

Ukrainian Cluster Alliance

Economic front

Mobilization of the government and businesses

Digest #2, 14th–24th of March

Summary of the digest № 2

The situation on the front line is stabilizing - the Ukrainian Armed Forces are successfully resisting Russian aggression and in some places are counterattacking. This allows the government and business to start joint systemic actions on the economic front. The government is launching a number of initiatives aimed at stabilizing and supporting the activity of the businesses. Many companies are returning to work - including those that are very closely integrated into the global value chains (e.g. automotive industry).

The Clusters4Ukraine Initiative is entering a new phase of development, it is renamed to the '**Ukrainian Cluster Alliance**' (UCA) which officially unites 16 cluster organizations and starts to lead a set of well structured activities. From early March UCA has been rolling out projects and creating new initiatives, including engineering outsourcing and import substitution of Russian goods.

A. ECONOMIC SITUATION OF UKRAINE

Ukraine suffers from Russian aggression. Today, hostilities are taking place in 10 regions, where 50% of the Ukrainian economy is concentrated. According to many experts, the country's losses could reach 30 or even 50 percent of GDP, but this figure may increase, as the war situation affected the main export-oriented sectors - almost the entire mining and metallurgical complex, and agriculture.

[This source](#) lists the largest companies affected by the war. Customs collection during the war account for only 15% of peacetime revenues.



The map of military actions at 25th of March, [source](#).

A1. Government actions to stabilize and support business

In the first weeks of March, the government identified 5 key areas of government support for business. According to Olena Kobylyanska, the CEO of Unicorn Solutions & Consulting, they included:

1. The filling of the budget for 2022 has been solved at the expense of external and internal borrowings. Budget sources include issues from the National Bank (UAH 400 billion), IMF and World Bank loans (more than € 3 billion in total), assistance from the EU (€ 6 billion) and the US government (more than \$ 13 billion).

2. Ensuring energy security. The Ukrainian energy system has been separated from the Russian and Belarusian ones, joining the European energy system.

3. Support for migrants. This includes payments to migrants, parents (to support children), payments to employers, reimbursement of utility costs and more.

4. Business support includes assistance in conducting a sowing campaign, business loans, reduction of regulatory restrictions, payment to individual entrepreneurs who have lost their jobs, assistance with business relocation.

5. Simplification of tax administration and tax incentives: abolition of inspections and most of business licenses, abolition of the payment of the Unified Social Tax for Individual Entrepreneurs (FOP) which were mobilized to Ukrainian Armed Forces ; exemption from payments of environmental and land taxes for the period of martial law and a year after it for enterprises located in the combat zone; simplification of regulation of labor relations.



Volodymyr Panchenko, doctor of economic sciences KSP Strategies, partner comments situation and the first actions of the government

Macroeconomics: it was decided to fill the budget by resorting to the emission mechanism. The initial emission level is insignificant (UAH 20 billion), but it is planned to finance at least 25% of 2022 budget expenditures, or 10% of GDP, in this way, during the year alone. Such emission will put pressure on prices, and inflation will rise. The willingness of the IMF to maintain macroeconomic stability is the key to keeping the exchange rate in a safe target range.

Finance: government decision on business lending at 0% by using the already tested tools of the Program 5-7-9. It is recommended by the government to expand the amount of financing up to UAH 60 million. The loan program should be expanded by providing targeted project lending for the creation of industries without collateral in the form of equity, with the business project itself being the collateral.

Critical Infrastructure: The stability of the functioning of the electricity supply will depend on local power grids, which are under the control of local authorities with their ability to repair becoming crucial. In the near future, problems with the supply of fuel will arise. The solution to the problem lies in the import of fuel from the EU states.

Relocation: simplification of the registration system for assistance is needed, as well as the rapid restructuring of local economies to provide opportunities for temporary employment of the refugees.

Relocation has already been carried out by 40 enterprises, a request for relocation from 900 enterprises has been registered with the Ministry of Economy. It is necessary to expand the program, including the use of the industrial parks tool and the provision of funds to local authorities to finance infrastructure at the expense of the host region.

Consolidation and coordination of government / business / society: the volunteer movement needs to be consolidated and largely replaced and supplemented by the work of temporary migrants on a paid basis, so that able-bodied people can receive not subsidies, but wages.

Oksana Sytnyk, Chairman of the Board of Kharkiv cluster "Engineering – Automation – Machinery"

Does business already feel the government's actions?

The adopted innovations of tax legislation have not yet affected the participants of our cluster, but obviously in the short term it will give the necessary effect. In particular, exemption from land tax will significantly reduce the tax burden on the enterprise. Any initiatives of the state in the sphere of improvement are welcomed.

A2. Status of supply chains/value added chains

At the moment, the following status is observed:

Import

During the past week, the situation with the import of industrial goods has not changed significantly. Vendors, international companies have not yet re-started their operations, while distributors are facing a number of logistic and customs problems.



Among our customers, 95% of enterprises stopped. Industrial enterprises in western Ukraine and large-scale operators of critical infrastructure remain to work. Actually, there are still some orders, but we cannot bring the goods. World carriers such as DHL, FedEx do not work. Local branches of large brands practically do not work. The trucks of carriers are almost all busy with the fact that they carry humanitarian aid. The problem is also the lack of drivers ready to deliver goods to the left-bank Ukraine and Kyiv. The obvious help would be

Serhiy Salata, CEO relaxation of customs control and simplification of customs clearance ID-Card, distributor of procedures. industrial electronic



Association APPAU began analysis of the situation with behavior of international brands-importers. Most of them left the market of Ukraine in the first days of the war, which became part of the problem of collapse with imports. At the same time, according to the Yale School of Management, many leaders of the world and Ukrainian market, in particular in the field of electrical engineering and industrial automation, continue their work on the Russian market. The situation looks paradoxical – **while EU politicians and societies focus on helping Ukraine and simultaneously leaving the Russian Federation, some large brands do the opposite.**

From the latest news, the government has made it much easier to receive humanitarian aid at customs.

Replacement of Russian goods in Ukrainian and foreign markets

A number of Ukrainian enterprises, as well as the Office for Entrepreneurship and Export Development (EEPO), have launched campaigns to replace Russian goods. In particular, EEPO reports about readiness of Estonian retailers aimed at replacement of Russian and Belarusian food products in this country to Ukrainian. To assist Estonian retailers, EERO, together with the Estonian Marketing Institute, created a

questionnaire for companies that have stock of products in the EU and can export to Estonia.

It-Enterprise, the leader of APPAU association among its companies, has started active promotion of its product "Master.Accounting", which is the Ukrainian counterpart of Russian software product "1C". This program has dominated the Ukrainian market for several decades. Neither the 2014-th year nor the 2016-17-year-old cyber-attacks, which were also due to Russian software, could convince Ukrainian users that Russian software is not only patriotic, but also dangerous. Will the situation change today?



Alexander Yurchak
Director of APPAU,
Coordinator of the platform
Industry4Ukraine and the
Clusters4Ukraine Initiative

"1C" software is the leader of the Ukrainian market in the market of software products for accounting – we talk about roughly 400 thousand users. In 2017 during the Petiya cyber-attack, there were attempts to bring it into the sanctions list of the National Security and Defense Council, but this did not happen. "1C" is not the only software product of Russian origin. The product Bitrix24 (CRM segment) has a big distribution in Ukraine. The position of our association is that these and similar products should be replaced as soon as possible with Ukrainian analogues. We understand that this process may be not simple and painful. And not only for Ukrainian end-users, but also for hundreds of integrators and distributors. At the same time, **all of them should finally understand that support of these products means support of the Russian military industries.**

In fact, in the last 8 years, all Ukrainian users of Russian products have been involved in financing the Russian army. Can we continue to do so now? The issue is rhetorical. It is necessary to stop it and as soon as possible! To mitigate the transition, it is worth paying attention to the position of Ukrainian manufacturers as IT-Enterprise, which is offering replacement of "1C" practically free of charge to all users today. The initiative Cluster4Ukraine has created a special working group to analyze all possibilities of replacing Russian products both in domestic and foreign markets.

Export

There is still no significant progress in this field. The main problems relate to radical changes and difficulties in logistics routes, in particular lack of access to shipping for metallurgists and agricultural producers due to the Black Sea blockade of. But there are exceptions.



Oksana Donska , Member of the Board of the Ukrainian Furniture Association

Export-oriented enterprises did not stop working on a single day. The industry has suffered losses of powerful players in Kharkiv, Chernihiv and the suburbs of Kyiv, where businesses have been destroyed or shut down by hostilities and shellings. Such enterprises as New Style, Constant, Come-For, Instyle, Sidi-M, Bis-M, Veres, Nemam, Vema-Kids and others. Exports are growing by enterprises in western Ukraine, where current partners are increasing orders and actively working to attract new ones. To support the activities and sales, some manufacturers go to the point of supplying goods even without payment. Currently, producers have 2 issues where state support would help with development:

- intensification of the credit and export agency of Ukraine;
- expanding the list of critical import codes for products needed for furniture production.

The Office of Entrepreneurship and Export Development has announced the Buy Ukrainian program and a new platform # Biz4Ukraine , which aims to promote several categories of businesses that can provide services remotely (engineering, IT, creative services).

Status of Supply Chain and internal value chains in clusters of Ukraine

The war in Ukraine has become a top topic of global business reviews in the context of the impact on global chains. In particular, the Ukrainian Forbes announces the shutdown of plants in Germany due to the shutdown of factories that produce components for them in Ukraine.



A number of media outlets also reported that two large Ukrainian neon plants, which supplied 50% of the global microchip industry market, had been shut down due to hostilities. This could lead to an even greater shortage of chips in the world. Analysts predict that this share of neon supplies may now be taken away by China and Russia.

Similar reviews, which also emphasize the break in the supply chain from Russia, abound in the materials of world analysts. This means that after the supply chain crisis of 2020, the world is once again facing **a global crisis in this area** . The HBR review identifies 3 key trends that will intensify: **even greater reshoring, even greater localization of value chains, and their replacement / reinforcement by those that reflect key competitive advantages for a particular region.**

Expert **Pavlo Ovadchuk described the** situation with logistics, which is most related to the gaps in value chains:

"The market of Ukrainian and international road transport has suffered very seriously. This is due to two factors:

1. The reluctance of European carriers to enter Ukraine due to the loss of insurance when entering the territory of hostilities.

2. The reluctance of our carriers to risk their cars, many cars have remained abroad, some have left their cars, and others are involved in relocating businesses to safe regions. There is a strong shortage of cars for international transport and a significant increase in prices.

Supply chains between Europe and China have been hit by the closure of railways (the so-called Silk Road). But there is a possibility that the Black Sea-Caspian branch of the Silk Road, bypassing the Russian Federation through the port of Odessa , may be involved .

At the same time, war does not mean an irreversible change of the situation, everything takes place in a certain dynamics, where no one cancels the role of the human factor and true leadership. **Olga Trofimova** , CEO of Ukrainian Automotive and Mobility Clusters, reports that after a three-week shutdown , **almost all Ukrainian carmakers in Western Ukraine have resumed operations, with some plants operating in two shifts.** This means that Ukraine seeks to prove its stability not only on the theater of operations, but also on the economic front.



Yurii Zhukov, Professor, expert at the Ukrainian Maritime Cluster, C-Job Nikolayev Ltd, AMICO Digital Ltd

In times of war production almost stopped in Mykolaiv. Only works related to defensive constructions and their elements are carried out. Shipbuilding companies are practically not subject to real relocation. A rapid internationalization and integration into European or global value added chains is possible under normal conditions of operation, staffing and financing.

The active hostilities affected contract performance of most ship design bureaus as their capacities to perform design and engineering works in time were limited. For several weeks these design bureaus used working with free schedules, relocating jobs with the transition to online work, and such design bureaus did not suspend their contract performance. The work under the new conditions is already being systematically resumed. It makes sense to scale the experience.



Oksana Sytnyk,
Head of Board,
Engineering Automation
Machinery Cluster
Kharkiv

Regarding the situation in our cluster, it should be noted that most of the production sector of machinery and engineering of the Kharkiv cluster has lost either the ability to carry out production or access to production sites, moreover there are many cases of complete loss of access to production and documentation. There are enterprises whose production areas and capacities have been destroyed as a result of Russian aggression, such as the Ukrainian Weighing Company. Other companies have partially relocated to Ivano-Frankivsk region, to Kamianets-Podilskyi. Higher education institutions, such as National technical university "KhTI" and the International Computer Academy "STEP" are setting up and resume the educational process. The first weeks of uncertainty are over and companies are deciding on relocation, possible production cooperation, and so on.

Thus, the confusion of the government and business in the first weeks of the war is changed to the mobilization. In cooperation with all parties, coordination centres are organized to restore industries, create new clusters (including defence), relocate production to safe regions, create sites and coordination centres. Many of these bodies start to not only coordinate current actions of State regulators and businesses to support the army, industry and agriculture, but also to develop strategic plans for recovery and restructuring of the economy as a whole.

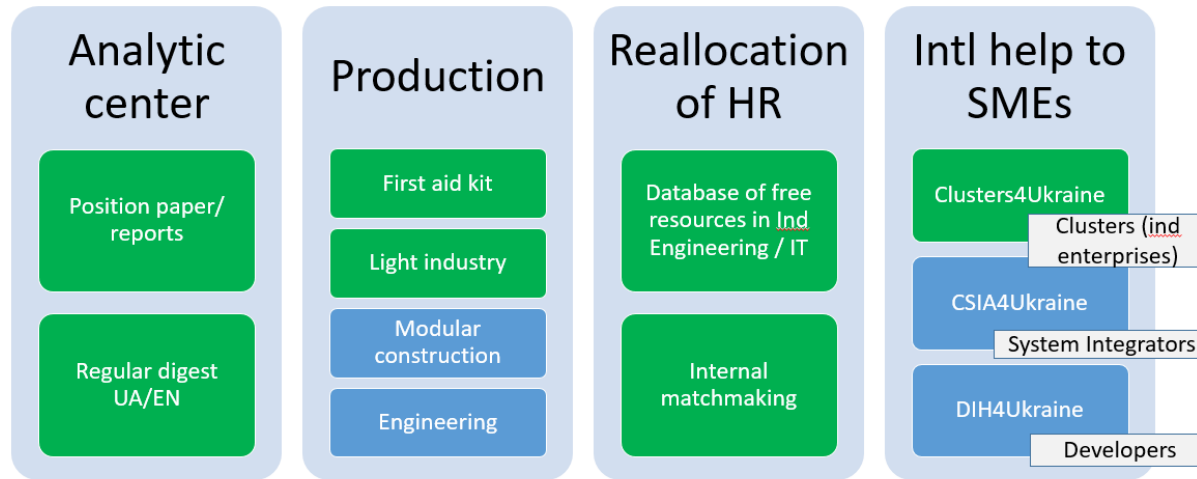
B. THE PROJECTS OF UKRAINIAN CLUSTER ALLIANCE

On March 18, the participants of the [Clusters4Ukraine](#) initiative decided to move to the next stage - a more formalized and structured organization called **the Ukrainian Cluster Alliance**. Currently, this structure retains all the goals and objectives of the Clusters4Ukraine and continues to be based on the resources of the Industry4Ukraine platform, but it is already on the path to creating a full-fledged and own cluster platform. The principles of unification are declared by the [link](#), the inaugural meeting was [scheduled on March 24](#). As results 16 clusters organizations are joined to UCA.

The details will be presented in next issue. In this and subsequent digests, all previous Clusters4Ukraine initiatives will be on behalf of the Ukrainian Cluster Alliance (UCA).

B1. Project portfolio of UCA

Since the beginning of UCA's initiatives, 11 projects have been underway in 4 key areas of action (fig. 1)



Every project can be considered as a specific one, with the own budget, project manager and project team

Figure 1. Current project portfolio of UCA. The projects which have been launched are in green color



It is being implemented by creation of alliance between suppliers and producers of components parts for first aid kits for the Armed Forces of Ukraine and Territorial Defence units.

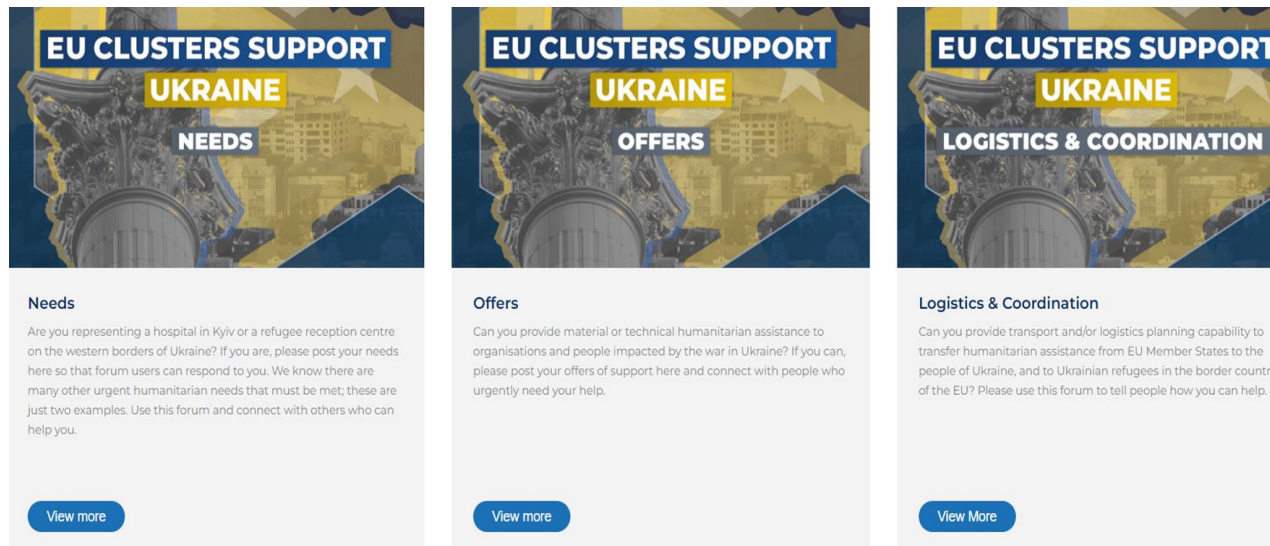
Enterprises of several clusters of Ukraine take part in the project. As of now, the sewing of pouch has started, and an international cooperation is being established for the production of hemostatic turnstiles and other components of tactical and other special medical kits for the first aid.

The projects on HR reallocation.

The projects on relocation and reorientation of free staff are developing in several directions:

- APPAU is rapidly populating a database of free resources on Control system integration, and has already entered into negotiations on the organization of outsourcing work with several US and EU associations.

At the same time, [internal matchmaking tool](#) has been launched for all Ukrainian clusters - there is an opportunity to state enterprise needs, as well as indicate services that may be useful for other enterprises. These database is a enter point to others, internationals channels as ECCP



The [first external matchmaking tool](#) was launched on the European Cluster Platform of the ECCP

During the first weeks 'EU support of Ukraine' on ECCP starts to be deployed. We received more than 50 requests from Ukrainian SMEs and more than 10 proposals from European partners.

Following this example, the UCA management plans to launch similar initiatives for other community members categories: CSIA4Ukraine initiative for control system integrators (with the support of [CSIA](#)), DIH4Ukraine initiative for developers and universities (through DIH network).

B2. Internal coordination

UCA management plans to develop a number of services, that are already demanded.

Here is what we built up in the previous week:

- [Position paper on logistics](#) - it guides European partners on the goods delivery / humanitarian aid in Ukraine.
- Goods import scheme-algorithm, explaining to importers how to cope with the new governmental restrictions,
- Analytical center work started, resources are being allocated.
- **UCA is formed as the formal structure**
- Common rules of communication and coordination were unified.

B3. European coordination

In the framework of daily meetings with the European team (European Cluster Alliance leadership, representatives of the European Commission and the Polish Cluster Association) this week it was agreed to launch C2C (Clusters2Clusters) meetings.

Industry-related Ukrainian clusters meet with Euroclusters to identify areas of EU cooperation and assistance in a live format. The first meeting regarding textile Industry is scheduled for April 1. Next – agricultural/food clusters, engineering and mechanical engineering, furniture, pharmacy and medical equipment.

B4. The main challenges of UCA

Internal development and coordination remain the main challenges for the UCA. **Financing of UCA's initiatives is the #1 concern.** This issue is just starting to get resolved in discussions with subsidiaries of several intl donors (GIZ and USAID). The Coordination team together with the clusters should accelerate the release of the first project applications.

It is necessary to strengthen the management in the areas of actions. Each project in the portfolio should have a qualified and motivated manager and the appropriate team. This process is not yet complete. In a number of industry clusters, the food and processing, pharmaceutical and critical infrastructures of the UCA still lack strong leaders.

Effective resource allocation between experts and volunteers is another internal challenge. Many experts are still in process of defining their role and participation opportunities, due to the difficulties of the transition period associated with many UCA participants' the relocation.

The final structuring of UCA directions, activities, projects and resources is to be accomplished by the end of March.

C. UCA PARTICIPANTS POINTS OF COORDINATION FOR THE NEXT PERIOD

UCA completes the initial processes of internal coordination and structuring. In foreign relations UCA is clearly moving towards restarting value chains, and our European partners understand this the further more. We need not only humanitarian aid as the real resumption of the key added value chains.

By the end of March we plan:

1. The promotion of UCA with the goal of extension of first 16 clusters to 20-25 organizations.
2. Internal structuring final stage:
 - a. The final UCA structure formation, including the governing bodies.
 - b. Project-specific portfolio presentation to donors.
 - c. Launch of projects and activities financing.
 - d. Key activity areas working groups formation.
 - e. To understand and aggregate sectoral priorities in two or three key industries (first of all: light industry, food and engineering).
3. Transfer a number of projects to the deployment phase, including:
 - a. Analytical center - to come up with a clear structure, the final division of functions and reports release plan approval/digests editorial team. Initiate public communications.
 - b. Switch the internal matchmaking platform (APPAU) to the "single window" mode.
 - c. Internationalization: plan all C2C meetings with Euroclusters within the defined priorities.

UCA participants and partners are expected to take an active part in all these activities.

The first 3 weeks of the initiative clearly show the huge potential of cluster interaction and cooperation, both within the country and with international partners.

It is necessary to continue this course even more actively and in an organized manner.

D. UCA RESOURCES

- Industry4Ukraine platform official page www.industry4ukraine.net
- Clusters4Ukraine (UCA) initiative [official page](#).
- "ECCP Aid Window" - external marketplace for clusters in Ukraine.

For information/cooperation/joining the UCA, please contact info@industry4ukraine.net.

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*Ukrainian cluster alliance Analytical center digests are aimed at **informing and coordinating** business associations management, industrial community clusters and high-tech sectors. The information above reflectr the views of the platform management and participants. This information is for circulation among clusters members and business alliances of the Industry4Ukraine platformas well as our key partners – state bodies, international organizations, NGOs, experts community. See Digest #1 [here](#).*