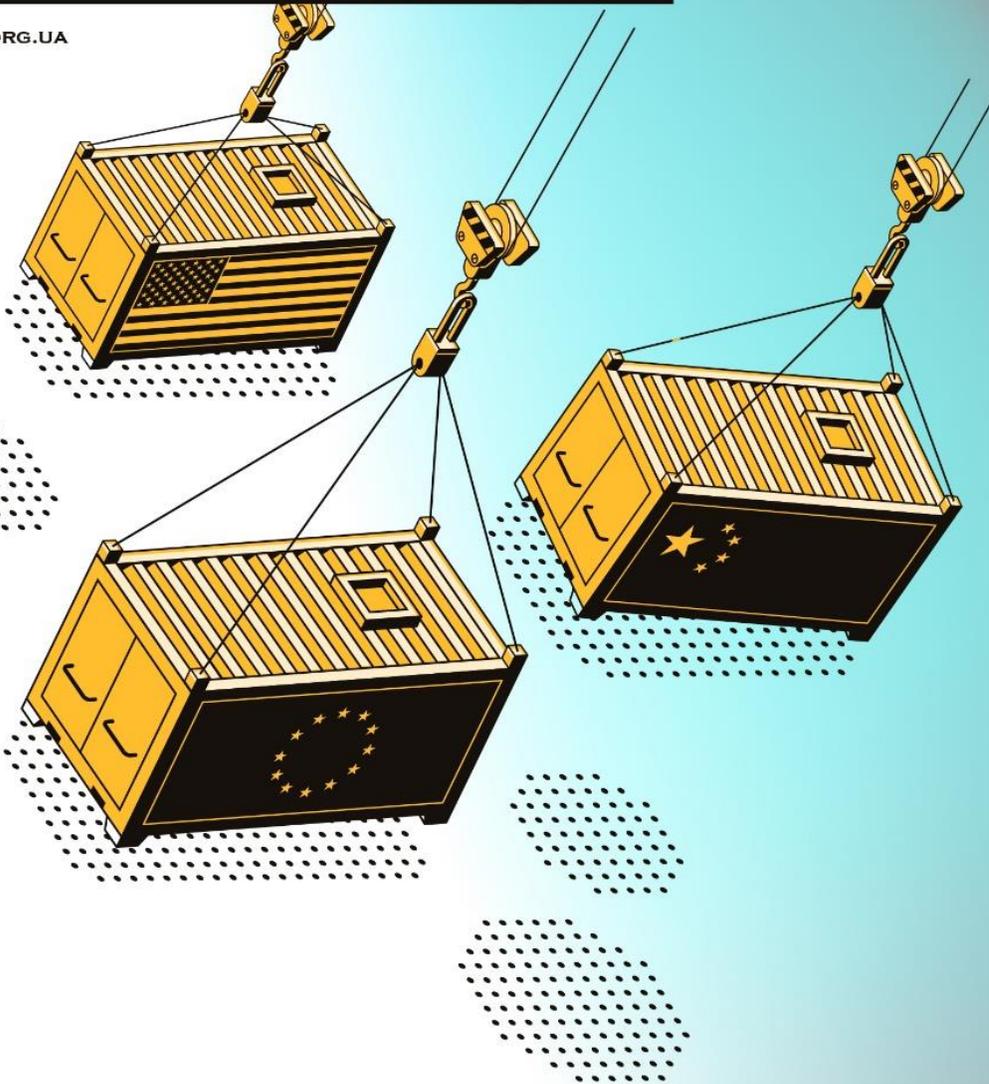


UCA PROPOSALS FOR GOVERNMENTAL
ANTI-CRISIS PROGRAM 2022

THE PROGRAM OF EXPORT — INTERNATIONALIZATION FOR INDUSTRIAL AND HIGH-TECH SECTORS

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June, 2022

UCA ANALYTICAL CENTER



UKRAINIAN
CLUSTER
ALLIANCE

Proposals of Ukrainian Cluster Alliance for governmental anti-crisis program 2022

THE PROGRAM OF EXPORT-INTERNATIONALIZATION FOR INDUSTRIAL AND HIGH-TECH SECTORS

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Authors of the document

Olexandr Yurchak – head of UCA, Industry4Ukraine platform coordinator

Volodymyr Panchenko – UCA analytical center director.

Olha Trofymova – UCA Export-Internationalization program directress, head of Ukrainian Automotive and Mobility Cluster

Vitalii Gryga – UCA expert, NASU Institute for Economics and Forecasting

Oksana Donska – board member at the Ukrainian Association of Furniture

Andriy Borodiuk – director of business development at the Association of Industrial Automation of Ukraine

Oleh Demchuk – leader of the Podillia Fashion Cluster

Oksana Sytnyk – head of board at the Kharkiv EAM cluster

Yuriy Zhukov – board member at the Ukrainian Maritime Cluster

Andriy Karpenko – leader of the Zaporizhzhia EAM cluster

Yuriy Hladenko – leader of the “Slobozhanske hemp growing” cluster

Yuriy Klymenko – head of the Vinnytsia instrumentation and industrial automation cluster

Executive summary

The program of export-internationalization for industrial and high-tech sectors was developed by the Analytical Center of the Ukrainian Cluster Alliance (UCA), as a part of the proposals for the government anti-crisis program in 2022.

UCA is a leading business association of 35 Ukrainian clusters, which unite more than 1,800 Ukrainian enterprises, dominated by small and medium enterprises (SMEs). UCA puts SMEs' export and internationalization strategy in its own activity as a #1 priority. And this is in dire need of coordination and support from the government. Accordingly, this proposal is a public and collective appeal of the UCA clusters to the Government of Ukraine in order to better coordinate and integrate UCA proposals into government programs and action plans.

UCA's proposals emphasize that business in wartime requires immediate and decisive action to support SMEs, 50% of which terminate their activity nowadays due to the consequences of hostilities. Accordingly, the anti-crisis government program should provide goals, well-designed and effective programs for well-coordinated priorities and directions in 2022.

The document notes that since March 2022, the Government of Ukraine has been implementing a number of measures to stabilize the situation and reduce the crisis effects.

At the same time, according to the authors of the document, these actions remain insufficient in terms of countering the growing economic crisis impacts. Among the issues that the government has not paid attention to, the UCA points to export support and internationalization of Ukrainian industrial SMEs. Due to the significant contraction of the internal market, this issue should be an extremely important in the government programs as it will help to solve the key problem of SMEs, that is to receive new orders.

UCA proposes 4 key groups of actions

1. Expansion and better support of the "Buy Ukrainian" program, which is already offered by the State Enterprise "Office of Entrepreneurship Development and Export Support".

2. Integration into GVC: a program to support the integration of Ukrainian enterprises into European and international value-added chains.

3. Inno-Integration: programs of accelerated inclusion and support of Ukrainian innovative enterprises into the relevant European programs of innovative development, digital and green twin transition.

4. Standardization: programs to support technical regulation and accelerated transition of Ukrainian enterprises to international and EU technical standards.

The document provides details and measures for each group of actions, as well as some UCA projects, which are already being developed. The budgets, action plans, and outputs are identified for them as well. These UCA proposals are derived from those of the Industry4Ukraine platform which were developed by the experts in 2018-19. The document contains examples and results of UCA activities held in the first 3 months of the current war, which demonstrate the potential of business associations in cooperation with the state.

The proposals to the government also include recommendations for immediate actions, which are the validation of 2 state programs of Integration in GVA chains (global value-added chains) and Cluster development (drafts have already been developed), as well as a better balancing of interests of industrial hi-tech, which are in the core military-industrial complex together with other sectors of the economy in anti-crisis programs.

This document is public and is communicated to the Cabinet of Ministers of Ukraine and relevant ministries also in separate appeal letters.

Targeted sectors in the UCA focus

The proposal of the UCA refers to the following economic sectors:

Industries: manufacturing, agri-food, engineering, machinery, including industrial automation and IT.

Cross-industrial sectors and directions: innovation, digital and green twin transition, SME support, clustering, technical regulation, and eurointegration.

Export and Internationalization - why this direction is a priority for industrial sectors

The war caused an economic crisis in the country. Data from various expert groups* show that the country's GDP might fall by up to 40%, and this percentage is much higher in regions close to war zones. The most vulnerable business group is small and medium-sized enterprises (SMEs), which account for 90% of the country's total number of enterprises. The business associations in some manufacturing industries (furniture, engineering, machinery) that are part of the UCA indicate a total contraction of domestic demand.

* *Note. This document is based on data and analytical reports from the Advanter Group and data from the Kyiv School of Economics and the World Bank.*

In response to this situation, the Ukrainian government proposed a few measures to support SMEs, primarily as non-repayable financial assistance to selected SMEs, support for the relocation of industrial enterprises, and so on. Special mention should be made of the actions of the Office of Entrepreneurship Development and Export Development, which has developed several initiatives to support the export and internationalization of SMEs, including a focus on service companies. This was important given the restrictions on movement of men abroad.

In June, [the prime-minister announced a new government program](#), which includes 6 directions of action. Among them there are closely related to industrial and high-tech sectors non-refundable grants for processing industry and IT startups.

At the same time, these actions cannot be considered serious obstacles to the rapid deepening and widening of the economic crisis. According to the experts of the UCA Analytical Center, the scale of the economic crisis and the directions of its unfolding and deepening are somewhat different:

1. The government does not provide a clear focus and priority to the so called critical industries. In particular, we do not see effective programs to support SMEs in industrial high-tech sectors related to the military-industrial complex.

2. There is also no focus on export programs - internationalization of industrial SMEs. Meanwhile, given the contraction of the domestic markets by 50% or more, this area should be a priority for the government.

3. The government programs and proposals for SMEs do not sufficiently take into account the European integration process, i.e. accelerating integration into existing and new programs to support SMEs, the implementation of which can also be an important tool for combating crises.

In general, the Government lacks an effective anti-crisis action program coordinated with businesses for the scenario of a protracted war, which as many experts estimate will last at least until the end of 2022. During the first 3 months of hostilities, the business has not seen such a program as there is no model (or strategy) of transition to a military economy, which would be logical for such a period of martial law.

Thus, the UCA Analytical Center experts forecast further deepening of the economic crisis with a trend of the domestic market shrinking, speeding up inflation and unemployment, which will increase the population below the poverty threshold.

On the one side, these negative consequences are natural for any war. On the other side, the question is whether the government's priorities are right and proper, whether all the reserves are being used to the best, and whether the potential of civil society, experts, and the business community will be fully used.

The Ukrainian cluster alliance is in full solidarity with the government in the proposed areas of action. At the same time, we propose to expand support programs for SMEs with a better focusing on the critical industries, on which military victory depends the most and which have the greatest impact on the survival of industrial SMEs.

The full proposal of the UCA on anti-crisis actions is still under development. It will include 5 areas of action:

1. Introduction of **the public procurement tool for critical industries**.

These industries serve as a basis of the military economy, and they contribute a lot to the security of the army and civilians:

- a. № 1 is a military-industrial complex, including related machinery and engineering.

b. Food security - all the key segments of the agri-food complex together with logistics (including the segment of products that have a long shelf life).

c. The textile industry. It provides clothing not only to the army but also to internally displaced persons.

d. Medical industry (drug production, medical equipment, rehabilitation) and healthcare.

e. Critical infrastructure, including urban housing, communications systems, and transport logistics (primarily rail and road).

f. Construction industry - in terms of renovation and construction of new housing, using modern technologies, instead of the destroyed ones.

These industries must receive large-scale state support to maintain uninterrupted work. The government should focus on supporting manufacturing factories and providing existing capacity with public orders. These industries have the **largest multiplier of jobs and generate the largest margin and export revenues**. The military-industrial complex and machinery industries are dual-purpose sectors, and the agri-food complex, given their scale, can also become a driver of stability in preserving jobs, as their value chains are the most diversified ones.

2. Inclusion of financial assistance and appropriate instruments to support industrial SMEs.

3. Implementation of large-scale import substitution programs.

4. Centralized export and internationalization programs.

5. Reconstruction of infrastructure.

This document is focused on the export and internationalization direction. There UCA has sufficient consolidation of clusters and experts as well as this direction appears to be the most mature in terms of quality and quantity of UCA proposals and implemented projects.

Centralized governmental program "Export and internationalization of industrial SMEs"

Given the sharp decline in the domestic market, foreign markets should become a priority not only for critical industries, but for most sectors of the economy. Accordingly, this single action program offers 4 components or subprograms:

1. "Buy Ukrainian": programs to export Ukrainian goods and support their promotion and certification in the world.

2. Integration into GVC: programs to support the integration of Ukrainian enterprises into European and international value chains by introducing a broad industrial dialogue of Ukraine's leading business associations and clusters with European and global organizations.

3. Inno-Integration: programs for accelerated inclusion and support of Ukrainian innovative enterprises, IT sector, research institutes and universities in the relevant European programs of innovative development, dual digital and green transition.

4. Standardization: programs to support technical regulation and accelerated transition of Ukrainian enterprises to international technical standards.

"Buy Ukrainian" program to support Ukrainian exporters

Current status quo at the state level: Program of the Entrepreneurship and Export Promotion Office (EEPO) "Buy Ukrainian". The program includes 8 components:

1. Introduction to trade opportunities with Ukraine: Discover Ukraine.
2. Search for certain groups of goods and services: Find Ukrainian Suppliers.
3. Restrictions on the export of certain groups of goods from Ukraine: Restrictions.
4. Search (list) of service companies (IT, engineering, creative...): BIZ4 UKRAINE.
5. Catalog of Ukrainian consultants and entrepreneurs: Do business with Ukrainian.
6. Offer to block Belarusian and Russian goods in foreign markets: Ban RU & BL products.
7. Offer of donations in support of Ukrainian producers: Donate.
8. Promotion of exporter success stories: Stories.

The current status quo at the level of business communities: there is no integrated and systematic program at the level of industrial sectors and for the category of SMEs; there are only individual proposals from individual communities of different associations and unions for their fields.

The main problems within the proposed EEPO program:

According to UCA experts, the EEPO program is extremely necessary and contains the right initiatives that need to be developed. At the same time, it has 3 main disadvantages:

1. Too many components of different scales and influences also cause too many tools, which in turn blurs the focus of the target audience. If you are the head of, for example, an SME engineering company that seeks to improve its position in the EU market, instead of one resource and support program, you are offered conditionally 10.

2. Insufficient support and consolidation around the proposed program, including those: a) from business, including business associations (for example, the [Biz4Ukraine](#) component could be much better supported by EAM clusters from UCA), b) from international donors (support of individual components). By and large, EEPO, like most central power bodies, does not see business associations as institutions that are capable of strengthening, scaling up and improving tools and programs offered by the state.

3. The program lacks a component as large-scale support for international events (conferences, forums, exhibitions) with the participation of Ukraine.

Main strategy and approaches: UCA proposes:

1. To fully support the proposed EEPO action program by involving all UCA clusters and other business associations of industrial SMEs.

2. Add to the areas of cooperation with EEPO (except for the specified components).

a) Planning, support and promotion of Ukrainian producers, business associations of SMEs at international events, conferences, exhibitions, etc. (see Annex 1, project "Trade Missions").

b) Incorporate UCA's communication capabilities to better cover cluster participants on the Diia. Business resource.

c) Development of the [Ambassadors of Industry4Ukraine](#) program, which aims to develop a network of professionals in foreign markets capable of supporting our integration into EU markets, as well as the EU's innovation environment.

3. Active use of other opportunities from the state, in particular, cooperation with the resource of the Ministry of Foreign Affairs <https://nazovni.online/>.

Key tools:

1. All the above tools from EERO.

2. Platform <https://nazovni.online/>.

3. Industry 4.0 Platform <https://land4developers.com/>.

Key institutions:

1. EEPO.

2. Council of Exporters at the Ministry of Foreign Affairs.
3. Industrial and other business associations.
4. International donors that support exports.

Typical case studies of UCA or other business communities:

Furniture industry: according to the Ukrainian Association of Furniture (UAF), the decline in the industry in the domestic market in March-April 2022 was almost 90%. Only exporters continued to work more or less steadily, but they (as well as other industries) also faced numerous problems in the areas of logistics, changes of suppliers from the East, registration of critical imports, as well as financial problems related to declining trust from Western customers, refusal of prepayment). The UAF management understood that the only relevant strategy in these conditions is export, taking into account the maintenance of existing positions and increase the number of exporters. In May and early June, UAF held 3 international exhibitions in Poland, the UAE and Italy. In total, UAF presented products of more than 40 Ukrainian furniture manufacturers, and their expositions were in high demand among foreign audiences. The USAID Foundation and the Ministry of Foreign Affairs of Ukraine (for the exhibition in Italy) assisted in holding the UAF exhibitions. Similar shares are a benchmark in UCA for dozens of other clusters and business associations. Unfortunately, they do not have such support from donors or the state.

Main projects and proposals from UCA:

UCA proposes to support the EEPO action program by adding the following areas:

1. Project "Trade Missions" - support for manufacturers of critical industries (agri-food, engineering and mechanical engineering, light and furniture).
2. Matchmaking platform support project for Ukrainian industrial SMEs (see existing [prototype](#)).
3. To unite and jointly promote a single database of outsourcing of EAM sectors.

For more details, see Annex 1, UCA "Project Portfolio".

The most important thing is that this program with all its components receives real and substantial support from the government. According to the UCA, currently the priorities or any components of this program are missing in the action plan until the end of 2022, which is being developed in the working groups of the National Council for the Recovery of Ukraine. This may indicate a low priority of the Ukrainian government's export direction, while according to UCA experts, this area is the most important one.

Expected effect in 2022:

1. Maintenance of jobs, in some cases, creation of new jobs (service industries) in all sectors of critical industries.
2. Conversion of the effect of a sharp increase in the popularity and image of Ukraine in specific indicators of trade agreements and improving the position of manufacturers-exporters.
3. Increasing the number of SMEs-exporters.

Integration into European and global value chains

This sub-program includes a number of measures to support the integration of Ukrainian SMEs into European and international value chains (Global Value Chain).

Current status quo at the state level: such programs are not known to the UCA cluster community.

Current status quo at the business community level: [The Smart Integration into GVC](#) project was developed by the APPAU in 2020 and is well known to the Departments of the Ministry of Economy, EEPO and USAID. Unfortunately, this project did not receive the support of the central executive authorities.

Main strategy and approaches:

Most of the provisions of the above-mentioned strategy of "Smart Integration in GLDV" are still relevant in 2020. The main idea is that due to low competitiveness and weak positions in the international arena, most of Ukraine's high-tech industries (designers, system integrators, industrial startups, machine builders, research institutes, etc.) - do not have a chance to compete "face to face" with competitors from developed countries. Therefore, the "Buy Ukrainian" program will not work here. It is necessary to be more flexible and systematic in joining global value added chains (GVAC) with certain services and production outsourcing, as Ukrainian shipbuilding has been doing since the 2000s, and now the Ukrainian car industry and light industry are doing it. But at the same time – set goals for a gradual shift to higher levels of Tier-x (levels of product readiness) and the export of finished goods.

Areas of action offered:

1. Restart the industrial dialogue at the level of leading European associations.
2. Special support programs for our policy makers with the involvement of government agencies, but also exchange of experience and training for experts from business associations and clusters. These programs are necessary due to the fact that most industrialists do not understand the difference between exports and integration into GVAC and, accordingly, cannot formulate their proposals.
3. A special program for faster integration into European value chains with the priority inclusion of the most mature industrial sectors. high-tech (automotive, biopharma, metalworking, engineering, mechanical engineering, industrial automation).
4. Full review and improvement of cooperation in areas such as Advanced manufacturing, Sustainable industry, Smart-specialization and Cluster policy.

Key tools:

1. Adoption of a state program for integration into the GVAC (or as a sub-part of the export strategy).
2. Support for the format of industrial dialogue at the level of the European Commission, with the inclusion of relevant associations and clusters.
3. Development and launch of special EU programs for the integration of Ukrainian sectors into the EU's VAC, as well as cross-sectoral projects of international donors and the "Marshall Plan". Key institutions: 1. Government (Ministry of Economy and Office of European Integration). 2. Leading industry associations and platforms (federations), cluster associations (UCA). 3. International donors. 4. European Commission and leading pan-European associations.

Examples of Ukrainian Cluster Alliance case studies:

1. **The automotive industry:** Ukrainian automotive cluster ([UAMC](#)) is already conducting a large campaign to relocate production from Russia and Belarus to Ukraine. The first step, which was to return all brands that left in March back to Ukraine, is now 100% completed. We proved that it is possible to keep working in Ukraine. It is now necessary to complete the second step: the launch of a campaign to attract to our market brands that left Russia.

2. **The textile industry:** [Ukrlegprom became a member of the pan-European association EuraTex](#). Both sides have started a dialogue on intensifying trade agreements and improving the integration (meaning the increase of orders) of Ukrainian companies into the European value chain.

3. **Industrial automation:** [APPAU association joined the American CSIA association](#), that opens up markets of the US as well as other countries. As a part of this process, the promotion of the Ukrainian database of system integrators (outsourcing services) has already started. Within UCA APPAU is conducting similar negotiations with the pan-European associations CECIMO and Orgalim.

Our government does not participate in all 3 presented UCA examples (which include support from the European Commission and other European organizations), although its presence and support would give a significant boost to the efforts to integrate into the global value added chain.

Main projects and proposals: initiatives and projects:

1. Creation of a state program on the integration to European and global value chain in 2022.
2. Production outsourcing (the project is under development).
3. Active promotion of Ukrainian service companies together with EEPO.

Please see Annex 1 "UCA project portfolio" for more information

Expected results in 2022:

1. Integration of at least 100 Ukrainian manufacturers into global value chains.
2. Reaching agreements to support Ukrainian SMEs - for at least 10 industrial and high-tech associations.
3. Creation of at least 3 programs from the European Commission, with dedicated funding.

Inno-integration – an improved integration into the EU innovation environment

This sub-program includes measures to stimulate support of the integration of Ukrainian developers (industrial startups, hard & soft developers, research institutes, universities, industrial SMEs) into the EU innovation programs.

The current status quo at the state level: at the state level existence of a unified and single action plan (or strategy) is currently unknown to the UCA or Industry4Ukraine community.

The current status quo at the level of business communities: within the UCA, the DIH4Ukraine proposal has been developed and communicated to the EU partners.

The main challenges: in the area of integration of Ukrainian developers into the EU innovation space, the following challenges are being considered:

1. A significant fragmentation and splits of innovation ecosystems, efforts and support programs on the Ukrainian side; the lack of coordination between ministries and their programs.
2. Numerous programs (complexity) from the EU side (see list below), that creates significant challenges of determining which of the programs are the most relevant and for whom.
3. Lack of efficient mechanisms for innovations development and for support of Ukrainian SMEs integration the European environment.
4. A significant drop of demand for innovations in the country as a consequence of the war.

As a result – **the market crisis will lead to further deterioration of the innovation environment and the outflow of the best talents abroad and to the IT industry.**

The main strategy and resolution approaches: it appears necessary to consolidate all efforts and developers in a single action plan, covering all the key aspects of involving industrial SMEs and developers in innovation, and dual digital and green transition fields.

Accordingly, the main proposed directions of anti-crisis actions for 2022 are the following:

1. A significant expansion and involvement of Ukrainian innovators into the existing EU innovation support programs. This requires consolidation and governmental support.

2. A full review of the so-called EU4xxx programs. 3 reasons for that: 1) a poor efficiency for industrial high-tech sectors, 2) political incompatibility (Belarus, Armenia...), 3) in Ukraine the level of maturity in innovations is significantly higher.

3. Development of the Ukrainian DIH networks and their focus on supporting industrial SMEs.

4. Creation of special programs to support scientists and researchers from the EU in industrial sectors and other related fields.

5. Development of targeted programs for the innovative development of the processing industries in Ukraine with an effective processing of the local resource base with creation of intersectoral value chain (example: the concept of the State targeted program for the development of hemp for serving food, construction, textile, energy, pulp and paper, pharmaceutical and cosmetic industries).

Key Tools:

1. I4MS/Horizon Europe program and its points of contact in Ukraine.
2. Points of contact of Horizon 2020 and Horizon Europe programs.
3. Enterprise Europe Network.
4. Digital Europe.
5. The Single Market Programme (SMP).
6. LIFEdustry4Ukraine (relevant business associations and committees)/UCA.
7. Innovation Fund.
8. Interregional Innovation Investments.
9. Digital Innovation and Scale-up Initiative (DISC).
10. InvestEU financing (EIF).
11. Sustainable Development Investment Partnership (SDIP).
- 12.

Key institutions:

1. Key Ukrainian ministries : Ministry of Economy, Ministry of Education, Ministry of Digital Transformation, Ministry of Strategic Industries, Ministry of Regional Development, Ministry of Infrastructure, Ministry of Agrarian Policy and Food, Ministry of Ecology and Natural Resources (green economy section)

2. Industry4Ukraine platform.

3. Better Regulation Delivery Office (BRDO), Entrepreneurship and export promotion office, and the national project "Diia.Business".

Examples of case studies of UCA or other business communities:

1. [Launch of the first DIH in Ukraine](#): in 2021 APPAU and the Center 4.0 at the Kyiv Polytechnic Institute won I4MS project to include DIH (Digital Innovation Hub) of the Kyiv Polytechnic Institute into the European DIH network. The funding was 340 000 euros. The project aims to launch full-scale DIH functions, including launch of fundraising for SMEs. During 2022-2023, 4 SMEs will be conducting Industry 4.0 experiments worth 240 000 euros. At the same time, 10+ technology brokers are being trained at the Kyiv Polytechnic Institute. Nonetheless, regardless APPAU regular contacts with several ministries since 2017, there is still no efficient and active support program for Ukraine's 4.0 Centers or DIH from the central executive bodies

2. [Launch of the Matchmaking platform EIF](#): the program Export – Internationalization – Fundraising launched by APPAU in 2021, is now scaled to all UCA. The program focuses on closing the gaps in innovation and technology brokerage and offers systematic support for SMEs. Since April 2021, a list of open EU projects is available on an online platform with relevant advisory support. The program is funded by APPAU efforts, there is no state or donors support.

The DIH network is considered by Industry4Ukraine platform experts and UCA as [the main catalyst and tool](#) in the transition of the Ukrainian universities and other structures to an innovation support for SMEs. For now, there is no understanding or support of this process from the government. Similarly, there is no support for the EIF matchmaking platform.

Main projects and proposals:

1. Full review of the EU4 programs, creation of new support programs for Ukraine with alliances of Eastern European and Baltic countries.
2. Project “EIF Innovative Brokerage and Matchmaking Platform”.
3. Project “Integration of Ukrainian Centers 4.0 into the DIH Euronetwork”.
4. Project “Network of Industry 4.0 Experts”.
5. A special window of R&D assistance, similar to the ECCP.
6. Program “Ambassadors of Industry4Ukraine”.

Please see Annex 1 «UCA project portfolio» for more information.

In the context of the launch of a [new EU support program for 200 startups and the funds of € 20 million](#), the focus of the program on industrial SMEs is important.

In previous years, there has been virtually no state institution responsible for the development of the industrial and deep-tech sectors in Ukraine. As a result, we witnessed a total dominance on the market of startups offering gadgets or software for B2C markets. Meanwhile, industrial high-tech is the basis of advanced high-tech economies.

Expected results in 2022:

1. Increase in participation of industrial SMEs in European projects: at least 100 innovative applications on the topics of Industry 4.0-5.0.
2. Receiving up to 10 grants with total funding of at least 3 million euros.
3. Creation and launch of specific support programs from the EU (up to 5).
4. Significant improvement in cooperation of leading Ukrainian and European institutions and professionals, policy-makers in EU innovation programs.

The role of business associations – Ukrainian cluster alliance case

Despite the young age of the Ukrainian cluster alliance (the initiative started back in March 2022), it is a great demonstration of: a) potential of business communities in export-internationalization of clusters b) potential and opportunities for cooperation with governmental bodies.

UCA emerged as an organized and coordinated response of Ukraine's clusters to the challenges of war. On the other hand, the speed of development and the effective coordination are possible due to the previous consolidated efforts of the Industry4Ukraine platform. This platform has been developing the cluster movement since 2019.

The history and the results of the alliance can be found [at this link](#). In the context of this document, we will note the main approaches and achievements of the Ukrainian cluster alliance in the direction of export and internationalization

During the specified period, Ukrainian cluster alliance successfully implemented 3 main internationalization strategies:

1. Key focus on the EU support, in particular from the leading European institutions for cluster development.
2. Clear focus on entering into the so called industrial dialogue: review of the most critical challenges of this particular industry at the level of leading European clusters and associations, with decision-making regarding assistance to Ukraine.
3. An effective use of available digital and other internationalization tools, from both EU and Ukraine sides.

The main achievements of the Ukrainian cluster alliance during the first 3 months of its work

1. From the first month since foundation, the UCA became a member of the European Clusters Alliance (ECA): that opened doors to many European organizations and business associations.
2. The Ukrlegprom association, member of the UCA, succeeded in [reaching the first agreement](#) regarding its integration into the EuraTex association.
3. The APPAU association [joined the European-American CSIA](#), which opens up markets of the US as well as other countries to Ukrainian engineering companies.

4. The first successful UCA case is the Podillia Fashion cluster. Thanks to the cooperation with Polish and German partners, 110 jobs were created and 40 thousands of sets of clothing were made for people internally displaced in Ukraine and for the Armed Forces of Ukraine.

5. Established systematic dialogue with national cluster associations of Poland, Romania, the Czech Republic, Lithuania - joint internationalization actions are planned for the next period.

These results were achieved thanks to the systematic work of the UCA Coordination Center - 6 large meetings with EU clusters on a sectoral basis and more than 50 B2B meetings between SME participants were held. UCA also fruitfully cooperates with government agencies, in particular, we note the cooperation with the Ministry of Economy in the joint representation of Ukraine in the event "[EU clusters talks. Ukraine: business challenges & opportunities on the way to Single market](#)", as well as regular cooperation with EEPO in promoting certain "Buy Ukrainian" initiatives.

Today, 6 UCA experts are integrated into working groups from 4 ministries in the National Council for the Recovery of Ukraine submitted its proposals, coordinated within the UCA.

These results indicate that business associations such as UCA can be reliable partners of the state in the implementation of joint anti-crisis and development programs. At the same time, the effectiveness of this cooperation depends on the government - in some cases, the UCA hoped for more efficient and rapid coordination and interaction, but did not receive such support.

UCA also draws the attention of international donors to the large but still poorly realized potential of business associations as one of the key tools for influencing, consolidating and supporting SMEs. The above results can be obtained without any significant financial assistance, and first of all, by the combined resources of the clusters of Ukraine. At the same time, the need for funding is acute and the risk of curtailing these activities without financial assistance in UCA's activities remains high. During the 3 months of the war, the donors did not show themselves in relation to these activities of this business association. The only fund that has assisted UCA in internationalization activities is the **EaP Civic Society Facility**. At the same time, UCA needs much more support for the projects presented in Annex 1.

Recommendations for the government

According to the abovementioned programs and proposals, UCA has the following 7 proposals for the government:

1. Consolidate the proposals presented in this document, as well as others provided by the leading business associations in the single action program "**Export and Internationalization of SMEs**" with the status of priority in 2022.

2. To authorize **1 executive body** responsible for the implementation of this program.

3. In developing anti-crisis measures, the government should **adhere to the principle of selectivity** (= focus on a limited number of strategic priorities), and where priorities should be given to sectors of the economy in accordance with one of the 3 criteria:

a. Belonging to industries critical during wartime.

b. The biggest positive impact on export growth.

c. Neutralization of the key crisis tendencies for the leading sectors - exporters.

4. These criteria need to be **well balanced** and the effectiveness of government action for paragraph 3c is currently in question. The government ignores the crisis of thousands of SMEs working in medium and high-tech industries, such as engineering and industrial automation, machine-ship-transport construction and instrumentation, aerospace, biopharmaceuticals, new materials, alternative energy technologies and the like. Their fall - in April-May 2022 comparing to 2021 is an average of 40-50%. Competences and specialists in these areas are also the basis of the domestic military-industrial complex, so the government should pay special attention to preventing degradation of certain sectors to the point where recovery will be impossible.

5. The government should pay attention to the negative trends of leakage of specialists from industrial high-tech sectors to the IT industry. This negative effect has already led to large personnel losses in the industrial high-tech sectors in 2016-21. The state has distanced itself from counteracting these phenomena, while supporting the rhetoric about the need to develop a high-tech economy. Meanwhile, the industrial medium and high-tech sectors are the basis of the developed countries' economies. Further stimulation of these processes by the government in 2022, which is stated in government statements, will lead to irreparable damage to domestic industrial hi-tech, will increase the dependence of our VAC on imports of finished products, and in some cases lead to destruction of individual sectors. The government should understand that these sectors (recommendation 4) are also the basis of the military industry complex. Accordingly, in implementing measures to increase IT professionals, the government should implement similar **support and development programs for the industrial high-tech sectors**. This is the only way to balance the situation and prevent the rapid growth of one industry at the expense of others.

6. The government should pay special attention to **supporting cluster-type business associations that strengthen domestic VAC** by consolidating SMEs at the sectoral-regional level and focus on the production of finished products and solutions.

Such clusters are constantly generating their own tools to neutralize risks in industrial VAC, which is one of the biggest market challenges today. The project of the cluster development program of Ukraine, which was submitted to the Ministry of Economy in 2020, but which did not find support, now needs a priority support.

7. The program of integration of Ukrainian SMEs, startups, engineering and service providers into EU programs needs much more attention and acceleration in implementation. UCA, along with other leading business associations, is offering the government assistance in developing a single state program for integration into the EU's VAC and innovation space. There is no such holistic and well-coordinated state program today but should be launched in 2022, as a part of the overall Export-Internationalization strategy, as the windows of opportunity are already large enough, but they are still not used.

Annex 1. UCA projects for the government's and international donors' consideration

These projects are processed project applications that can be quickly adapted to the requirements of government or donor support programs. They do not cover all areas of support, specified in this document.

Name	Description	Status	Relevance to the wartime period	Cost, euro	Duration, months	Expected results in 2022
A Changes in state policies, targeted programs, legislative and structural changes						
1	Development of national programs for integration into European value chains	In the period 2019-20, a number of analytical works were conducted on the Industry4Ukraine platform, which point to numerous gaps in the integration of Ukrainian industries. sectors in European and global chains (VAC). In particular, at the request of the Ministry of Economy in 2020, a technical task was formed for analytical studies of the potential for integration into global VAC by key industrial sectors and a separate one, in the field of Industry 4.0. The works were stopped due to lack of funding. As a result, Ukraine does not have a detailed vision and integration strategy today, although the most favorable conditions for this are present now due to the EU's openness.	Separate measures are already being implemented within the UCA at the cluster level. There is a draft strategy for the integration of sectors I4.0 in VAC.	20 000	4	Right now, there are numerous windows of opportunity at the level of Euro-Atlantic structures. 1) the European Commission departments are fully open to dialogue, in particular DG GROW, 2) similarly, there is a strong support from the European Cluster Alliance and a number of leading European associations, 3) there are similar opportunities in the US and Canadian markets. But there are no consolidated (business-state) proposals from Ukraine for a number of sectors promoted by the platform, primarily high-tech industries.

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2	Adoption of the draft national program of cluster development until 2027 by the Cabinet of Ministers of Ukraine	The draft national cluster development program was developed by a group of Industry4Ukraine experts in 2020 under the leadership of APPAU. The project was submitted to the Ministry of Economy in the same year and contains clear recommendations and national priorities for the development of the cluster movement and which are fully aligned with the best European policies. Projects like ClusteRISE, the creation of UCA, are in strict accordance with the proposed plan. The total cost of the entire program for 3 years - 190 thousand euros.	The program is already partially implemented at the UCA level, but does not have state support	Clusters are the basis for managing value added chains and improving their resilience during the war. Regulatory support is, in turn, the basis for the formation of requests and the appropriate attraction of donor funds. Now the state has withdrawn from this issue and there is a great risk of 1) deterioration of VAC, which are already in crisis, 2) leveling of all results of cluster communities 2019-21, 3) disintegration of UCA.	0	2	1) improving Ukraine's position in Euro-programs, 2) attracting donor resources, 3) strengthening UCA clusters, 4) improving business-state cooperation, 5) real impact on VAC in a number of sectors
B Exports and Internationalization - targeted programs to support SMEs (within "Buy Ukrainian")							
1	UCA trade missions in selected target regions	Trade missions include visits, media campaigns, participation in conferences and forums in several target markets. Duration - not less than 3 months. UCA proposes 3 missions to the most mature and crisis (due to falling domestic markets) sectors - 1) EAM (Engineering - Automation (including IT) - Machinery, 2) Light industry, 3) Agro-food (processing) industry , 4) Furniture industry.	The program is already being partially implemented within the UCA at the level of inter-cluster meetings. No funding	There is currently a window of opportunity in the EU and other regions. Countries, in particular business associations and EU clusters, are ready to help Ukrainian economy in every possible way. But this window will quickly close if Ukrainian industries and sectors do not present their clear priorities and cooperation projects. At present, there are very few such proposals from SMEs.	40 000 for 1 trade mission	6	Acceleration of internationalization and improvement of export for Ukrainian SMEs in these sectors.

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				The essence of trade missions is to accelerate their development and communicate in person, at the level of group and B2B meetings.			
2	Innovative brokerage, fundraising and matchmaking platform for industrial sectors	Industrial SMEs have a limited access to financial instruments not so much because of the lack of funds themselves, but because of weak fundraising services. In 2021, APPAU established its own project office, which specializes in providing information and technology brokerage services to SMEs, together with partner Centers 4.0. The project envisages the full deployment of a digital platform for innovation brokerage, fundraising and matchmaking around the main needs of SMEs, as well as the formation of a network of experts in technology brokerage.	There is an operating prototype of the matchmaking platform .	Lack of financial resources is critical for most industries. SMEs are no longer in the context of development, as elementary survival. Therefore, it is necessary to maximize the effect of the use of existing funds and grants. Due to fragmentation and fragmentation, SMEs do not use existing opportunities today. The platform will centralize all existing grants for industrial SMEs.	25 000	6	Improving financing of SMEs through grant funds. Significant growth in the involvement of Ukrainian SMEs and innovators in European development funds and programs.
3	“Buy Ukrainian” program	Full synchronization with the “Diia. Business” app https://imp.export.gov.ua/buy_ukrainian	On the side of UCA - finalization	Arguments – similar to Diia. Business	TBD	2022	improving export of finished products by industrial SMEs, inclusion of substitution mechanisms instead of import from Russia and Belarus.

C Targeted programs of integration into the European VAC (Integration GVC)							
1	Addition and promotion of a single database of outsourcing of EAM sectors	Creating and promoting an outsourcing base (production, engineering and software services) - is one of the main strategies for the survival of a number of EAM clusters and business associations of industrial high-tech. In March 2022 APPAU formed the base of outsourcing of the System Integration of automated control systems. But it is not possible to expand it to the segments of designers, scientists - researchers or startups. System analytics is needed, and then - a powerful promotion of the created base.	There is a partial promotion through the channels of APPAU system integration. There are already requests from foreign partners.	Reduction of the domestic market for these segments is expected to be 60-80%. This means mass unemployment and the brain drain of engineering specialties, which will lead to the complete degradation of a number of high-tech industries, including those related to the military-industrial complex.	10 000	4	The beginning of systemic Ukrainian engineering outsourcing like the IT industry. Obtain at least 200 new contracts for SMEs
D Targeted programs for integration into the EU innovation environment (Inno-Integration)							
1	Full review of EU4xxx programs, creation of new ones for Ukraine with alliances of Eastern European and Baltic countries.	EU4xxxx programs (Business, Digital, Environment, etc.) did not provide adequate results for the development of SMEs in peacetime. 3 reasons - 1) poor efficiency for industrial high-tech and management by government agencies. The second reason is the much higher level of maturity of Ukraine in innovations in relation to 5 other countries. Now this has been compounded by political	under development	Given the numerous gaps in the VAC, geopolitical challenges and Ukraine's position in addressing these issues, a shift of focus from the East to Eastern Europe is needed right now. If this is not done, the EU will again offer ineffective formats (now Ukraine-Moldova-Georgia).	TBD	6	Establishment of new formats of cooperation such as the Vyshegrad Four will provide much more powerful development for our industrial and high-tech sectors than the East.

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		incompatibilities (Belarus, Armenia...).					
2	Integration of Ukrainian Centers 4.0 into the European DIH Network	Special EU program that supports transition of Centers 4.0 and a number of leading universities to the DIH format and accelerates their formation as SME support centers by integrating into the DIH Euronetwork (BOWI +). This program is necessary because of the lag of the Ukrainian universities and centers of expertise in the field of industry. Hi-tech is striking in relation to the EU (they have 600 DIH, we have 3, but only 1 works on 50% of its capacity). And there is a threat of further degradation during the war.	Partially implemented under the BOWI project (340 thousand euros on DIH KPI). Scaling is impossible without state support.	This is a similar window of opportunity, as indicated in section A4. If we do not formulate the requirements now and do not bring them to the European Commission, then we will be "put in line" again (programs like EU4xxx), where everything will be slow and hopeless again.	200 000	8	1) Transition to DIH of four more Centers 4.0 from the universities of Kyiv, Kharkiv, Poltava and Zaporizhia. 2) launch of large-scale fundraising programs by the new DIH (receive at least 2 million euros in grants for foreign development of SMEs)
3	Creating the Industry 4.0 experts network	A network of independent, qualified Industry 4.0 experts, capable of diagnosing enterprises on the level of readiness and issuing development recommendations, is a key asset of most countries that are successfully implementing Industry 4.0. This practice has been introduced by Western European countries, many Asian countries, today Poland is doing it. APPAU proposes to create such a network in Ukraine based on the	Works stopped due to lack of funding	The promotion of 4.0-5.0 innovations in Ukraine is reduced to zero - demand has fallen sharply due to the crisis. Most customers, industrial enterprises abandon the program of new investments - modernization. This means that there is a great threat of degradation and growing backwardness of Ukrainian industrialists in relation to developed countries. The network of experts can a)	100 000	8	The network of experts is a #3 institution Industry 4.0 according to the National Economic Strategy 2030. Its launch in 2022 will lay the foundation for the accelerated digitalization of Ukrainian industrial SMEs during the recovery period.

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		methodology of the Singaporean government SIRI.		stimulate demand, b) identify new business models and opportunities that are most relevant to crisis conditions			
4	A special window of R&D assistance, similar to the ECCP	creating and promoting a marketplace like the ECCP for the Industry 4.0 Innovation Community - startups, developers, SMEs, research institutes, universities. One of the priorities is faster integration of Ukrainian researchers into existing EU programs	not existing	There is a big gap between the capacity and willingness to help from EU institutions and the needs of innovators and SMEs. This is the window of opportunity that is the greatest now. But by the end of 2022, these opportunities could decline sharply	20 000	3	better integration of Ukrainian developers into the European environment (100+ organizations)
5	Ambassadors of Industry4Ukraine program	support, networking, promotion of the network of Ukrainian professionals, as well as foreign partners who support innovative development in industrial sectors. Read more.	The program started at the UCA in May on a volunteer basis	There is a huge but underutilized potential of a) our scientists and women professionals as refugees in the EU, b) dozens of influential foreign partners who sympathize with Ukraine. This potential will be maintained throughout 2022. But if it is not used, in 2023 its level will decrease significantly.	20 000	6	better integration of Ukrainian organizations into European development programs; improving the cooperation of Ukrainian institutions with the foreign ones.