January 29, 2018.

It should be noted that in 2018, the Regional Program for the Development of Small and Medium Enterprises in Donetsk Oblast for 2017-2018 was amended. The purpose of this was to provide financial support to small business entities for the implementation of their projects (co-financing for communities – 70% from the regional budget, 30% – from local budgets).

In turn, local authorities also organize employment incentive programs in Luhansk region. Within the framework of this program, 775 training seminars and trainings for 9900 participants were held. There are 67 business projects were financed, as well as 92 forums, round tables and conferences were held.

**EMPLOYMENT INCENTIVE PROGRAMS ORGANIZED BY LOCAL AUTHORITIES  
IN LUHANSK REGION**



But in-depth interviews show that this is not enough. The main problems that are not solved by the programs of stimulating IDP employment in the Donbas and the frontline territories are:

## Low level of the entrepreneurship development, small share of self-employed entrepreneurs and newly created businesses. The region is inert in terms of entrepreneurship development.

The greatest challenge for business is the very slow changes in creating conditions for development in the region and country as a whole. Low development of entrepreneurship is a consequence of this problem.

**Litigation is long and not always effective.** It often happens that at the moment of passing a court decision the issue becomes irrelevant.

“ *Our judicial system is very protracted, sluggish. That is, if I now file a suit, I can expect a decision in a year's time at the very least, and in a year, I won't need it any more. That's why, we don't go to courts.*

**Government authorities change much more slowly than business needs,** as it is active and is developing dynamically.

“ *Well, there are positive changes in large organizations, loosely speaking, there is a change in business activity, and here's how a business started to work — lately it has started to work better, more steeply, compared to what it used to be, that is, business itself is growing in Ukraine, but it seems like the state system simply froze in place and is waiting for something, I have such an impression.*

**Interference of the monopolists,** who set unreasonable and uncompetitive prices for goods and services.

“ *The monopoly in the energy industries, on electricity, on gas is very much an act of svavillya, a good Ukrainian word, which is a mess and iniquity and it interferes with business activities greatly, unless we have a market, although I do not know how it will work, this is one of the obstacles to doing business.*

**Simplification of licensing procedures** and generally unnecessary procedures would have a positive effect.

“ *The main thing is the licensing system for business, not taxes, but permissions and licenses, but it is regulated at the local level, but **how to give a boost to the local officials to improve their work, I don't know.***

## Candidates' low adequacy rate for the vacancy requirements and outflow of skilled motivated personnel from the region, especially abroad.

From the point of view of entrepreneurs, one of the main problems of employment is the low compliance level of applicants with requirements. Another problem mentioned is emigration. Data shows that the share of long-term national visas to Poland with the right to work is increasing. Thus, there were 763 thousand applications from Ukrainian employers to the county division of labor in Poland in 2015, while in 2016, this figure almost doubled and reached 1.3 million, and in 2017, it grew to 1.8 million.

The outflow of personnel is not the only problem, another is **difficulties in finding job** in general.



The biggest number of vacancies are of middle and lower levels. Foremen vacancies are open almost all the time. There is a serious shortage of personnel.

“ *There is a shortfall in all skilled personnel now, that is, there are no specialists, and we are training them now, that is, before, before the war, we didn't think about training programs, etc., but now we do. Since 2014 we have grown and went to another level, so now we are training people, we have our own training center, qualifying exams, etc.*

“ *According to my information, most of the enterprises in Kramatorsk are now experiencing the shortage of personnel, whether it is a cleaner, or an engineer, or a programmer.*

Some entrepreneurs consider the strategy of recruiting students or young people who do not expect high salary and train them according to their needs and style of work. As they say, there is always a risk that you hire a more experienced specialist with high salary rate but the person doesn't meet your expectations.

“ *We can raise salary if the person makes money for the company, we are ready to pay money for it, but when he or she comes from nowhere, a stranger, we cannot offer a high salary, respectively. And people who have any kind of qualification, they already understand their value and I have a conflict of interests, I do not know what to do. To take a stranger and give him a high bet, spend time, and find out that he or she has nothing but ambitions.*

“ *I have such a strategy that I take young students and teach them from scratch because they don't have ambitions and I train them to work in accordance to my style, the way I see communication with clients, etc., but it comes at a cost in time on their training. If I take a more qualified person, I spent less time, but more money on salary.*

From the point of view of **unemployed**, some requirements are too steep, **age** and other kinds of discriminating are especially notable (appearance, style of communication, type of make-up etc.), it may affect the results of the interview and subsequently decision on employment.

“ *I wasn't just looking for a job, I've already pounded the pavement. Wherever I come, they respond "48 years old? no, no, goodbye".*

“ *For motor vehicles, I haven't seen age limits at the moment, but as for other specialties, the age restrictions there are up to 40, sometimes up to 45. I also saw such restrictions in the requirements for women. It is a shame to see that women under 25 rejected because of the lack of work experience, and those over 40 are rejected since they are not young.*

#### **Other factors significantly affecting employment perspectives:**

- command of foreign languages;
- computer skills;
- higher education (especially for state institutions).

“ *I was offered a position of a social worker, a psychologist, but they couldn't hire me without higher education.*

**Inefficiency of the Employment Centre as the major place which helps with employment issues (people go there only for unemployment benefits; few people use the proposed programs to launch their own business; the Center for Employment is practically not used for informative purposes or searching vacancies).**

**The main reason for applying to the Employment Center is unemployment benefits.** Also, despite the availability of various opportunities for training and retraining, few applicants are serious about using them.

“ *I don't think at all that the state should help in the job placement. As long as you are healthy and able-bodied, you must do it yourself. The reason why I went to the employment center was that I worked and paid taxes for 22 years. Now as I have no work, I may just as well get some help. This is the only reason, usually I solve all the problems myself.*

“ *I didn't register with the center because I was told that I won't get any unemployment benefits. What's the point then?*

People do not apply to the Employment Center, it is an ineffective tool for finding new employees. It is likely that people apply to the center either for receiving money (they are not interested in finding a job in general) or in case of emergency. For example, IT specialists do not apply to the employment centers at all.

“ *I wanted to use the services of the employment center, I went to them, they immediately told me: "You don't need this". I did not believe them. I said: "Surely you have people here, a base, I really need people", I don't know, maybe I will apply to them again. It was a complete humiliation both for me and the people. They summoned a bunch of people, fifty probably, for the administrator vacancy, such a vague and ambiguous vacancy, I needed an administrator of the website. They immediately said that I can't limit the age of candidates, because it is already discrimination, and they called a bunch of people, I told about the vacancy. But who were these people, many of them were over 40, but they had no higher education, these were women who stand there just to put in an appearance. The Employment Center is interested in deregistration, as a result, I told them about the job, it wasn't suitable for most of the people, and the Center noted that those candidates refused, but if a candidate refuses to take the offered job he or she loses registration in the Center. And these people cursed me, I certainly did not want THAT. Only 2 out of those 50 were more or less suitable for the job, I interviewed them and offered trainee job. And 48 people feel bad because they were taken off the register because they weren't suitable for the job. They said that an administrator in general meaning and an administrator who needs to know the Instagram, promotion, administrative support, Internet, in particular, are different things. Well, in brief the Employment Center is a trash, and those who really are looking for a job can be found on work.ua, I mostly find employees there. Well, word of mouth helps too, we have a small city and therefore many come on the recommendation of an acquaintance.*

**People that are more active use more proactive search, including specialized sites like Work.ua.** In the IT sector, there are specialized sites as well as institutions that train specialists (for example, STEP or other institutions that teach students in this area). But still, there are practically no qualified specialists, and there is a need to continue their development and training.

“ *Well, as for the IT sector, it hasn't changed much, it is increasingly difficult to conduct business, because there isn't enough staff. We have vacancies, we regularly search for personnel, some vacancies became permanent.*

The individual enterprises that have upgraded their production to a large extent have started to use the strategy of finding new employees among family members of their employees. As they point out, the re-equipment of production allows women work on new equipment. While this is still unique cases, it gives a positive perspective for women employment.

“ *We went along the "family" road, husbands enlist their wives, because we are buying new machines which women can now operate, this is a peculiarity of this situation. I want to say that we have already exhausted means and options who to consolidate these 230 people and minimize the work, now, on the contrary, we need new people.*

Despite the fact that the Employment Center should be the main quarter for job search and coordinator of the joint efforts, only a part of respondents noted its positive impact on the job search.

“ *The Employment Center offered six-month courses in another city, paid the fares and for a hostel. After studying, they insisted on the fastest possible employment (within 30 days). I found the job myself, but the Employment Center asked me to arrange it in such a way as if their job referral.*

“ *There are many courses like computer graphics operator, accountant, and also various online courses. The level of information support is quite high, guaranteed job placement, even after re-training, but again they guarantee the minimum official wage, which is not exactly what I want.*

Despite the Employment Center limited number and quality of vacancies, there are some employment opportunities. Both the specialists who found a job and the unemployed who were still looking for one provided the same listings. These sources can be divided into several main categories:

- specialized sites for job search (work.ua, rabota.ua);
- classifieds site (OLX, regional classifieds sites with sections on work);
- local online and offline publishing (news site of Kramatorsk, newspaper "Privet");
- special-interest groups on Facebook;
- information on vacancies directly at enterprises;
- social projects (e.g. hairdressing services for the elderly and the poor);
- Caritas programs — you can win a competition to take part in training, after which you must register as a self-employed person and start your own business;
- through acquaintances.

In turn, from the business point of view, only one of the respondents noted **positive changes in the work of the Employment Center.**

“ *If you're asking about the changes over recent years, I can say that you no longer need to go to the Employment Center and register a contract if you want to hire or fire an employee. By the way, this is a rather significant improvement for all entrepreneurs, because the system was absurd. e.g. you have hired a person under a contract with a given salary, after a while you raise it, then you have to take this worker and together go to the center and sign an addendum to contract. Or take all the workers who now have a raised salary. And now you don't have to do it.*



Another element of this problem is that, firstly, most vacancies in employment centers infer a minimum wage. Notice board mostly contain offers with minimum wages. Secondly, it is mostly a low-skilled job, with unacceptable conditions for employees.

“ *If a person turns to the employment center with such attitude like – I have to survive, give me anything – they will arrange it, I believe, within a week. There are a lot of vacancies, they are different, but almost all are with the minimum wage. I was immediately offered several vacancies I refused because the level of my salary in recent years was significantly higher, but I could not find anything with high salary. As for the re-qualification, they offered it to me, I refused. It seems to me that if a person has a slightly higher demands he, or she can find a job themselves.*

“ *At the employment center, I had a counsellor, as I call her, who advised me and tried to find a job for me. She honestly told me: "You have registered, good for you, but do not depend on us, look for a job yourself". Yes, she said it openly: "Well, we will offer you some options, but it will be just for a show, that's it". So, of course I looked for a job on various sites, work.ua. And work.ua helped.*

Awareness as for the **employment opportunities for IDPs** is on the low level, on the one hand. On the other hand, a very small number of IDPs are actively looking for job. On the issue of IDPs employment enterprises can be divided into two groups:

- 1) There are some on the staff, but not many. Unaware of the compensation programs for employed IDPs. Hire IDPs and students.
- 2) Know about employer benefits when hiring an employee from the employment center newsletter, but did not use it because the applicants were not suitable for the vacancies.

“ *I know some information about the benefits for IDPs, because the Employment Center sends me newsletter including information on benefits. I would gladly take some IDPs but I didn't meet any of IDPs during my interviews for several open vacancies at all (I had some 50 interviews).*

Also, the survey concerned awareness about the possibility of **becoming self-employed persons**. Typical responses were related to the **lack of adequate information**. In the employment centers there is a very limited list of vacancies which are poorly-paid and low-skilled. There is almost no cooperation between business and employment centers. Therefore, business has problems with filling vacancies, and employment centers with performing their direct duties, which also leads to problems in the process of finding a job.

“ *The Employment Center, held three introductory lectures on how I should behave, what I am entitled to, my rights and responsibilities. But so far they have nothing to offer similar to my salary and specialty.*

There is a similar situation with informing about programs for start-up entrepreneurs.

“ *I know that I need to submit a project which will be interesting for them, but I do not know how it may be interesting.*

Negative attitude also includes fear of economic realities.

“ *I used to be self-employed, I know that it is very simple, fast and convenient. But I'm concerned now about the level of a stable income which I can get, and I need to pay taxes from the start, every month. That is, I launch a business, I've just started to do something, it's not clear whether I succeed but I have to pay the money. Therefore, **tax holidays would be very useful for start-up entrepreneurs.***

“ *It's very difficult to run a business now, very high taxes, therefore... and I need some start-up capital for the development of business, which, unfortunately, I no longer have, so I decided I am no longer interested. **I could take a loan for a start-up capital but the interest rate is very high,** therefore I don't even consider this option.*

“ ***I don't believe in anything in Ukraine.** I'm scared to take any money from the state, I'm afraid to deal with it in general, cause I might find myself without an apartment and without anything.*

“ *I haven't even thought about it, because I've worked for a company all my life since I was 19.*

Another problem that hampers the effective employment incentives is the risks of **unreported employment**, namely the absence of compensation in case of workplace injury, violations concerning the amount of salary.

“ *It's hard to find formal employment. That is, I don't want, for example, to get injured and then be left high and dry, especially since there are a lot of rather sly people. Contractual payment — it may differ greatly from what was promised and afterwards paid.*

Also, the respondents added to the problems the inconvenient location of the work place (long commuting) and the schedule, especially if the work takes several hours a day.

“ *I am offered to work part-time or two hours a day, and I will spend on the road an hour and a half one way and an hour and a half back. Accepting such an offer does not make sense.*

“ *20% of acquaintances are constantly looking for a job, 80% have a job, but the situation is constantly changing. Today you are employed, tomorrow — no. Some organizations that moved from Donetsk and registered here, could then move to Kiev, and people don't like the need to move further. Suppose a child is studying here. They stay here and start looking for a new job.*

## 5. THE NEW MODEL OF EMPLOYMENT INCENTIVE

Based on the desk study and in-depth interviews in the region, it is necessary to implement an effective comprehensive system for regulating the situation with IDPs. The new model should form an effective cooperation between IDPs, business, government and other stakeholders (including volunteers, charities, international donors, etc.) to ensure the rights and freedoms regarding the employment of IDPs in the Donetsk and Luhansk regions.

Regarding the specifics of improving the situation with the employment of IDPs, we can distinguish three main groups of recommendations:

The first group — the **legal and regulatory framework** for the employment of IDPs — should include the following factors:

- Develop programs with well-defined goals for regarding the number of employed IDPs.
- Strengthening the responsibility for discrimination against IDPs (including age and social status). Create a system for collecting and registering complaints and analyze separate complaints from community members. Analyze reports from civic organizations, check the causes for complaints and/or reports on discrimination — gaps in legislation (including regulatory framework and bylaws) or improper enforcement. It may be required to introduce changes to the legislation — to submit proposals to the central executive authorities.
- Create mobile training courses.
- Job quotas. There is currently a valid program for demobilized ATO combatants: the quota constitutes 5% of the company's average number of employees. However, the Law of Ukraine "On Employment" does not stipulate the level of wages at the quoted workplace. If an employer hires a person for duration of 2 years, the employer will get unified social tax (UST) refund. For one IDP, such an indicator may amount to 50% compensation within 1 year.
- Develop programs for supporting graduates.

The second group of recommendations is organizational. They require active cooperation between business and the state. Among them, the following may be singled out:

- Courses for trainers from employment centers and volunteer organizations.
- Encourage enterprises to organize external training courses for potential new employees housed by the enterprises and employment centers with the right to first recruit people who passed these courses.
- Support entrepreneurs in transporting workers by city and intercity transport within the frontline area. There are several options for such support and cooperation. The first is the provision of municipal transport on differential rent, the second is the granting travel privilege on the condition of a partnership between business and transport operators.
- Provide transportation fare refund or organize transportation for people undergoing training at employment centers.
- Create of an information system based on employment centers that would meet the needs of employers and applicants in the process of analysis.

- Create a centralized vacancy database. The main point is to encourage employers to post vacancies not only on job search sites, but also in employment centers. In addition to centralizing the employment process and increasing the efficiency of the employment centers, this will provide better understanding of the need for staff for further organization of the specialist training.
- Form a unit similar to the format of recruitment agencies for temporary work on the basis of employment centers (seasonal work in the agricultural sector, care services for people with disabilities, children and the elderly people). On the one hand, this will stimulate labor market in the sector, and, on the other hand, will provide an opportunity for IDPs to have additional work.
- Bridging benefits. Among the IDPs, special attention has to be paid to people of pre-retirement age, for whom, despite new quotas on employment, job search is still a significantly complicated task. IDPs are often dismissed "voluntarily", therefore, they fall within the purview of law, and taking into account the specifics of this social group, it makes sense to reconsider the mechanism of early retirement for IDPs, namely to avoid the requirement for termination of employment for reasons beyond control of IDPs.
- Relocate to the frontline zone the state-owned enterprises engaged in the production of products and the provision of services that do not require a high level of qualification and may lack the staff in other regions. Short-term, medium- and long-term projects may also be located in the frontline territories, which will partially make up for shortfall in jobs in the region. Such projects may include data processing (digitization of documents and libraries, making clothes and other textile products for a particular project, etc.).
- Provide training and retraining programs involving higher education institutions relocated from the occupied territories. This will ensure, on the one hand, employment for university teachers, and, on the other hand, provide the region with specialists in those areas where they are required.
- Conduct a thorough business survey on the list of positions, courses for specialists needed first and foremost.

The third group of recommendations is **financial and economic**. Taking into consideration the fact that job is mostly created by private enterprises, it makes sense to consider the possibility of providing financial and economic benefits for the enterprises to create new jobs. There are several approaches that are possible within this group of recommendations, and when choosing the best possible employment development strategy, we need to take into account the associated risks.

The first approach is general assistance. This approach requires:

- Provide soft loans for business development in Donetsk and Luhansk regions. The positive aspect of such activity is the massive stimulation of active launch of enterprises in the region. But there are also risks. Firstly, to shift the company's legal home from other regions of Ukraine for the purpose of getting benefits. It would have little effect on employment, but would increase revenues of local budgets, which could be redistributed to infrastructure development and social benefits. Secondly, there are no guarantees that the number of created jobs will be proportional to the volume of loans. One of the biggest obstacles to implementing these measures is the high NBU rate. To date, the high interest rates on loans is a compulsory measure in the implementation of the inflation targeting policy, but on the other hand, such a decision actually blocks the opportunities for the development of small and medium-sized businesses. Soft loan programs require a balanced economic policy of the regulatory authority and the government.

- **Tax holidays for new companies or existing companies operating in the Donetsk and Luhansk regions, which have increased their personnel by more than 30-50% covered by IDPs.** This will increase the number of real jobs in the regions.

These two approaches, of course, will have a positive impact on the employment rate in the frontline areas. However, due to imperfect corporate legislation and the lack of tools to track the implementation of the necessary conditions for getting benefits, it is not an ideal solution under the conditions of limited funding in the region.

The second approach is compound. The economic effect will be significantly increased with the **introduction of special (free) economic areas in the Donetsk and Lugansk regions.** Introduction of free economic areas will have a greater cumulative effect compared to UST refund under the quotas. In addition, enterprises will be exempted from VAT when importing goods outside the FEA and customs fees, real estate tax, and land rent will be substantially reduced.

The third approach is classic. It is necessary to create additional jobs through the development of infrastructure in Donetsk and Luhansk regions. According to the State Target Program on Recovery and Peacebuilding in the Eastern regions, a set of measures to restore the infrastructure has already been planned. In particular, by 2020 it is planned to:

- to build 10 km of electric power lines;
- to repair 30 km of motorways;
- to build 65 km of railway, in particular the construction of the railway branch of Bilokurakhyne—Svatove.

Such volume is insufficient for significant stimulation of employment in the region; there is a need for additional new construction, for example, a concrete road to Mariupol. The required volume of new motorways in the Donetsk and Luhansk regions is estimated at 800–1000 km. There is an alternative in the implementation of other projects that can provide related effects for the Donetsk and Luhansk regions.

## 6. ECONOMIC EFFECT ESTIMATION

The estimation of the economic effect from implementation of the proposed measures was based on the experience of implementing similar programs, as well as estimations and assumptions made by the authors within the research. As measures that provide indirect impact on employment (intensify efforts of the centers, information policy, legislation on strengthening responsibility), are difficult to assess. Only a few of the measures presented can be economically evaluated.

**The effect of soft loans.** Under soft loans program, the state can return up to 10% of the loans. From attracted 50 million UAH, the state will spend 5 million within five years — 1 million UAH per year.

According to the authors of this study, based on the experience of similar soft loans programs, it is **possible to create from 500 to 1000 jobs annually, including for IDPs.**

**Effect from Free Economic Areas.** According to the assessment of business plans by Ukrainian consulting companies, the minimum required investment in the development of light industry for one investor can be \$5 million, which can create 200 additional jobs.

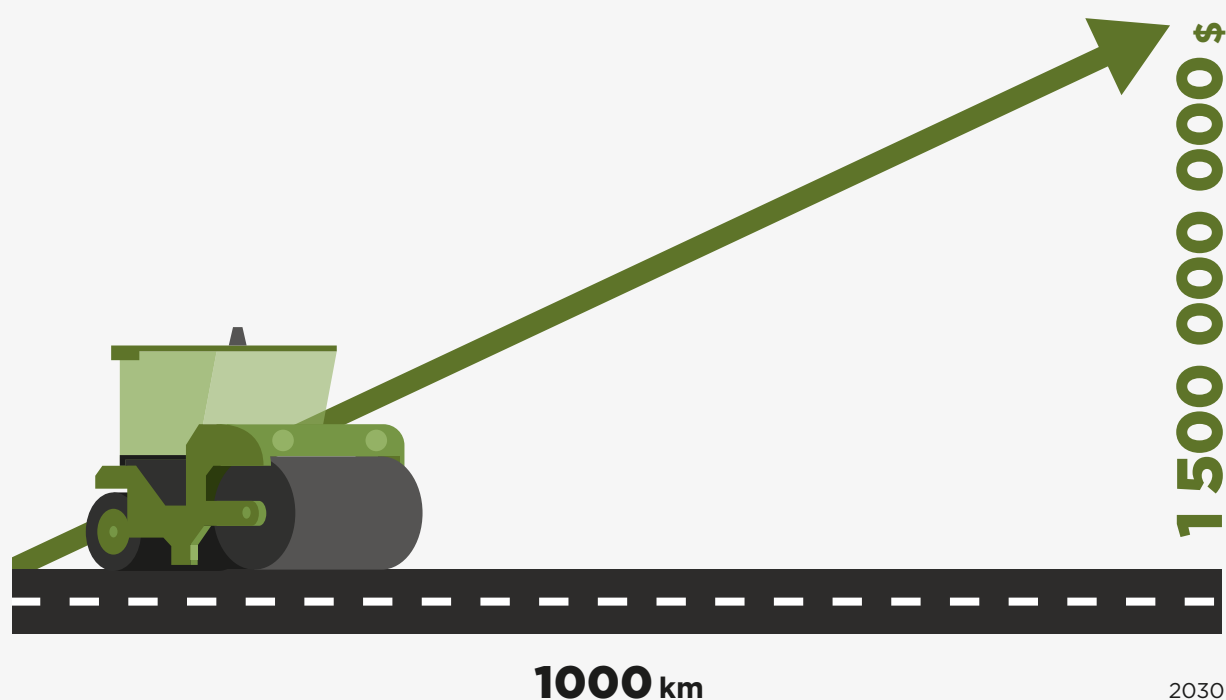


Taking into account possible investments in the Fuel Energy Sector, the **Donetsk and Luhansk regions will be able to attract up to \$5.5-7.5 billion of investments into the infrastructure by 2030. The number of new jobs can amount to 40-50 thousand.**

By way of contrast, according to estimates based on the benchmarks of Belarus and Poland, after 10 years of preferential investment territories, Ukraine can attract about \$42 billion. Direct expenditures of the state will be only costs of the development and adoption of the relevant law.

**The effect of the infrastructure program implementation.** On the construction of 1000 km of concrete roads by 2030 in the Donetsk and Luhansk regions, it is possible to obtain up to \$1.5 billion in gross regional product growth.

## THE EFFECT OF THE INFRASTRUCTURE PROGRAM IMPLEMENTATION



**Cost estimation for the compensatory programs.** UST refund has a more intended function for job creation for IDPs. But the implementation costs will be more substantial. For example, with a quota of **5%** of jobs, with the implementation of the project within 5 years and the employment of one thousand IDPs with an average salary of UAH **7000** per month and permanent employment, the project will cost UAH **75.6** million, that is, UAH **15.12** million per year.





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