



Not So Quiet on the Eastern Front: An Audit of the Minsk Agreements and Ukraine's Reintegration Options

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Executive summary

1. **Introduction**
2. **The Minsk agreements: the art of the negotiable**
by Kateryna Zarembo and Leonid Litra, Institute of World Politics
3. **The cost of the conflict: paying for guns and butter**
by Ilona Sologoub, Tymofiy Mylovanov, and Oleksandr Zholud, Vox Ukraine
4. **The swinging pendulum: public opinion on the occupation in the East**
by Maria Zolkina, Democratic Initiatives Foundation
5. **Unvarnished realities: the conflict on the ground**
by Vitaliy Syzov and Mykola Zamikula, Donetsk Institute of Information
6. **The sum of its parts**
by Vlad Galushko, Open Society Initiative for Europe
7. **Conclusions**

EXECUTIVE SUMMARY

When spontaneous demonstrations in winter 2013-2014 culminated in the popular uprising known as the Revolution of Dignity, few could have predicted they would trigger a major international crisis and the biggest challenge to Ukraine's survival since the end of the Cold War. Two and a half years later, the conflict in eastern Ukraine that followed on the heels of the revolution continues to simmer.

Born out of a desperate attempt to halt escalating warfare, the Minsk agreements stanching the casualties and destruction in eastern Ukraine, but failed to stop sporadic fighting and achieve a durable ceasefire. The agreements left each side with too much room to interpret the sequence of steps to end the conflict. Ukraine believes establishing secure conditions in the separatist areas should come before any political steps, while Russia insists on the reverse order. Although they side with Ukraine's position, the country's Western partners would like it to proceed with any feasible political steps. Though all the parties appear frustrated with the Minsk framework, none is ready to drop it.

The conflict in the East has exacted a heavy toll on the Ukrainian economy due to the loss of major industrial centers and fertile agricultural land. With an already dire economic crisis deepening, the government has had to reallocate scarce public resources to support the chronically underfunded military and internally displaced persons. The conflict remains a key obstacle to foreign investment, and it has muddied the waters around economic ties with the occupied areas, where opportunities for corruption and smuggling threaten to undo the progress Ukraine has made against the country's oligarchs.

Given these circumstances, the Ukrainian public is critical of the Minsk agreements, blaming them for the failure to achieve peace and for one-sided political concessions. Most Ukrainians believe the occupied territories should be returned, but differ on how to approach this. The majority prefers a variety of selective concessions to Russia and the self-proclaimed republics to a full-scale military assault, but does not want to see a total surrender to Russian and separatist demands.

Meanwhile, diverging realities are emerging in the occupied and newly liberated territories. In the occupied areas, the education and healthcare systems are haphazardly adopting Russian standards. Citizens there are subject to fierce separatist and Russian propaganda and have limited access to Ukrainian media. Travel restrictions often cement their negative perception of Ukraine as an unwelcoming homeland. In Ukraine's newly liberated districts, pre-war shortcomings in the social sector are exacerbated by a post-war reality in which a simmering conflict can instantly boil up. The government is struggling to remedy the damage of the occupation without a public consensus on how to interact with these areas.

Moving forward will require examining a number of options and settling on a mix that would ensure the ultimate goal of re-integrating these areas into Ukraine. In foreign policy, the dilemma is whether to stick with the Minsk agreements despite their deficiencies, or to abandon them in hope of a better deal. At present, the advantages of working within the Minsk framework outweigh the negatives, as Ukraine is able to keep its Western partners engaged and achieve incremental progress. In domestic policy, the choices are far more varied, from pursuing complete or limited isolation of the occupied areas, to engaging in partial normalization or their limited re-integration. Each scenario carries advantages and drawbacks. Putting all the different options on the table for public debate would not only help consolidate public opinion around possible concessions and "red lines," but also prepare Ukraine for the even more difficult task ahead: bringing the country together to build a truly democratic and European state, which was the original promise of Euromaidan.

1. INTRODUCTION

The popular overthrow of President Viktor Yanukovich in early 2014 produced a cascade of events that ushered in a new chapter in Ukraine's post-independence development. The ensuing Russian annexation of Crimea and its active involvement in the conflict in two regions of eastern Ukraine¹ exposed the fragility of Ukraine's institutions and threatened the country's existence as an independent state. Although Ukraine survived this assault on its sovereignty, it paid a heavy price in human lives and territory. Two and a half years later, the conflict in Donbas is still simmering and the return of Crimea remains only a distant prospect predicated on fundamental changes in the nature of the Russian authoritarian system.

This paper addresses three gaps in the policy debate on the conflict in eastern Ukraine. First, much of the present discussion has been forward-looking, suggesting where we want to end up without always starting from a candid account of where we are. However, since the latter would inevitably inform the former, it is important to take stock of current developments. Second, when attempts are made to talk about the present state of affairs, the accounts are frequently mono-dimensional, looking at the security situation as the most pressing issue. But because the roots of the conflict are complex, resolving it would require tackling many of them at the same time, from grappling with realities on the ground, to understanding the cost of re-integration, to knowing the limitations for compromise at home and abroad. Third, in Ukraine every scenario to resolve the conflict is frequently portrayed as the best available option, downplaying its costs and inflating its benefits. This creates a false sense that there is a silver bullet that would not require painful mutual compromises and concessions.

Written by a team of authors, this paper takes an audit of the Minsk agreements and the situation with re-integrating the occupied territories in eastern Ukraine. It does so by looking at four distinct dimensions: foreign policy, economy, public opinion, and field realities. The last part of this research then builds on the findings in each of these areas and outlines a series of options Ukraine has for addressing the conflict. Mirroring the conversation in Ukraine's civil society and expert community, the proposed options are subject to intense debate among the authors, and therefore the paper eschews specific recommendations. However, outlining these options explicitly with their benefits and shortcomings is an undertaking useful in itself, as it can help Ukraine and its Western partners to arrive at a combination of solutions that would achieve the ultimate goal of re-integrating these areas into Ukraine and restoring its territorial integrity.

2. THE MINSK AGREEMENTS: THE ART OF THE NEGOTIABLE

September 5, 2016 marked two years since the signing of the Minsk protocol (also known as "Minsk-1"), a ceasefire agreement supported by the OSCE, Russia, Ukraine, and two unrecognized republics in the east of Ukraine, the "DNR" and "LNR."² A subsequent memorandum on September 19, 2014 established the line of contact between Ukraine and the self-proclaimed republics. The ceasefire did not hold, with constant shooting and major battles, like the one for Donetsk airport in late 2014 and also for Debaltseve in early 2015, with the latter constituting a major breach of the agreed contact line. To stop further escalation and a rapidly mounting number of casualties, "The Package of Measures for the

¹ The paper uses several terms (e.g., the occupied territories, separatist-held areas, the so-called DNR and LNR, Donbas) interchangeably to describe these districts in eastern Ukraine.

² The so-called DNR [Donetska Narodna Respublika] is the Donetsk People's Republic and the so-called LNR [Luhanska Narodna Respublika] is the Luhansk People's Republic.

Implementation of the Minsk Agreements” (“Minsk-2”) was signed by the same parties and endorsed by the Normandy format—the leaders of Germany, France, Ukraine, and Russia³—on February 12, 2015.

2.1. The Minsk framework: the devil in sequencing

The Minsk-1 and Minsk-2 agreements are similar, but not identical in content. They put forward the same set of measures, such as ceasefire, disarmament, withdrawal of troops and weapons, amnesty, exchange of prisoners, etc. Both agreements also focus on internal means of conflict settlement like decentralization of power and local elections, an approach that clashes with Ukraine’s understanding of the conflict as inter-state and implicitly supports Russia’s view of the situation in Ukraine’s east as a civil war.⁴

Both documents are more ceasefire than conflict settlement agreements. The international experience of conflict resolution suggests that a conflict settlement agreement should be sufficiently detailed not to allow for various interpretations.⁵ Both Minsk-1 and Minsk-2 are too short and too vague, leaving room for each party to interpret their provisions differently. Despite creating an illusion that Minsk-2 builds on what has been agreed under Minsk-1, the agreements have significant differences. Negotiated under significantly worse terms for Ukraine during the heavy battle for Debaltseve, Minsk-2 is more detrimental to Ukraine as it suggests that Ukraine will assume full control over its border with Russia only after local elections on the occupied territories. It demands a special status of self-governance be granted to some districts in Donetsk and Luhansk oblasts by the constitution and legislated by law. In contrast, Minsk-1 envisioned a security zone at the Russian-Ukrainian border monitored by the OSCE, had no demands for constitutional reform in Ukraine, and did not suggest a sequence of conflict resolution measures.

Minsk-2 takes priority over Minsk-1 because the former was endorsed by UN Security Council Resolution 2202. In March 2015, EU economic sanctions against Russia were also aligned with the implementation of the Minsk agreements. If implemented rapidly and without a clear sequence of steps, the Minsk-2 agreement could lead to an escalation of the conflict. Apart from its erroneous focus on a special status for the occupied regions, which in a concession to the aggressor assumes that Ukraine fights a civil war, its key weaknesses are the absence of a clear sequence of conflict settlement measures and the lack of a detailed implementation timeframe. If Ukraine were to proceed with holding elections in an environment when foreign weaponry and troops can still enter the occupied territory through the uncontrolled Ukraine-Russia border, this would pose a risk of renewed hostilities. Multiple studies suggest that having elections after less than 2-5 years of a stable ceasefire would not lead to a sustainable peace, because such a period between the cessation of hostilities and elections is needed to create conditions for genuinely fair voting by establishing an equal playing field for political forces, a balanced media environment, ensuring the participation of IDPs, and more.⁶

³ The Normandy format was launched on June 6, 2014, when the leaders of these countries met in Normandy on the margins of the 70th anniversary of the D-Day Allied landing to address the conflict in Ukraine.

⁴ See, for example, Svitlana Kobzar, “Mind the Gap: Interpreting the Minsk II Agreement,” *Institute for European Studies*, Issue 2016/3, <http://www.ies.be/files/Policy%20Brief%202016:3.pdf>

⁵ For example, the Dayton agreement contained 11 annexes that provided scrupulous instructions for, *inter alia*, observation of ceasefire, weapons withdrawal, and decommissioning. The Peace Accords for Angola (Bicesse Accords) encompassed four agreements, which specified a detailed schedule for disarmament, a scheme for artillery withdrawal, and a day-by-day plan for election preparation. See Kateryna Zarembo (ed.), “Local Conflict Settlement Practices Around the World. Lessons for Ukraine,” Institute of World Policy, Kyiv, 2016, <http://iwp.org.ua/eng/public/1906.html>

⁶ Thomas Edward Flores and Irvan Nooruddin, “The Effect of Elections on Postconflict Peace and Reconstruction,” *Journal of Politics*, Vol. 74, No 2, April 2012, pp. 558-570. Benjamin Reilly, “Post-War Elections: Uncertain Turning Points of Transition,” A.K. Jarstad and T.D. Sisk (eds.), *From War to Democracy: Dilemmas of Peacebuilding*, Cambridge: Cambridge University Press, 2008, p. 157–181.

However, the Minsk agreements are not devoid of strengths. Their strongest side lies not in the texts, but in their political implications. The Normandy format works to Ukraine's benefit not only because the Ukraine-Russia dialogue takes place in the presence of external parties, but also because Germany and France have avoided positioning themselves as neutral brokers in this conflict. Angela Merkel and Francois Hollande have repeatedly highlighted that Russia is responsible for the war in eastern Ukraine. Merkel in particular has been fully engaged in the tiresome process of conflict settlement and has not given in to Russian and domestic pressure. The second positive aspect of Minsk-2 pertains to sanctions. In March 2015, EU leaders aligned the existing sanctions regime to the complete implementation of the Minsk agreements. The European Council revises the prolongation of the sanctions on a semi-annual basis after assessing the implementation of the agreements. Currently, the sanctions are extended until January 31, 2017. Hence, the penalties for failing to implement the Minsk agreements apply only to Russia, not Ukraine.

2.2. Minsk implementation: running in place

Minsk-2 provides for conflict settlement measures in the political, security, socio-economic, and humanitarian spheres. A Trilateral Contact Group comprised of Ukraine, Russia, and the OSCE oversees its implementation. Except for bi-weekly meetings of this group, none of the benchmarks set out in the Minsk-2 agreement have been fully achieved. As the number of monthly explosions in the graph below demonstrates,⁷ there is no durable ceasefire and consequently no security/buffer zone between the government-controlled and occupied areas (points 1 and 2 of the agreement). The conflict continues to simmer.



⁷ The data comes from daily reports of the OSCE Special Monitoring Mission to Ukraine <http://www.osce.org/ukraine-smm/reports>. The authors are grateful to Olga Lymar and Yana Sayenko of the Institute of World Policy for its aggregation.

From the signing of Minsk-2 in February 2015 through July 2016, 3,888 people were killed. This accounts for 41 percent of all civilian and military casualties in the conflict. Though the number of victims in this period fell when compared to the peak of fighting in 2014, on average 222 people (mostly military personnel) are dying per month.⁸

The OSCE Special Monitoring Mission (SMM) has not been able to fully monitor and verify the ceasefire and weapons withdrawal not only because there has been no ceasefire as such, but also because both sides in the conflict have denied access to the SMM to various locations and sites, although the separatists have done so more frequently. For instance, in 2016 the so-called DNR and LNR obstructed SMM's access five times more often than Ukrainian forces.⁹ There has been some progress in removing heavy weaponry and exchanging prisoners, though none of the measures has been fully implemented. The majority of heavy weaponry, such as tanks and multiple rocket launchers, has been moved 15 km away from the contact line on both sides. However, snipers, infantry-fighting vehicles, and heavy machine guns remain positioned as before.¹⁰ As of September 22, 2016, 112 Ukrainian citizens continue to be prisoners of "DNR/LNR," with another 498 missing. The "DNR/LNR" have requested Ukraine release over 600 prisoners allegedly detained by the Ukrainian forces.¹¹

2.3. The Normandy format and beyond: invisible achievements

The major weakness of the Minsk agreements is that they put the largest burden for their implementation on Ukraine, whereas the "DNR" and "LNR," which are Russia's proxies in the conflict, are responsible for fulfilling only a limited set of security measures. When it comes to the political component of Minsk-2, such as constitutional amendments and legislation on the status of these territories, amnesty, and elections there, progress is expected from Ukraine alone. This mistakenly assumes that, in a conflict where Russia has multiple means to re-ignite or cool down the fighting, Ukraine by itself can ensure a successful political settlement.

After almost two years, Ukraine has succeeded in negotiating the details for implementing the Minsk agreements, which provide it with some space for maneuver. Over this period, the positions of the leaders of the Normandy format and the U.S. have also evolved dramatically with regard to sequencing the conflict resolution measures. In 2015, they focused on Ukraine's constitutional reform, which would have enabled meeting the initial deadline for fulfilling the agreement by the end of 2015. The issue was put on hold later after the Ukrainian parliament lacked the votes to support constitutional reform. In the first half of 2016, Ukraine was under pressure to adopt a law on elections on the occupied territories and hold them within 90 days afterwards.¹² At that time, Kyiv insisted that establishing secure conditions in the occupied territories (a stable ceasefire, disarmament, troop withdrawal, and control over the Ukraine-

⁸ The data comes from the situation reports of the Office of the United Nations High Commissioner for Human Rights in Ukraine <http://www.ohchr.org/EN/Countries/ENACARRegion/Pages/UAReports.aspx>

⁹ Data from daily reports of the OSCE Special Monitoring Mission (SMM) to Ukraine: <http://www.osce.org/ukraine-smm/reports>.

¹⁰ Denys Porovuch, "Донбаський прорив: Марчук розповів, про що домовилися у Мінську" [The Donbas breakthrough: Marchuk told what was agreed in Minsk], *Apostrophe.ua*, September 21, 2016, <http://apostrophe.ua/ua/article/politics/2016-09-21/donbasskiy-proryiv-marchuk-rasskazal-o-chem-dogovorilis-v-minske/7363>

¹¹ "Бойовики хочуть обміняти 618 їхніх полонених на 47 українців" [Separatists want to exchange 618 of their prisoners for 47 Ukrainians], *Ukrainska Pravda*, September 22, 2016, <http://www.pravda.com.ua/news/2016/09/22/7121390/>

¹² "Ukraine/ministerial meeting in the "Normandy" format, statement by M. Jean-Marc Ayrault, Minister of Foreign Affairs and International Development, following the meeting, Paris, March 3, 2016. *Embassy of France in Washington, DC*, <http://franceintheus.org/spip.php?article7405>

Russia border by an international “police” mission) was the prerequisite for implementing the “political” component of the agreement and proceeding with elections.

In the end, the parties have different views on sequencing conflict settlement measures. Russia wants to implement the political aspects of Minsk before the security measures. Ukraine would like security to come ahead of the political steps. Germany and France want a middle ground where both political and security steps happen at the same time. For example, though they expect Ukraine to adopt an election law in these areas regardless of the security situation there, they realize that elections can only take place under appropriate security conditions. Thus far, Ukraine has succeeded in receiving support for the “security first” approach from its European and American partners, as evidenced by the statement of German Foreign Minister Frank-Walter Steinmeier in May, that “in eastern Ukraine security is not everything—yet without security there is nothing.”¹³

The Minsk process has also managed to increase U.S. involvement in resolving the conflict. Despite the fact that President Obama is the only American president to never visit Ukraine during his tenure, the United States has been consistently engaged through an informal track. In addition to a Special Envoy to the Minsk process at the U.S. Embassy in Kyiv, Assistant Secretary of State for European and Eurasian Affairs Victoria Nuland and U.S. National Security Advisor Susan Rice are in charge of the Russia-Ukraine conflict portfolio. Though formally not a part of the Normandy format, the U.S. regularly consults with Germany, France, Ukraine, and Russia and at times offers creative solutions, like “security bubbles”¹⁴ on the contact line between Ukraine and the “DNR/LNR.”

Currently, the Normandy format and its dynamics favor Ukraine. EU High Representative Federica Mogherini has stated that “we always have to remember that when we talk about the sovereignty of Ukraine, we also have to take that in mind and respect the sovereignty of Ukraine in its own decisions, whether they want to lead or how far they want to accept a deal concerning their own future.”¹⁵ The current U.S. administration is also not ready to step up the settlement process at the expense of Ukraine, even for its own geopolitical gains, like settling the conflict before the end of Barack Obama’s presidential term or linking it to the Syrian crisis.

As a result, Russia has been disappointed with the lack of pressure on Ukraine from Germany and France. In August 2016, Russia attempted to disrupt the Normandy format by claiming that it “makes no sense” any longer,¹⁶ only to backtrack later, with President Putin confirming his readiness to continue the negotiations. Russia is grappling with how to deal with the prevailing “security first” approach. On the one hand, the consensus between the EU, U.S., and Ukraine holds that until a stable ceasefire, there can be no further political steps and elections. So if Russia wants to reintegrate the occupied territories into Ukraine and use them as leverage on Kyiv’s foreign policy, it should be interested in upholding the ceasefire. On the other hand, Russia’s military presence in the occupied territories, which creates a latent

¹³ Normandy format meeting in Berlin – Steinmeier: Progress towards enhancing security in eastern Ukraine. Press release, *Federal Foreign Office of the Federal Republic of Germany*, May 11, 2016, http://www.auswaertiges-amt.de/EN/Infoservice/Presse/Meldungen/2016/160511_Ukraine.html

¹⁴ The idea of the security bubbles is attributed to the U.S. Based on the framework agreement signed by the Trilateral Contact Group on September 21, 2016, it envisages full and complete troops and arms withdrawal around three “test” areas: Stanytsia Luhanska, Zolote, and Petrivske. If implemented successfully, this model could be taken to other areas along the contact line.

¹⁵ Federica Mogherini, “Responding to Foreign Affairs and Security Challenges in the EU’s Neighborhood,” interview by Quentin Peel, Chatham House, February 24, 2015, <https://www.chathamhouse.org/sites/files/chathamhouse/field/document/20150224RespondingtoForeignAffairsandSecurityChallengesintheEU.pdf>

¹⁶ Alexander Baunov, “The Crimean Saboteurs and Russia’s New Ultimatum,” *Carnegie Moscow*, August 19, 2016, <http://carnegie.ru/commentary/2016/08/19/crimean-saboteurs-and-russia-s-new-ultimatum/i3ri>

threat of immediate retaliation and possible further aggression, is a key trump card that Russia is unwilling to withdraw because it would weaken its bargaining position.

In its turn, Ukraine's Western partners are pressing it to deliver on its commitments once the security situation improves. As Western diplomats note in private discussions, if this does not happen, Ukraine would risk losing the support of its Western partners. Cognizant of this dynamic, in summer 2016 Ukraine prepared and discussed a draft election law in the Normandy format at the level of advisors. The draft has not been publicly circulated or registered in parliament.

Finally, some Western mediators have recently begun tying the continuation of sanctions against Russia to the progress in reforms in Ukraine.¹⁷ Though the pace and nature of domestic reforms have always featured prominently in Ukraine's dialogue with its Western partners, establishing a linkage between internal changes and a conflict instigated externally to prevent these very changes risks shifting pressure from the aggressor to the victim and would be counterproductive to any conflict settlement.

3. THE COST OF THE CONFLICT: PAYING FOR GUNS AND BUTTER

The 2008 financial crisis hit Ukraine harder than any country in the region,¹⁸ leading to a significant GDP drop,¹⁹ currency devaluation,²⁰ increased unemployment,²¹ greater poverty and social vulnerability of the population.²² After a weak and slow recovery, Ukraine lapsed into recession in 2012. When Euromaidan toppled President Yanukovich two years later, the economy was mired in structural distortions, vested interests, and low institutional capacity in the national and local governments. These weaknesses deepened the devastating effect of the Russian military action and plunged the Ukrainian economy into another deep economic crisis. Despite such dire circumstances, in 2014-2015 the new Ukrainian government was able to attain some macroeconomic stabilization. With the assistance of the IMF, the EU, and other international partners, Ukraine started to implement liberal economic reforms. Though the path has been marred by periodic political crises and infighting, Ukraine has stayed the course with slow, yet steady progress.²³

3.1. Economy under attack: off the deep end and back

In 2013, prior to the military conflict, the Donetsk and Luhansk regions accounted for 14.4 percent of Ukraine's GDP. Their share of industrial production and exports amounted to 25 percent.²⁴ Mining (coal

¹⁷ "Байден: недостатні реформи в Україні підбивають режим санкцій проти Росії" [Biden: insufficient reforms in Ukraine undermine the sanctions regime against Russia], *Radio Svoboda*, September 22, 2016. <http://www.radiosvoboda.org/a/news/28005858.html>

¹⁸ In 2009, Ukraine's GDP fell by 14.8 percent, and the national currency, the hryvnia, lost 40 percent of its value – from 5.26 per dollar in 2008 to 7.79 hryvnia per dollar in 2009.

¹⁹ Since precise information from the occupied territories is no longer available, the Ukrainian statistical agency recalculated GDP and other indicators without the occupied territories. According to that data, Ukraine's GDP fell by 6.6 percent in 2014 and 9.9 percent in 2015. It forecasts a GDP growth of 1.5 percent in 2016. This would bring the country's GDP to 85 percent of its 2013 level.

²⁰ Over 300 percent devaluation: from 7.99 hryvnia per dollar in 2013 to 25.37 hryvnia per dollar in the first six months of 2016.

²¹ From 7.8 percent of the working-age population in 2013 to 9.5 percent in 2015, according to the ILO methodology.

²² The UNDP report "Millennium Goals Ukraine: 2000-2015" estimates that "out of 6 million people in the anti-terrorist operation zone and nearby areas, more than 5 million became poor or vulnerable to poverty due to the armed conflict, regardless of whether they moved to another part of the country or remained in their places of permanent residence. For a full version of the report visit: <http://www.ua.undp.org/content/ukraine/en/home/library/mdg.html>

²³ Vox Ukraine performs a bi-weekly evaluation and review of reforms in Ukraine. Please see http://imorvo.in.ua/?page_id=609

²⁴ A draft strategy of the state program for rebuilding the Donbas region: http://195.78.68.90/4a1a2b23/docs/25110a08/Projekt_rozporvadzhennya.pdf

and coke extraction), metallurgy, machine-building, and the chemical industry have been key to eastern Ukraine. The outdated and inefficient structure of the regional economy²⁵ contributed to the scale and development of the conflict. Violence occurred predominantly in areas with machine-building industry enterprises²⁶ that sent exports mostly to Russia and would not be competitive in other markets. Violence was much less frequent in areas with mining and other industries, which sold the bulk of their products within Ukraine or exported them to the rest of the world.

The occupied territory covers over 1.6 million hectares of agricultural land valued at 30 billion hryvnia (1 billion euro).²⁷ It is also home to the largest urban centers and industrial enterprises in the region. The latter include the country's largest steel and pharmaceutical plants and the entire supply chain for the anthracite coal used by half of Ukraine's heating power plants. The estimated GDP loss as a result of the war ranges from 8 to 15 percent. The rest of Ukraine, excluding Crimea and the occupied territories in the east, saw its gross regional product (GRP) decline by 15.8 percent in 2014-2015. The economic activity of small and medium-sized enterprises (SMEs) in Donetsk and Luhansk regions dropped by 80-90 percent. Almost 40,000 SMEs stopped their operations altogether. Some of the large plants continue to operate, although at a considerably smaller scale.²⁸ In 2014-2015, Ukraine is estimated to have lost about 50 billion hryvnia (about \$2.3 billion) in taxes from the occupied territories.²⁹ This would amount to 5-6 percent of annual tax revenue.

The loss of these territories has reduced state expenditures for public administration, education and healthcare services to their citizens. Currently, central government spending on public administration in government-controlled parts of Donetsk and Luhansk regions is 85 percent of its pre-war level. The government also does not provide pensions and other benefits to those who live in the occupied areas.³⁰ The largest savings for the state come from a ten-fold reduction in budgetary support to the coal industry, from 0.8 percent of GDP (2008-2013 average) to 0.09 percent of GDP (2015).

Over \$1.5 billion would be needed to facilitate an economic recovery of the occupied territories, with \$1.2 billion of that amount going to rebuilding infrastructure.³¹ The Ukrainian government estimates that over 11,000 houses, more than 70 hospitals, and 350 educational institutions have been destroyed or severely

²⁵ In 2013, 50 percent of employees in Donetsk oblast and 43 percent in Luhansk oblast worked at large enterprises. Only 18 percent and 19 percent in each region respectively were employed at small firms with fewer than 50 employees. In Ukraine as a whole, large firms employ 25 percent of the workforce and small ones 44 percent.

²⁶ Yuri Zhukov, "The economics of rebellion in eastern Ukraine," *Vox Ukraine*, November 10, 2015, <http://voxukraine.org/2015/11/10/the-economics-of-rebellion-in-eastern-ukraine/>

²⁷ "Відродження Донбасу: оцінка соціально-економічних втрат і пріоритетні напрямки державної політики" [Rebuilding Donbas: an assessment of social and economic losses and priorities for state policy], National Academy of Science of Ukraine, 2015, http://www.idss.org.ua/arhiv/2015_23_09_Donbass.pdf

²⁸ Ibid. According to the same source, the decline in industrial production in Donetsk and Luhansk regions in 2013-2016 is estimated at 60-70 percent.

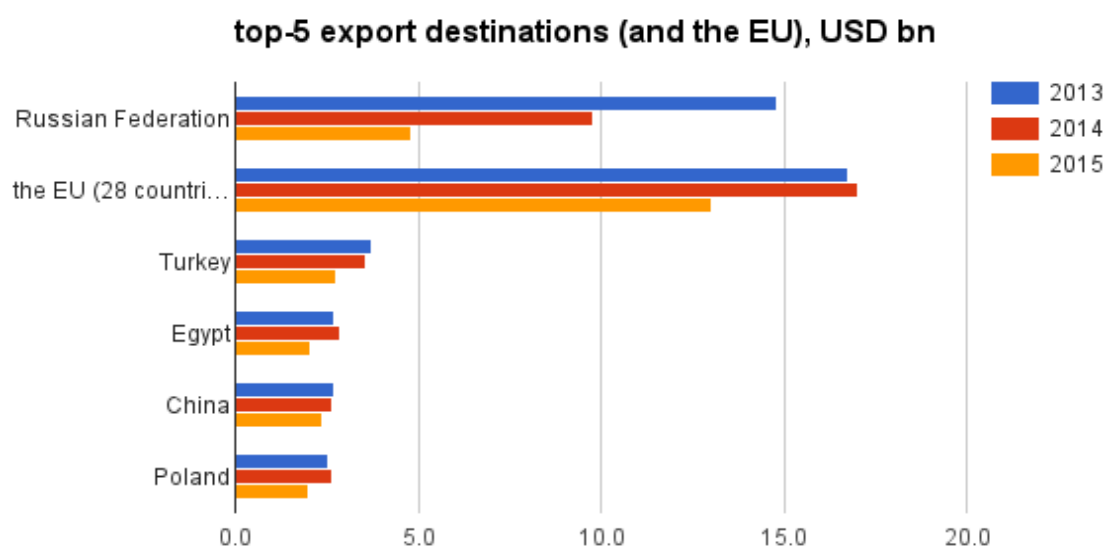
²⁹ Galyna Kalachova, "Ціна війни: скільки податків втратив бюджет через АТО" [The pricetag of war: how much tax the budget lost because of the ATO], *Ukrainska Pravda*, August 30, 2016, <http://www.epravda.com.ua/publications/2016/08/30/603534/>

³⁰ In the late 2014, Russia started paying pensions and social benefits to people in the occupied territories. Crisis Group estimates that together with financing the local "governments" and military expenditures, these payments may cost Russia about \$1 billion per year. "Russia and the Separatists in Eastern Ukraine," Crisis Group Briefing #79, February 5, 2016, <https://www.crisisgroup.org/europe-central-asia/eastern-europe/ukraine/russia-and-separatists-eastern-ukraine>

³¹ "Ukraine: Recovery and Peace Building Assessment: Analysis of Crisis Impacts and Needs in Eastern Ukraine. Volume I: Synthesis Report," World Bank, March 2015, <http://documents.worldbank.org/curated/en/879011468188335375/pdf/96487-REPLACEMENT-FILE-WP-v1-Box391453B-PUBLIC-RPA-A4-Vol1-Eng-Web.pdf> and "Ukraine Recovery and Peace Building Assessment: Analysis of Crisis Impacts and Needs in Eastern Ukraine. Volume II: Full Component Reports," World Bank, March 2015, <http://documents.worldbank.org/curated/en/543981467986311700/pdf/96487-REPLACEMENT-FILE-WP-v2-Box391453B-PUBLIC-RPA-A4-Vol2-Eng-Web.pdf>

damaged.³² Damage to the electricity grid, water and gas pipelines, and other infrastructure objects potentially affect over 4.5 million people.³³ Since recapturing some territories in these regions in 2014, the government has not finished restoring their housing and infrastructure.

In addition to backing separatists, Russia has engaged in economic warfare against Ukraine. For example, it banned the import of Ukrainian agricultural products and transit of goods. In retaliation, Ukraine banned exports of some military or dual-purpose products to Russia. The exact effect of these actions is hard to estimate because the simultaneous drop in world commodity prices also contributed to the fall in the value of Ukrainian exports. Nonetheless, the scale of the economic downturn can be assessed by looking at foreign trade numbers: between 2013 and 2015 the value of Ukrainian exports fell from \$67 billion to \$41 billion and the value of imports declined from \$79 billion to \$39 billion. On the positive side, the current account deficit dropped from 9.2 percent of GDP in 2013 to 0.3 percent of GDP in 2015.



Source: State statistics service of Ukraine

In response to Russia's military action and economic blockade, many Ukrainian firms began to diversify markets for their products and look for new suppliers. Although Russia still remains Ukraine's largest trading partner, its share in Ukrainian exports has dropped from 24 percent in 2013 to 9.6 percent in the first half of 2016. Whereas Ukraine used to buy over 30 percent of its imports from Russia, it now purchases only 12 percent. This effect is mostly due to switching from Russia to the EU as Ukraine's natural gas supplier.³⁴

³² Cited in *Rebuilding Donbas: an assessment of social and economic losses and priorities for state policies*, http://www.idss.org.ua/arhiv/2015_23_09_Donbass.pdf

³³ Ibid.

³⁴ For details, please see the diagram above.

Finally, since the start of the military intervention, Ukraine has almost tripled its defense spending – from 1 percent of GDP in 2013 to 2.8 percent of GDP (\$2.7 billion) in 2016.³⁵ Though this increase in military expenditures diverts state funding from potentially more productive uses in the economy, it may boost growth in the armament and related industries.

Ukraine receives non-lethal military supplies and military training from the U.S., Canada, Japan, and EU countries. By now, its value exceeds \$200 million.

3.2. Social costs: calculating the incalculable

Ukrainian legislation offers benefits to former war combatants and provides lump-sum payments and housing for families of deceased soldiers. In 2014-2016, these payments amounted to \$115 million.³⁶ Though the cost of other benefits is difficult to estimate because they are not itemized in the budgets for healthcare or social protection, they have definitely increased since the beginning of the war.³⁷ Croatia's experiences suggest that these expenditures may increase even without any escalation of the conflict,³⁸ because combatants' physical and psychological traumas have long-lasting effects.

Ukraine runs several support programs for internally displaced people (IDPs) from Crimea and the occupied areas in the East. Though over 1.7 million are registered as IDPs,³⁹ the actual number may be half of that figure.⁴⁰ Registered IDPs are entitled to lump-sum subsistence payments and housing subsidies. In 2014-2016 direct payments to IDPs amounted to \$305 million. In addition to these monetary benefits, IDPs are entitled to enroll in an employment program,⁴¹ which is estimated to cost the government 8.76 billion hryvnia (\$350 million) in 2016.⁴² IDPs inevitably put strain on scarce educational and healthcare resources in the neighboring urban areas in eastern Ukraine where they mostly relocate. This creates tensions with locals and requires additional support for those areas.

In response to anecdotal evidence that some people are receiving pensions and social benefits from both Ukraine and the self-proclaimed "DNR" and "LNR," the Ukrainian government is currently verifying the list of recipients for social benefits to cut off those who are not eligible by economic criteria and those who are registered as IDPs but live in the occupied territory. This is a controversial approach. On the one hand, the government believes those who do not support the Ukrainian state should not benefit from its already struggling welfare system. On the other hand, many who stayed on the occupied territories decided to do so for a variety of personal and economic reasons that have nothing to do with their allegiance to Ukraine.

³⁵ For comparison, spending on law enforcement (police, prosecution and courts) remains relatively stable at 2.6 percent GDP.

³⁶ Please see the Виконання державного бюджету [Implementation of the state budget], *State Treasury Service of Ukraine*, <http://www.treasury.gov.ua/main/uk/doccatalog/list?currDir=146477>

³⁷ Public expenditures on healthcare decreased from 4.2 percent of GDP in 2013 to 3.6 percent of GDP in 2015. However, this cost reduction is attributed mostly to optimization of healthcare institutions (the i.e., reduction of hospital beds and the reorganization of hospitals). Additionally, significant support for military hospitals and wounded soldiers is provided by volunteers, foreign governments, and international organizations.

³⁸ Mladen Pupavac and Vanessa Pupavac, *Veteran protests in Croatia*, November 13, 2014, <http://nottspolitics.org/2014/11/13/veteran-protests-in-croatia/>

³⁹ Valentyna Smal and Oleksiy Pozniak, "Внутрішньопереміщені особи: соціальна та економічна інтеграція у приймаючих громадах" [Internally displaced people: social and economic integration in recipient communities], Project Promise publication, 2016, http://pledgg.org.ua/wp-content/uploads/2016/05/IDP_REPORT_PLEDDG_edited_09.06.2016.pdf

⁴⁰ Draft of the Cabinet of Ministers resolution "On Approving the Concept [Note] for the State Targeted Program Restoring and Building Peace in the Eastern Regions of Ukraine," 2016, http://195.78.68.90/4a1a2b23/docs/25110a08/Proekt_rozporядzhennya.pdf

⁴¹ Kalachova, <http://www.epravda.com.ua/publications/2016/08/30/603534/>

⁴² The total expenditures of the national government in 2016 constitute about \$27 billion.

Alienating those who support Ukraine and have to endure the horrors of occupation may not be the best approach to keep them loyal to the country.

A number of studies on Abkhazia, South Ossetia and Transnistria point out that “the only viable strategy for reunification is mutual political engagement and economic integration.”⁴³ Surveys in the frozen conflict zones show that although people there are economically worse off than in the mainland, they believe they are doing much better thanks to pervasive separatist propaganda in those regions. Since the Ukrainian media cannot broadcast to the occupied territories for technical reasons, one of the few available ways to reach people there is by strengthening their economic ties with Ukraine through state-provided services.

Humanitarian aid distributed by different Ukrainian civic groups and international organizations lowers the pressure on the Ukrainian state budget. Its total amount is hard to calculate because much of it goes unreported or is reported in commodity units. However, in 2014-2015 UNHCR alone spent at least \$12-13 million in Donbas.⁴⁴ It claims another \$38.4 million will be needed for 2016.

Ukraine has received even more that cannot be measured in dollars. The support of thousands of volunteers and millions of ordinary people in Ukraine to the army and IDPs is invaluable, although hard to estimate in economic terms. Volunteer battalions supplemented regular army units at the beginning of the conflict. In 2014 and the first half of 2015, except for weapons, all army supplies (such as food, clothing, thermal cameras, tablet computers, armored jackets, helmets, and vehicles) were procured and delivered by volunteers and financed by the contributions of Ukrainians all over the world. Some of those volunteers are now working in the Ukrainian ministry of defense reforming its inefficient management and procurement systems. Volunteers, many of whom are IDPs themselves, organized IDP support centers, which at first provided basic supplies and now work on long-term support, such as legal and employment assistance. In general, Euromaidan and Russian aggression galvanized civic activity. Supported by Ukraine’s foreign partners, many activists and civil society groups have been engaged in developing and promoting liberal reforms.

3.3. Slow corrosion: economic effects of the occupation

After “Minsk-2,” the separation line between the occupied and government-held areas has remained fixed despite constant attempts by Russian-backed separatists to push it west.⁴⁵ Although the Ukrainian government tries to minimize the trade between the occupied territories and the rest of Ukraine, much evidence suggests that consumer goods and industry supplies still travel between the two. For instance, Ukraine’s largest steel producer MetInvest, which uses coal and other raw materials from the occupied territories, recently protested after railway transportation was temporarily suspended in 2016.⁴⁶ The supply of consumer goods from Ukraine has been greatly curtailed, which has helped increase the reliance

⁴³ Eric Livny and Tom Coupe, “Handling Frozen Conflicts: the Economic Angle,” *Vox Ukraine*, October 18, 2014, <http://voxukraine.org/2014/10/18/handling-frozen-conflicts-the-economic-angle/>

⁴⁴ A note on UNCHR’s assistance to IDPs in Ukraine: <http://unhcr.org.ua/en/2011-08-26-06-58-56/news-archive/1319-unhcr-assistance-to-idps-in-ukraine>

⁴⁵ For instance, Crisis Group cites evidence of the constant shelling of Ukrainian positions orchestrated by Russia and smuggling of goods across the frontline. “Ukraine: the Line,” *Crisis Group Briefing #81*, July 18, 2016, <https://www.crisisgroup.org/europe-central-asia/eastern-europe/ukraine/ukraine-line>

⁴⁶ See a press release by Metinvest group on the suspension of railway traffic in April 2016: <http://www.metinvestholding.com/ua/press/news/show/7228>

on Russian goods in these areas.⁴⁷ The restrictions on the movement of goods and people have turned the occupied territories and the separation line into a fertile land for corruption and extortion⁴⁸ by the Ukrainian side and the separatists.

Because the Ukrainian stock of anthracite coal remains in the occupied territory, electricity-generating companies have had to import coal at a higher price, with some deliveries from as far away as South Africa last year. To cover the losses of electricity-generating companies, the National Commission for Regulating Energy and Communal Services doubled electricity tariffs between 2014 and 2016. If claims⁴⁹ of “imported” coal being delivered from the occupied territories are true, this new arrangement not only creates new opportunities for corruption, but also strengthens the Ukrainian oligarchs whose influence as a political class has declined after their assets lost value⁵⁰ since the Revolution of Dignity.⁵¹

Finally, in the long term a military conflict in Donbas will continue to hamper Ukraine’s investment climate. A recent survey of foreign investors rates the conflict as the third major obstacle to foreign investment in Ukraine, after corruption and low trust in the judiciary.⁵² The good news is that these other factors are totally within the control of Ukrainian government, which unfortunately has implemented reforms only under constant pressure from Ukrainian civil society and foreign partners.

4. THE SWINGING PENDULUM: PUBLIC OPINION ON THE OCCUPATION IN THE EAST

Since August 2014, the Minsk negotiation process has been a key issue in Ukraine’s domestic political discourse. At the end of the last year, the overwhelming majority of Ukrainians (78.5 percent) believed that authorities should focus on finding a solution to the conflict in the occupied parts of Donetsk and Luhansk regions and achieve its peaceful resolution. It is telling that even fighting corruption and economic issues, Ukraine’s perennial sore spots, ranked as lesser priorities in people’s “must-do” list for the government.⁵³ As a result, the Minsk process and a number of issues related to the conflict receive considerable airtime in the national media and occupy a prominent place in the rhetoric of all political parties.

⁴⁷ For example, Russian *Kommersant* shows that supplies of Russian beer to Ukraine have tripled, and the majority of it goes to the occupied territories. Alekey Sokolov, “Пиво напиток универсальный и политике не подвержен” [Beer is a universal drink that is not affected by politics], *Kommersant*, September 13, 2016, <http://www.kommersant.ru/doc/3088210>

⁴⁸ Examples of investigations are here <http://nashreporter.com/readnews.php?read=10335> or here <http://strana.ua/articles/rassledovania/7964-ato-anatomiya-kontrabandy.html>

⁴⁹ Matvey Nikitin and Roman Kirichenko, “Операция «Легализация». Как Медведчук и Ко «вПаривают» уголь Украине” [A “legalization” maneuver: how Medvedchuk and his team push coal on Ukraine], *Ukrainska Pravda*, February 3, 2016, <http://www.pravda.com.ua/rus/articles/2016/02/3/7097702/>

⁵⁰ See the Balasz Jarabik and Yulia Bila “And Then There Were Five: The Plight of Ukraine’s Oligarchs,” *Vox Ukraine*, June 29, 2015, <http://voxukraine.org/2015/06/29/and-then-there-were-five-the-plight-of-ukraines-oligarchs/>

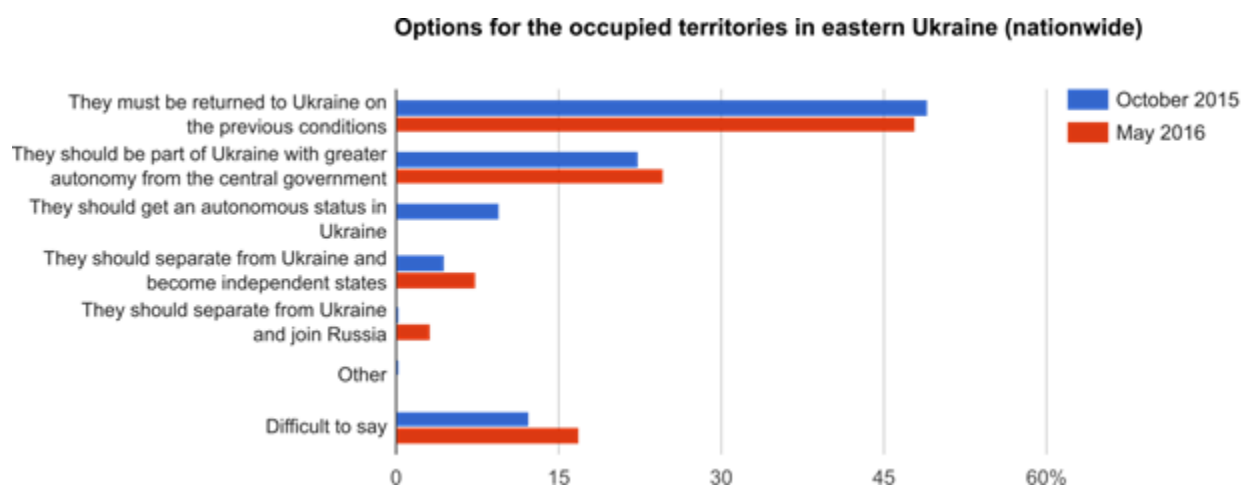
⁵¹ Without overstating the case, it can still be said that oligarchs continue to control largest media conglomerates and have influence over the legislative and executive branches. Wojciech Kononczuk, “Oligarchs after the Maidan: the old system in a ‘new’ Ukraine,” OSW Commentary No. 162, February 2015, http://aei.pitt.edu/61809/1/commentary_162_0.pdf

⁵² “Corruption and lack of trust in the judiciary in Ukraine are the largest obstacles for foreign investors,” *Dragon Capital Press Releases*, September 14, 2016, http://www.dragon-capital.com/en/about/media/press_releases/corruption_and_lack_of_trust_in_the_judiciary_in_ukraine_are_the_largest_obstacles_for_foreign_investors.html

⁵³ This section relies primarily on the polling from the Democratic Initiatives Foundation on this matter as the author had access to their primary data. National public opinion poll, “2015: political overview – public opinion”: <http://dif.org.ua/en/publications/press-relizy/2015-i-politichni-pja.htm>

4.1. Perceptions of the other: Ukraine and the occupied territories

The Ukrainian public firmly believes the occupied territories should be returned to Ukraine. There are differences, however, on how to do that. Almost half the population since 2015 staunchly supports an approach under which these areas would return to Ukrainian jurisdiction under pre-war terms.⁵⁴ Roughly a quarter favors a scenario under which these parts of the country receive more autonomy from the government in Kyiv. Independence or secession from Ukraine to join Russia receives only marginal support (7 percent and 3 percent, respectively).



Attitudes in the recently liberated areas in eastern Ukraine have undergone the most dramatic change. In October 2015, their residents supported two options in equal measure: granting the occupied areas greater autonomy and administrative powers upon their return to Ukraine, and returning to their pre-conflict status. By May 2016, public opinion on the eastern frontlines had caught up to the rest of the country, with 42 percent of respondents against granting the self-proclaimed “republics” any additional political powers.

Looking across the country, the insistence on returning to pre-war status varies depending on proximity to the conflict zone. Absolute majorities in the West and Center support returning to the pre-conflict status. The South is increasingly ready to accept greater autonomy to the occupied territories, with the share that supports that option growing from 29 to 39.5 percent from October 2015 to May 2016. In the East, public opinion is equally divided between returning these regions to their pre-war status and giving them more autonomy. The Ukrainian government also needs to be mindful that a sizeable share (at least a third) of the population in the East, South, and Donbas believe the occupied areas should receive more powers from the central government.

Table 2

Options for the occupied territories in eastern Ukraine (May, 2016)

	West	Center	South	East	Donbas
They must be returned to Ukraine on the previous conditions	62.2	53.6	26.4	38.4	42.3

⁵⁴ Ibid.

They should be part of Ukraine with greater autonomy from the central government	17.6	15.6	39.5	35.8	30.3
They should separate from Ukraine and become independent states	5.5	7.1	13.5	9.5	3.7
They should separate from Ukraine and join Russia	3.5	2.9	3.2	4.5	1.8
Difficult to say	11.2	20.7	17.4	11.7	22

4.2. Recipes for peace: negotiables and non-negotiables

The public has a critical view of the Minsk agreements due to their failure to achieve the sustainable ceasefire they were supposed to bring. Under these circumstances, any further negotiations on the political component (e.g., amendments to the constitution, elections in the occupied territories, etc.) are extremely controversial. Seen as one-sided concessions, they do not receive support from the majority of the population. The Ukrainian authorities need to heed these sentiments as an important element of making the Minsk agreement internally legitimate.

The Ukrainian public remains homogenous in how it sees the end of the conflict. Forty-one percent believe Russia should be forced to pull out of the occupied areas through international sanctions and pressure. Other options receive much lower public support. There is more variation of opinion on how Ukraine should interact with the occupied territories now. One-third of Ukrainians believe helping the newly liberated areas return to normal life would settle the conflict.⁵⁵ Twenty percent believe total termination of any financial assistance to the occupied territories and their people would be effective in settling it. Thirteen percent believe a “special status” or an election in these districts would solve the problem. Contrary to the arguments Russia has been pushing since the start of the conflict, Ukrainians do not find federalization a viable option. The idea of permanently giving up the prospect of NATO membership to solve the conflict also does not receive much support.⁵⁶

Elections in the occupied territories are often presented as the ultimate step to resolve the conflict and bring these areas into Ukraine’s political and legal realm. However, in addition to being unable to organize voting under the current security conditions, the Ukrainian government would struggle to sell their outcome domestically. The most widely held public position is that it is impossible to have elections in the occupied areas in the foreseeable future. This idea receives the majority support in the West (52 percent) and Center (51 percent), and more than one-third subscribe to this argument in the East and the newly liberated areas in Donbas. The second most popular position, with 33 percent support, assumes elections can take place with OSCE and other international organizations monitoring their conduct.⁵⁷ Only 9 percent think Ukraine should recognize any voting in the occupied areas as elections.⁵⁸

When asked about preconditions for a hypothetical election in Donbas, the respondents list elections’ full compliance with Ukrainian legislation (21 percent); presence of international monitors, like the OSCE, to observe that the process is free and fair (20 percent); Russian withdrawal from the occupied territories

⁵⁵ National public opinion poll, “Donbas: public opinion about the conflict,” Democratic Initiatives Foundation, <http://dif.org.ua/en/publications/press-relizy/donbass-public-opinion-about-conflict.htm>

⁵⁶ The ideas of “federalizing” Ukraine and giving up NATO membership prospect received only 7.5 percent of public support each. See the findings at: <http://dif.org.ua/en/publications/press-relizy/donbass-public-opinion-about-conflict.htm>

⁵⁷ National public opinion poll “Donbass: public opinion about conflict”. – Available at: <http://dif.org.ua/en/publications/press-relizy/donbass-public-opinion-about-conflict.htm>

⁵⁸ Ibid.

(20 percent), and Ukraine's full control over its border with Russia (18 percent).⁵⁹ Ukrainian citizens nationwide fully support the "security first" approach to conflict resolution.

Recognizing that the chances for immediate peace are slim, the public is warming up to other options that may bring it closer to peace. The most obvious example is the public attitude towards an international contingent in Donbas. In 2016, more people are supporting the idea of bringing a peacekeeping mission to the occupied regions. The positive shift is especially pronounced in the East and the liberated parts of Donbas. In the latter, for instance, the number of proponents for this solution grew from 16 to 39 percent between October 2015 and May 2016. The public preoccupation with finding additional mechanisms for conflict resolution introduces another point of contention in the Minsk negotiation process. In response to these demands, the Ukrainian side has been calling for deployment of some kind of international contingent in the separatist-held areas.

4.3. Ukraine and the occupied areas: ties that bind?

Because regaining control over the occupied territories may not be feasible in the near future, the Ukrainian public is grappling with how much contact it should maintain with these areas. At the moment, there is no public consensus about which path to pursue. Almost a quarter of the population supports full isolation of the self-proclaimed republics in the east. Nineteen percent support partial isolation, allowing residents in these regions to receive welfare benefits in the Ukrainian-controlled territories. Sixteen percent are in favor of their partial re-integration through gradual renewal of personal and economic ties, elections, contact with the self-proclaimed leadership of "DNR" and "LNR," and provision of a "special status" to these territories. Twelve and a half percent would choose a softer isolation that preserves some economic and trade linkages. Only five percent believe Ukraine should recognize these territories as independent states and establish diplomatic relations with them. Though isolation figures prominently, most answers are either about preserving some form of contact or maintaining readiness to resume relations under various conditions.

The public's readiness to keep the door half-ajar is driven by its overwhelming readiness to compromise to achieve eventual peace.⁶⁰ Only a minority of Ukrainian citizens (albeit a stable one) supports a military solution. However, the public thirst for peace should not be mistaken for consent to gain it at any price. The majority of Ukrainians still prefer a variety of selective concessions to Russia and the self-proclaimed republics to a total surrender to their demands. The change of heart on this issue in the liberated parts of the Donbas over the last two years is especially striking: the number of those who are ready for peace at any price has dropped from 59.5 percent to 29 percent. The lack of tangible progress in the negotiation process with Russia and the so-called DNR and LNR, and the gap between the Minsk commitments on ceasefire and humanitarian assistance and realities on the ground, may have persuaded many that giving up everything for peace would not work.

4.4. Finding the golden middle: public opinion and decision-making on Minsk

Public opinion on implementing Minsk has evolved in parallel to the Minsk process, but has been mostly disregarded by the government. This is unfortunate because it determines the Ukrainian authorities' maneuvering space. A stable and absolute majority of Ukrainian citizens believe in negotiations but would

⁵⁹ Ibid.

⁶⁰ The share of respondents who chose this option is 70 percent in the last DIF poll in May 2016.

not be ready to accept any compromise. The Ukrainian government will either have to discard certain solutions or start preparing the public well ahead of time for their eventual embrace.

Ukraine's partners in the West should also be aware of these dynamics as they push for local elections in the occupied territories in an effort to speed up the conflict resolution. Given the strong public support for the "security and ceasefire first" approach, a significant part of Ukrainian society may refuse to accept the legitimacy of a vote in these areas if such conditions are not met on the ground. This would increase domestic political instability in Ukraine as the public lashes back at state officials and institutions that are perceived to have accepted this compromise. President and parliament may take a particular hit as they are responsible for foreign policy and legislation on these issues.⁶¹ In the end, the move would undermine the very thing the West wants to foster—Ukraine's political stability.

Finally, any compromise foisted on Ukraine against the will of its people would dampen their trust in the West as a positive force that promotes the country's democratization and European integration. Though its effects may not be immediately apparent, the West might have to deal with a more cynical generation of Ukrainian leaders down the road who see foreign policy as a value-free transaction. This would not promote either stability or prosperity in the neighborhood so close and critical to the European Union.

5. UNVARNISHED REALITIES: THE CONFLICT ON THE GROUND

After two years of hostilities and trench warfare, two parallel realities are taking hold in the occupied territories in the East and the borderline regions in Ukraine proper. The growing differences between these areas in healthcare, education, and media affect people on both sides of the demarcation line who cannot access the public services and receive the social benefits they had before the war. The ongoing peace process focuses primarily on security matters to the detriment of less visible but no less important humanitarian issues that are sidelined until a durable ceasefire is achieved. This section examines ordinary life on both sides of the conflict.

5.1. Healthcare

The conflict has split healthcare into two systems.⁶² One operates in the newly liberated territories and mirrors general trends nationwide, like the lack of state funding, bribery, and migration of qualified personnel abroad. The other, which functions on the territories of the so-called DNR and LNR, is only beginning to take shape and exhibits the growing pains typical of a system in the early stages of development.

Both healthcare systems are unable to provide the same level of services that existed before the conflict. A large number of Ukrainian medical facilities are now behind the conflict lines. Ukraine has no control over 60 percent of hospitals and 52 percent of outpatient clinics in Donetsk region and 72 percent of

⁶¹ In a recent survey, 44.7 percent said they distrusted the president and 65.6 percent distrusted the parliament. See, "Оцінка громадянами ситуації в країні, ставлення до суспільних інститутів, електоральні орієнтації," [Citizens' assessment of the situation in the country, their attitudes to public institutions, and their electoral preferences], Razumkov Center's national opinion poll, May 12, 2016, http://www.razumkov.org.ua/ukr/news.php?news_id=748.

⁶² For details, see *Заклади охорони здоров'я та захворюваність населення України у 2013 році. Статистичний бюлетень* [Healthcare facilities and disease incidence among the population of Ukraine in 2013. Statistical Bulletin], State Statistical Service of Ukraine, 2014, p. 92, http://www.ukrstat.gov.ua/druk/publicat/Arhiv_u/15/Arch_zozd_bl.htm; *Заклади охорони здоров'я та захворюваність населення України у 2014 році. Статистичний бюлетень* [Healthcare facilities and disease incidence among the population of Ukraine in 2014. Statistical Bulletin], State Statistical Service of Ukraine, 2015, p. 92, http://www.ukrstat.gov.ua/druk/publicat/kat_u/publzdorov_u.htm.

hospitals and 64 percent of outpatient clinics in Luhansk region.⁶³ Many tertiary care facilities, such as cancer and burn-care centers and trauma clinics in both regions, are now located on territory outside the control of the Ukrainian authorities, so residents from the government-controlled areas cannot be referred for treatment there. Instead they are advised to use similar facilities further away from their home, which decreases their chances of receiving proper treatment as many are too poor to travel far on a regular basis.

It is not only the physical infrastructure that Ukraine has lost. The number of doctors working under Ukrainian jurisdiction in these regions has fallen by two-thirds.⁶⁴ Those who stayed in the occupied territories now have to deal with acute medication shortages. This encourages price gouging and a switchover to Russian treatment protocols. The latter would make their future re-integration into the Ukrainian healthcare system considerably more difficult. A healthcare worker from the uncontrolled territories remarks, “Many medications have been recently supplied from Russia, in fact so many that they [the separatists] specifically ask we use them and require we report every single vial.”

Ongoing clashes along the separation line are affecting local healthcare facilities. They divert limited resources and staff time from treating civilians to providing care for the wounded. Months of the military presence, along with dire socioeconomic conditions, have exacerbated the epidemiological situation, in particular the incidence of HIV and hepatitis. Implicitly addressing this concern, the Ukrainian authorities re-opened regional AIDS prevention and treatment centers in Sloviansk and Severodonetsk.⁶⁵ This is a good but insufficient step, because a broader strategy is needed to avoid the epidemic spreading further into Ukraine proper.

5.2. Education

Two independently operating education systems are emerging at all levels of education. In the liberated areas, schools adhere to the Ukrainian curriculum. Though this approach keeps children integrated in the national education system and gives them an opportunity for higher education in Ukraine, it does not guarantee that they receive quality education. Given the lack of security, teachers are rapidly leaving these areas. A teacher from Avdiyevka, a frontline town controlled by Ukrainian forces, complains that “teachers have to teach additional subjects outside their competence; a biology teacher teaches physics, a French teacher teaches history. Some subjects, such as physical education and science, are taught by people without any teaching degree or experience.” As a result, the education is subpar. This deepens social marginalization, which contributed to the conflict in the first place.

Over half of schools and kindergartens in these regions are in the separatist enclaves. Fifty-three percent of secondary school students in Donetsk region and 73 percent of students in Luhansk region are beyond the reach of the Ukrainian education system.⁶⁶ The teaching curriculum in these areas is switching slowly and in many cases only partially to Russian standards. Instruction comes with a growing ideological bias

⁶³ Ibid, p. 92; *Заклади охорони здоров'я та захворюваність населення України у 2015 році. Статистичний бюлетень* [Healthcare facilities and disease incidence among the population of Ukraine in 2015. Statistical Bulletin], State Statistical Service of Ukraine, 2016, p. 92, http://www.ukrstat.gov.ua/druk/publicat/kat_u/publzdorov_u.htm.

⁶⁴ Ibid., p.92. 69 percent in Donetsk region and 77 percent in Luhansk region are behind the occupation lines.

⁶⁵ See “Результати візиту НацРади з питань протидії ТБ, ВІЛ/СНІДу до Донецької та Луганської областей” [Results of the visit by the National Council on Combating TB, HIV/AIDS to Donetsk and Luhansk regions], August 19, 2016, www.ucdc.gov.ua/news/show/rezultati-vizitu-nacradi-z-pitan-protidiji-tb-i-vilsnidu-do-doneckoji-ta-luganskoji-oblastei

⁶⁶ O. Osaulenko, ed., *Статистичний щорічник України за 2013 рік* [Ukraine's annual statistics book for 2013], State Statistical Service of Ukraine, 2014, p.534, http://library.oseu.edu.ua/files/StatSchorichnyk_Ukrainy_2013.pdf; I. Zhuk, ed., *Україна у цифрах 2014* [Ukraine in figures 2014], State Statistical Service of Ukraine, p.239, http://www.ukrstat.gov.ua/druk/publicat/kat_u/publ1_u.htm.

that takes a distinctly pro-Russian view on many core subjects, like history. Education specialists complain that the quality of Russian textbooks is in many cases lower than their Ukrainian counterparts. Teaching of Ukrainian language has been reduced. The gap between the Ukrainian and Russian education curricula would make it difficult for high school graduates to enter Ukrainian universities even in the case of a successful re-integration.

In higher education, the campaign by the Ukrainian government to relocate universities from the uncontrolled territories has had limited success. Those institutions that agreed to move are now struggling with finding proper facilities and accommodation for students and faculty. They are forced to compete, with little chance of success, with other universities in the resettled areas.⁶⁷ Many cannot make an appealing case to potential applicants, as the industries that would employ their graduates are left behind in the occupied territories. Having been moved from his native Donetsk to Pokrovsk, a former faculty member at the Donetsk National Technical University paints a bleak picture, “Teaching and academic performance have been significantly affected by low enrollment. The university is turning into ‘a diploma mill.’”⁶⁸

In the meantime, universities operating in the uncontrolled territories are in a legal limbo, because their diplomas are not recognized internationally. As they partner with their Russian counterparts, their students receive Russian diplomas with a dubious status. Many high school graduates accept this reality because their high school credentials are not accepted for enrolment in Ukrainian universities and colleges. Those who have a choice to relocate prefer moving out of the conflict zone to major education hubs like Kharkiv, Dnipro, Zaporizhzhia, and in some cases nearby Russian cities, to continue their education. The current situation not only perpetuates inequalities among students with the same educational background, it is also creating a future challenge of integrating a labor force whose qualifications are not aligned with the Ukrainian education system.

Finally, schools and universities on both sides of the conflict are actively engaged in the process of ideological education. In the separatist areas, patriotism is inculcated through military youth camps and regular propaganda activities.⁶⁹ In government-held territories, schools organize extracurricular events, like meetings with Ukrainian soldiers who took part in the military campaign to liberate the areas, patriotic assemblies, and the like that follow Soviet, overly pompous standards for civic education. This ham-fisted strategy could potentially backfire. The Ukrainian government should consider how to approach this issue with more sensitivity and engage children in reflecting on their experiences and dealing with the trauma they have recently encountered.

5.3. Media

The media in the liberated areas and the occupied territories have an adversarial relationship because they view the conflict in fundamentally different terms. Each accuses the other of brainwashing its audiences.

After the separatists seized control of the Donetsk television center in late April 2014, Ukrainian channels lost the technical capacity to broadcast to most occupied territories. Local Internet providers blocked Ukrainian TV channels and political websites at the request of the separatist authorities. No TV and radio

⁶⁷ For more details, see “Вступна кампанія 2016 року” [2016 enrolment campaign] at www.vstup.info

⁶⁸ Interview with authors, September 7, 2016.

⁶⁹ As an example, see the strategy of the national-patriotic education for children and youth of the “DNR”: http://static.klasnaocinka.com.ua/uploads/editor/3890/337348/sitepage_104/files/koncepciya_patrioticheskogo_vospitaniya_detey_i_uchascheyvya_molodezhi_doneckoy_narodnoy_respubliki.pdf

broadcasting companies are allowed to operate in the separatist enclaves before 2017. The exceptions are media that were founded by the self-proclaimed authorities or authorized entities.⁷⁰ Seven “state” TV channels operate in the “DNR” and one in the “LNR.” Four of those broadcast all day long and offer their own programming that tilts heavily toward propaganda. The occupation authorities in Donetsk also claim that over 21 newspapers operate in the area.⁷¹ All the media receive regular instructions on what events to cover and how (known in Russian as “temniki”). The effect of the propaganda is amplified by regular broadcasting of Russian TV channels like *ORT* and *Rossiya* that reinforce an aggressively anti-Ukrainian line.

The Ukrainian media field in Donbas is formed by both national and regional channels, which have limited presence because of the infrastructure losses. Four regional TV stations operate on the Ukrainian liberated side. They reach a smaller audience than their counterparts in the separatist areas, and their production is hampered by limited funding and low technical capacity as a result of re-locating during the conflict. *Donbass TV* is probably in a better position than the rest as it receives funding from one of Ukraine’s richest oligarchs, Rinat Akhmetov. However, in a manner typical for many Ukrainian media, the channel often projects its owner’s position rather than serving as an objective news source. Having moved to the liberated territories, several regional newspapers continue their work but have lost much of their readership as their status of being a voice from the region is now gone. Instead, readers in the liberated areas turn to city and Ukrainian national newspapers.

Though they differ in their methods, authorities on both sides are trying to influence media messages. In the separatist territories, the so-called DNR and LNR put dissenting media and journalists under pressure that is often accompanied by violence or the threat of violence. Any foreign and Ukrainian media representatives who are allowed to work there are under constant fear of being kidnapped, tortured, and expelled. “After signing the Minsk agreements, the situation in eastern Ukraine is often described by world news as Europe’s forgotten war,” says a journalist working in the separatist territories. “As soon as the foreign media lost interest in Ukraine, things have changed for the worse because Ukrainian journalists have almost no access to the territories controlled by pro-Russian forces. The leaders of the self-proclaimed republics banned reporters working for Ukrainian news agencies and threatened them with arrest.”

In the liberated territories, the Ukrainian authorities appeal to journalists’ patriotic feelings. Some journalists consider this an attempt to influence their coverage, but many treat this as a given in a country that is dealing with foreign aggression. Ukraine’s national security service also bans a number of Russian television channels for incitement. While this decision is understandable given the role of Russian media in the conflict, Ukraine should consider its media approach in these regions within a broader strategy for securing public support and countering propaganda. These problems notwithstanding, the media field in Ukraine remains much more pluralistic than in the occupied territories, even though reporting from the conflict-affected areas often lacks the depth and nuance that regular presence on the ground would provide.

⁷⁰ “Відновлення телемовлення на окупованій території: нагальний стан та виклики” [Restoring broadcasting in the occupied territories: current situation and challenges,” Donetsk Institute of Information, March 2016, http://dii.dn.ua/news/news_286.html

⁷¹ For the list of allegedly available newspapers, see: <http://gazeta-dnr.ru/>

5.4. Freedom of Movement

Every day about 21,000 people,⁷² or the population of a typical Ukrainian small town, cross the demarcation line. In August 2016—the busiest period so far—the monthly total reached 875,000.⁷³ The present system of checkpoints was put in place in January 2015 in response to the emerging reality where the Ukrainian government had no access or control over the occupied territories.⁷⁴ At present, there are 12 checkpoints, six for the public and six for goods. Because of intensive shelling not all of them are open, which increases waiting times in extreme cases up to 10 hours.⁷⁵

The Anti-Terrorism Operation (ATO) headquarters regulates the temporary entry regime into the occupied territories, giving the military full discretion over allowing entry to Ukraine proper. The arrangement is not friendly to people on either side of the conflict. Public transportation cannot cross the checkpoints, so people have to walk or rely on dubious carriers. These restrictions create many opportunities for corruption. A university professor, who lives in Donetsk but works in the Ukrainian-controlled territory, says with money and the right connections the process of crossing the frontline is much quicker.⁷⁶

Economic ties between companies trapped on different sides of the demarcation line are weakening. Many have double registration with the Ukrainian government and the self-proclaimed republics and keep two accounting books. Ukraine has maintained economic relations with the separatist-controlled territories by rail. Since June 15, 2016, 628,597 railcars have crossed the checkpoints.⁷⁷ In 2015, nearly 16 million tons of coal were brought into Ukraine proper from the occupied territories. However, deteriorating economic conditions, the loss of traditional markets in Ukraine, and logistical issues at checkpoints are prompting many small and medium-sized businesses to shift to Russian suppliers and markets.

6. THE SUM OF ITS PARTS

Much ink has been spilled trying to figure out what motivates Russia in the conflict in eastern Ukraine, because knowing that would help resolve it. The explanations range from geopolitical (to reassert Russia's great power status and to have a "sphere of influence") to economic (to avoid losing a big market and sources of rent in Ukraine) to ideational (to prevent a successful liberal democracy taking root in what it considers the civilizational cradle of the "Russian world") to domestic (to foreclose any chances of a "Ukrainian maidan" repeating in Russia).⁷⁸ Rather than trying to decipher Russia's intentions, which are likely a combination of all these factors, this paper has looked at four different dimensions of the conflict.

⁷² Oleksandr Nadelnyuk, "Гармати, люди і дипломати: який зв'язок між потоками переселенців, обстрілами та мінським процесом" [Guns, people, and diplomats: what is the relationship between IDPs, shootings, and the Minsk process], *Vox Ukraine*, September 21, 2016, <http://voxukraine.org/2016/09/21/pereselentsi-donbass-minsk-ua/>

⁷³ "Humanitarian Bulletin Ukraine," issue 13, *UN Office for the Coordination of Humanitarian Affairs*, August 1-31, 2016, https://www.humanitarianresponse.info/ru/system/files/documents/files/humanitarian_bulletin_20160908_en.pdf

⁷⁴ See a revised version of this regulation: http://www.sbu.gov.ua/sbu/control/uk/publish/article?art_id=136476

⁷⁵ "Ukraine: the Line," *Crisis Group Briefing #81*, July 18, 2016, <https://www.crisisgroup.org/europe-central-asia/eastern-europe/ukraine/ukraine-line>

⁷⁶ Interview with the author.

⁷⁷ Vitaliy Syzov, "Через пропускные пункты в зоне АТО проходят сотни тысяч вагонов (данные СБУ)" [According to SBU, thousands of railcars pass through checkpoints in the ATO zone], *Novosti Donbasa*, August 23, 2016, <http://www.novosti.dn.ua/blogs/1059-cherез-propusknye-punkt-y-v-zone-ato-prokhodyat-sotny-tysyach-vagonov-dannye-sbu>.

⁷⁸ For some materials on this debate, please see: Michael McFaul, Stephen Sestanovich and John J. Mearsheimer, "Faulty Powers: Who Started the Ukraine Crisis," *Foreign Affairs*, November/December 2014, <https://www.foreignaffairs.com/articles/eastern-europe-caucasus/2014-10-17/faulty-powers>; Alexander J. Motyl, "The Surrealism of Realism: Misreading the War in Ukraine," *World Affairs*, January-February 2015, <http://www.worldaffairsjournal.org/article/surrealism-realism-misreading-war-ukraine>; Lilia Shevtsova, "The

Because the Ukrainian internal discourse on Minsk quickly becomes polarized between Twitter hashtags like #victory or #treason, with little else in-between, the analysis below brings the findings from the previous sections together by outlining six options Ukraine faces in the present situation and assessing their viability. Though Ukraine's ultimate preference should always be the restoration of the country's territorial integrity, it would put itself at a disadvantage by not debating candidly other scenarios to understand which options it would find palatable and which it would reject outright. This is an attempt to contribute to widening that conversation at home and abroad.

6.1. External dimension

In resolving the conflict in the east, Ukraine is now firmly tied to the Minsk agreements. Given their many follies, several political forces at home have repeatedly raised the prospect of abandoning the Minsk framework altogether. The implementation of this notoriously vague set of documents also is frustrating for Ukraine's partners. So is it worth sticking to something that appears so flawed?

Option 1: Abandoning Minsk

The prospect of getting rid of the Minsk framework seems appealing and liberating. The proponents of this option suggest a new agreement would take into account its predecessor's mistakes by developing robust conflict settlement mechanisms that spell out its implementation, assign responsibilities to all parties of the conflict (including Russia), and produce a timeline along which specific benchmarks should be met. Proponents argue the new document would be more advantageous for Ukraine than the one signed in the middle of an escalating conflict and mounting casualties.

The downsides are formidable, however. Since the current framework is the only way to hold Russia accountable through sanctions, those would likely be dropped in its absence. Given the deepening resistance to the sanctions approach among several EU members, getting them back in place would be virtually impossible. The proponents of this approach also do not take into account significant internal changes in the EU that have occurred since the last round of the Minsk agreements in February 2015. The refugee crisis sharpened internal divisions over the basic tenets of the union, victories of far-right forces deepened the malaise, and Brexit crippled one of Ukraine's staunchest allies. At this point, there may simply be no appetite to start negotiations anew. Even if they were restarted, Russia might respond with a new round of escalation on the frontline to capture more land and force more compromises. Ukraine would risk losing the support of its Western partners and ending up with a much worse deal or nothing at all, given the severe blow that abandoning Minsk-2 would deal to its reputation.

Option 2: Working within Minsk

Sticking with Minsk-2, its weaknesses notwithstanding, would continue to generate goodwill for Ukraine as a responsible and constructive partner in the conflict and may provide more space for solutions to the current stalemate. In this situation, the Ukrainian side should identify its negotiables and non-

Kremlin's Triad as the Means of Survival," *The American Interest*, April 19, 2016, <http://www.the-american-interest.com/2016/04/19/the-kremlins-triad-as-the-means-of-survival/>; Andrew Wood, "Russia and Europe in 2030: Conflict or cooperation," *Bundesakademie für Sicherheitspolitik*, Security Policy Working Paper, No 12/2015, https://www.baks.bund.de/sites/baks010/files/working_paper_12_2015.pdf; Sergei Karaganov, "How the World looks from the Russian perspective," *Russia in Global Affairs*, August 1, 2016, <http://eng.globalaffairs.ru/pubcol/How-the-World-Looks-From-the-Russian-Perspective-18303>; Dmitri Trenin, "The West and Russia: For now, Do No (Further) Harm," *Die Welt*, April 10, 2016, <http://carnegie.ru/2016/04/10/west-and-russia-for-now-do-no-further-harm-pub-63301>.

negotiables.⁷⁹ The Ukrainian leadership would be wise to start a public conversation on both to ensure that future compromises have domestic buy-in, lest they create internal strife.

The shortcomings of this approach have long been on display. Although a victim of aggression, Ukraine is now forced to come up with “creative solutions” to show the Minsk process is working and mitigate its worst possible consequences through “faux federalization” for years to come. There is a concern that this approach may lead to a slippery slope, where creeping concessions would over time erode Ukraine’s sovereign right to independent decision-making. Bargaining from this position also undermines the standing of any Ukrainian government at home and its capacity to undertake difficult domestic reform.

However, the Minsk agreements remain the only viable tool to achieve Ukraine’s ultimate goal of re-integrating the occupied territories in the East. Though the Ukrainian military has improved considerably since the early days of fighting in 2014, it is still no match to the Russian forces and may never become one given the size of Russia’s military and possession of a nuclear arsenal. Any intensified fighting would increase the already significant human toll of the conflict, dampen Ukraine’s investment appeal, slow down reform, and redirect public spending to military and humanitarian needs. Persuading an increasingly skeptical Ukrainian public to stick with the most workable, albeit imperfect, option may not be the easiest task. The Ukrainian government can succeed with that only when it couples this argument with substantial domestic reforms.

Ukraine’s partners should keep in mind that pressing for a premature settlement to the conflict when conditions on the ground are not ripe will only postpone dealing with those conditions, not eliminate them altogether. Realizing the limitations of their influence on Russia, they have sometimes called upon Ukraine to be flexible in implementing the Minsk provisions. In Ukraine, this flexibility is interpreted as pressure on the weaker side to give up more because it has no other option. Though dropping out of Minsk is the least desirable scenario, Ukraine may opt out for it under extreme circumstances if it feels the agreement is becoming a straitjacket forcing it into unbearable compromises.

6.2. Internal dimension

Whereas options for addressing the conflict through foreign policy instruments are binary (either the Minsk framework or a new agreement altogether), internal solutions to the crisis fall along a spectrum of choices. In reality, these are less neatly delineated than those presented below. As stated earlier, re-integration of the occupied territories should be the ultimate preference of any Ukrainian government. Accomplishing that task would require pragmatic thinking on how to conduct amnesty and lustration, treat educational training and employment during the occupation period, recognize property ownership, handle the return of IDPs, and more. These issues should be subject to continuous policy discussion and elaboration, no matter how elusive re-integration may seem at this point. Given the security situation on the ground, this paper focuses on short-term options for when re-integration is not yet possible.

In broad terms, the conflict may have two states—simmering or frozen. In the former, regular clashes would continue along the lines of contact with no durable ceasefire and no conditions for local elections on the ground. Parties would blame each other for violations, each expecting the other to make concessions. Despite the best hopes for the Minsk agreements, this is the present state of affairs. A “frozen” state would resemble similar conflicts in the post-Soviet space with rare incidents in the buffer

⁷⁹ Some of those could potentially include creating an international (though not CIS-led) mission for border monitoring, the importance of sequencing (with durable ceasefire and security before local elections), and the potential for an independent international commission to review future Ukrainian legislation on amnesty and local elections for compliance with Ukrainian and international standards.

zone, but little progress toward a peaceful solution. This may come about if Russia finds the settlement conditions unacceptable but has exhausted “the Ukrainian card” in its negotiations with the West. Under the conditions of a “simmering” conflict, Ukraine has two options—either full-scale or limited isolation of these territories to prevent the spillover of instability into the rest of the country.

Option 3: Complete isolation

This approach would probably require an acknowledgement from the government that these territories are not part of Ukraine for the foreseeable future, severing any trade relations with them, and making human contacts difficult by closing checkpoints and ceasing welfare payments and provision of state services to citizens. This option presupposes that any genuine re-integration can happen only after fundamental changes in Russia’s political regime. In its extreme form, it goes as far as suggesting Ukraine build a wall to separate the occupied territories.

Its proponents reason that by declaring a clean break, Ukraine would shed the economic burden of land it does not control and citizens who may not be loyal to the country. Instead of wasting time and resources in the East, it would focus on domestic reform and European integration in the rest of the country. When the time is ripe, the territories would want to re-join Ukraine because it would become economically stronger and more attractive as a state. In the meantime, Russia would be stuck with paying the price of occupation, which may precipitate its economic decline.

Such a neat separation along 500 kilometers of border between Ukraine and the occupied territories is hardly possible, given the web of economic linkages and human connections. Under this option, the reality may prove messy with a flourishing contraband trade and disparate treatment of Ukrainian citizens from these territories. Russia could retaliate by resuming full-scale hostilities to show that it can move the “separation line” further inside Ukraine. Ukraine would suffer significant reputational losses. The country would face harsh criticism abroad for exacerbating a humanitarian crisis. At home, it would send a disheartening message that the state gives up on its citizens and land. The eventual re-integration of these territories would also be much more difficult if existing ties were allowed to fade. To conclude, though appealing to nationalist sentiment at home, this option is the least practical and desirable one.

Option 4: Limited isolation

This is a milder version of the previous approach. Ukraine maintains some limited but essential trade with the occupied territories, provides services to citizens once they enter the liberated areas, facilitates limited travel, and attempts to reach people through various media. On the positive side, it fulfills its obligations to those who remain Ukrainian citizens but are forced to stay in the separatist enclaves due to personal circumstances. It retains some contact and soft channels of influence as people from the occupied territories can see what life in Ukraine is like and maintain relationships with their families who fled the conflict.

The major shortcoming of this policy lies in its elusive nature. Defining what constitutes essential trade or limited travel would always be subject to divergent interpretations that are shaped by proximity to the conflict, political affiliation, and personal relationship to its victims. At its worst, this option risks creating a “neither here nor there” situation, with continued illegal trade between the occupied areas and Ukraine, tax avoidance by businesses that operate in both, and double-dipping for benefits by citizens who live in the so-called DNR and LNR. Though Ukraine may ease access to travel and public services, it can never eliminate all barriers, which would continue fueling animosity, especially given the widespread reach of separatist and Russian propaganda. The country could wind up paying the cost of maintaining the lands

without reaping any benefits that would ease their reintegration in the future. Ukraine has in essence been living with this option since signing the Minsk agreements in February 2015.

As the intensity of the conflict has decreased, voices advocating for finding a more normalized *modus vivendi* with the occupied territories are getting louder. This path can take two forms: partial normalization or limited re-integration.

Option 5: Partial normalization

The proponents of this approach argue that instead of hiding its head in the sand, the Ukrainian government should acknowledge and regulate (as much as it can) the realities that exist on the ground. This would include establishing rules to trade with Ukraine for enterprises on the occupied territories, improving access to public services, and easing travel. This approach assumes that a series of small but practical steps would be more likely to bring these territories closer to Ukraine than grand political pronouncements and deals, which are unlikely to happen soon. Such steps can include better-equipped checkpoints that are accessible by public transportation, opportunities to study in higher education institutions without territorial restrictions, a working system of healthcare referrals, etc.

If well thought-through and executed, this strategy can win the “hearts and minds” of locals in the occupied territories by proving that Ukraine cares about them in deed and not just in word. The country may stand to benefit from increased tax receipts, reduced military expenditures, and a more organic re-integration of these areas under propitious conditions in the future. Nonetheless, this option has probably as many deficiencies as benefits. Its major drawback is that by seeking closer ties with the occupied areas, it inevitably normalizes an abnormal situation and *de facto* contributes to the “statehood” of the occupied territories. Given the quality of governance in the separatist enclaves and the jingoistic mood of their leadership, any positive development can be turned against Ukraine. For instance, controlling trade may prove too difficult and easing travel may lead to infiltration of separatist elements into the liberated areas and incitement against Ukraine.

Selling this option domestically would be an arduous task for any Ukrainian government. Public and parliamentary approval would be contingent on developments in the field and the Minsk negotiation process. If temporary normalization does not yield any benefits in either, opponents would press hard to go back to some form of isolating these territories. Doing that would reverse any positive capital Ukraine had accumulated. Therefore, to succeed the government would need the capacity and willingness to think strategically, long-term patience, large reserves of political will, and a deeply held belief that the strategy would pay off in the future. In the end, Russia could decide to sabotage even this limited re-engagement.

Option 6: Limited re-integration

The final scenario takes the notion of normalization one step further. It envisions regulated trade from and to the occupied territories, simplified access to services and benefits for their residents in Ukraine (even going so far as an opportunity to allow some to be collected locally), reduced control at checkpoints, restored transportation with Ukraine, and resumed broadcasting of the Ukrainian media. In addition to the benefits mentioned in the previous section, this option would also include a potential return of IDPs, increased economic development in the adjacent regions, and the fastest route for re-integrating the separatist enclaves.

As enticing as this option sounds, it is probably the least realistic to implement. The restoration of economic and social linkages on this scale would require cooperation with the occupation authorities and most likely Russia’s acquiescence. Both would prompt demands for significant concessions in the negotiation process that would entail stealth “federalization” through providing a special status for these

regions. Relaxation on this scale would also create a domestic political firestorm no government could overcome. In the end, this appears the second-least likely scenario after complete isolation.

7. CONCLUSIONS

After two and a half years, the conflict in Donbas continues to defy a clear-cut solution. Out of the six options outlined above, three—adhering to the Minsk process despite its deficiencies and combining limited isolation and partial normalization—appear the most feasible at the moment. Their potential implementation is complicated by challenging domestic and external realities.

There is little political appetite in Ukraine’s parliament to put into law those parts of the Minsk agreements that would grant the occupied territories a special status. The recent decision by the country’s Constitutional Court liberally interpreted the timeline⁸⁰ for the second reading of the pertinent legislation, giving the legislature leeway to delay this unpopular vote. Facing a steep decline in approval ratings, President Poroshenko is unlikely to press the matter since it may further fracture the ruling coalition. Given continuing skirmishes and casualties on the frontline, there has been little public pressure to do so. At the same time, various external formats like the Nuland-Surkov dialogue⁸¹ or conversations between Western leaders and President Putin at the sidelines of the recent G-20 summit⁸² fuel suspicions that Russia is linking its position on other global issues to a deal on Ukraine that will be negotiated without Ukraine and at its expense.

Under these circumstances, finding a mode of co-existence with the occupied territories has become a highly divisive internal issue. Jockeying for power in an unstable parliamentary coalition is pushing several political forces that would normally be aligned to look for ways to position themselves as the ultimate defender of Ukraine’s sovereignty and territorial integrity and earn future electoral support. This dynamic forecloses opportunities for a constructive and pragmatic dialogue on how to keep the occupied territories within Ukraine’s orbit of influence and ease their re-integration when conditions are ripe. It also does not help build a public understanding that any option will entail some risk and compromise.

Without this dialogue, the Ukrainian government is muddling through with an ambiguous (and often contradictory) set of regulations on the ground.⁸³ Instead of softening the edges of disagreement, the present ambiguity appears to be reinforcing existing uncertainties and cleavages. The cumulative effect may be detrimental in the long run, as re-integrating the occupied territories will become more difficult with time. In the end, ending the conflict in the East will hinge on whether external and internal mechanisms for its resolution reinforce each other. This has not been the case up to now. Only addressing this shortcoming and truly grappling with realities on the ground will enable a change to the current stalemate.

⁸⁰ The court interpreted that Article 155 of Ukraine’s constitution allows the parliament to review the law on the special status for occupied territories at *any* following session of parliament, not at *the* following session.

⁸¹ Alyona Getmanchuk, “Трек Нуланд-Сурков: дипломатія чи технологія?” [The Nuland-Surkov track: diplomacy or a tactic?] *Ukrainska Pravda*, October 6, 2016, <http://blogs.pravda.com.ua/authors/hetmanchuk/57f622ff8a8f3/>

⁸² Andrei Kolesnikov, “Двусторонним вход разрешен” [Bilaterals may enter], *Kommersant*, September 4, 2016, <http://www.kommersant.ru/doc/3081365>

⁸³ In a string of positive developments this year, the government created a ministry for IDPs and approved a preliminary concept paper on developing Donbas. As always in Ukraine, the key is whether these steps would translate into practical action.