Food Security & Socio-Economic Trend Analysis - Eastern Ukraine

29 March, 2018
This analysis was undertaken by the Food Security and Livelihoods Cluster (FSLC) team\(^1\) to highlight the trends of the socio-economic and food security situation in Eastern Ukraine. The report complements the joint food security assessment report and socio-economic analysis report published by FSLC in September, 2017.

The objective of the analysis is to provide an overview of the overall situation, specifically focusing on food security and socio-economic aspects in light of ongoing conflict in Luhanska and Donetska oblasts. The analysis therefore aims to, where possible, show the food security trends (food consumption, food security index, food prices, food expenditure, vulnerability groups, livelihood coping strategies) as well as the main trends relating to the macro-economic situation, demography, business / enterprise, labour force, poverty, household (HH) income and expenditure since the beginning of the conflict.

To provide further details on the context, which this analysis will refer to, FSLC recommends the following reports:

- Joint Food Security Assessment Report, FSLC, September 2017
- Socio-Economic Analysis Report, FSLC, September 2017
- Food Security and Vulnerability Analysis Report (based on IAVA and MSNA) main findings, WFP and FSLC, February 2017
- Study on Social Protection and Safety Nets in Ukraine, WFP December 2017
- Socio-economic impact assessment in eastern Ukraine, FAO 2017:
  - REACH (IAVA, MSNA, Livelihood Thematic Assessment, Area Based Assessment, Trend Analysis, 2018 Winter Assessment)
- Socio-Economic Impacts of Internal Displacement and Veteran Return, World Bank 2017

**DATA USED FOR ANALYSIS & METHODOLOGY:**

**FOOD SECURITY ANALYSIS:** The food security analysis is based on the following: WFP Food Security Update on Ukraine (March 2015)\(^2\), WFP Food Security Assessment (November 2015), WFP Food Security Update (June 2016)\(^3\), REACH Inter Agency Vulnerability Assessment (IAVA) (September 2016), REACH Multi Sector Needs Assessment (MSNA I) (October 2016), Joint FSLC Food Security Assessment (September, 2017 – data collection in June), REACH Area Based Assessment (June 2017), REACH Trend Analysis Data (September 2017), REACH Multi Sector Needs Assessment Data on NGCA (MSNA II) (October, 2017) and REACH Winter Assessment Data on GCA (data collection in February, 2018).\(^4\)

The methodology used to determine food insecurity levels is WFP's household-level food security classification (CARI Approach).\(^5\) This classification is based on the households’ current status of food security (using food consumption indicators) and their coping capacity (using indicators measuring economic vulnerability and asset depletion). The CARI methodology was also used when analysing previous above studies\(^6\) and is thus comparable with these findings.

**SOCIO-ECONOMIC ANALYSIS:** The socio-economic part of the analysis is based on secondary data and information from the following: The State Statistics Service of Ukraine (SSSU), Pension Fund of Ukraine,

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\(^1\) Anton Tovchenko and Line Rindebaek, Ukraine FSLC, March, 2018.

\(^2\) Based on NGO Forum’s Multi-Sector Needs Assessment (MSNA) in the 5 affected Oblasts of Eastern Ukraine, March, 2015.

\(^3\) Based on WFP vulnerability assessment data collection during April-May, 2016.


\(^5\) For more information on CARI please see [https://resources.vam.wfp.org/CARI](https://resources.vam.wfp.org/CARI)

\(^6\) For the purpose of harmonised analysis, it was decided not to differentiate between the geographical areas in GCA Luhanska and Donetska oblasts.
Ministry of Social Policy of Ukraine and Ptoukha Institute for Demography and Social Studies of the National Academy of Sciences of Ukraine\(^7\) with a focus on average indicators for Ukraine and Government Controlled Areas (GCA) of Donetska and Luhanska oblasts.

The analysis is based on pre-conflict data (GCA and Non-Government Controlled Area/NGCA) with the focus on the period after conflict and up until 2017, with some preliminary 2018 data, where available. After 2014, only GCA data is available and any reference to Donetska and Luhanska oblasts refers to GCA unless otherwise indicated.

**STRUCTURE OF ANALYSIS & REPORT:**

The **FOOD SECURITY SECTION** of the report will look at:

1. **Food Consumptions Score** – including vulnerable households, trends in age groups, consumption and seasonality (GCA: pages 7-8 and NGCA: page 14)
2. **Diet Diversity Score** (GCA: pages 8-9 and NGCA: page 15)
3. **Food Expenditure** (GCA: page 9 and NGCA: page 15)
4. **Livelihoods Based Coping Strategies** – including stress, crisis or emergency coping strategies (GCA: pages 9-10 and NGCA: pages 15-16)
5. **Food Insecurity** – including food insecurity trends, outline of moderate food insecurity as well as severe food insecurity with comparisons to marginally food secure groups, vulnerable groups including impact of pension reform and correlation between vulnerability and food insecurity) (GCA: pages 10-13 and NGCA: pages 16-18)
6. **Food Price Monitoring in GCA and NGCA** (pages 18-21)

The **SOCIO-ECONOMIC SECTION** of the report will look at four main areas:

1. The impact of conflict at **household level** – i.e. looking at the impact on the main social indicators such as poverty (minimum subsistence level), income, expenditure etc.) (pages 23-32)
2. The impact of conflict on the **labour force** – i.e. looking at the impact on employment and unemployment, economically active population, salary (pages 33-38)
3. The impact at **business level** – i.e. looking at the impact on business and enterprises (pages 39-41)
4. The impact at **macro level** – i.e. looking at the impact on the overall economic situation (pages 42-44)

**MAIN FINDINGS: SUMMARY**

The analysis shows the trends of food insecurity continuing and underscores the correlation between food insecurity, vulnerability and socio-economic trends. It also shows the continued impact of conflict on key socio-economic indicators, especially for Luhanska and Donetska oblasts.\(^8\)

**ANALYSIS OF FOOD SECURITY:**

- **GCA Food Insecurity:** According to the REACH winter assessment data (February 2018), moderate and severe food insecurity in GCA has increased to 18.7% (15% in June 2017). Of these, 1.7% are severely food insecure (0.9% in June 2017). Historically, food needs increase during winter and spring in Ukraine, which negatively impacts food security levels of especially vulnerable households.\(^9\) However, the REACH winter assessment data confirms a trend of increased food insecurity for vulnerable

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\(^8\) Please also refer to the FSLC’s PowerPoint Presentation made on 29 March, 2018: [http://fscluster.org/ukraine/document/fslc-presentation-trend-analysisfood](http://fscluster.org/ukraine/document/fslc-presentation-trend-analysisfood)

groups in GCA over the observed period of time (2016-2018). This applies to households that are severely food insecure but is also clearly identified for moderately food insecure households.

**NGCA Food Insecurity:** Overall moderate and severe food insecurity decreased from 26% in June 2017 to 17.4% in October 2017 according to REACH MSNA-2 data. Of these, 3.2% are severely food insecure (5.2% in June 2017). The improvement in food insecurity levels is mainly a reflection of a seasonal reduction of food prices (prices peaked in May at 1086 UAH – the highest level since the beginning of the conflict – for the WFP monitored food basket but had dropped by 19% in August), which plays a key role in food access.

**GCA Pension Reform Impact:** The pension reform (which entered into force in October 2017) has had a positive impact on households headed by pensioners. According to the REACH winter assessment data, 90% of these heads of households reported that their pension had increased since the reform. At the same time, the level of food insecurity of households headed by people aged 60 or above decreased from 21% in June 2017 to 18% in February 2018 – despite the seasonal impact of winter.

**GCA Food Insecurity and Unemployment – New Key Vulnerable Group:** The REACH winter assessment data confirms the trend identified in 2017, directly linking food security and unemployment. In February 2018, food insecurity increased to 26% (compared to 11% in June 2016) for households with a head of household aged 40-60. This is mainly a reflection of the high proportion of unemployed people within this age group who are heads of household. For households headed by someone who is unemployed and aged 40-60, the level of food insecurity is 37%.

**GCA Food Consumption:** In GCA, the share of households with poor and borderline levels of food consumption has increased to 20.9% in February 2018 (up from 17.8% in June 2017). For vulnerable groups, it remains high at 29%. Elders (60+) have traditionally been the most vulnerable age group in 2016 and 2017 however, in 2018, 27.4% of households headed by people aged 40-60 has a poor and borderline food consumption. For households headed by elders (60+), the level of inadequate consumption is now 22%.

**NGCA Food Consumption:** In NGCA, a positive trend is observed, mainly reflecting the reduction of food prices (seasonal factor). In October, 2017, the share of households with poor and borderline levels of food consumption was found to be 16% (compared to 21% in June 2017) – although compared to October 2016, the level of inadequate consumption has increased slightly from the 15%. In NGCA, households headed by elders (60+) were still found to be most vulnerable in October 2017 with an average of 19% having poor and borderline food consumption.

**GCA Negative Coping Strategies:** In February 2018, 78% of households in GCA applied negative coping strategies – the highest level since April 2016 and up from 53% in June 2017.

**NGCA Negative Coping Strategies:** Although down from 87% in June 2017 (where food prices were high), the number of NGCA households who applied negative coping strategies in October 2017 remained high at 71%.

**GCA Food Expenditure:** Food expenditure has reduced overall in GCA, mainly to reflect the increased cost of utilities, which has negatively impacted the food consumption of vulnerable groups.

**Overall Vulnerable Groups:** Analysis of the main indicators (food consumption score, livelihood coping strategies and food security index) of the REACH winter assessment data in GCA (February 2018) and REACH MSNA-2 data in NGCA (October 2017) shows that in both GCA and NGCA, the most vulnerable groups remain single headed households with children, elders (60+) (mostly those living alone), chronically ill and disabled people, female-headed households as well as households with no active employment – and especially households headed by people aged 40-60 (with no employment).
ANALYSIS OF SOCIO-ECONOMIC INDICATORS:

- **Real Cash Income:** Real cash income per person, which decreased significantly between 2013-2015, continued to decrease in 2016 by 19% in Donetska oblast and 26% in Luhanska oblast when compared with 2015. During this time, the Ukrainian average saw an 0.8% increase.  

- **Real Salary:** Real salary in Donetska increased by 4% between 2015-2016 and by 18% in Luhanska. In 2017, real salary grew by 11% in Donetska and by 12% in Luhanska compared to 2016. However, when considering actual purchasing power of the level of salary when adjusted to the level of the actual minimum subsistence level, “real salary” is still 22% lower in Donetska and 33% lower in Luhanska oblast in 2017, when compared to pre-conflict 2013 level.

- **Poverty Levels:** Between 2013-2015, poverty by actual cost of living, saw a significant increase but this trend stabilised in 2016 where poverty levels decreased from 66% (2015) to 59% (2016) in Donetska oblast and in Luhanska from 74% (2015) to 71% (2016). This improvement is mainly due to an increase of non-cash expenditure, such as government subsidies for utilities and expenditure converted from consumed products received from personal auxiliary farms and self procurements. However, despite a slight improvement of overall poverty (in the general population) in Luhanska and Donetska, when comparing 2016 to 2015, the depth of the poverty slightly increased (by 1.1% in Donetska at a level 31.8% and by 0.8% in Luhanska at a level 31.8%). This means that the most vulnerable people have remained at the same level of poverty as in 2015 (or have seen poverty worsen).

- **Household Expenditure:** Total household expenditure is growing faster than the total income level, which is mainly a reflection of increased cash and non-cash expenditure on food and utilities.

- **Consumer Price Increase:** Between 2013-2017, the consumer price index saw a 119% increase in Donetska and 125% in Luhanska. During this period, prices on food increased by 114% in Donetska and by 122% in Luhanska whereas utility prices increased by 330% in Donetska and 374% in Luhanska.

- **Pension Reform:** After the pension reform, from 1 January 2017 to 1 January 2018, pensions have increased by 56% in Donetska and 52% in Luhanska with an average increase of 39% across Ukraine. However, by 1 January 2018, 79% of pensioners received pensions below 3,000 UAH (Actual Minimum Subsistence Level is 3,128 UAH).

- **Population (Demographic) Trends:** From 2015-2017, the number of people in the group elderly (aged 65+) increased by 8% in Donetska and by 11% in Luhanska, while other population groups decreased (e.g. children under 15 and able-bodied people from 15-64 years). This means an increased demographic burden on the able-bodied population in 2017 when compared to 2015. In addition, the economically active population decreased by 2% in Luhanska and Donetska thus further increasing the economic burden on able bodied people with jobs.

- **Unemployment:** Unemployment levels among the working age population continued to grow between 2015-2017 – with 15% in Donetska and 17.4% in Luhanska by January-September 2017, compared to an average of 9.7% across Ukraine. However, the number people officially registered as unemployed with social employment centres decreased in Donetska from 41,600 in early 2016 to 33,000 in early 2017, and from 17,700 to 16,000 in Luhanska.

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11 Based on a comparison of 2017 to 2013 prices.
**Employment:** Between 2015 and 2016, the number of people employed by economically active enterprises reduced from 410,000 to 314,000 in Donetska and in Luhanska from 112,000 to 104,000 – mainly a reflection of the closure of large and medium enterprises. However, 2016 saw a positive trend in the economic activity of “person-entrepreneurs” with the share of people employed by “person-entrepreneurs” compared to those employed by enterprises, increasing from 27% in 2015 to 33% in 2016 in Donetska, and from 33% to 34% in Luhanska.

**Trend of enterprise closures:** Analysis of 2016 data shows the trend from 2013-2015 continuing but with much bigger impact on large and medium-sized businesses compared to small and micro businesses. Large and medium enterprises still account for around 90% of the share of employees and turnover.

**Salary Arrears:** By January 2018, salary arrears increased to 453 million UAH in Donetska and to 557 million UAH in Luhanska, which combined makes up 43% of total salary arrears in Ukraine.

**Gross Regional Product:** After two years of significant negative trends for all main macroeconomic indicators, in 2016, the Gross Regional Product increased by 2% in Donetska and 25% in Luhanska (compared to 2015). This mainly reflects increased industrial production during 2016 as a main economic activity for both oblasts. However, industrial production in 2017 decreased by 11% in Donetska and by 31% in Luhanska (a potential reflection of the economic blockade). This could have negative impact on the Gross Regional Product in 2017. In 2016, the import and export of goods in Donetska increased whereas it continued to decrease in Luhanska, which could be due to a more severe impact of conflict in this oblast. Between 2016-2017, capital investments showed a positive trend in both oblasts when compared to 2015.

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**LINK BETWEEN FOOD SECURITY AND SOCIO-ECONOMIC SITUATION:**

In Ukrainian context, where food is physically available (not taking into account some settlements on the contact line), the main problem is economic access and stability. An adequate supply of food does not in itself guarantee household level food security. Concerns about insufficient food access have resulted in a greater policy focus on incomes, expenditure, markets and prices in achieving food security objectives. Even if for some people, food intake is adequate today, they could be still considered food insecure if they have inadequate access to food on a periodic basis, risking a deterioration of their nutritional status. Government regulations such as level of the minimum subsistence level, minimum salary level, utilities prices, social protection schemes (i.e. pension reforms) and economic factors (business environment, unemployment, poverty, rising food prices) have an impact on household’s food security status.12 Several food security findings are found to be closely linked with the trends of the socio-economic indicators. For example:

- Food consumption and food insecurity levels, which are linked to food and utility prices;
- The emergence of new key vulnerability group (heads of households aged 40-60), which is linked with unemployment levels;
- Improved food security of households headed by pensioners, which is linked with pension reform;
- Food insecurity levels, which links to the income and expenditure levels;
- Food insecurity levels for households with vulnerability in the context of inadequate government social protection schemes.

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ANALYSIS OF FOOD SECURITY INDICATORS:
Luhanska and Donetska Government Controlled Area (GCA):

FOOD CONSUMPTION SCORE (FCS):

**Poor-borderline FCS:** According to the latest REACH winter assessment data, the share of households with poor and borderline food consumption (meaning that these households do not have adequate consumption levels) is estimated to be 20.9% in GCA. The share of households with a poor level of food consumption is estimated to be 4.7% and the borderline with 16.2%.

**Female-headed Households:** It is estimated that 30% of female-headed households have poor and borderline levels of food consumption and therefore continue to be more vulnerable than male-headed households at 11.4% in GCA.

**Vulnerable Households:** When looking at poor and borderline FCS, the proportion of households featuring some type of vulnerability (such as chronic illness, disability, single headed household status, three or more children etc.) is 29%. This is compared to 16.5% for households with no vulnerabilities. These groups of households with vulnerabilities were observed to more vulnerable during the whole period of analysis (2015-2018).

**Trends in Age Groups:** Between April 2016 and September 2017, households headed by Elders (60+) were found to be the most vulnerable.

However, according to the REACH winter assessment data (February 2018), this trend has changed and households headed by people aged 40-60 now has a higher share of poor and borderline food consumption score at 27.4%, whereas the level for households headed by Elders (60+) is 22%.

This is mainly a reflection of the increased level of unemployment (see page 37 under the socio-economic section below for more details on the unemployment trend) and at the same time, the positive impact of the pension reform, which has improved the consumption levels of elderly people (see more on the pension reform on pages 13 and 29).

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14 This is the highest level since March 2015, which is the earliest time that data is available after the onset of conflict.

15 The graph covers GCA but in some cases, include only the area near the contact line however, the previous FSLC analysis shows that there are no significant differences between 1) the areas close to the contact line and 2) the remaining GCA Luhanska and Donetska. For the purpose of harmonised analysis, it was decided not to differentiate between the geographical areas along the trend.
**Consumption & Seasonality:** Consumption levels of vegetables and fruits show a clear seasonal correlation with higher levels in the summer/autumn period with an average 4.7 days “consumed by the household during the last seven days” and lower levels in the winter/spring period with an average 4.4 days. This is mainly a reflection of the cropping season, increased availability and as a result of higher and lower food commodity prices (see food price monitoring section below).

At the same time, consumption levels of dairy products decreased from an average of 3.7 days in 2016 “consumed by the households during the last seven days” to 2.4 days in 2018. Consumption of eggs also decreased from 4.2 to 3.1 days. But, for “cereals and grains” consumption increased from 5.5 in 2016 to 6.2 in 2018, for “roots and tubers” increased from 5.3 to 5.6 and “oil and fats” from 4.7 to 6.0.

The trend of consumption levels by food commodity appear to show a direct correlation with the food price trends (see further on food prices below on pages 16, 18-21 and 30-32).

Winter also has an impact on the households’ consumption. Due to lack of money or other resources, 23% of households indicated that, during the height of winter, they were unable to eat healthy and nutritious food whereas 20% of households indicated that they very few kinds of food in winter. For more details, please refer to the FSLC’s Joint Food Security Assessment Report, September 2017.\(^\text{16}\)

Analysis of the Winter REACH assessment data indicates that due to lack of money to buy food, 49% rely on “less preferred/less expensive” food “during the last 7 days”, 19% of the households reduce the number of meals eaten per households, 23% reduce the proportion size meals, 13% of the households reduced the food intake for adults to ensure food for the children. This trend, has remained largely unchanged when compared to April 2016 and September 2017.

**DIET DIVERSITY SCORE (GCA):**

Analysis of the REACH winter assessment data shows that 10% of households were found to have poor dietary diversity,\(^\text{17}\) whereas 49% have medium diet diversity. These levels have improved compared to June 2017 - mainly because the number of households reporting that they, for some of the commodities, had increased their food consumption from “frequency 0” to “frequency 1” during the last seven days.

However according to REACH winter assessment data, 22% of households reported that they had not eaten any fruit in the past 7 days. For dairy products, this number was 20% and for meat/fish 12% and for eggs 7%. At the same time, the level of households that reported eating cereals and grains each day increased to 96% (compared to 75% in June 2017 and 51% in August 2016) and for roots and tubers, the number increased to 71% (compared to 52%

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\(^\text{17}\) This covers those who reported that they had not eaten at least one or more of the different types of commodity groups during the past seven days.
in June 2017 and 46% in August 2016). This trend could be a concern due to the potential negative impact on Vitamin A and micronutrient intake at household level.

**FOOD EXPENDITURE (GCA)**

The analysis of food expenditure shows that the average percentage of the share of food expenditure according to the REACH winter assessment data has remained steady at 47% (compared to 47% in June 2017 - though reduced from 53% in June 2016).

For the last two years, on average, between 15% and 20% of households have spent more than 65% of their budget on food (depending on the season).

During this time, the share of households that spent less than 50% on food has increased, which is a positive trend. However, reduced food expenditure must be understood in a context of rising expenditure shares for utilities and heating, which have increased to 23% (compared to 20% in June 2016).

This corresponds to the household expenditure levels reported by state statistics (see socio-economic section on expenditure on pages 30-32). In reality, low income causes households to reduce their food expenditure as well as other expenditures to pay for utilities. This has a negative impact on their food consumption, as observed when analysing food consumption trends.

**LIVELIHOODS – BASED COPING STRATEGIES (GCA)**

The application of (negative) coping strategies due to lack of money to buy food, according to the REACH winter assessment data, has increased.

In 2018, such strategies are applied by 78% of households – the highest level since April 2016.

Coping strategies are classified as stress, crisis or emergency strategies reflecting the severity of the strategy. 18 Between April 2016 – February 2018, the most commonly applied coping strategies are “crisis strategies”.

Among the stress coping strategies during the observed period of time, spent savings is the most common and is applied by 59% as per the REACH winter assessment data. Around 25% of the households interviewed in purchased food on credit or borrowed food. This was confirmed through focus group discussions in July in 2017. 19

Among the crisis coping strategies, reducing essential health (including drugs) is the one most applied during observed period of time. As per the REACH winter assessment, 47% of the households applied this strategy due to lack of money to buy food.

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18 Please refer to definitions included below in “Main Definitions” in Annex 1.
19 Focus group discussions in July 2017 highlighted the growing use of stress and emergency coping strategies. For examples, please refer to pages 5 and 6 of the joint food security assessment report, FSLC, September, 2017.

The percentage of emergency coping strategies has increased to 19% during the observed period of time and is at the highest level since April 2016. Nearly 4% of the households interviewed indicated that the entire household had moved from place of in and almost 16% of households are using degrading sources of income, illegal work or high risk jobs. Such strategies can negatively impact future productivity, but they are also more difficult to reverse and more dramatic in nature (including loss of human dignity).

**FOOD INSECURITY (GCA):**

Food insecurity in Ukraine is identified by using the CARI methodology [see annex 1](#). This classification is based on the household’s current status of food security (using food consumption indicators) and their coping capacity (using indicators measuring economic vulnerability and asset depletion).

The analysis of the above food security indicators (food consumption score, share of food expenditure and livelihoods coping strategies) provides a projection of the overall food security situation and is referred to as the food security index (FSI).

In GCA, according to the REACH winter assessment data, moderate and severe food insecurity has increased to 18.7%. This is the highest level since April 2016. The food insecurity level is a direct result of increased levels of inadequate food consumption and high level of applying negative coping strategies (especially emergency).

**Impact of Winter:** Historically, food needs increase during winter/spring in Ukraine impacting especially vulnerable households. During this time, kilo-calorie requirements intensify and access to food becomes restricted due to food price increases (whilst households face increased costs to cover heating expenses and fuel requirements), lack of availability of agricultural produce, depletion of food stocks and winter weather complicating access to markets.

**Trend of Food Insecurity:** Nonetheless, the REACH winter assessment data, confirms an overall trend of food insecurity for vulnerable groups in GCA.

The food security index (see graph of food insecurity dynamics) indicates an increase in food insecurity levels in GCA during the observed period (starting from April 2016 to February 2018). This is mainly driven by the socio-economic impact of the conflict, which has led to high levels of poverty caused by low incomes and at the same time a rapid rise in food prices and utilities over the last three years. *(Please see pages 23-32 of the socio economic section for further details)*

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20 For examples, please refer to pages 5 and 6 of the joint food security assessment report, FSLC, September, 2017.

21 For further details on the impact of winter on food security and increased kcal requirements, see FSLC Winterisation Guidance Note for 2017-2018 on Food Security (EN, UA, RUS)

Luhanska and Donetska GCA have been most severely impacted by the socio-economic disconnect between the GCA and NGCA, resulting in disruption of access to markets, inflation, increased unemployment and lack of livelihoods opportunities. The social protection schemes of the most vulnerable are not adequate in a context of rising prices. The amount of social payments, including pensions have stayed relatively the same during the 2014-2017 period. However, following the pension reform in October 2017, food insecurity has improved for some pensioners.

**MODERATE FOOD INSECURITY:**

According to the REACH winter assessment data, it is estimated that 17% of households are moderately food insecure. This means that those households have food consumption gaps or are marginally able to meet minimum food needs only with accelerated depletion of livelihood assets.

The analysis of the winter REACH assessment data shows the following differences between moderately food secure and marginally food insecure:

<table>
<thead>
<tr>
<th>MODERATELY FOOD INSECURE COMPARED TO MARGINALLY FOOD SECURE</th>
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</thead>
<tbody>
<tr>
<td>Head of HH Income</td>
</tr>
<tr>
<td>26% less than marginally food secure</td>
</tr>
<tr>
<td>Total expenditure</td>
</tr>
<tr>
<td>2% less than marginally food secure</td>
</tr>
<tr>
<td>Share of food expenditure</td>
</tr>
<tr>
<td>45% compared to 50% of marginally food secure</td>
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<tr>
<td>Share of health expenditure</td>
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<tr>
<td>the share of health expenditure is 15% compared 9% of marginally food secure</td>
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<tr>
<td>Vulnerability</td>
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<tr>
<td>34% HH has a member with vulnerability compared to 27% marginally food secure</td>
</tr>
<tr>
<td>Share of utilities</td>
</tr>
<tr>
<td>22% the share of utilities and heating compared 23% share of utilities and heating of marginally food secure</td>
</tr>
<tr>
<td>Food Consumption Scores</td>
</tr>
<tr>
<td>71% has borderline FCS compared to 6% of marginally food secure</td>
</tr>
<tr>
<td>22% has poor FCS compared to 0% of marginally</td>
</tr>
<tr>
<td>Livelihood Coping Strategies</td>
</tr>
<tr>
<td>92% applying negative coping strategies compared to 89% of marginally food secure</td>
</tr>
<tr>
<td>35% applying emergency coping strategy compared to 20% of marginally food secure</td>
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</table>

Moderately food insecure heads of households, on average, have 26% less of income but only 2% less of total household expenditure when compared to those that are marginally food secure. At the same time, the share of food expenditure is 45% for households that are moderately food insecure, whilst the households that are marginally food secure has 50% average share of food expenditure. This is mainly a reflection on the bigger share of expenditure for health (including drugs), which is at 15% for the moderately food insecure households, whilst the level for marginally food secure is 9%. This could be explained by the higher percentage of households featuring some type of vulnerability (34% compared 27%), such as chronic illness, disability, single headed household and etc.

The main difference between the moderately food insecure households and those that are marginally food secure, is the level of food consumption scores. Of the moderately food insecure households, 71% have borderline FCS and 22% have poor food consumption, whilst the marginally food secure only have 6% of borderline food consumption and none with poor food consumption.

The level of applying of negative coping strategies is high for both the moderately food insecure households (92%) and for marginally food secure households (89%). However, the level of emergency
coping strategies is 35% for moderately food insecure households, whilst for marginally food secure households, this level is 20%.

**SEVERE FOOD INSECURITY:**
According to the REACH winter assessment data, it is estimated 1.7% of households are severely food insecure, which is the highest level since April 2016. This means that those households have large food consumption gaps or have extreme loss of livelihood assets that will lead to large food consumption gaps, or worse.

The analysis of the winter REACH assessment data shows the following differences between severely food secure and marginally food secure:

<table>
<thead>
<tr>
<th>SEVERELY FOOD INSECURE COMPARED TO MARGINALLY FOOD SECURE</th>
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<tbody>
<tr>
<td>Head of HH income</td>
</tr>
<tr>
<td>Total expenditure</td>
</tr>
<tr>
<td>Share of food expenditure</td>
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<td>Share of health</td>
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<tr>
<td>Vulnerability</td>
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<td>Share of utilities</td>
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<tr>
<td>Food Consumption Scores</td>
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<td>Livelihood Coping Strategies</td>
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Severely food insecure heads of households, on average, have 54% less of income and their total household expenditure is 56% less than that of marginally food secure. At the same time, the share of food expenditure is 85% for households that are severely food insecure. The share of expenditure for utilities is 4% and 5% for health, which is comparatively low. However, the percentage of households featuring some type of vulnerability is 37%, which is the highest among other all food security CARI groups (i.e. “Food secure”, “Marginally food secure”, “Moderately food insecure” and “Severely food insecure” - see below tables).

The food consumption score of severely food insecure households is very low with 60% of the households having borderline consumption levels and 40% poor consumption levels. All severely food insecure households apply negative coping strategies and 88% of them apply emergency coping strategy.

**VULNERABLE GROUPS:**
During the observed time (April 2016 – February 2018), the most vulnerable groups were found to be households featuring some type of vulnerability (such as chronic illness, disability, single headed household status, three or more children), elders (60+) (mostly those living alone), households with no active employment as well as female-headed households.

**New Vulnerable Age Group:** However, the latest REACH winter assessment data has identified households with an unemployed head of household within the age of 40-60 as the most food insecure.
For this group, 37% of households are food insecure – out of which, 15% of severely food insecure and 22% moderately food insecure.

Still, 15% of the moderately food insecure are households headed by someone in paid work (employee, self-employed, working for family business) which likely reflect low income levels for these households.

**Pension Reform**\(^22\): For households headed by pensioners, there has been a slight improvement in their level of food insecurity. This is expected to be due to the increased level of pensions as result of the pension reform (October 2017).

However, the level of food insecurity of households headed by a pensioner remains high with 17% being moderately food insecure and 1% severely food insecure. According to the REACH winter assessment data, 60% of households indicated that they include a pensioner, whose pension has increased by less than 500 UAH since October 2017, 16% indicated that their pension increased from 500 to 1000 UAH, 14% indicated that their pension increased by more than 1000 UAH, whilst 10% of households reported that the pension had not increased. For those households who has a pensioner as a head of household but where the pension has not increased, 35% are food insecure. *(Please refer to page 29)*

### Impact of Pension Increase on Food Security

<table>
<thead>
<tr>
<th>CARI</th>
<th>No increase</th>
<th>&lt; 500 UAH</th>
<th>500-1000 UAH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food secure</td>
<td>13%</td>
<td>17%</td>
<td>21%</td>
</tr>
<tr>
<td>Marginally food secure</td>
<td>52%</td>
<td>63%</td>
<td>66%</td>
</tr>
<tr>
<td>Moderately food insecure</td>
<td>31%</td>
<td>19%</td>
<td>13%</td>
</tr>
<tr>
<td>Severely food insecure</td>
<td>4%</td>
<td>1%</td>
<td>0%</td>
</tr>
</tbody>
</table>

### Inadequate Social Safety Nets: All government social payments (such as help for the household when a child is born, support to households with members with a disability, support for single parents etc.) are based on the ‘legal stationary minimum subsistence level’. However, this level does not match the level of inflation and vulnerable groups, in reality, receive far less (137% less)\(^23\) than they did in 2013. From 2013 to 2016, the ‘legal stationary minimum subsistence level’ remained at almost the same level (from 1113.7 UAH in 2013 to 1388.1 UAH in 2016). However, the ‘actual minimum subsistence level’ was approximately 1333.7 UAH in 2013 (thus matching the ‘legal stationary’ in 2013) but has increased to 2646.4 UAH in 2016. *(See also pages 28–29)*. Therefore, special attention should continue to be given to vulnerable groups in future.

### Correlation Between Vulnerability & Food Insecurity

<table>
<thead>
<tr>
<th>CARI</th>
<th>% of HHs with vulnerability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food secure</td>
<td>19%</td>
</tr>
<tr>
<td>Marginally food secure</td>
<td>27%</td>
</tr>
<tr>
<td>Moderately food insecure</td>
<td>34%</td>
</tr>
<tr>
<td>Severely food insecure</td>
<td>37%</td>
</tr>
</tbody>
</table>

For the households featuring some type of vulnerability (see above), 24% food are food insecure. There is a clear correlation between vulnerability and food insecurity levels. The majority of vulnerable households (elders, single headed households with children, female headed households, chronically ill, disabled or households with no employment) are coping to the extent that they reduce on other expenses, making some stark and impossible choices between medicine, heating and their children’s education to ensure basic daily food intake.

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\(^{22}\) Please refer to: [http://zakon0.rada.gov.ua/laws/show/1788-12](http://zakon0.rada.gov.ua/laws/show/1788-12)

\(^{23}\) The percentage is the difference between the ‘legal stationary minimum subsistence level’ and ‘actual minimum subsistence level’.
Luhanska and Donetska Non-Government Controlled Area (NGCA):

**FOOD CONSUMPTION SCORE (NGCA)**

**Poor-borderline FCS:** According to the latest REACH MSNA-2 data (data collection took place in October 2017), the share of households with poor and borderline food consumption (meaning that these households do not have adequate consumption levels) in NGCA is estimated at the level of 16% (compared to 21% in June 2017). However, when compared to the same period of previous year, the level of inadequate consumption increased slightly, from 15% in October, 2016.

Based on the REACH MSNA-2 data, it is estimated that the share of households with a poor level of food consumption is 6% whilst the share with borderline food consumption is 10%. This positive trend mainly reflects the decrease in food prices (seasonal factor) - when comparing GCA and NGCA food basket costs, the difference narrowed to only 7% in September 2017 whereas in May 2017 it reached 35% (see the price monitoring section below).

**Female-headed Households:** According to the latest REACH MSNA-2 data, it is estimated that 19% of female-headed households have poor and borderline levels of food consumption and therefore continue to be more vulnerable than male-headed households (12%) in NGCA.

**Vulnerable Households:** Households headed by Elders (60+) were found to be most vulnerable with an average of 19% having poor and borderline food consumption.

**Consumption & Seasonality:** Consumption levels of vegetables and fruits show a clear seasonal correlation with higher levels in the summer/autumn period with an average 5.1 days “consumed by the household during the last seven days” and lower levels in the winter/spring period with an average 4.1 days. This is mainly a reflection of the cropping season, increased availability and as a result of higher and lower prices (see price monitoring section below).

At the same time, the consumption levels of dairy products decreased from 3.3 in since October 2016 of an average consumed by the households during the last seven days to 3 in October 2017. Moreover, the consumption of “cereals and grains” increased from 6.5 to 6.7 and “roots and tubers” from 5.3 to 5.8 and for “oil and fats” from 5.7 to 6.1.

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DIET DIVERSITY SCORE (NGCA):
Analysis of the REACH MSNA-2 data shows that 14% of households have poor dietary diversity, whereas 50% have medium diet diversity. However, when compared to the same period one year earlier (October 2016), households with low dietary diversity increased from 12% whereas those with medium dietary diversity decreased from 56%. According MSNA-2 data, 21% of households reported that they had not eaten any fruit in the past 7 day and 9% any vegetables. For dairy products, this number was 26% and for meat/fish 16% and eggs 12%. At the same time the level of households that reported eating cereals and grains each day increased to 91% and 73% (compared to 58% in October 2016) for roots and tubers. This trend could be a concern due to the potential negative impact on Vitamin A and micronutrient intake at household level.

FOOD EXPENDITURE (NGCA)
According to analysis of the REACH MSNA-2 data, the average percentage of the share of food expenditure has remained steady at 55% (compared to 59% in June 2017 - though reduced from 64% in October 2016).
Over the observed period of time, the share of households that spent less than 50% on food has increased, which is a positive trend. However, as per REACH MSNA-2 data, 29% of the households spent more than 65% of their budget on food. The share of expenditure on health was 15% and on clothes 9%.

LIVELIHOODS – BASED COPING STRATEGIES (NGCA)
According to the REACH MSNA-2 data, 71% of households apply (negative) coping strategies due to lack of money to buy food. The coping strategies are classified as stress, crisis or emergency strategies reflecting the severity of the strategy.
When comparing findings over two years, within the period April/October 2016 and June/October 2017, there is a clear trend of increasing coping strategies by all groups.
Between April 2016 - October 2017, the most commonly applied coping strategies are “crisis strategies”.
Among the “stress coping strategies” during the observed period of time, spent savings is the most common and is applied by 33% as per REACH MSNA-2 data. Around 20% of the households interviewed, purchased food on credit or borrowed food.

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25 This covers those who reported that they had not eaten at least one or more of the different types of commodity groups during the past seven days.
26 Please refer to definitions included below in “Main Definitions” in Annex 1.
Among “crisis coping strategies”, reducing essential health (including drugs) is the one most applied during the observed period of time – according to REACH MSNA-2 data, 50% of the households applied this strategy due to lack of money to buy food.

The percentage of the “emergency coping strategies” has increased up to 16% during the observed period of time. Nearly 10% of the households interviewed indicated that the entire household had moved from place of origin and almost 7% of households were using degrading sources of income, illegal work or high risk jobs.

**FOOD INSECURITY (NGCA):**

In NGCA, according to the REACH MSNA-2 data, overall moderate and severe food insecurity has decreased to 17.4%, from 26% in June 2017. However, over the period of time from April 2016, there is a trend of increasing severe food insecurity (see graph).

The situation is similar to that in GCA but with a stronger negative impact of conflict on the socio-economic situation in NGCA, which has resulted in higher prices, indicative higher unemployment and comparatively lower income. This results in a higher share of food expenditure.

People’s vulnerability is further aggravated by the increase in negative livelihood-based coping strategies, which remain high in NGCA at 72% although down from 87% in July 2017.

**Food Prices:** The improvement of food insecurity between April-October 2016 and June-October 2017, is likely a direct reflection of a seasonal reduction of the food prices. The value of the WFP food monitored food basket in NGCA was significantly higher in April-June 2017, when compared to August-September 2017.

For instance, in May 2017, the food basket cost 1086 UAH in Donetsk NGCA (the highest level since the beginning of the conflict), while in August it went down by 19%. This significant dynamic plays a key role in the food access for the people (see pages 18-21 below).
MODERATE FOOD INSECURITY:
According to the REACH MSNA-2 assessment data, it is estimated that 14% of households are moderately food insecure. This means that those households have food consumption gaps or are marginally able to meet minimum food needs only with accelerated depletion of livelihood assets.

The analysis of the winter REACH MSNA-2 data shows the following differences between moderately food secure and marginally food insecure:

<table>
<thead>
<tr>
<th>MODERATELY FOOD INSECURE COMPARED TO MARGINALLY FOOD SECURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total income</td>
</tr>
<tr>
<td>Total expenditure</td>
</tr>
<tr>
<td>Share of food expenditure</td>
</tr>
<tr>
<td>Share of health expenditure</td>
</tr>
<tr>
<td>Vulnerability</td>
</tr>
<tr>
<td>Share of utilities</td>
</tr>
<tr>
<td>Food Consumption Scores</td>
</tr>
<tr>
<td>25% has poor FCS compared to 0% of marginally food secure</td>
</tr>
<tr>
<td>Livelihood Coping Strategies</td>
</tr>
<tr>
<td>28% applying emergency coping strategy compared to 18% of marginally food secure</td>
</tr>
</tbody>
</table>

Moderately food insecure households have 18% less of total expenditure (than marginal food insecure). At the same time, the share of food expenditure is almost the same 57% for households that are moderately food insecure and 58% for the households that are marginally food secure. The share of expenditure on health is bigger for the moderately food insecure households, at 17%, whilst the level for those that are marginally food secure is 12%.

The main difference between the moderately food insecure households when compared to those who are marginally food secure is the level of food consumption scores. Of the moderately food insecure households, 57% have borderline FCS and 25% have poor food consumption, whilst the marginally food secure only have 2% of borderline food consumption and none with poor food consumption.

The level of applying of negative coping strategies is high for both the moderately food insecure households (91%) and for marginally food secure households (84%). However, the level of emergency coping strategies is 28% for moderately food insecure households, whilst for marginally food secure households, this level is 18%.

SEVERE FOOD INSECURITY:
According to the REACH MSNA-2 assessment data, it is estimated 3.2% of households are severely food insecure. This means that those households have large food consumption gaps or have extreme loss of livelihood assets that will lead to large food consumption gaps, or worse.

The analysis of the winter REACH assessment data shows the following differences between severely food secure and marginally food secure:
### Severely Food Insecure Compared to Marginally Food Secure

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Total income</strong></td>
<td>N/a</td>
</tr>
<tr>
<td><strong>Total expenditure</strong></td>
<td>52% less than marginally food secure</td>
</tr>
<tr>
<td><strong>Share of food expenditure</strong></td>
<td>80% compared to 58% of marginally food secure</td>
</tr>
<tr>
<td><strong>Share of health</strong></td>
<td>the share of health expenditure is 9% compared 12% of marginally food secure</td>
</tr>
<tr>
<td><strong>Vulnerability</strong></td>
<td>N/a</td>
</tr>
<tr>
<td><strong>Share of utilities</strong></td>
<td>N/a</td>
</tr>
<tr>
<td><strong>Food Consumption Scores</strong></td>
<td>24% has borderline FCS compared to 2% of marginally food secure</td>
</tr>
<tr>
<td></td>
<td>76% has poor FCS compared to 0% of marginally</td>
</tr>
<tr>
<td><strong>Livelihood Coping Strategies</strong></td>
<td>100% applying negative coping strategies compared to 84% of marginally food secure</td>
</tr>
<tr>
<td></td>
<td>40% applying emergency coping strategy compared to 20% of marginally food secure</td>
</tr>
</tbody>
</table>

Severely food insecure households have 52% less of total expenditure compared to those that are marginally food secure. At the same time, the share of food expenditure is 80% for households that are severely food insecure. The share of expenditure for health 9%, which is comparatively low consideration the average in NGCA.

The food consumption score of severely food insecure households is very low with 24% of the households having borderline consumption levels and 76% poor consumption levels.

All severely food insecure households apply negative coping strategies.

### Vulnerable Groups:

There are no observed changes over time in vulnerable groups in NGCA: it is still households featuring some type of vulnerability (such as chronic illness, disability, single headed household status, three or more children), elders (60+) (mostly those living alone), households with no active employment and female-headed households.

### Food Price Monitoring in GCA and NGCA:

*The below section on food prices has been prepared by WFP Regional (Cairo) Bureau’s VAM unit (with minor edits by FSLC for flow and layout purposes) using the Safety Nets Alert Platform (SNAP)*

In a Ukrainian context, prices play a key role in food access and therefore also on food security levels.

**Main Findings:**

- Inflation in Ukraine in 2017 rose by 13.7%, which is higher when compared to the 2016 level of 12.4%, however it is lower when compared to the first years of conflict, 2014-2015.
- After food price stabilization in 2016, prices started to grow intensively in 2017. In annual terms, the WFP monitored food basket costs increased by 24.9%.
- According to the ALPS (Alert for Price Spikes) indicators in June-July 2017, the actual price surpassed the seasonally estimated one, indicating abnormal and thus concerning (stress) levels. Only at the end of 2017 did food prices get back to the expected value, indicating a stabilization of markets. The ALPS model forecasts a further slight increase of food basket costs the first

27 See further on [https://snap.vam.wfp.org](https://snap.vam.wfp.org)
FOOD INFLATION
After food price stabilization in 2016, prices started to grow intensively in 2017. In annual terms, WFP monitored food basket costs increased by 24.9% in December 2017 compared to same period of 2016. As aforementioned, according to the State Statistic Service of Ukraine, food inflation during this period was 18.3%, while consumer price index reached 13.7%.

A trend analysis of the cost of the food basket in 2017 shows a similar behaviour of prices to 2015 crisis, when food prices grew rapidly during the whole year despite the seasonal decrease during July-August period.

In June-July, the actual price surpassed the seasonally estimated. Prices for vegetables including potatoes are very volatile during the year with maximum during March-June and minimum during August-November.
FOOD PRICE ANALYSIS BY COMMODITY

The dynamic of separate food commodity prices is very diverse.

There are few food commodities, where little price change was observed when comparing December 2017 to the same period of 2016. This group includes sunflower oil (+2%) and pasta (+6%).

Buckwheat grids decreased by 35% and sugar by 15%. The prices of most of the food items increased between 15-30%. Dairy products prices increased by 23-30% (milk and butter +23%, curd +28%, sour cream +30%).

There was also a relatively large increase of the prices of the main cereals and roots, such as wheat bread and rye bread +23%, rice +22% and wheat flour +16%, while potato price grew by 16%.

The largest increase of prices happened with pork and pork fat by 41% and 68% respectively, as well as some vegetables like carrot by 63% and beetroot by 71%.

The same ALPS indicator used above, run at commodity level, shows that protein-rich food, including diary and meat, were found at different levels of alert. Chart 5 shows the commodity status as of December 2017.

COMPARISON BETWEEN GCA AND NGCA

Prices in NGCA were higher when compared to GCA during 2015-2017, however fast price growing in GCA decreased the price gap between GCA and NGCA.

In June 2017, the food basket costs difference reduced to 21% between GCA and NGCA territories of Luhanska and Donetska oblasts, while in May 2017, the difference was recorded at 35%. This difference between the GCA and NGCA food basket cost narrowed to only 7% in September 2017.

Prices in GCA grew sharply while in NGCA, food prices were unstable and prone to spikes and rapid change. The food basket cost trend in GCA has a pronounced rising tendency without rapid changes, while in NGCA, the food basket value grew and decreased by more than 20% during 2017.
As all prices are reported in Ukrainian hryvnia (UAH), the exchange rate dynamics of UAH and Russian rubbles (currency used in NGCA) could be one of the main reasons for the high volatility of prices in NGCA. The markets of Luhansa and Donetska NGCA are not very well integrated as the dynamic of prices is not correlated. On the other hand, the dynamics of prices on regional level show a deep correlation of the price trends.

The cost of the food basket in Donetska GCA is higher compared to national level while the Luhansa value is lower. In Donetska GCA, the value of food basket in December 2017 was 901 UAH, which is 3% higher when compared to national level, while in Luhansa GCA food basket costs reached 846 UAH or 3% lower. Data collection in NGCA terminated in October 2017 and therefore a comparison with national averages and GCA is not available beyond September 2017.

FOOD AVAILABILITY IN NGCA
Food availability analysis in 2017 shows that generally food was available in the markets of NGCA. Cereal, dairy and eggs, and oil have been available in the markets in Luhansa and Donetska NGCA during all years. However, there are three commodities, that are either scarcely available or mostly not available in the market such as beef, pork and pork fat.

There are no vast changes in the availability during year, however chicken meat availability was improved during May-July 2017 when compared to previous months. However, the availability of curd and rye bread slightly decrease during those months.

There were no significant differences identified in the food availability in Donetska and Luhansa NGCA. However, a slightly higher availability of some commodities in Donetska NGCA compared to Luhansa NGCA was recorded.

As was reported in the WFP Market Update Report #13, there were no major issues with availability related to the supply chains as compared to 2014 and partially 2015. WFP key informant interviews indicated that the main reasons for the lower availability of some commodities could be lack of demand and a declining purchasing power.

It is also worth highlighting that there is a major difference between the availability of food commodities in urban and rural settlements. In most of the urban settlements almost all commodities are available on the market. This holds true especially for larger cities such as Donetsk and Luhansk. The situation is reported to be worse in rural settlements where commodities such as fresh meat and vegetables are considerably less available.

The above section on food prices has been prepared by WFP Regional (Cairo) Bureau’s VAM unit (with minor edits by FSLC for flow and layout purposes) using the Safety Nets Alert Platform (SNAP) https://snap.vam.wfp.org.
ANALYSIS OF SOCIO-ECONOMIC INDICATORS:

CONTEXT:

PRE-CONFLICT: The conditions for economic growth were favourable in Eastern Ukraine before the conflict and especially in Luhanska and Donetsk oblasts. The majority of coal-mining, metallurgical, coke-chemical, chemical, machine-building industry were concentrated in these two oblasts and a significant number of highly skilled workers were employed by these enterprises. Luhanska and Donetsk oblasts occupied 9% of the territory pre-conflict, produced 25% of industrial production and 8% of agricultural production in Ukraine and these two oblasts accounted for 23-27% of Ukraine's total exports. The geographic position of raw materials and markets was also favourable – in this way, products, diversified industry, developed networks of transport, communications, high population density distinguished Luhanska and Donetsk oblasts as one of the most developed economic regions of the country.

POST CONFLICT: In late 2014, Luhanska and Donetsk oblasts were divided into Government controlled areas (GCA) and non-government controlled areas (NGCA). This had a negative impact on the overall socio-economic situation and complicated infrastructure (including electricity and water supply systems), communication and accessibility in the region as well as access to social assistance.

In Donetsk, due to the division of the railway network and destruction of roads (causing transport cost increases) and energy infrastructure, many enterprises, especially heavy industry, were forced to reduce, suspend or stop production processes. Before the conflict, Donetsk oblast was above the national average on all the major economic indicators (such as Gross Regional Product (GRP), Gross Added Value, (GAV), turnover, export/import, investments, household income) whereas Luhanska oblast was level with the national average for Ukraine. By 2015 however, Donetsk oblast (GCA) was below the national average on all indicators whilst Luhanska oblast (GCA) had fallen even further and was now among Ukraine’s poorest regions.

Since 2014, the Donbas region has experienced a deterioration in the overall socio-economic situation, which has changed the situation for many households and worsened living standards. The findings of this analysis underscores that the region is experiencing a difficult period with almost all key indicators at Macro level (i.e. GRP, GAV, turnover, export/import, investments) and at business level (i.e. enterprises, labour market and employment) showing negative trends, which have a negative impact at livelihoods and household level.

The trends suggest that conflict may directly or indirectly have caused or reinforced economic decline and rising unemployment as a result of enterprise closures, the breakdown of economic ties, the physical destruction of production facilities and of social / financial / banking, transport and communication infrastructure.

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28 Please note that hereafter, if reference is made to Luhanska and Donetsk, we refer to Luhanska oblast and Donetsk oblast. When addressing the situation after conflict, we refer to GCA of Luhanska oblast and Donetsk oblast unless otherwise specified.
29 Donetsk economic region had a developed network of roads, railways, gas mains, oil pipelines, lines of power grids and water supply system, which have been interrupted.
30 Exacerbated in early March 2017 by an economic blockade and then a ‘nationalization’ plan in NGCA.
IMPAKT AT HOUSEHOLD LEVEL

This section covers the impact of conflict at household level in Luhanska and Donetsk GCA and on the social-economic status of households by looking at the main social indicators such as poverty (minimum subsistence level), income, expenditure etc.

DEFINITIONS OF POVERTY:

- The “minimum subsistence level” is a value sufficient to cover basic needs. This value is the basis for classifying the poor as a category.
- However, the “actual minimum subsistence level” (AMSL) is used to monitor the dynamics of living standards (based on consumer price statistics) and calculated monthly by the Ministry of Social Policy of Ukraine.
- For this analysis, “poverty by actual cost of living” has been used – this refers to the percentage of the population living below the actual minimum subsistence level (also sometimes referred to the percentage of the population “living below the poverty line”).

MAIN FINDINGS:

- **Poverty Levels:** Between 2013-2015, poverty by actual cost of living, saw a significant increase but this trend stabilised in 2016 where poverty levels decreased from 66% (2015) to 59% (2016) in Donetsk Oblast and in Luhansa from 74% (2015) to 71% (2016). This improvement is mainly due to an increase of non-cash expenditure, such as government subsidies for utilities and expenditure converted from consumed products received from personal auxiliary farms and self-procurements. However, despite a slight improvement of overall poverty (in the general population) in Luhansa and Donetsk, when comparing 2016 to 2015, the depth of the poverty slightly increased (by 1.1% in Donetsk at a level 31.8% and by 0.8% in Luhansa at a level 31.8%). This means that the most vulnerable people have remained at the same level of poverty as in 2015 (or have seen poverty worsen).

- **Real Cash Income:** Real cash income per person, which decreased significantly between 2013-2015, continued to decrease in 2016 by 19% in Donetsk Oblast and 26% in Luhansa Oblast when compared with 2015. During this time, the Ukrainian average saw an 0.8% increase.

- **Pension Reform:** After the pension reform, from 1 January 2017 to 1 January 2018, pensions have increased by 56% in Donetsk and 52% in Luhansa with an average increase of 39% across

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31 According to the methodology of the Ministry of the Social Policy of Ukraine (MoSP), the minimum subsistence level is a value sufficient to ensure the normal functioning of the human body. The minimum subsistence level is calculated per capita and for those who belong to the main social and demographic groups. The value of the legally statutory minimum subsistence level minimum substance level is approved annually by the Verkhovna Rada of Ukraine as part of the State Budget. Every month (as per Ukrainian law), MoSP undertakes monitoring and calculates the actual minimum subsistence level based on statistical data on consumer prices.

32 This indicator is calculated based on the methodology of the poverty complex estimation of MoSP (http://zakon2.rada.gov.ua/laws/show/z0347-00/page). The indicator is based on the level of expenditure – i.e. it reflects on the equivalent aggregate expenditure per capita lower than actual minimum subsistence level. Other indicators of poverty can be found on the official web-site of the State Statistics Service of Ukraine (SSSU) (http://ukrstat.gov.ua/). The SSSU indicators for example is based on the level of income – i.e. they calculate the differentiation of the living standard of the population based on the equivalent of an average total monthly income per capita lower than the legally statutory minimum subsistence level and based on the equivalent to average total monthly income per capita lower than actual minimum subsistence level. The methodology and poverty indicators used by the World Bank are based on the SSSU indicators and methodology.

33 According to the latest IMF report, “the fall of income levels in Ukraine mainly reflects the impact of armed conflict” and that “the income decline in Ukraine reflects exceptional circumstances and is likely more transitory”. IMF Policy Paper Macroeconomic Developments And Prospects In Low-Income Developing Countries—2018: http://www.imf.org/external/Pubs/FT/Pap/2018/03/22/pp021518macroeconomic-developments-and-prospects-in-lidcs
Ukraine. However, by 1 January 2018, 79% of pensioners received pensions below 3,000 UAH (Actual Minimum Subsistence Level is 3,128 UAH).

- **Household Expenditure:** Total household expenditure is growing faster than the total income level, which is mainly a reflection of increased cash and non-cash expenditure on food and utilities.

- **Consumer Price Increase:** Between 2013-2017, the consumer price index\textsuperscript{34} saw a 119% increase in Donetska and 125% in Luhanska. During this period, prices on food increased by 114% in Donetska and by 122% in Luhanska whereas utility prices increased by 330% in Donetska and 374% in Luhanska.

**DEMOGRAPHIC TRENDS:**

Between 2013-2016, structural changes in the distribution of households by type of settlements were observed. In Donetska oblast, the share of households living in big cities decreased from 61% in 2013 to 35% in 2016, whilst the share of the population living in some small cities increased from 30% to 49% and the share of households living in the villages increased from 9,3% to 15,3%. In Luhanska oblast, the share of households living in the big cities decreased from 57% in 2013 to 19,2% in 2016, whilst the share of the population living in small cities increased from 29,9% to 50,7% and the share of population living in the villages increased from 13% to 30%.

The average number of people living in one household in Donetska decreased from 2.4 in 2013 to 2.3 in 2016 and in Luhanska from 2.4 in 2013 to 2.3 in 2016, while in average in Ukraine it is 2.6 as per 2016 year.

From 2013-2016, the share of households, with children under 18, decreased from 57% in 2013 to 35% in 2016 in Donetska and from 36% to 29% in Luhansa.

The same trend is observed for the share of households in terms of the average number of children per household. In Donetska, the share of households with one child increased from 90% in 2013 to 98% in 2016, while the share of households with two and more children decreased from 10% to 2%. Similarly, in Luhanska, the distribution in the share of households with one child increased from 82% in 2015 year to 89% in 2016 year, while the share of the households with two and more decreased from 18% to 11%. The share of single headed households with children in Donetska increased from 8% in 2013 to 15% in 2016 and from 10% in 2013 to 12% in 2016 in Luhansa.

\textsuperscript{34} Based on a comparison of 2017 to 2013 prices.
During 2013-2016, changes in the distribution of households by availability of working persons in their composition were also observed. In Donetska oblast, the share of households with employed people decreased from 68% in 2013 to 64% in 2016 and from 69% to 65% in Luhanska oblast. This influenced the economic burden per one employed member of the households. In Donetska, the coefficient of economic burden per one employed member in the household increased from 2.19 in 2013 to 2.33 in 2016 and in Luhanska, from 2.2 to 2.38.

**POVERTY:**
Conflict and the knock-on effects of conflict (for example inflation, fuel/electricity shortages, power cuts, nationalization and economic/trade blockade, rising unemployment as a result of enterprise closures etc.) have caused an increase of poverty.35

Between 2013 and 2015, the percentage of the population living below the actual minimum subsistence level increased from 20% in 2013 to 74% in 2015 in Luhanska and from 22% to 66% in Donetska, while the average for Ukraine (GCA only) has increased from 22% up to 58%.

In 2016, this trend stabilized with a slight improvement in Donetska, where the percentage of the population living below the actual minimum subsistence level decreased from 66% to 59% and in Luhanska, from 74% to 71%. This improvement is mainly due to an increase of non-cash expenditure such as government subsidies for utilities and expenditure converted from consumed products received from personal auxiliary farms and self-procurements.

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DEPTH OF POVERTY:
The depth of poverty is defined as the average amount of expenditure, which the population living below the actual minimum subsistence level require to reach the actual minimum subsistence level.

In 2015, in order to reach the level of actual minimum subsistence level (or to move above the poverty line), the population across Ukraine, on average, needed to increase their expenditure by 27%, while in Donetska oblast, the expenditure had to be increased by 31% and in Luhanska oblast by 34% to reach this level.

However, despite a slight improvement of overall poverty in Luhanska and Donetska, in 2016 compared to 2015, the depth of poverty increased slightly by 1.1% in Donetska at a level 31.8% and by 0.8% in Luhanska at a level 31.8%. This means that most vulnerable people have remained at the same level of poverty as in 2015 (or have seen poverty worsen).

Due to increased incomes in 2017 and considering the forecasted level of inflation\(^{36}\) on average, one is likely to observe a reduction of the level of overall poverty in 2017. **However, special analysis should be undertaken to assess the situation for the vulnerable groups.**

The progression of the depth of poverty between 2013 – 2015 among of vulnerable social demographic groups is shown in the below graph.

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\(^{36}\) Please see: [https://tradingeconomics.com/](https://tradingeconomics.com/)
INCOME:
The total income consists of cash income and non-cash income such as self-produced food and government subsidies. The total household income in 2016 compared to 2013, in Donetska, increased by 17% and by 25% in Luhanska. At the same time, the cash income remained at the same level in Donetska and increased by 15% in Luhanska oblast.

Since 2013, in Donetska, the share of cost of self-produced and consumed products by household increased from 0.9% to 2.7% and from 1.6% to 5.6% in Luhanska. The share of non-cash income from subsidies for utilities increased from 0.4% in 2013 to 5.4% in 2016 in Donetska and from 1% to 5.9% in Luhanska.

The table on the right shows the distribution of population by equivalent total income per person per month.

In 2016, 57.8% in Luhanska and 51.1% Donetska had equivalent total income below the actual minimum subsistence per month/person (or 2,642 UAH).

Pre-conflict, this region was one of the fastest growing in terms of cash income when compared to the rest of Ukraine, with Donetska and Luhanska experiencing a 30% growth of income level between 2010 and 2013. At the same time, the average cash income in Donetska was 13% higher than the national average and in Luhanska it was almost level with the national average. This is due to historically higher salary and pension levels in Donetska and Luhanska when compared to the average in Ukraine.

However, this situation changed in 2015 and cash income levels across Donbas fell. When compared to the Ukrainian average, income levels in Donetska by 2015 were now 12% lower whilst in Luhanska, they were 18% lower. In 2016, this trend continued. In Donetska, the cash income was 14% lower than the national average, whilst it was 15% lower in Luhanska.
The real cash income significantly decreased in the period 2013-2015 in all regions of Ukraine. In 2016, in Donetsk, the real cash income per person continued to decrease to 19% compared to 2015 and to 26% in Luhanska whereas the average across Ukraine increased by 0.8% in 2016 when compared to 2015.

However, in the first three quarters of 2017, the cash income of the household increased by 21% in Donetsk and 35% in Luhanska, while it increased by 22% in average across all of Ukraine compared to 2016.

**SOCIAL PROTECTION INDICATORS:**

According to the European System of Integrated Social Protection Statistics (ESSPROS), in 2016 the total amount of disbursement on social protection in Ukraine increased by 20% compared to 2013. However, the ratio of the total disbursement on social protection to gross domestic product (GDP) decreased from 23.7% in 2013 to 18.2% in 2016.

According to ESSPROS, when looking at the ratio of disbursement to the GDP by function, ‘sickness/health care’ decreased from 4.2% in 2013 to 2.9% in 2016, ‘old age’ from 14.3% to 10.3%, ‘family/children’ from 2.6% to 1.7%, while the function ‘housing’ increased from 0.4% to 1.9% mainly reflecting the subsidies provided for utilities for households by the government.

Comparing 2016 to 2014, the share of the ‘old age’ function disbursement reduced from 65.5% to 57.5%, and the share of the ‘family/children’ function from 11.2% to 9.4%, whilst the share of the ‘housing’ function increased from 2% to 10.9%. (See graph below).

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PENSIONS:
The number of pensioners receiving a pension from the Ukrainian Pension Fund in Donetsk oblast decreased from 1,371,000 as per 1 January 2013 to 809,000 as per 1 January 2015 and increased to 861,000 as per 1 January 2017. In Luhanska oblast, the number of pensioners receiving a pension from Ukrainian Pension Fund in Luhanska decreased from 717,000 as per 1 January 2013 to 309,000 as per 1 January 2015 and increased to 385,000 as per 1 January 2017.

In the period between 1 January 2013 and 1 January 2017, the pension size in Donetsk increased by 21% and by 17% in Luhanska, while it increased by 24% in average in all of Ukraine.

After the pension reform,38 as per 1 January 2018, pensions increased when compared to 1 January 2017 by 56% in Donetsk and by 52% in Luhanska, while the Ukrainian average was 39%. However, as per 1 January 2018, 79% of all pensioners in Ukraine received pensions below 3,000 UAH which falls below the actual minimum subsistence level of 3,128 UAH.39 (See page 13 and footnote below for further on Inadequate Social Safety Nets).

CASH INCOME STRUCTURE
There are five main household cash income resources including salary; pensions and social benefits, revenues from the sale of agricultural products; income from entrepreneurship and self-employment; cash help from relatives or/and other people and other cash income.

When compared to 2015, the share of main sources in 2016 in Donetsk oblast remains almost on the same level, whereas in Luhanska oblast, the share of salary income decreased whilst the share of revenues

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38 Please refer to: http://zakon0.rada.gov.ua/laws/show/1788-12 The pension reform entered into force in October 2017.

39 Inadequate Social Safety Nets: All government social payments (such as help for the household when a child is born, support to households with members with a disability, support for single parents etc.) are based on the ‘legal stationary minimum subsistence level’. However, this level does not match the level of inflation and vulnerable groups, in reality, receive far less (137% less) than they did in 2013. From 2013 to 2016, the ‘legal stationary minimum subsistence level’ remained at almost the same level (from 1113,7 UAH in 2013 to 1388,1 UAH in 2016). However, the ‘actual minimum subsistence level’ was approximately 1333,7 UAH in 2013 (thus matching the ‘legal stationary’ in 2013) but had increased to 2646,4 UAH in 2016. By 1 January 2018, the AMSL was 3128 UAH.
from the sale of agricultural products increased - a reflection of the shift to a more rural area profiling of the oblast. (See graph on next page).

Salaries make up the largest share of household cash income across Ukraine. In 2013, the share was 57% in Donetska and 55% in Luhanska. By 2016, the share of salaries remained at the same level of 57% in Donetska but decreased to 48% in Luhanska.

The share of social payments in 2016 in Donetska was 35% (compared to 34% in 2013) and 34% (compared to 32% in 2013) in Luhanska.

In 2016, there was an increase in the share of income of revenues from the sale of agricultural products to 2% (up from 1% in 2013) in Donetska and to 8% (up from 2% in 2013) in Luhanska.

The share of income from entrepreneurship and self-employment increased in 2016 in Luhanska to 4% (up from 3% in 2013), while in Donetska it decreased to 3% in 2016 (down from 4% in 2013).

The share of household income from cash assistance, or from support from relatives and/or other people and other income, remained almost at the same level from 2010-2013 at 4.7% in Luhanska and 4.9% in Donetska. However, in 2016, the share of such assistance increased to 7% in Luhanska and decreased to 3% in Donetska.

EXPENDITURE:
Pre-conflict, Donetska household expenditure was 6% higher and Luhanska 8% lower than the national average. After the conflict, by 2015, Donetska expenditure decreased to be 15% lower and Luhanska 25% lower than the national average.

The total household equivalent expenditure consists of cash expenditure and other household expenditure converted into the cash expenditure (self-production, subsidies and others in non-cash form). In 2013, in Donetska oblast, the total expenditure was 5% more than cash expenditure and in Luhanska 7%. By 2016, this difference grew to 29% in Donetska and 34% in Luhanska oblast, mainly as a reflection of the increase in subsidies for utilities and expenditure converted from consumed products received from personal auxiliary farms and self-procurements. This mean that the share of expenditure, in cash modality, decreased by 7% in Donetska and 12% in Luhanska, while the share of non-cash modality increased.

In the period 2013-2016, the total expenditure increased by 25% in Donetska and by 30% in Luhanska, whilst the cash expenditure increased by 17% in both Luhanska and Donetska.

In 2016, compared to 2013, the total food expenditure increased by 38% in Donetska and by 16% in Luhanska, whereas the share of food expenditure in Donetska increases to 56% in 2016 (compared to 50% in 2013) but decreased to 45% from 50% in Luhanska.
In 2016 compared to 2013, the total expenditure on utilities increased by 116% in Donetska oblast and by 161% in Luhanska oblast. The share of total utilities expenditure in Donetska increased to 17% in 2016 (up from 13% in 2013) and in to 19% (up from 10% in 2013) in Luhanska.

In 2016, compared to 2013, all other expenditures in Donetska such as health, education, clothes, transport etc. decreased. In Luhanska, the total expenditure on education decreased, whilst expenditure on health, transport and clothes increased.

**PRICES**

Between 2013-2017, consumer prices increased by 119% in Donetska oblast and 125% in Luhanska oblast. During this period, prices on food increased by 114% in Donetska and by 122% in Luhanska whereas prices on utilities increased by 330% in Donetska and 374% in Luhanska.
INCOME vs EXPENDITURE vs PRICES

In 2013, the total income in Donetska oblast was 14% higher than total expenditure, whilst in Luhanska, the difference was 24%. In 2016, with total expenditure growing faster than total household income (mainly due to food and utilities expenditure) the differences decreased to 7% in Donetska and 20% in Luhanska.
LABOUR FORCE

This section focuses on the impact of conflict on the labour force and trends after the conflict started in Luhanska and Donetska GCA.

MAIN FINDINGS

- **Population (Demographic) Trends**: From 2015-2017, the number of people in the group elderly (aged 65+) increased by 8% in Donetska and by 11% in Luhanska, while other population groups decreased (e.g. children under 15 and able-bodied people from 15-64 years). This means an increased demographic burden on the able-bodied population in 2017 when compared to 2015. In addition, the economic active population decreased by 2% in Luhanska and Donetska thus further increasing the economic burden on able bodied people with jobs.

- **Unemployment**: Unemployment levels among the working age population continued to grow between 2015-2017 – with 15% in Donetska and 17.4% in Luhanska by January-September 2017, compared to an average of 9.7% across Ukraine. However, the number people officially registered as unemployed with social employment centres decreased in Donetska from 41,600 in early 2016 to 33,000 in early 2017, and from 17,700 to 16,000 in Luhanska.

- **Real Salary**: Real salary in Donetska increased by 4% between 2015-2016 and by 18% in Luhanska. In 2017, real salary grew by 11% in Donetska and by 12% in Luhanska compared to 2016. However, when considering actual purchasing power of the level of salary when adjusted to the level of the actual minimum subsistence level, “real salary” is still 22% lower in Donetska and 33% lower in Luhanska oblast in 2017, when compared to pre-conflict 2013 level.

- **Salary Arrears**: By January 2018, salary arrears increased to 453 million UAH in Donetska and to 557 million UAH in Luhanska, which combined makes up 43% of total salary arrears in Ukraine.

OVERALL POPULATION (DEMOGRAPHIC) TRENDS:

The overall population of Luhanska and Donetska has reduced by 1% between 2015 and 2017 year.40

Between 2015-2017, the number of the population in the group ‘children aged 0-14 years’ has decreased by 5% in Donetska and 7% in Luhanska. Equally, the population of the ‘able-bodied group aged 15-64’ decreased by 3% in Donetska and Luhanska. At the same time, from 2015-2017, the population in the ‘elderly group aged 65+’ increased by 8% in Donetska and 11% in Luhanska. (See graph below).

These demographic changes have influenced the overall population age structure. From 2015-2017, the share of population of children decreased from 13% to 12,6% in Donetska and from 12,4% to 11,7% in Luhanska. Similarly, the share of population of able-bodied people decreased from 69,5% to 68,2% in Donetska and from 70,3% to 69,1% in Luhanska. However, the share of the population of elderly people increased from 17,5% to 19,2% in Donetska and from 17,3 to 19,2 in Luhanska. (See graph below).

Such changes lead to an increased demographic burden on the able-bodied population in 2017 when compared to 2015. When looking at ‘each 1000 people aged 15-64’, the burden of children decreased from 223 to 219 (by 2%) in Donetska and from 223 to 202 (by 4%) in Luhanska in 2017 compared to 2015. However, at the same time, the burden of elders (aged 65+) on ‘each 1000 people aged 15-64’ increased from 396 to 435 (by 10%) in Donetska and from 389 to 435 (by 12%) in Luhanska.

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40 The current calculations (estimates) of the population on 1 January 2018 are based on the data of the last census of the population, taking into account natural and migratory movements of the population, as well as changes in the population as a result of administrative-territorial changes)
Due to the loss of territorial control, the number of the economically active population in Donetska in 2015, compared to 2013, declined by 55% or by one million people and in Luhanska by 63% or 600,000 people. Between 2015 and January-September 2017, the economic active population reduced by 2% in Luhanska and Donetska oblast, while on average in Ukraine it reduced by 5%.

The share of the economically active population to the total population aged of 15-70 years, decreased from 65.4% in 2013 to 57.9% in September 2017 in Donetska, but increased in Luhanska from 63.3% in 2013 to 66.1% in September 2017. Across all of Ukraine, it reduced from 65% in 2013 to 62.2% in September 2017.

41 The economically active population: in line with the labour force concept, this comprises all people of both sexes aged 15–70 who during a certain period furnish labour for the production of goods and services. Economically active population includes persons engaged in economic activity defined as bringing gains and the unemployed.

42 We compare to the first three quarters of 2017 as yearly data for 2017 was not available at the time of analysis (March 2018).
EMPLOYMENT TRENDS

Between 2015-2017, the overall number of employed people reduced by 3% in Donetska and by 4% in Luhanska, while in Ukraine it reduced by 1% on average.

In Donetska, the share of employed of people compared to the population in age 15-70 decreased from 60.3% in 2013 to 49.5% in 2017 and in Luhanska it decreased from 59.4% in 2013 to 55.2% 2017, while in average in Ukraine it reduced from 60.3% in 2013 to 56.3% in 2017.

There were no major changes in the share of employment by sector of economy from 2015-2017. The three main sectors of the economy where people are employed are: 1) industry, 2) agriculture and 3) trade which covers more than 60% of all employed people in Luhanska and Donetska.

In Donetska, the share of people employed in industry increased from 25% in 2013 to 31% in 2016, and in Luhanska from 24% in 2013 to 28% in 2016. The share of people employed in the agricultural sector decreased in Donetska from 11% in 2013 to 8% in 2016 whereas in Luhanska, it remained at the same level of 13%. The share of people employed in trade decreased in Donetska from 24% in 2013 to 19% in 2016, and in Luhanska from 27% in 2013 to 22% in 2016.

SALARY TRENDS

The average nominal salary level as well as ‘real salary’ level (i.e. adjusted to reflect the level of inflation or the number of goods and services that can be purchased at nominal salary for the existing level of prices and taxes, or the natural expression of the price of labour) increased from 2015-2017 in all regions of Ukraine, especially in 2017, following the increase of the minimum nominal salary level from 1,600 UAH to 3,200 UAH.43

The average nominal salary level increased by 56% (at a level of 7,764 UAH) in 2017, when compared to 2015 in Donetska, and by 71% (at a level of 5,862 UAH) in Luhanska, while it increased by 69% (at a level of 7,104 UAH) across all Ukraine between 2017 and 2015.

From 2016-2017, the level of real salary also increased but not as much as the nominal salary level due to high inflation rates. Compared to 2015, the real salary in Donetska increased by 4% in 2016 and by 18% in Luhanska. In 2017, the real salary continued growing; by 11% in Donetska and by 12% in Luhanska compared to 2016.

43 For details on the law: [http://zakon0.rada.gov.ua/laws/show/108/95-%D0%B2%D1%80]
In 2016, the nominal salary levels per economic sector followed a usual pattern of being higher for industry and lower for agricultural. In Donetska, the nominal average salary in industry was 6,430 UAH or 7.4% higher than the total average in the oblast and in Luhanska oblast, it was at the level of 5,156 UAH or 11.4% higher than total average in the oblast. In the agricultural sector, the nominal salary in Donetska was 3,777 UAH, which is 36.9% lower than the average in the oblast, and in Luhansk it was 3,923 UAH or 25.4% lower than total average in the oblast.

However, when considering actual purchasing power of the level of salary when adjusted to the level of the actual minimum subsistence level (AMSL), it is still much lower when compared to pre-conflict 2013 level.

In the period of 2013 – 2017, the ratio of the average salary level to the actual minimum subsistence level decreased from 3.37 to 2.64 or 22% less in Donetska and from 3 to 1.99 or 33% less in Luhanska, whilst, on average in Ukraine, the ratio decreased from 2.99 to 2.42 or 18% less.

**SALARY ARREARS TRENDS**

Between 2013 and 2017, there has been an increase in the level of salary arrears in Donetska and Luhanska oblasts. In May 2013, salary arrears amounted to 217 million UAH in Donetska and 61 million UAH in Luhanska. By January 2018, this had increased to 453 million UAH in Donetska and to 557 million UAH in Luhanska (despite being less populated than Donetska), which combined constitutes 43% of total salary arrears in Ukraine. (See graph below).
UNEMPLOYMENT TRENDS:
The loss of control of parts of Donetska and Luhanska territory has caused a 6% of reduction of total labour supply in Ukraine. The largest decline in employment was observed in Donetska and Luhanska with 180,000 and 98,300 people respectively from 2013 to 2015.

During 2014-2016, there was an increase in the share of the rural population (due to territorial changes), and an increase in the level of unemployment, especially in the Donetska and Luhanska oblasts.

In the period 2013-2015, the level of unemployment in Donetska grew at a significant rate from 7.8% in 2013 to 13.8% in 2015 as well as Luhanska from 6.2% in 2013 to 15.6 in 2015.

In the period of 2015-2017, the unemployment level continued to grow and by January-September 2017, it was 15% in Donetska and 17.4% in Luhanska.

Between 2015-2017, the number of unemployed people increased by 2.6% in Donetska (124,500 unemployed people as per January-September 2017) and by 2.7% in Luhanska (57,900 unemployed people). In Donetska, on average, one in seven economically active people aged 15-70 is unemployed, in Luhanska one in six people, while in other Ukraine one in eleven economically active people is unemployed.

REGISTERED UNEMPLOYMENT TRENDS
Between 2015-2017, the trend of decreasing numbers of unemployed people who register in social employment centres have continued. In 2015, 22,500 people registered in Donetska and 9,700 in Luhanska. However, in 2016, some 18,600-people registered in Donetska and 8,200 in Luhanska.

The number of people who have official status of ‘registered unemployed’ in Donetska oblast decreased from 41,600 people during the first half 2016 to 33,000 in the first half 2017, and in Luhanska oblast from 17,700 people in the first half of 2016 to 16,000 in the first half of 2017. There are some positive trends when observing the portion of those who had officially registered as unemployed in 2016 – 2017, who subsequently found work. In Luhanska for example, in the first half of 2016, some 5,300 people were employed – this amounts to 29.6% of the ‘total registered as unemployed’ whereas in the first half of 2017, again 5,300 people found work, which is 33.4% of the ‘total registered as unemployed’. In Donetska,

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44 Generally, across Ukraine, the rate of unemployment is higher amongst rural populations when compared urban populations.

45 This is also reflected in the REACH (2017) “Thematic Assessment of Local Enterprises and Labour Markets in Eastern Ukraine assessment”, which covers the five Eastern oblasts and which states that “the impact of conflict on individuals’ employment has also been severe and varied between the oblasts, with Luhans and Donetsk being the most impacted at the individual level – and – “Workforces have shrunk in 24% of surveyed enterprises, with almost one-fifth of active households who have lost their employment since the conflict began.” Please refer to: http://www.reach-initiative.org/ukraine-local-economy-trade-relationships-and-labour-markets-disrupted-by-conflict-in-eastern-regions
in the first half of 2016, 8,400 people found work, which is 20.3% of ‘total registered as unemployed’, and in the first half of 2017, some 10,100 people were employed, which is 30.5% of the ‘total registered as unemployed’.

However, Luhansa and Donetsk also had the lowest percentage of unemployed, who apply to State Employment Service and receive appropriate official unemployment status. Therefore, whereas across Ukraine in first half of 2017, the number of registered unemployed is 45% compared to the percentage of all unemployed, in Donetsk, this ratio is only 26% and in Luhansa 27%.

**INFORMALLY EMPLOYED TREND**

In Donetsk, the percentage of informally employed people when compared to official employed people has decreased from 16.2% in 2015 to 13.3% in first half of 2017, while in Luhansa it has increased from 31.5% in 2015 to 35.8%. The informally employed people consist mostly of people in villages, aged 15-24 and 60-70, who has secondary education as their highest level and who are employed in the ‘simplest’ professions.

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46 Registered unemployed persons, in accordance with current legislation, are persons of working age who are registered in the local government state employment centres. For further details, please see: http://ukrstat.gov.ua/Zakon/engl/Metod/2015/Employment.htm
47 According to the ILO methodology, “all unemployed” refers to persons aged 15-70 (registered and not registered in the state employment service). For further details, please see: http://ukrstat.gov.ua/Zakon/engl/Metod/2015/Employment.htm
48 The “informally employed population” refers to those employed in the informal sector, free-working family members in the formal sector enterprises, as well as hired workers who work in informal workplaces of the formal sector.
49 Term used by SSSU.
BUSINESS STATISTICS\textsuperscript{50} INCLUDING PERSON-ENTREPRENEURS

This section focuses on the impact of conflict on business and trends after the conflict started (at enterprise and person-entrepreneurs level) in Luhanska and Donetsk GCA, which mostly rely on the large and medium enterprises.

MAIN FINDINGS:

- **Employment:** Between 2015 and 2016, the number of people employed by economically active enterprises reduced from 410,000 to 314,000 in Donetska and in Luhanska from 112,000 to 104,000 – mainly a reflection of the closure of large and medium enterprises. However, 2016 saw a positive trend in the economic activity of “person-entrepreneurs” with the share of people employed by “person-entrepreneurs” compared to those employed by enterprises, increasing from 27% in 2015 to 33% in 2016 in Donetska, and from 33% to 34% in Luhanska.

- **Trend of enterprise closures:** Analysis of 2016 data shows the trend from 2013-2015 continuing but with much bigger impact on large and medium-sized businesses compared to small and micro businesses. Large and medium enterprises still account for around 90% of the share of employees and turnover.

ENTERPRISE TRENDS:

With the loss of control of territory and the closure\textsuperscript{51} of many enterprises, the number of large, medium-sized and small (with micro) businesses have sharply decreased.

Due to the impact of conflict on infrastructure (i.e. transport, energy etc.), many enterprises have reduced, suspended or stopped their production processes.\textsuperscript{52} In particular, this has affected industry with a significant proportion of enterprises located in the area near the contact line in GCA.

During the period 2013-2015, Luhanska lost 70% of total enterprises and Donetska almost 60%, whereas the percentage for all of Ukraine by comparison was 21%.

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\textsuperscript{50} Business statistics includes only legal units and not individual entrepreneurs, government bodies, and non-profit organizations.

\textsuperscript{51} By “closure”, we refer to enterprises that have become non-active (this could be bankruptcy, total closure or other reason).

\textsuperscript{52} This is also reflected in REACH (2017) Thematic Assessment of Local Enterprises and Labour Markets in Eastern Ukraine assessment: “businesses are suffering from disrupted trade relationships and a lack of demand for products, with 70% of assessed businesses reporting decreasing revenues since the conflict began”. Please refer to: http://www.reach-initiative.org/ukraine-local-economy-trade-relationships-and-labour-markets-disrupted-by-conflict-in-eastern-regions
From 2015-2016, the trend of enterprise closures continued. This was most more pronounced for large and medium-sized businesses compared to small and micro business. The number of large and medium sized active enterprise reduced from 912 in 2015 year to 590 in 2016 in Donetska and from 248 in 2015 year to 223 in 2016 year in Luhanska. In Donetska, the number of small enterprises reduced from 10,851 in 2015 to 9,893 in 2016 whereas the number slightly increased in Luhanska from 3,106 in 2015 to 3,303 in 2016 year.

In 2013, there were 28 economically active large enterprises in Luhanska (whole oblast including NGCA), whereas in 2015 in GCA there were only 7 and in 2016 only 6. These 6 enterprises employed some 33,300 people. In Donetska (whole oblast including NGCA) in 2013, there were 108 economically active large enterprises whereas in 2015 there were 55 and in 2016 only 32, providing employment for almost 126,000 people.

The trend of enterprise closures has influenced the number of employed people. Between 2015-2016 in Donetska oblast, the number of people employed by economically active enterprises reduced from 410,000 to 314,000 people, whilst in Luhanska the number reduced from 112,000 to 104,000 people, which is mainly a reflection of the closure of large and medium enterprises.

With a significant reduction of turnover of enterprises between 2013-2015 – by 43% in Donetska and 63% in Luhanska – the total turnover of enterprises in Donetska in 2016 compared to 2015 increased by 5% and by 40% in Luhanska. This is mainly caused by the increased of turnover of large and medium enterprises.
In the period 2013–2016, the structure of business in terms of large/medium/small and micro enterprises and of employees/turnover remained unchanged. The graph on the previous page illustrates that the economy of Donetska and Luhanska relies on large and medium enterprises and after 2014, even more so.

‘PERSON-ENTREPRENEURS’ (INDIVIDUAL ENTREPRENEURS) TRENDS

The conflict has had a significant impact on the number of ‘person-entrepreneurs’\(^{53}\), which reduced from 116,999 in 2013 to 57,587 in 2015 in Donetska oblast and from 69,935 in 2013 to 17,966 in 2015 in Luhanska oblast. This in turn impacted the number of employees, which reduced from 200,200 in 2013 to 78,400 in 2015 and in Luhanska from 108,500 in 2013 to 24,700 in 2015. The total turnover of the person-entrepreneurs reduced by 45% in 2015 when compared to 2013 in Donetska, and by 63% in Luhanska.

From 2015-2016, the number of ‘person-entrepreneurs’ in Donetska decreased from 57,587 in 2015 to 53,211 but at the same time, the number of employees working for or as person-entrepreneurs slightly increased from 78,400 in 2015 to 79,000 in 2016. The total turnover increased by 23% in 2016 in Donetska compared to 2015. In Luhanska, the situation was similar with the number of person-entrepreneurs increasing from 17,966 in 2015 to 18,063 in 2016, which resulted in the number of employees increasing from 24,700 in 2015 to 27,000 people in 2016. From 2015 to 2015, the turnover of person-entrepreneurs in Luhanska also increased by 23%.

ENTERPRISE vs PERSON-ENTREPRENEURS

The share of employed people as/by the person-entrepreneurs’ units compare to Enterprises increased from 27% in 2015 to 33% in 2016 in Donetska oblast, and from 33% in 2015 to 34% in 2016 in Luhanska oblast. However, the value of total turnover of person-entrepreneurs compared to enterprise in the period 2015-2016 stay on the same level as pre-conflict in 2013 with near 4% of share of turnover in Donetska and near 11% in Luhanska.

\(^{53}\) Please refer to: [http://zakon2.rada.gov.ua/laws/show/n0012323-11](http://zakon2.rada.gov.ua/laws/show/n0012323-11)
MACRO ECONOMIC INDICATORS

This section focuses on the impact of conflict and trends after the conflict starts on the main macro-economy indicators such as Gross Regional Product (GRP), industry and agricultural production, export/import of goods and services, capital investments.54

MAIN FINDINGS:

- **Gross Regional Product:** After two years of significant negative trends for all main macroeconomic indicators, in 2016, the Gross Regional Product increased by 2% in Donetska and 25% in Luhanska (compared to 2015). This mainly reflects increased industrial production during 2016 as a main economic activity for both oblasts. However, industrial production in 2017 decreased by 11% in Donetska and by 31% in Luhanska (a potential reflection of the economic blockade). This could have negative impact on the Gross Regional Product in 2017. In 2016, the import and export of goods in Donetska increased whereas it continued to decrease in Luhanska, which could be due to a more severe impact of conflict in this oblast. Between 2016-2017, capital investments showed a positive trend in both oblasts when compared to 2015.

GROSS REGIONAL PRODUCT:

The conflict has had a negative impact on all macroeconomic indicators. There has been a reduction of the Gross Regional Product (GRP) between 2013 (pre-conflict) and 2015. In Luhanska oblast, the Physical Value GRP reduced by 70% and in Donetska oblast by nearly 60% (in 2010 prices). Similarly, the GRP share of Donbas region of the total GRP of Ukraine decreased from 14 % in 2013 to 7% in 2015.55

After two years of a significant reduction of the GRP (in the prices of previous year), in 2016, in Donetska GRP increased by 2% and in Luhanska it increased by 25% compared to 2015.

INDUSTRY:

Between 2013-2015, basic financial and economic indicators of industry have deteriorated – with almost all types of economic activity having reduced. In this period, the Gross Added Value (GAV) of mining and quarrying reduced by 75% in Luhanska and 48% in Donetska and the GAV of construction reduced by 56% in Luhanska and 51% in Donetska. At the same time, the total volume of sold industrial products (goods and services) decreased by 21% in Donetska and 68% in Luhanska from 2013 to 2015.

54 Information from 2014 onwards does not reflect the situation in NGCA as enterprises, for the most part, stopped reporting to the Government.
55 It is likely that the recent blockade will have a further negative impact on the indicators for 2017 however the full information for 2017, will be available through SSSU by end of 2018.
In 2016, the industrial production index increased for the first time since 2011 and was at a level of 102.8% for all of Ukraine and 106.4% for Donetska and 139% for Luhanska.

In 2017, compared to 2016, the industrial production indices in Ukraine slightly increased at a level of 100.4% but decreased at a level of 89% for Donetska and 69% for Luhanska oblast, a likely reflection of the blockade from February-March, 2017. This could have a negative impact on the GRP in 2017 for the region seeing as industry is the main economic activity for both Donetska and Luhanska, making around 40% of economy in Donetska and around 30% in Luhanska.

**AGRICULTURAL:**

In 2015, compared to 2013, the index of agricultural production (which includes both production by enterprises and households) decreased by 40% in Donetska oblast and by 18% in Luhanska oblast.

However, in 2016 compared to 2015, the index of agricultural production increased by 19% in Luhanska and 8% in Donetska. In 2017 compared to 2016, it increased in Donetska by 2% and in Luhanska decreased by 2%.

When compared to 2015, 2016 saw a reduction in the index of agricultural household animal production by 16% in Donetska and by 18% in Luhanska, which has a direct negative impact on the household level.

*For further information on the impact of the conflict on agriculture sector, please refer to SEINA 2015 and SEINA 2017*56 *in addition to the FSLC Humanitarian Needs Overview for 2018.*57

**REGIONAL EXPORT / IMPORT:**

From 2013-2015, Donetska saw a 70% reduction in the export of goods whereas Luhanska experienced an 92% reduction. From 2015-2017, the export of goods increased by 20% in Donetska, whilst in Luhanska it decreased by 9%.

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At the same time, regional imports of goods decreased in Donetsk by 70% and in Luhansk by 82% in the period of 2013-2015. From 2015-2017, the import of goods in Donetsk increased by 69%, while in Luhanska it decreased by 14%.

The level of import and export of goods in 2016 was lower than the pre-conflict level in 2013. The main country for foreign trade in 2017 was Russian Federation, with a 9.9% share of export (compared to 23.8% in 2013) and 13.1% of import of goods (compared to 30% in 2013).

Donetsk saw a positive trend in export and import for the period of 2015-2017, whilst Luhanska continued to see a decline in export as well as import, which could be a reflection of a bigger impact of conflict on the oblast’s enterprises, markets etc.

From 2013-2016, the export of services in Donetsk reduced by 30% and in Luhanska by 94%, whereas the import of services reduced by 72% in Donetsk and 67% in Luhanska. In 2017, the export of services, compared to 2016, continued to decrease in Donetsk by 72%, whilst in Luhanska, it increased by 178%. The import of services in 2017, compared to 2016, continued to decrease by 78%, whilst in Luhanska it increased by 261%.

However, the value of export/import of the services is significantly lower than that of export/import of the goods, making less than a 10% contribution to overall trade economy of the region.

**INVESTMENTS IN INDUSTRY:**

The majority of the overall volume of capital investments in Donetsk (62% in 2013) has traditionally gone into industry, of which 70% was allocated to the mining industry, development of quarries and processing industry. The risk (real and assumed) associated with engaging in business in conflict affected areas has impacted the level of investment and between 2013 and 2015, capital investments saw a reduction by 70% from in Donetsk and by 82% in Luhanska.⁵⁸

However, in the period of 2015-2017, the capital investments in Donetsk increased by 136%, while in Luhanska only by 66%.

Changes in the structure of the share of capital investment in the economic activities can be observed. In Donetsk, the share of capital investment in industry in the period of January – September 2017 decreased to 57% (compared to 61% in 2013) whereas the share of capital investment in agriculture increased to 10% (compared to 3% in 2013). In Luhanska, the structure of capital investments has changed over time and the share in agriculture was at 44% for the period of January – September 2017 (compared to 3% in 2013) and 17% in industry (compared 71% in 2013).

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ANNEX 1
MAIN DEFINITIONS

FOOD SECURITY defined at the World Food Summit in 1996 as “when all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life”. Food security includes aspects of availability, access, utilization and as well stability. Household food security is the application of this concept to the family level.

FOOD INSECURITY being an insufficient access to adequate food. As long as food security indicators do not assess adequacy of nutrient intake, households may be classified as food secure but individual nutrient intake may not be adequate. Households with a per capita daily kilocalorie intake greater than 2,100 kilocalories are considered to have adequate food consumption. When analysing food insecurity, it is not enough to know the duration of the problem that people are experiencing, but also how intense or severe the impact of the identified problem is on the overall food security and nutrition status.

The main indicators used by WFP to measure food security on household level are Food Consumption Score, Dietary Diversity Score, reduced (food) Coping Strategy Index, Livelihood-Based Coping Strategy Index and Share of Expenditure on Food:

THE FOOD CONSUMPTION SCORE (FCS) is one of the main WFP corporate indicators used for measuring household food consumption and, thus, progress and effectiveness of the operations. The FCS, an indicator of dietary quality and frequency of consumption, is calculated using the frequency of consumption (number of days) of eight food groups consumed by a household during the seven days before the survey. The FCS is used to classify households into three groups: poor, borderline or acceptable food consumption and the households with acceptable food consumption are considered food secure, while those with borderline or poor food consumption don’t have adequate food consumption level. The dietary diversity indicator on the other hand measures the number of different food groups consumed over a given period. It provides an estimation of the quality of a diet and it is a good complement to FCS since it provides a complete picture of the household diet. WFP uses the following thresholds for interpretation: 6+ = good dietary diversity; 4.5–6 = medium dietary diversity; <4.5 = low dietary diversity.

THE LIVELIHOOD-BASED COPING STRATEGY INDEX is measured to understand better longer-term household coping capacities. Household livelihood and economic security is determined by income, expenditures and assets. Understanding the behaviours households engage in to adapt to recent crises provides insights into the difficulty of their situation, and how likely they will be to meet challenges in the future. Households were asked if anyone in their households had to engage in any of the ten coping strategies because there was not enough food or money to buy food during the past 30 days. One neutral strategy, four stress strategies, three crisis strategies, and three emergency strategies were asked based on the severity of the strategies. The higher the CSI value, the higher the degree of food insecurity.

- Stress strategies, such as borrowing money or spending savings, are those which indicate a reduced ability to deal with future shocks due to a current reduction in resources or increase in debts.
- Crisis strategies, such as selling productive assets, directly reduce future productivity, including human capital formation.
- Emergency strategies, such as selling one’s land, affect future productivity, but are more difficult to reverse or more dramatic in nature.

SHARE OF EXPENDITURE ON FOOD gives impression how much of all budget of household they use for food (indicator measuring economic vulnerability). A categorical variable is created that equates ranges of the food expenditure share to levels of food insecurity, with the most food insecure spending greater than 75% of their budget on food and food secure spend less than 50%.

FOOD SECURITY INDEX - the final output of the CARI, combines a suite of food security indicators into a summary indicator called the Food Security Index (FSI). The FSI represents the population’s overall food security status. This is based on an algorithm which combines, at the household level, the results for each
of the reported food security indicators. Each household has been assigned to a Food Security Index group based on a simple averaging process using the 4-point scale scores it attained for each indicator. Specifically, each household’s Food Security Index classification is based on a simple average of their food consumption score and their coping capacity score. The coping capacity score is a simple average of share of food expenditure categorical variable and the livelihood-based coping strategy index. The console itself serves to provide a clear snapshot of the rates of the different types of a population’s food insecurity at quick glance.