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Total investment of donor
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USD 28.8 million

Total number of community
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Expert and support capacity:
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Local partners:

ARC Verkhovna Rada
(regional parliament),
ARC Council of Ministers
(regional government),
relevant ministries,
district and local authorities,
NGOs

Areas of intervention:

- Social mobilisation
- Decentralization of public services
- Tolerance and whole-school approach
- Rural economic development models
- Strategic planning for rural districts
- Situation monitoring & early warning system

The CIDP Analytical Group

Formed in 2008, comprises
2 analysts and 2 research
assistants

Produces monthly, quarterly
and annual monitoring
reports, thematic reports,
analytical briefs

Supports Human Security
Council under the ARC
Verkhovna Rada Speaker

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CRIMEA ANALYTICAL BRIEF

June-July 2009

Issue focus: Crimea 2008 – first hit of the crisis

Facts at a Glance*

CRIMEAN INDICATORS AND TRENDS	
ECONOMY	
Gross Regional Product	Increased by 5.7% in 2008. No data for the first half of 2009.
Inflation	10.6% for January-June 2009. Tempo is lower compared to the same period 2008 (17,2%). Annual inflation in 2008 reached 23.3%.
Industrial production (growth in percent)	-29.1% for the period January-May 2009, compared to the same period of 2008.
Agricultural production (growth in percent)	2.5% increase in January-May 2009, compared to January-May 2008.
Export of goods and services	USD 130,376 m for January-March 2009. Growth: - 8% compared to January-March 2008.
Foreign investments	USD 652,888 m for January-March 2009. Growth: - 11.9% compared to January-March 2008.
SOCIETY	
Population	1,965,614 by 1 st July 2009; 1,967,845 by the same period 2008. Decrease of 0.1% or 2,231 people.
Demographic net balance (deaths-births)	-3,599 people for the period January-June 2009, -5,610 people for the period January-June 2008. Growth rate: 2, 011 people or 30.3% compared to January-June 2008.
Life expectancy (annual indicators)	67.96 years in 2007, compared to 67.91 years in 2006. No data for 2008 and first half of 2009.
Employment	59.9% of population able to work in January-March 2009, compared to 60% in January-March 2008.
Average nominal wages	UAH 1,785 in June 2009 (c.a. USD 234.9) compared to UAH 1,715 in June 2008; Growth rate: 4.1% or UAH 70.
Unemployment (ILO methodology, annual)	No data yet for the second quarter of 2009. 7.3% of economically active population in January-March 2009 compared to 5.3% in January-March 2008. In January-March 2009 71,600 Crimeans had the status of unemployed, an increase by 40.9% as compared to the same period of 2008.
New housing	No data yet for the second quarter of June-July 2009. 63,500 m ² in January-March 2009. Growth by 47.9% as compared to the same period of 2008.
Tuberculosis (new diagnosis)	85.4 (per 100,000 people) in 2007, compared to 85.1 in 2006. No data for 2008 and first half of 2009.
HIV/AIDS (new diagnosis)	51.1 (per 100,000 people) in 2008, compared to 49.1 in 2007. No data for first half of 2009.
Alcoholism (new diagnosis)	114 (per 100,000 people) in 2007, compared to 109 in 2006. No data for 2008 and first half of 2009.
Drug abuse (newly registered)	7.1 (per 100,000 people) in 2007, compared to 11 in 2006. No data for 2008 and first half of 2009.

* based on the latest statistics available as of July 2009

Current Issue

This issue aims to provide an overview of the current economic and social situation in Crimea. Earlier this year UNDP CIDP prepared an Annual Situation Monitoring Report on the key economic, social, human and ecological development trends in Crimea in 2008. This issue's article "Crimea 2008 – first hit of the crisis", based on this report's key data and analysis, seeks to offer an assessment of the first consequences of the crisis that started to become visible in the second half of 2008 and to present population's perceptions on current social trends.

Crimea 2008 – first hit of the crisis

By Kurtmolla Abdulganiyev

The topic of financial crisis seems to no longer be as hot as it was in February of this year in Crimea. Though many Crimeans are still facing a difficult employment situation, “voices” among the population and entrepreneurs have become calmer, in tune with a less alarming tone of media reports about the omnipresent “economic crisis”. Although recent stock exchange news allow for modest optimism at the most, forecasts concerning a crisis of such magnitude, compared by some commentators to the Great Depression, can only be of limited reliability¹. This might be an appropriate point in time, therefore, to examine the first period of the financial turmoil.

Economic impact

As early as September-October 2008, economic trends pointed towards a crisis, while currency fluctuations made it already tangible for the wider public even before the industry was hit with employment cuts and plant closures. Crimean Gross Regional Product growth in 2008 reached 5.7% nonetheless.

As for the beginning of 2009, the global financial and economic crisis has undeniably shaped regional socio-economic processes to a large degree. For early 2009 no regional statistics exist yet, but considering a weak fourth quarter 2008 for both Crimea and Ukraine, and extrapolating the drop of national GDP by 21.3% in the first quarter 2009 to Crimea, a similar decline may be predicted for the peninsula².

However, Crimean experts, surveyed by UNDP CIDP, predicted that the peninsula’s economy would deal relatively better with the crisis than that of Ukraine as a whole, for a number of reasons:

- Regional industry does not rely on processing raw materials for which the global demand has dropped dramatically (areas such as metallurgy);
- The region accounts for a significant share of the national tourism industry, therefore the full impact of the financial crisis is, at least, postponed until the end of this summer. Yet, while on 10 July the ARC Ministry of Tourism reported 14.3% fewer tourists in Crimea between January and June than in the same period of 2008, this indicator gradually improves and probably will approximate the last year’s values;
- Agriculture, constituting a larger share of the regional economy than the national average, seems to be resilient to the crisis; and
- SMEs’ share is twice as significant here as in the whole of Ukraine while small business is relatively better adaptable to changes, and usually relies on local markets.

¹ As illustrated by the spread of experts’ answers and predictions of Consensus-Forecast, carried out with the support of UNDP Ukraine http://undp.org.ua/files/en_34638Consensus_2009_april.pdf

² http://ukrstat.gov.ua/control/uk/localfiles/display/operativ/operativ2009/mp/op/op_u/op0609_u.htm

Experts’ opinion is supported by such indicators as the growth of GDP, industrial and agricultural growth (both 10th place amongst 24 oblasts), as well as the tourism sector in 2008. These indicators show that Crimea outperformed the wider Ukraine. The region moreover features a faster developing freight turnover, a higher number of small enterprises (per population ratio), and a superior tempo of retail sales as well as export growth.

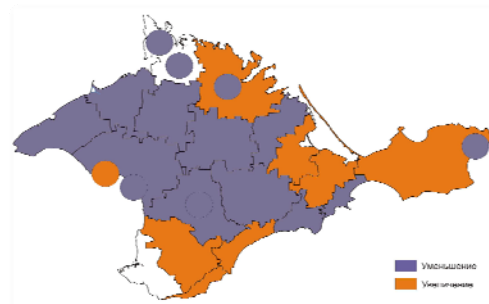
Yet, other indicators, such as the pace of housing construction (Crimea has fallen from the 11th to the 23rd position among 24 Ukrainian regions), construction works volume, foreign investment, inflation, number of unprofitable enterprises and financial results of enterprises, place Crimea under the national average.

If compared to earlier regional data most 2008 statistics signal a plain slowdown, however housing construction, trade balance and direct foreign investments clearly show regress. The construction sector, directly dependent on money available, was hit hardest by the crisis. Its volume was curtailed by half within 6 months. In the small business sector, in which over 60% of Crimean SMEs belong to three types of businesses - trade, realty, hotels and restaurants - real estate companies suffered the most.

Industrial production dropped by nearly 30% in comparison to the previous year as well. Unpaid leave for employees, shortened working week, or suspended production were some of the revealing attempts to fend off the impact of falling demand resorted to by bigger plants, such as the Kerch Metallurgy Plant, “Brom” plant, “Krymski Titan”, “Santekhprom”, “Simferopolselmash”, Bakhchisaray Cement Plant and others. These attempts might have a considerable negative impact on a number of cities, where one industrial plant is the largest tax and revenue generating enterprise, other incomes being dependent on its operation.

Besides the crisis-linked phenomena, a complete picture of

Pic. 1. Growth/decline indexes of industrial production by Crimean districts compared to the last year (violet-decrease, orange – increase)



Source: State Statistic Department in Crimea, Cities and districts of the ARC in figures, statistical bulletin, 2008

the Crimean economic environment should also take into account systemic problems continuously afflicting each branch of its economy. These relate mainly to the transition period, i.e. institutional incapacity or regulation and ownership problems. For instance, agriculture proves to be inefficient and often loss-making due to the lack of state support and state purchases, absence of a legal land market

and low investments, while Crimean industry is handicapped by outdated technologies, depreciated equipment and buildings, and is energy intensive. A significant part of the economy works in the shadow, and weaknesses in relevant legislation and institutions are directly reflected in the management capacities on the regional and local level.

Social impact

The social impacts of a crisis manifest themselves, as a rule, later than the economic impacts. However, a shrinking economy may negatively influence employment at the early stages of a crisis.

Over the past 4 years Crimean employment indicators were better than the national ones, but due to demographic decline the number of wage earners in Crimea decreased in the long term. Today, 60% of the workforce in the Autonomy is in employment. The employment map of Crimea also exhibits considerable discrepancy in job access, with 61% of all employed living in 4 cities of Crimea.

Unemployment – counted according to ILO methodology - has been gradually diminishing between 2005 and 2007, but encountered a significant leap from almost 3% to more than 7% in 2009. The official number of unemployed, those registered by state employment offices and receiving unemployment allowance, has increased from 1.7% to 2.1% of the able-bodied population in 2008.

Crimea's unemployment indicators are better than the overall Ukrainian ones but they are still subject to seasonal rules: lower unemployment is registered during summer tourism period. For instance, the number of officially unemployed decreased from 28,700 to 20,900 from March to May 2009. Besides seasonal changes, there are anecdotal field reports indicating that government toughened criteria for receiving unemployment benefits thus diminishing official unemployment rates.

As to the incomes of the Crimean population, the average household, as well as per capita, income and salaries increased by nominal calculation, but this rise has merely evaporated due to the 23% inflation registered in Crimea in 2008. It is estimated that real salary increased only by 4-13 percent, with a significant drop in early 2009. Average salary in Crimea is currently almost UAH 200 lower than the national average.

At the same time differentiation of incomes continuously increases, with figures worsening in Crimea parallel to relative improvement in Ukraine as a whole. The region's incomes decile coefficient³ gradually increased, reaching almost 4 in 2007. On the other hand, poverty levels in Crimea, as well as in the rest of Ukraine, have fallen considerably. The number of people living below the poverty line shrank from 84.4% to 37.6% in 2000-2009. Overall Ukrainian figures are, however, more optimistic - the percentage of those living under the poverty line lies at 29.3%.

Yet employment statistics are insufficient to convey the complexity of the situation. For example, rural inhabitants possessing an allocated agricultural land plot (over 220,000

in Crimea) cannot obtain unemployed status, even though unemployment is highest in rural districts, and the rural population accounts for more than 55% of all unemployed.

Surveys conducted by CIDP within the Human Monitoring System reveal a dramatic decline in people's welfare: 58% declared it worsening in December 2008.

	2003	2004	2005	2006	2007	2008
Improved	7	14	4	5	6	3
Remained the same	66	54	56	46	47	37
Worsened	25	27	37	46	44	58
Hard to say	3	5	3	2	3	2

Table 1 Answers to "How the welfare of your family changed over the last year?" Source: UNDP CIDP public opinion poll, December 2003-2008

Similarly, 58% of respondents expected that their financial situation would deteriorate in the upcoming year. The surveys indicate an increase of families' budget share allotted to foodstuff: in August, 11% of interviewees declared spending more for food, compared to 48% in December. Statistics reveal 53.3% of household budget being spent on food.

Of course, poll results tend to vary over time and may have been affected by currency fluctuations, acute bank turmoil (blockage of deposits, National Bank's direct administration of some banks) and the peak of media coverage of the crisis which coincided with the conduct of the survey.

Still it is interesting to track changes in income generating sources: in the long run, the share of salaries decreased from 43% to 32% (if we take into account pensions and other social benefits - from 64% to 53%), while benefits from personal activity and other non-salary income raised from 36% to 47%. This demonstrates the growing role of private entrepreneurship, agricultural activity and so-called "self-employment" in the Crimean employment landscape.

To conclude, survey results showing that most Crimeans have already felt its consequences should be cited.

	Already occurred	Expected to occur
Decrease of income	69%	55%
Unpaid salary or social benefits	23%	35%
Loss of job	9%	26%
Loss of savings	8%	17%
Reduction of working hours	17%	17%
Unpaid leave	13%	21%
Problems with credit payments	17%	23%
Difficulties to obtain a credit	13%	19%
Threat to personal security	24%	28%

Table 2 Answers to "What has happened to you in the nearest past, and what do you expect in the future?" Source: UNDP CIDP public opinion poll, December 2008.

³ Ratio of incomes of the population's richest 10% to the poorest 10%

What are the risks?

Crimea, as the whole of Ukraine and other transition states, has to face structural challenges exacerbated by the economic crisis now threatening to sweep out the development achievements of the recent decade. In comparison with the nation-wide situation, Crimea seems to have some advantages and cope better with some negative trends. However, the likely social crisis, provoked by substantial economic decline, may aggravate risks and problems in human development and security areas.

For instance, while the demographic situation in the region has just shown some positive trends with the birth rate growing over the last three years due to the 1980s-1990s "baby boom" population founding new families, to the general economic upturn in Ukraine and to governmental pro-natal policies in recent years, the birth-death balance has remained negative, and birth rates risk to fall again. Moreover, Crimean society is still demographically regressive with 34.3% of population being over 50 year old and only 14.8% of youngsters under 15 year old.

Estimations based on demographic factors predict declining numbers of secondary and high schools and students for the upcoming years. Over the past 6 years the number of schools in Crimea has already plunged by 15% to 626, yet since the number of pupils decreased by 28% there still is one teacher per 10.3 pupils, and this is higher than the Ukrainian average. The number of high schools fell from 38 in 2002 to 34 in 2007, while the number of students increased by 5%. Some experts envisage potential difficulties in the area of education linked to the economic crisis and budget cuts: salary payment arrears, insufficient funds for heating and building maintenance. The winter of 2009-2010 is yet to prove these predictions right or wrong.

Health-related data point to deterioration of all indicators except drug abuse. Rising numbers of diagnoses of tuberculosis, HIV/AIDS and alcoholism grow annually by several percent (see statistics on page 1). In this regard, economic difficulties in the health-care system may raise the

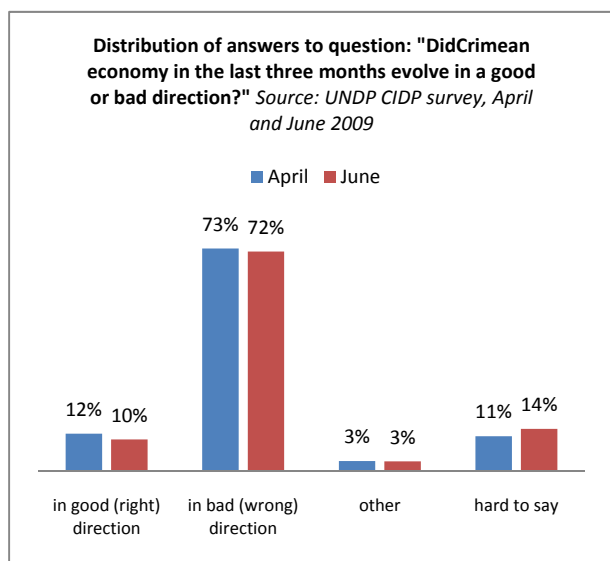
epidemic risks, as fewer carriers are now kept in hospitals while wider population seems to be less attentive to own health problems. For instance, in 2002 only 27% of respondents declared to assess themselves as healthy while in 2008 the share of "healthy" reached 42%. Outpatient institutions were called on by 83% in 2002, and only 70% in 2008.

These humanitarian problems risk to be intensified even more by the lack of political stability, mainly at the level of the Ukrainian government. For instance, tensions between the President of Ukraine and the Prime-Minister, against the background of upcoming elections in particular, contain potential for more outright dissent in Crimea. In their election campaign various political forces tend to exploit topics which are of particular importance to the region considering its ethnic and political landscape. With a multi-ethnic population (according to the 2001 census Crimean society comprises 58.3% of Russians, 24.3% of Ukrainians, 12.0% of Crimean Tatars, and 5.4% other ethnic groups), it does not come as a surprise that crucial political topics, which could lead to conflict risks in Crimea, continue to be the Black Sea Fleet issue and, generally, the relations between Russia and Ukraine, possible consequences of NATO enlargement, Kiev-Simferopol relations and power struggles both in Ukraine and locally in Crimea, inter-ethnic and inter-religious relations, and land issues.

In total, there were 101 protest actions in Crimea in 2008, most being responses to decisions related to Ukrainian language education, NATO army manoeuvres, and the Russia-Georgia war. Inter-ethnic relations have not improved significantly in the past year: a survey by UNDP CIDP showed that representatives of each group perceive that their group's rights are violated. Moreover, 69% of respondents assess inter-ethnic relations on the peninsula as bad, against 25% assessing them as normal and only 3% as good.

Questions or comments on this article can be sent to: kurtmolla@undp.crimea.ua

VOX POPULI



The financial and economic crisis has worsened population's perception of economic condition in Ukraine. Since the second quarter of 2009 UNDP CIDP monitors, among others, general attitudes of Crimean population towards economic and political development. Surveys conducted in April and June 2009 show a significant negative resentment – 72% of population think that the economy goes in the wrong direction. It is possible that economic development is assessed in connection with the country's political development - 73% of respondents indicate that political life also goes in a bad direction.

Announcement: UNDP CIDP has just completed its Report on Living Standards and Poverty in Crimean rural areas. The next issue of the Analytical brief will be dedicated to the reports' conclusions, and the full report will be made available in October 2009 through the CIDP web-site.