

Ivanov, Sergei; Koval, Vyacheslav; Lyakh, Alexander

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THE EXPERIENCE OF SOCIAL ADAPTATION PROBLEM SOLVING IN THE DONBASS REGION OF UKRAINE

**Serguei Ivanov, Regional Development Agency “Donbass”, Suite 502, 133 Shevchenko blvd.,
Donetsk 340052, Ukraine, rda@uvica.donetsk.ua**

**Vyacheslav Koval, Donetsk Regional Branch of the International Renaissance Foundation,
133 Shevchenko blvd., Donetsk 340052, Ukraine, found@soros.donetsk.ua**

**Oleksander Lyakh, Center for Political Studies, Donetsk State University, 24 Universitetskaya st.,
Donetsk 340055, Ukraine, alex@cps.donetsk.ua**

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Abstract

The old industrial regions pose many problems on the central, regional and local governments in transition countries concerning the adaptation of these regions to the economic and social restructuring. Especially complicated one can find the socio-economic issues of the measures of coal-mining restructuring which are carried out in the majority of transition economies. This paper reports some findings of Polish-Ukrainian project entitled “The Future of Old Industrial Regions: Case for the Donetsk Region in Ukraine”. The findings are concentrated mainly on socio-economic issues in the coal-mining areas of the region.

Introduction

Old industrial regions in post-communist countries such as Donbass one in Ukraine, require intensive and comprehensive restructuring in order to adjust for the transition to market economy. It means that the economy of this region have to change its structure to facilitate the region full participation in the international and domestic economies as well as to ensure proper life conditions to the region`s inhabitants, in which 16 % of Ukraine population concentrate*. It is common tendency that former economic core regions are now structurally weak regions (Hassink 1993). But situation in transition countries is aggravated by creation of new spatial patterns of economic and social inequality (Bachtler 1998), and named „institutional gap“ that is resulting in weak territorial self-governing.

The Ukrainian Donbass region (Donetsk Coal Basin) comprises mainly two eastern oblasts of Ukraine. The location of the Donbass region and share of the Donetsk and Luhansk oblasts in overall population, national industry and agriculture outputs are shown in Figure 1.

In the Donbass region the government regional and industrial policies are facing with difficulties of the coal-mining restructuring. Now this problem is solving mostly by means of technical shut-down of unprofitable mines. This is a right way assuming that exists a real program of the restructuring which includes not only the main steps of it but also the evaluation of all the process along with estimation of social transition cost. But because of absence of a sober policy in this process and poor information dissemination and feedback the government gets into a much complicated problem – the growth of social unprotectedness, unsettleness and pauperization of a huge stratum of the active able-bodied population. Such social cost of ungrounded „restructuring“ is dangerous to be accepted in politically unstable Ukraine.

In order to facilitate process of adaptation of population of the old industrial areas to new conditions the International Renaissance Foundation in cooperation with Polish partners from Stefan Batory Foundation and Economic Education Foundation have jointly launched a project entitled „The Future of Old Industrial Regions: Case for the Donetsk Region in Ukraine“ in 1997. The project is aimed at the development and dissemination of experiences of strategies and methods of economic and social issues solving which connected to the process of old industrial regions restructuring in transition countries.

The main topics of research stage of the project are:

- regional community member`s awareness;

- strengthening of opportunities for a forum of public dialogue in problem areas;
- transformation the old and setting up new enterprises, especially SME;
- creation and improvement of the instruments and the institutions of the regional restructuring;
- general education, training the present and future managerial cadre, re-qualification and socio-professional reconversion;
- strengthening of the role information

Here we present results of research stage of the project which are reflecting the socio-economic consequences of transition and restructuring processes in the Donbass region.

Socio-Economic Consequences of the State Macroeconomic Policy in the Donbass Region

Ukrainian transition economy founding on the former material-technical basis is keeping and re-producing some tendencies of old system behavior under a lack of institution changes and the state structural policy that lead to deformations undesirable to the market transformation. High rates of inflation during 1992-94 combined with monopoly of the basic industries have constantly reinforced dependence of the economy upon raw materials extraction and primary processing enterprises. Following since 1995 policy of financial stabilization does not enable to reduce structural warps in the economy, but on the contrary, is strengthening its, increasing share of the basic industries, especially exporters of raw materials and primary processing products in GDP, employment, and budget revenues. Arisen at the new level relative financial stability in the economy is characterized by lower output and consumption, hidden unemployment in addition to open one, unstable and uncertain perspectives for future development that are highly depended on state of the international raw materials' markets and policies of key states-importers of such commodities from Ukraine.

There are common tendencies in functioning of Ukrainian economy but one can see regional peculiarities in the socio-economic development due to structures of the regions' economies, as well the presence of opportunities for its adaptation to the current state macroeconomic policy. The peculiarities to a considerable extent are characterizing the old industrial regions, such as the Donetsk and Luhansk oblasts where the bulk of Ukrainian coal mining, ferrous metals, and heavy machine-building enterprises are located. These specific features of the regions have to be considered as a requirement of a great importance for the state policy on labor market and for structural and investing measures of the industry policy in Ukraine.

Economic situation in the Donetsk and Luhansk oblasts as long as in other Ukrainian regions is unstable and characterized by continuation of the recession with short period of weak growth, including in key sector of its economies - the industry. In 1997 in Ukraine fell by 1,67% (TACIS, March 1998). In the Donetsk and Luhansk oblasts industry outputs have risen - accordingly, by 0,3% and 3,0% (The Donetsk Oblast's Department of Statistics, 1998). During the first quarter of 1998 Ukrainian industry's output rose by 1,7% (TACIS, March 1998), while in the Donetsk oblast it decreased by 0,7% (The Donetsk Oblast's Department of Statistics, March 1998).

Because of the structural crisis reinforcement, continuation of the investment activity shrinkage, falling of enterprises' profitability, the signs of the recession slowing down in the Donetsk region are unstable. According to the rating of 19 the most profitable enterprises of the Donetsk oblast in 1997, its total profits during 1996-97 fell by 82,9%, and average profit/sales ratio was up to only 7,14%, i.e. fell by 87,5% (Business-Donbass, 1998). Despite on increasing of the industry's shares in accumulated in the oblasts' GDP and national income (accordingly, up to 78 and 64 %), its share in the total profit between 1991 and 1997 fell from 71,3% to 54,5% due to drop of industrial enterprises' profitability. At that time, shares of profits accumulated by such sectors as transportation, public utilities, and communication services risen that was a result of getting advantages of its monopoly position.

Regional statistics also shows deepening of the discrepancy between recession rates of basic industries (extraction and primary processing of raw materials) and ones of final commodities production. As of 1 January 1998, the outputs of industries produced mass consumer goods in the Donetsk oblast fell by 18,7% and in the Luhansk oblast by 14,3%, while total industrial outputs of these oblasts slightly rose (The Donetsk Oblast's Department of Statistics, February 1998). In 1997 total output of machine-building enterprises in the region decreased by more than 14% (The Donetsk Oblast's Department of Statistics 1998). There are many reasons that also connected with strengthening of raw materials deviation in the region economic development. Among them are break of technological links between raw materials primary processing and final commodities producing enterprises, unequal opportunities to penetrate into foreign markets, especially for small and medium enterprises producing consumer goods.

These processes are based on specific features of reaction of the economies of Ukraine and its old industrial regions to liberalization of prices and international trade, as well to rigid monetary restriction. The direction of prices proportion toward international one led to its

deformation in comparison with substantial structure of the resources wasteful economy. As a result, in spite of efforts to restrict monetary base, the potential of cost-push inflation is accumulating in production sector, on which the economy is reacting by recession and payment crisis.

Mentioned processes have an effect on changes in regional employment and its structure. According to data of the oblasts' Centers for Population Employment, levels of officially registered unemployment between January 1997 and April 1998 have risen from 0,91% to 2,2% in Donetsk oblast, in Luhansk one - from 1,2% to 2,4% (in comparison, in Ukraine at this time - from 1,6% to 2,8%). But it is necessary to supplement these data with ones reflected hidden unemployment caused by fall in production and financial difficulties of the oblasts' enterprises. Thus, investigation held by the Donetsk Oblast's Department of Statistics in 1997 shows that 16,8% of employees have been in mandatory leave without pay, and another 12,3% have occupied in short-term works. Such economic sectors of the oblast have hidden unemployment most of all - industry (22,3% and 14,4%, accordingly), transportation (12,8% and 34,4%), construction (34,1% and 17,2%), science (38,5% and 25,3%).

Layoffs in the region have led to changes in employment structure, for instance in the Donetsk oblast that shown in table 1. Actually, majority of the oblast's economic sectors, apart from communication services, public administration, credit and security services, public health, physical culture and social welfare services, experienced the fall in number of employees and in share in total employment. The industry during 1997 has decreased its payrolls by 5,9%, but its share in total employment rose by 6,6% comparing with 1996. At this period, self-employment (people who are occupied in so called individual labor activity and have patents for trading, producing services and so on), employment in transportation, trade, paid services has declined its share in total employment essentially.

Table 1: Employment structure by the economic sectors of the Donetsk region, %

Sectors	1991	1996	1997
Industry	42,7	35,8	42,4
Agriculture and Forestry	7,4	7,3	6,2
Construction	9,6	6,3	5,2
Transportation and Communication Services	7,7	6,2	7,1
Wholesale and Retail Trade, Public Catering	8,1	7,3	4,4
Other Productive Paid Services	1,2	1,1	0,6
Public Services	22,8	22,4	21,6
including:			
- Public Utilities	4,5	4,2	3,4
- Public Health, Physical Culture, and Social Welfare	6,0	6,4	6,7
- Public Education, Culture, Arts, and Science	10,4	8,9	8,5
- Public Administration	1,9	2,9	3,0
Finance, Credit and Security Services	0,5	0,7	0,8
Self-employed*	-	12,8	11,7

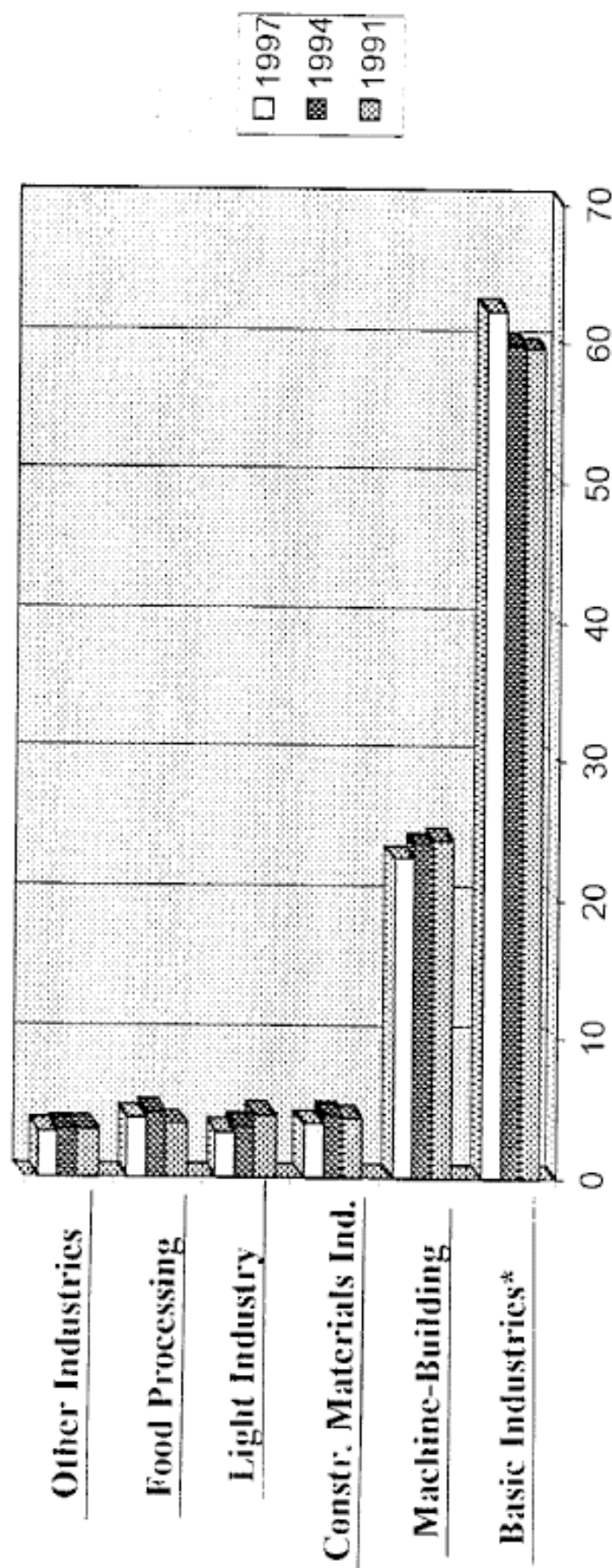
* - people who are mainly occupied in individual labor activity and small diversified business

Source: computed from official data of the Donetsk Oblast's Department of Statistics.

During this period the relative equalizing of earnings in the industry and other sectors has occurred. But this result was rather caused by falling of earnings in the industry due to hidden unemployment than rising of official revenues in other sectors. Appreciable lower levels of official earnings in trade and paid services are implicit evidence of tangible informal („shady“) revenues of people employed in these sectors.

As a whole, the data shows that during 1991-1997 the role of industry in providing jobs, revenues of population, as well budget revenues from personal and corporate taxes are declining. However, this conclusion doesn't concerning the basic industries which are continue to play major role in financial base and employment in the region. Rise of the basic industries shares in the whole industrie's employment in the Donetsk region is characterized in Figure 2. Despite the fact that share of all industry in total employment was declined, the basic industries' share remains the same - declined only by 0,1 %. Portion of these industries in budget revenues from VAT and customs duties rose constantly due to increasing of its share in total output and exports, thus this portion made up about 2/3 of all budget revenues collected in the region.

Figure 2. Structure of employment in the Donetsk region industry, %



* - the basic heavy industries comprises: Electric Power Generation, Coal Mining, Ferrous & Non-ferrous Materials, Basic Chemistry & Oil Processing.

Source: data of the Donetsk Oblast's Department of Statistics.

Changes occurred in the region's employment structure are far from ones that would be required under the market transformation. Our comparison of the structure of the Donetsk region employment between 1980-94 with changes that had to be under the open market economy conditions over this time (The Region: Structural and Investing Aspects of the Market Transition, 1994) and followed analysis shows such findings. There are dramatic shifts in structure of the region's employment in the favour of basic heavy industries. But this is opposite movement for such that have to occur under conditions of the stable market economy. As a result, the majority of employed people will have to move from industry into other sectors (trade, paid services, public services and so on) which in the majority are characterized by relatively low levels of earnings. This allows to conclude - the more Ukrainian economy transforms to the open market one, the more employment in the region's basic industries falls. The coal-mining is the first that is affected by these processes.

Restructuring of the coal-mining industry and situation on the regional labor market

Intention to keep financial stability in the economy by shrinking budget expenses is directly reflecting on economic position of the coal-mining industry. Actually it has been existing due to budget subsidies and the redistribution of finance resources among economic strong and weak mines during a long period. However, this policy leads the coal-mining industry as well the economy of Ukraine in a blind alley. According to the data of the Ministry of the coal-mining industry of Ukraine, balance stocks of acting mines and reserved fields are equal to 23,6 bln tons of coal that is enough for 157 years under condition to extract 150 mln tons annually. At this time the industry is lowering mining firmly from 165 mln tons in 1990 to 76 mln tons in 1997. The reasons for this phenomenon are legion. First, the mining-geological conditions. The coal deposits in Ukraine (concentrated mainly in the Donetsk Basin) are considered as ones of the most difficult to exploit.

Second reason is condition of coal-mines fixed capital. 98% of the mines have been introduced in exploitation more than 50 years ago, and 75% are operating without renovation during 20 years, while only 27 acting mines have been renovated since 1970. As a result, 103 mines from 276 give a little more than 1% of total output of the coal-mining industry. More than 150 mines are low profitable or unprofitable and 63 mines have operational costs on 1 ton of the coal extraction that exceed prices of the international coal markets.

Third reason is financial «layering» on costs of extracted coal including burden of the social infrastructure and social payments funded by mines, specific consequences of payment crisis in this industry, as well not rational production and management structures, shortcomings of the governing. In 1997 portion of barter bargains made up 78% of transactions and in some mines - over 90%. At that rate, as analysis shows, deliveries of materials, equipment and so on in barter transactions are costly for mines in comparison with ones in payment transactions by average of 50% (Radionov S., 1997).

Program of the coal-mining industry restructuring that adopted by Ukrainian government in accordance with the World Bank recommendations stipulates closing down of lacking in prospects and unprofitable mines as a key stone. However, one can consider these plans, at any rate, its appearance as not comprehensive but chaotic measures. At the beginning in the pilot program of the Ministry of coal-mining industry (1995) there were 18 mines declared to close down, then intention of closing down of 50 mines by the end of 1996 was published. Now there are about 30 mines mentioned to close down in the nearest future. The task company was created and aimed at the coal mines restructuring (its abbreviation is UDK) which by 1.06.1997 has received in own balance assets 29 coal extracting enterprises with the payroll number of 8,6 thousand, including 17 mines located in the Central Donetsk Basin (9 in the Luhansk oblast, 7 in the Donetsk one).

The investigation¹ in three areas that hardly suffered from mines closing down has unfolded the problems of placing in the job people who are jobless and shown the social unprotection of the population in the miners' towns and settlements. Among observed areas, town Brianka had the highest proportion of officially registered unemployment - 3,2 %, while in Stakhanov it was 1,8 % and in Makievka as a whole - 0,92 %, but in three districts where mines are closing down these proportions are 1,08%, 2,2% and 3,3%. At this time the level of hidden unemployment in these areas were fluctuating from 12,9 to 24,5%. Few people bother to register at the Centers for Population Employment (CPE) - from 1,09 to 2,7% of the all population, whereas only one-tenth of this number are the jobless.

¹ The investigation was held in Brianka and Stakhanov towns (Luhansk oblast), Makievka city and Proletarski district of Donetsk (Donetsk oblast) in May - July, 1997 (project «Future of the Old Industrial Regions»). Here have been used data of sources (Novak I., Tkatchenko K., July 1997) and The Donetsk Information-Analytical Center, (August 1997) for the summary of its results.

Data reflecting migration in observed areas have shown that jobless rather search new jobs in other regions (including in coal mines in the Russian Rostov oblast) than place in the job in their own areas. The reasons for it are decreasing of vacancies (account for only 5 to 15% of a total requirements, moreover the majority of vacancies constitute jobs in depressed coal mining), the recession in other industries and sectors, relatively low levels of wages, as well it lasting delays. The rates of jobs providing for those who have applied to CEPs were 8,1% of applicants in Brianka and Stakhanov, and 21,0% in Makievka where, however it was bellow twice than in the previous year.

Local authorities in these areas do not have the money to deal with assistance for unemployed. Because of this reason public works also do not put into effect, in spite of great needs (for instance, continuation of the frozen underground construction in the city of Donetsk will allow to provide jobs for jobless miners from Proletarski district). A lack of money, as well a declining of acting enterprises` demand for the labor force lead to the situation when CEPs in observed areas have directed to retraining centers only from 1,4 to 1,6 percent of applicants, moreover not the all of retrained have been placed in the job. Actually local authorities here do not have so called budgets for development, in practice they spend all available money on current needs, whereas near two-thirds of these expenses are social payments. But even available finances are far from urgent requirements. Because of this, real needs for social payments have been funded in 1996 in such proportion: in Makievka - only 25%, in Stakhanov - 50,8%, in Proletarski district of Donetsk - 32,5%.

Old approaches to redistribution of budget resources (mainly in centralized manner) lead to fading of the local self-government influence over processes of the regional restructuring and put its role down turning into «fire brigade». Besides, the central authority in its turn does not perform own obligations concerning funding of program of the coal mining restructuring. Thus, measures on closing down of 9 mines have been funded only by 9,2%, UDKR have no enough money to pay to closed mines` jobless miners and pensioners the wage and pension arrears (Zerkalo Nedeli, 06 September 1997). Even the World Bank pilot project on the closing down of 3 mines have been financed only by 40%, as chief of the UDKR told on the meeting in the Donetsk Oblast`s Administration in August, 1997.

Also, it is necessary to note that there are information «gaps» in relations among the different levels of authority, on the one hand, and among the population of the restructuring areas and the authority as a whole, on the other hand. As sociological poll shows, the population have a little information about measures and plans of local, regional and central authorities, about

existing opportunities to employment. At this time the central authority have no reliable information concerning social situation in these areas.

The opportunities for the regional labor market to adaptation under new conditions are affected by the stereotypes of thinking of acting enterprises` managers. First of all, it is common that managers does not want to layoff excess employees, in spite of a sharp decline of the demand and output. They rather resort to the hidden unemployment and lower wages. This, in its turn, is reflecting on damage of labor motivation, decline of productivity, rise of an enterprise`s total outgoings, and outflows of more active and skilled workers. Finally, it leads to the fall of an enterprise`s competitiveness and abilities to adapt. The investigation has shown also that many managers does not pay great attention to the marketing policy`s improvement, and direct financial resources mainly on current needs that aggravate financial conditions of an enterprise.

In observed areas the local authorities hope to overcome unemployment facilitating the small business development. For instance, the Brianka CEP build up a prognosis on the labor resources balance for 1997. Following that forecast, one can anticipate 35,2% decrease for the general employment in state sector and 42 times increase (!) for the number of small business employees, hence, it will make up 21,3% of the whole number of employees, that is to reach the level which is, even in a half number, can hardly be observed in large industrial cities. Moreover, in that town and in other observed areas, there are no substantial and objective indications for such an optimistic forecast on the further small business development. Firstly, one can note the absence of infrastructure for its support such as business-incubators, consulting centers, etc. Secondly, there are no tax and credit benefits for small business beside the World Bank program of micro-credits. Finally, all over Ukraine this extreme vulnerable and unprotected sector of entrepreneurship is functioning in a very hostile environment.

Conclusions

1. Overcoming of structural crisis in the economy of Ukraine and especially in the old industrial regions requires correction of the economic policy towards increasing of real revenues of the population and purchasing power as a whole. For these purpose may be used specific methods, for instance consumer loans for purchases of domestic produced commodities and housing that will lift depressed construction and affiliated industries. It is necessary to launch a wide program for public works aimed first of all at the development of

production and social infrastructure in the depressive regions, that besides a rise in employment will strengthen the regions attractiveness for investors. Simultaneously, one can consider as useful the measures that are lessening the payment crisis and preventing leakage of the loan resources meant for real economic sector development to financial machination.

2. Revision of the state program of the coal-mining industry restructuring is required in order to provide comprehensive character of its measures in such point of view as influence on linked industries (for instance, coke- chemistry production, and ferrous metals as a complex), ensuring of social security in the miners settlements, as well the proving of financial eligibility of the program.

3. High tension in the old industrial regions` labor markets makes necessary to take in account specific regional features in privatization process and maintain the opportunity for the government to have social control over the management of large enterprises in order to its improvement. In other hand, there is urgent necessary to privatize all profitable mines in order to avoid its support from state budget. It would be useful to create in the region structures for support of privatized enterprises` marketing efforts, especially those being under rigid competition.

4. The developing of state regional policy, broadening opportunities for regional and local self-government to resolve such questions as creating new jobs, attracting domestic and foreign investment, improving information links among authorities and the population are on the list of urgent measures.

5. It is necessary, first of all on the problem territories to found the systems for support small business, grant tax and loans privileges to it, allow normal environment.

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Figure 1. The location of the Donbass region in Ukraine

