

Designing a cluster support programme for Ukraine

Economic policy in Ukraine is under pressure to quickly support the generation of economic growth, boosting exports and employment whilst at the same time having only very limited financial resources available for this task. Therefore, the government needs to use low-cost, high-impact measures to foster innovation and investment in promising sectors.

Cluster development is a particularly attractive approach in this regard. It requires rather limited resources from government, yet may generate a significant impact and high visibility amongst investors. In many countries, cluster policies and programmes have been introduced to strengthen competitiveness and to tackle structural change.

For Ukraine, a phased approach starting with a limited number of clusters seems to be advisable. Our preliminary analysis indicates that the IT and automotive industry provide promising opportunities for this approach. The focus should be on setting up and strengthening cluster management at regional level.

Suitability of the cluster approach

In the recent past, clusters have gained increasing prominence in debates on economic development. Clusters are geographic concentrations of interacting companies and institutions in related value chains. They comprise players from three groups (triple helix):

1. **Private sector:** Horizontally and vertically linked companies as well as specialised service providers and business associations
2. **Government institutions:** Ministries, agencies, authorities (national, regional and local level)
3. **Research and educational institutions:** Universities, research institutions, training centres.

Clusters are driven by the co-existence of collaboration and competition. While players collaborate in certain areas, they compete in others. Because of their proximity, cluster players can benefit from several location-specific externalities and synergies.

Cooperation-based cluster support programmes focus on facilitating the development process of emerging and existing clusters, on improving the environment for cluster success and on maximising the impact of clusters. International experience indicates that the cluster approach provides promising opportunities to address a number of major challenges related to

managing structural change in Ukraine. In this context, investment/export promotion, innovation and competitiveness as well as job creation and skills development represent areas of strategic importance in which clusters can be leveraged to increase the efficiency of policies and instruments. Furthermore, cluster support is in line with the objective of decentralisation, which is of high relevance in the Ukrainian context.

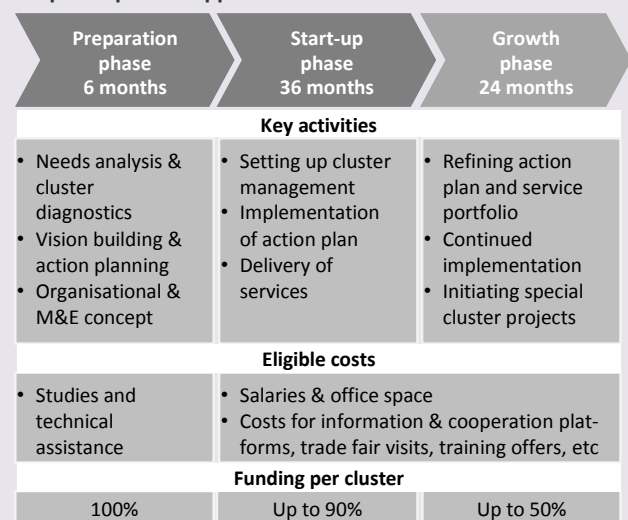
Outline of a Ukrainian cluster programme

The main focus of a Ukrainian cluster support programme should be on setting up and strengthening a limited number of cluster management structures at the regional level which facilitate and support cooperation-based innovation and internationalisation processes in the individual clusters. In addition, a lean coordination and exchange mechanism should be integrated to generate synergies between the regional clusters (e.g. training for cluster organisations).

The regional cluster management organisations should integrate the key stakeholders from the private and public sector and academia and provide services in particular in the areas of cluster marketing and business development, start-up and innovation support, skills and infrastructure development.

With a phased approach, the programme should cover the entire life cycle of a cluster. The preparation phase forms the starting point comprising the necessary analytical and conceptual tasks as well as stakeholder engagements to set up a cluster management.

Proposed phased approach



Source: Own illustration

The set-up phase should fund the actual establishment of the cluster management structures and the delivery of the defined services. In addition, the support should cover the growth/consolidation phase of established or already existing clusters. During this phase, the service and activity portfolio of clusters should be broadened and deepened.

A sustainable financing model for regional clusters should encompass base public funding from government or international organisations, revenues generated (e.g. membership fees, income from cluster services) and third-party funding (e.g. international research programmes). The necessary funding volume for a cluster support programme is estimated at about EUR 5 m for a five year period.

Identification of promising clusters

Taking into account the Ukrainian context, it seems advisable to start the cluster development process with a limited number of pilot clusters to generate impact as early as possible, to raise awareness, and to gather first-hand experience for a larger scale roll-out. Key selection criteria for pilot clusters include a promising potential with respect to internationalisation (investment attraction / export promotion), employment creation and skills development as well as innovation and upgrading.

Clusters need to have a sufficient critical mass and geographic concentration to generate synergies and attract investment. A balanced mix of SMEs and large anchor companies provides a sound basis. Cluster development further requires shared interests and a willingness to collaborate between the players.

Against this background, a quick scan involving interviews with experts from companies, associations, government and finance institutions has been carried out and available industry studies have been reviewed. The findings indicate that the IT and automotive industries offer promising potentials for the development of pilot clusters.

Both industries have a strong track record of FDI attraction, export generation, job creation and exhibit sufficient geographic concentrations. Furthermore, the already existing cooperative initiatives in the IT industry (e.g. Lviv) and first efforts towards collaboration in the automotive industry indicate interest and a willingness to participate in cluster activities.

The combination of automotive and IT pilot clusters allows for the testing of support measures as well as institutional models in two industries differing significantly with respect to their structural characteristics, which is helpful to prepare the larger scale roll-out.

Way forward

A policy decision by the Ministry of Economy would form the starting point. As a next step, a workshop with stakeholders (private/public sector and academia) could be carried out to raise awareness and discuss key programme features. The workshop would also provide an opportunity to assess the interest to participate amongst stakeholders. Taking into account the results, the programme could be refined and finalised.

As a next step or in parallel, international organisations could be approached regarding the financing of the programme, based on experience in many other Eastern European countries.

Once the financing has been adequately secured, the (emerging) regional clusters for the pilot phase could be selected. The chosen clusters could then be provided with the technical assistance and funding, and the corresponding monitoring and evaluation mechanisms could be established.

In parallel with the implementation of the pilot initiative, a comprehensive assessment of the development potential of further clusters in e.g. the transport or the food industry could be carried out to prepare the roll-out of a larger scale programme.

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Note: Our policy advice on cluster development takes place in tight cooperation with the Delegation of German Business in Ukraine, which took the initiative on this topic. A more comprehensive analysis of the topic is provided by the Policy Paper PP/04/2015 "A cluster support programme for Ukraine: Design principles and key features"

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German Advisory Group

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