ANALYSIS OF VALUE CHAIN GOVERNANCE IN UKRAINE

Ukraine's Recovery, Growth and Competitiveness

2025 - 2026

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Executive Summary

Value Chain Governance (VCG) in Ukraine is at a critical crossroads due to the combined pressures of war and post-war economic recovery and the country's path toward EU accession. Effective VCG (the way actors coordinate, make decisions, and enforce standards along a value chain) is critical for rebuilding a more competitive and resilient economy. Currently, Ukraine's value chains exhibit a mix of governance models: in some sectors, **lead firms** (e.g. large agro-industrial holdings) dominate and integrate activities from production to export, while many other sectors remain fragmented among numerous SMEs and small producers. This fragmentation often leads to **coordination failures** – gaps between producers, processors, and markets – exacerbated by institutional voids such as weak industry associations and limited cooperative structures. The full-scale war has disrupted traditional supply chains and forced business relocations from the war-affected regions. This underscored the need for **place-based, inclusive and flexible governance models** that can quickly re-connect across Ukraine's regions.

Recent developments show both challenges and opportunities in Ukraine's VCG. Donor-supported initiatives have identified high-potential **economic clusters** in various regions as engines for post-war recovery. Clusters, as geographic concentrations of interconnected businesses, have proven to be vital tools for concentrating competencies and strengthening the resilience of MSMEs. At the same time, Ukraine's government and partners are promoting **smart specialisation (S3)** in regional development planning, requiring each oblast to pinpoint its unique economic strengths and foster collaboration among local stakeholders. The Ministry of Economy of Ukraine (now expanded to encompass agriculture and environment) has adopted methodological guidelines in 2024 to embed S3 into all regional strategies, aligning with EU practices. Furthermore, **Ukraine's National Economic Strategy 2030** and updated **State Strategy for Regional Development 2021–2027** recognize cluster development and innovation networks as key to boosting competitiveness. However, gaps remain in translating these strategies into practice: the **cluster movement in Ukraine** is nascent and has faced challenges like lack of experienced cluster managers and weak institutional support, necessitating capacity building and clearer policies.

Key findings of this analysis reveal that Ukraine's value chain governance is hindered by several bottlenecks:

1. **Coordination gaps** – for example, thousands of small farmers and household producers operate outside formal value chains, resulting in inconsistent quality and inefficiencies (the dairy sector illustrates this, where a dominant share of milk still comes from household producers with limited integration into processing chains).

2. **Institutional voids** – such as a historically underdeveloped network of cooperatives, marketing boards, or logistics hubs that would normally connect and support chain actors. Only recently has the government made cooperatives a pillar of its rural development strategy (adopted in 2024) to help small producers organize and meet market demands.

3 **Public–private coordination failures** – there is room to improve dialogue between business communities and government on value chain issues, especially in rapidly evolving sectors like IT, renewable energy, and critical raw materials where Ukraine seeks greater EU market integration.

4 **Regional disparities** – some regions (e.g. around Kyiv, Lviv, Vinnytsia) have emerging cluster initiatives and better infrastructure, while others (especially war-affected eastern and southern oblasts) face disrupted networks and will require targeted support to reintegrate into national and global value chains.

Despite these challenges, there are significant **opportunities to strengthen VCG** in Ukraine. International support is being aligned with Ukraine's needs: for instance, Ukraine's integration into the EU's Single Market Programme in 2023–2024 opened access to the Enterprise Europe Network and the European Cluster Collaboration Platform[1], fostering partnerships between Ukrainian and EU clusters to restore disrupted value chains The Ukrainian Cluster Alliance (UCA), formed in 2022, has brought together 40+ clusters and business associations to champion European-style cluster policies and internal matchmaking to rebuild value chains. These efforts point toward a more **inclusive, multi-level governance** of value chains[2] – involving national ministries, regional authorities, industry leaders, SMEs, cooperatives, and donors in coordinated action.

Policy recommendations emerging from this analysis focus on actionable steps:

a **Establish a clear framework (programme) for cluster development and value chain upgrading** – this includes formal recognition and support (financial, technical) for cluster initiatives in key sectors and regions, building on the smart specialisation priorities identified in each oblast.

b **Strengthen multi-level coordination** – create platforms for regular public–private dialogue on value chain bottlenecks, ensuring that voices of SMEs, farmers, and regional stakeholders inform national policy (for example, a Value Chain Competitiveness Council or utilizing the existing EU–Ukraine Industrial Dialogue for this purpose[3]).

c **Empower industry associations and cooperatives** – accelerate the implementation of the new 2030 Rural Development Strategy[4] by modernizing cooperative laws, providing training and incentives for producers to form cooperatives, and expanding support services (like extension, quality labs, certification) that enable small players to meet standards and integrate with larger processors/exporters.

d **Leverage donor programs for systemic impact** – coordinate donor-funded value chain projects (by EU, SDC, SECO, UNDP, GIZ, LuxDev, other) under a common strategy to scale successful pilots (such as cluster support in agro-processing or IT) into sustainable models countrywide.

[1] https://single-market-economy.ec.europa.eu/support-actions-ukraine_en

[2] https://clustersalliance.eu/organisations/ukrainian-cluster-alliance/

[3] https://ec.europa.eu/newsroom/growth/items/753472/en

[4] https://zakon.rada.gov.ua/laws/show/1163-2024-%D1%80#Text

e **Ensure resilience and inclusiveness** – embed risk mitigation (e.g. war risk insurance, as piloted in Kharkiv's IT cluster[5]) and social inclusion measures (job creation for IDPs, people with disabilities, veterans, gender inclusion) into value chain development programs to future-proof Ukraine's economic recovery. By taking these steps, Ukrainian policymakers and partners can transform current ad-hoc arrangements into **robust value chain governance systems** that drive competitiveness, innovation, and equitable growth on the road to EU accession. Scale good local practices (such as Pyriatyn value chain model).

I. Context and Rationale

Why value chain governance matters now: Ukraine's war and post-war economic landscapes demand a rethinking of how value chains are organised and governed. The term **Value Chain Governance (VCG)** refers to the mechanisms by which various actors (producers, suppliers, processors, traders, retailers, etc.) coordinate their activities, share information, adhere to standards, and allocate value added along the chain. Effective VCG is fundamental for ensuring that products flow efficiently from raw material to end consumer, that quality and standards (especially EU standards in Ukraine's integration context) are met, and that smaller actors can participate fairly. In Ukraine's case, this topic has gained urgency for several reasons:

1 War-induced disruption and recovery

Russia's full-scale invasion in 2022 severely disrupted Ukraine's supply chains – internally and in global trade. Traditional logistics routes (like Black Sea ports) were partially blocked, many enterprises in the east and south were destroyed or relocated, and millions of workers displaced[6]. This shock exposed vulnerabilities in Ukraine's value chains and highlighted the importance of adaptability and coordination. As recovery efforts proceed, simply rebuilding pre-war chains is not enough; **restructuring value chain governance for greater resilience** (e.g. diversifying logistics, localising certain supply loops, enhancing cooperation among remaining firms) is crucial. For instance, to export agricultural produce during wartime, new coordination mechanisms had to emerge (such as the "Maritime Corridor" out of Odesa, moving 100 million tons of cargo in 1.5 years, as of Feb 2025 despite hostilities)[7]. This demonstrates how innovative governance arrangements can keep value flowing under duress. Moving forward, Ukraine's reconstruction offers a chance to address long-standing coordination gaps – making value chains not only restore output but become more sustainable, inclusive and future-proof.

[5] https://drive.google.com/file/d/1Be2T5rgXZRfOdinz3luTMrlKpGSt12k7/view

[6] https://www.helvetas.org/en/switzerland/how-you-can-help/follow-us/blog/urban-engagement/reconstructing-ukraine-four-pathways-for-building-back-better

[7] https://drive.google.com/file/d/1etki0jsjBYcoildCMLjxtmy-IZRs0EC4/view

2 Competitiveness and EU accession

Ukraine's aspiration to join the EU and integrate into European markets brings a new set of incentives and requirements for its value chains. Competing in the EU single market will require Ukrainian industries to upgrade quality standards, innovate, and coordinate supply chains to meet just-in-time delivery and compliance norms. The **Deep and Comprehensive Free Trade Area (DCFTA)** under the EU–Ukraine Association Agreement has already opened markets, but also exposed areas where Ukrainian SMEs struggle to integrate due to scale or standards issues. As Ukraine moves toward accession negotiations, aligning with EU regulations (the **acquis communautaire**) in sectors like agriculture, food safety, industrial products, and services is non-negotiable. This alignment often translates to governance improvements, for example, EU rules encourage the formation of **producer organizations and cooperatives** in agriculture (under the Common Agriculture Policy, CAP) to strengthen farmers' market power and adherence to standards. Similarly, EU industrial policy promotes **clusters and innovation networks** to boost regional competitiveness. Thus, improving VCG in Ukraine is directly linked to fulfilling EU integration criteria and taking advantage of European value chains. It will help ensure that Ukrainian firms can become reliable suppliers in EU supply networks, from automotive parts to IT services.

3 Regional economic development and inclusion

Value chain governance has a strong regional dimension in Ukraine. The country's economy has distinct regional specialisations – for example, IT firms clustering in cities like Kyiv, Lviv, Dnipro or Kharkiv; light manufacturing and furniture in the west; heavy industry in the east; agriculture nationwide with different specialities per region. Strengthening VCG means empowering regions to develop their **smart specialisations (S3)** – a concept introduced in Ukraine as part of EU-aligned regional policy. Smart specialisation involves identifying a region's unique competitive advantages and fostering collaboration among business, government, and academia to leverage those advantages. In Ukraine, S3 has been mandated in regional development strategies: each oblast's Regional Development Strategy to 2027 had to include priorities based on S3 methodology, with guidance from the Ministry of Economy. Embracing S3 and cluster development is seen as a way to **revitalize war-torn regional economies**, create jobs locally, and prevent all economic activity from concentrating only in big cities or migrating abroad. Effective value chain governance at the regional level (through clusters, associations, cooperatives) can ensure that local SMEs and farmers benefit from reconstruction investments and access new markets. It also contributes to social cohesion – for example, well-governed agricultural value chains can stabilize incomes in rural communities and mitigate urban migration, which is crucial when millions are internally displaced.

4 Inclusive and sustainable growth

Beyond economic metrics, VCG relates to how inclusive the growth process is. Poorly governed value chains can marginalize small producers (who may get a minimal share of final value) or workers (through poor labor practices), whereas **inclusive** governance models – such as cooperatives or fair contract farming schemes – distribute benefits more broadly. In Ukraine, issues of inclusion are prominent: how will small farmers, many of whom are women or elderly, be included in the modern agri-food chains? How will war veterans or displaced entrepreneurs be integrated into manufacturing or service value chains? Additionally, sustainability and green growth agendas (part of EU Green Deal expectations) require value chains to adopt environmentally friendly practices. Good governance can enforce standards on resource use and emissions across a chain. Therefore, reforming VCG in Ukraine is not a technocratic exercise; it underpins **policy goals of equity and sustainability** in the recovery. Government and donors emphasize creating more **inclusive value chains** that can uplift lagging groups and regions.

The context of post war rebuilding, EU integration, regional development needs, and inclusive growth imperatives all make the analysis of value chain governance in Ukraine extremely timely. There is broad recognition among policymakers and development partners that “business as usual” will not suffice – Ukraine’s economic future depends on modernizing how its industries and supply chains are organized. This policy brief thus aims to provide an evidence-based examination of the current VCG landscape, identify where gaps persist between actors, and suggest practical governance models and policy interventions to ensure Ukraine’s value chains become more competitive, resilient, and beneficial to a wide array of stakeholders.

II. Current Situation and Trends

Governance models in key sectors

Ukraine’s economy encompasses a diverse range of value chains, each with distinct governance structures shaped by history, market forces, and recent shocks. Broadly, we can identify two prevailing models:

1 Lead firm–dominated chains

In some industries, large companies (lead firms) exercise significant control over the entire chain. A prime example is **agro-industrial holdings** in grain and oilseed farming. These giant agroholdings manage vast areas of land and often own upstream and downstream operations – they produce crops at scale, operate storage and logistics, and handle export sales.

This effectively creates a **hierarchical governance** structure where the lead firm internalizes many functions. According to recent analysis, the largest agroholdings (so-called "second-generation" farms) in Ukraine are horizontally integrated, **controlling the value chain from production to export** in a highly concentrated model[8]. For instance, just the top 10 agroholdings control about 2.6 million hectares of arable land and channel a large portion of Ukraine's grain exports. Similarly, in the poultry industry, a handful of firms dominate: six companies account for 90% of Ukraine's chicken meat production, operating everything from feed mills to processing and distribution. These lead-firm chains can be efficient and ensure quality consistency, but they also risk **excluding small producers** and concentrating profits. Indeed, Ukraine's policy has historically favored large agricultural enterprises with tax breaks and support, viewing them as key export earners. In manufacturing, a parallel could be drawn with conglomerates in metallurgy or chemicals, where big players (some formerly state-owned) integrate suppliers or impose strict contractual governance on smaller subcontractors.

2 Fragmented, networked chains (clusters or market-based)

In many other sectors – especially those dominated by SMEs – value chains are far more fragmented. Take the **dairy industry** as an example: Ukraine still has a vast number of small-scale household producers (rural families with a few cows) contributing a **dominant share of raw milk production**, yet these households operate largely independently[9]. The chain from farm to dairy plant to retail is often weakly coordinated; processors struggle to enforce quality standards or schedule supplies when dealing with thousands of unorganized small suppliers. Historically, the absence of effective **cooperative structures or aggregators** in dairy created a governance gap, leading to inefficiencies and quality issues. Recent efforts, such as forming dairy cooperatives with donor support, are trying to fill this gap, by grouping small farmers so they can collectively invest in cooling equipment and negotiate supply contracts[10]. Another example is the **IT and outsourcing sector**: Ukraine's IT value chain involves education (universities producing talent), IT firms (often SMEs or start-ups), and export clients. Governance here is more network-based, facilitated by industry associations and IT clusters in cities like Lviv and Kharkiv. The **Lviv IT Cluster** and **Kharkiv IT Cluster** serve as coordinators, offering training programs, marketing Ukraine's IT brand abroad, and even providing emergency support to companies during the war[11]. These clusters function on trust and mutual benefit rather than ownership – a **relational governance** model. Moreover, in **light manufacturing** (furniture, textiles, apparel), we see emerging regional clusters (for example, furniture makers in Zakarpattia, Rivnenska Oblast, or sewing cooperatives in Chernihivska Oblast) where SMEs co-locate and sometimes share services, but formal governance is minimal unless an association steps in.

[8] https://www.iddri.org/sites/default/files/PDF/Publications/Catalogue%20Iddri/Etude/202406-ST0324-ukraine%20EU.pdf

[9] https://reliefweb.int/report/ukraine/ukraine-dairy-and-products-annual-october-23-2023

[10] https://coopseurope.coop/news_article/cooperatives-contribute-to-ukraines-agri-food-recovery-and-eu-accession/

[11] https://drive.google.com/file/d/1Be2T5rgXZRfOdinz3luTMrlKpGSt12k7/view?usp=drive_link

Crucially, Ukraine is now actively trying to move more of its industries from the fragmented end of this spectrum toward more **organized cluster-based or cooperative governance models**, without necessarily defaulting to monopolistic lead-firm control. The **Ukrainian Cluster Alliance (UCA)**, established in March 2022, is a testament to this shift. The UCA has united 48 clusters across different industries with a mission to **develop the cluster movement in line with EU principles** and to integrate Ukrainian SMEs into both internal and European value chains[12]. It emphasizes that even in traditional sectors, SMEs can achieve scale and resilience by cooperating. For example, in 2025, a UNDP-backed study identified four regional clusters – agro-processing in Vinnytsia, logistics in Odesa, pharma/building materials in Kyiv region, and IT/high-tech in Kharkiv – as having high potential to drive recovery[13]. These clusters are essentially geographic networks of firms that, if governed well (through cluster organizations or consortium agreements), could rapidly boost employment and exports. The study found that in those clusters, businesses could **share services and infrastructure** (e.g. joint marketing, training centers, or export hubs) to overcome individual size limitations. Thus, the trend is toward recognizing and **mapping governance models**: which chains rely on a dominant actor vs. which need collective governance, and tailoring support accordingly.

Coordination gaps and institutional voids

Despite this momentum, significant coordination failures persist in Ukrainian value chains. A coordination failure arises when actors that should be working together (or sequentially in a chain) do not, leading to suboptimal outcomes (like waste, underutilized capacity, or inconsistent product quality). Several illustrative gaps in Ukraine include:

1 Small producers vs. processors

Agriculture again offers a clear case. While agroholdings thrive in commodity crops, in many high-value agri-food chains (dairy, fruits, vegetables, honey), Ukraine has an **“hourglass” structure** – a wide base of small producers, a narrow middle of processors/exporters, and then a wide consumer base. The narrow middle means many small producers never effectively link to formal markets. They might sell raw milk or produce locally at low prices because no aggregator connects them to big dairy plants or supermarket supply chains. This is an institutional void – the lack of **marketing cooperatives or efficient collection systems**. It leads to, for example, processors running below capacity while local milk gets spoiled or sold informally. The government has recognized this problem: the **Rural and Agricultural Development Strategy 2030** adopted in June 2024 explicitly positions **agricultural cooperatives as a key pillar** to fill this gap[14]. By fostering cooperatives, the aim is to have farmers pool resources, collectively invest in storage or processing and negotiate better terms, effectively creating a new governance entity in the chain that can coordinate supply. Early success stories in Ukraine’s honey sector (where cooperatives helped small beekeepers meet EU export standards) and dairy sector are encouraging. However, these are still exceptions; the cooperative penetration in Ukraine’s agrifood chains remains low compared to EU countries, largely due to legacy distrust from Soviet times and lack of supportive legal and financial frameworks until recently.

[12] https://reliefweb.int/report/ukraine/ukraine-dairy-and-products-annual-october-23-2023

[13] https://coopseurope.coop/news_article/cooperatives-contribute-to-ukraines-agri-food-recovery-and-eu-accession/

[14] https://drive.google.com/file/d/1Be2T5rgXZRfOdinz3luTMrlKpGSt12k7/view?usp=drive_link

2 Lead firm dominance and SMEs

On the other side, in chains dominated by large players (say steel or grain exports), SMEs often find **few linkage opportunities**. A small machinery workshop or local grain elevator might want to supply or service a big exporter, but there may be **coordination failures due to power imbalances**. Large firms historically had little incentive to develop local supplier networks (many would even import equipment or inputs rather than source locally). This represents a missing institution of effective **supplier development programs or subcontractor networks**. In many countries, governments facilitate matchmaking between big and small firms or impose local content rules; in Ukraine such mechanisms have been weak outside of the defense industry. There are positive signals: the **EU-Ukraine High Level Industrial Dialogue** now meets annually to discuss integration into EU value chains, and one topic is encouraging European companies to partner with Ukrainian SMEs. Additionally, donor programs like USAID's **Competitive Economy Program (CEP)** have worked on improving **quality standards and certification for SMEs** so they can enter supply chains of multinationals[15]. But these efforts need scaling up. Without it, a coordination failure persists where many Ukrainian SMEs "hover" at the periphery of major value chains, stuck in low-value segments or informal markets.

3 Geographic and logistical coordination voids

The war has physically fragmented Ukraine's economy – firms from occupied or frontline areas relocated westward, often **without their previous supplier/customer networks**. This has created an urgent need for new coordination in value chains across regions. For example, a machine parts manufacturer from Kharkiv that moved to Lviv region might not know how to find local clients or suppliers. Institutions like regional Chambers of Commerce or the new **Enterprise Europe Network (EEN) Ukraine** node[16] have tried to bridge these gaps by mapping out needs and connecting businesses. The **Ukrainian Clusters Alliance** has also taken on internal matchmaking – explicitly stating that it works to **"build and recover internal value chains"** by connecting cluster members across regions. Still, on a national scale, there isn't yet a formal supply chain database or platform that companies can use to quickly identify alternative suppliers/buyers domestically. Such a platform (potentially under the EEN or a domestic initiative) could mitigate disruptions and coordinate value chain reformation. On logistics, the loss of accessible Black Sea ports (except via the grain corridor) forced coordination with European transport networks – e.g., using rail to EU ports. This revealed infrastructure and governance issues (like rail gauge differences, border procedures) requiring high-level coordination between governments. The establishment of Solidarity Lanes to move Ukrainian grain via EU corridors is one example of multi-actor coordination (EU, Ukrainian rail, ports, customs) to fill the logistical void. It underscores that value chain governance for Ukraine now often extends beyond national borders, involving cross-country institutional coordination.

[15] https://me.gov.ua/download/5583246d-da88-4ba2-9eb5-5089d775b607/file.pdf

[16] https://single-market-economy.ec.europa.eu/support-actions-ukraine_en

4 Innovation and knowledge flows

Modern value chains thrive on feedback loops – producers get market signals from consumers, R&D institutions work with firms, etc. In Ukraine, these feedback loops often have missing links. For instance, universities and technical institutes historically were not well integrated with industry needs (leading to a skill mismatch). In innovation-driven chains (like pharmaceuticals or machinery), this is a governance gap: the **absence of effective industry–academia partnerships** or intermediaries (like technology transfer offices, incubators) that ensure the value chain incorporates innovation. The government's **smart specialisation methodology** encourages forming **"triple helix" partnerships** in regions (government, business, academia) for each priority sector. Some regions have begun creating innovation councils or using their **Regional Development Agencies (RDAs)** as facilitators. Internationally, programmes like **Horizon Europe** and EEN are now open to Ukraine, which could improve these linkages. But domestically, Ukraine needs to stand up its own institutions (or empower existing ones like the **Innovation Fund or Technoparks**) to serve as coordinators in value chains where innovation is key. Otherwise, chains will remain focused on low-tech, raw material export with little value added – a core development challenge Ukraine has faced for decades.

Ukraine's current value chain landscape is characterized by **uneven coordination**. In some places we see tightly controlled chains led by big firms, but in many others, especially involving SMEs or spanning multiple regions, there are coordination failures due to institutional absences. **Institutional voids** – whether it's the lack of cooperatives, supplier associations, cluster management expertise, or connector platforms – impede the smooth functioning of value chains. These voids also present clear targets for policy action: by creating or strengthening institutions (e.g. cooperatives, cluster organizations, public-private dialogue forums), Ukraine can address the root causes of these governance gaps.

Role of public policy and donor programs in upgrading value chains

Public policy in Ukraine has increasingly recognized the need to support value chain development, although historically efforts were somewhat fragmented. Likewise, international donors have been active in value chain or market systems projects, often piloting models that could be scaled up. Here we outline the key initiatives and their impact:

1 Strategic frameworks

At the highest level, Ukraine has incorporated value chain and cluster concepts into its strategies. The **National Economic Strategy until 2030 (NES 2030)**[17], adopted in early 2021, set ambitious goals for diversification and innovation.

[17] https://nes2030.org.ua/

While not explicitly using the term "value chain governance," it emphasizes creating conditions for SMEs to integrate into global production networks and developing industrial clusters as drivers of innovation[18]. Similarly, the **State Strategy for Regional Development 2021–2027 (SSRD)[19]**, approved in 2020 and updated in 2024, calls for each region to pursue smart specialisation, which inherently means focusing on specific value chains and improving their governance at the regional level[20]. Notably, the SSRD and all 24 regional strategies now include sections on innovation. These strategies provide a **policy mandate** for implementing VCG improvements – for instance, one of the SSRD tasks is "Creating conditions for industrial investment and the development of clusters of various specializations". However, strategy documents alone have limited effect without concrete programs and resources.

2 Cluster support and industrial policy

Traditionally, Ukraine did **not have a dedicated cluster development program**. Instead, cluster promotion was indirectly mentioned in programs like the State Target Economic Program for Industrial Development (which ran till 2020)[21]. That program listed cluster development as one approach to modernize industry, but implementation was weak and funding scarce. After 2022, however, cluster development gained urgency. The government, in partnership with the EU and other donors, supported the creation of the **Ukrainian Cluster Alliance (UCA)** in 2022 as a bottom-up umbrella for clusters. While UCA is an NGO initiative, it works closely with ministries and even **lobbies for cluster-friendly policies in Ukraine**. Internationally, Ukraine joined the **European Cluster Collaboration Platform (ECCP)** and in 2024 six **EU–Ukraine Cluster Partnerships** were launched under an EU programme[22]. These partnerships bring together Ukrainian and EU clusters in sectors like automotive, textile, machinery, green energy etc., to help Ukraine **strengthen its value chain linkages and SME internationalisation**. For example, a Ukrainian furniture cluster might partner with a Polish furniture cluster to integrate into European supply chains. This donor-backed approach effectively **upgrades value chains by sharing know-how and opening market channels**. Domestically, the Ministry of Economy (now also responsible for agriculture and environment) signaled support by issuing the **2024 Smart Specialisation guidelines** for regions, which encourage forming cluster initiatives around chosen smart specialisations. The impact is already visible: regions such as Vinnytsia, Odesa, and Kharkiv, with UNDP support, have conducted cluster potential assessments and identified sectoral clusters to nurture[23].

[18] https://www.clustercollaboration.eu/sites/default/files/2023-country-factsheets/ECCPfactsheet_Ukraine_2023.pdf

[19] https://zakon.rada.gov.ua/laws/show/695-2020-%D0%BF

[20] https://www.interregeurope.eu/sites/default/files/2025-02/Ukrainian%20Cluster%20Ecosystem%20Analysis.pdf

[21] https://www.clustercollaboration.eu/sites/default/files/2021-12/eccp-factsheet-ukraine.pdf

[22] https://www.clustercollaboration.eu/

[23] https://www.undp.org/ukraine/press-releases/undp-study-uncovers-high-potential-economic-clusters-drive-ukraines-recovery

3 SME and private sector development programs

Various donor programs have directly targeted value chain enhancement:

- USAID Competitive Economy Program (2018–2023): This $42 million program focused on improving the business environment and **competitiveness of promising industries**. It provided grants and technical assistance in sectors like IT, furniture, fashion, food processing, and tourism[24]. By supporting industry associations, quality certification, and participation in trade fairs, USAID CEP helped SMEs upgrade and connect to broader value chains. For instance, it assisted IT companies to obtain international certifications, making them more attractive partners in the global IT outsourcing chain. It also promoted e-commerce platforms for local producers, effectively creating digital value chains linking Ukrainian artisans to global consumers.

- EU4Business initiatives: The EU, through its EU4Business umbrella, launched projects like **Ready to Trade** (which helped Ukrainian food and garment SMEs reach EU markets by meeting standards) and more recently, post-war, the EU has set up the **Ukraine Business Platform** and financing tools to restore value chains. In late 2023, Ukraine's entry into the **Single Market Programme** gave it access to networks such as the Enterprise Europe Network (for partnering SMEs with EU firms). The **EEN-Ukraine** has already started mapping innovation needs of Ukrainian companies to facilitate their integration.

- UNDP and UNIDO projects: UNDP, besides the cluster study mentioned, has programs on **regional MSME recovery**. UNIDO has conducted value chain analyses, for example in sustainable agriculture and industries, to identify gaps and advise the government. A UNIDO-supported analysis of **berry and nut value chains** in Ukraine highlighted where quality standards and processing could be improved for export[25]. These analyses often come with pilot actions – like training farmers on GlobalGAP standards for berries, or linking nut producers to EU buyers – which are small steps toward value chain upgrading.

- World Bank and EIB initiatives: The World Bank's **Competitive Private Sector Development Project**[26] (planned as part of recovery) and the EIB-funded **Ukraine Agri-Food Value Chain Project (UAFA)**[27] aim to invest in infrastructure (like grain storage, food processing facilities) and capacity building. By improving physical infrastructure and access to finance, they address critical constraints that hamper value chain efficiency.

[24] https://chemonics.submittable.com/submit

[25] https://hub.unido.org/sites/default/files/publications/230215_Value%20Chain%20Analysis%20WEB%20%28UA%29_compressed.pdf

[26] https://uatv.ua/en/world-bank-launching-new-private-sector-development-program-worth-593m-in-ukraine/

[27] https://epubs.niras.com/brochure/ukraine/agriculture-rural-development?overlay=Ukraine%20Agri-Food%20Value%20Chain%20(UAFA)%20Technical%20Assistance%20Project

4 Public-Private Dialogue and institutions

A vital aspect of VCG is continuous dialogue between government and businesses. In Ukraine, PPD has improved in some areas – for example, the **National SME Development Office** (established under the Ministry of Economy) regularly consults business associations on policy affecting SMEs. There were sectoral working groups, like the **Agribusiness Dialogue** under the former Ministry of Agrarian Policy, which brought together farm organizations, food processors, and officials to discuss issues such as logistics and export restrictions. With the war's impact, new PPD mechanisms have appeared: the government formed coordination councils for critical industries (e.g., a **logistics council** to deal with export corridors, involving transport companies and agribusiness). On a strategic level, the **Recovery and Development of Ukraine platform** (set up in 2023) includes international partners and Ukrainian business representatives to plan reconstruction efforts, many of which relate to value chains (e.g., rebuilding steel production and its supply chain). However, these dialogues are **not yet institutionalized or systematic** for all value chains. Often, they are ad-hoc or donor-driven. A more structured approach (such as a permanent public–private advisory board for each major industry, or strengthening the Chamber of Commerce's role in policy feedback) could ensure continuous attention to value chain bottlenecks. Donors like the OECD have encouraged Ukraine to adopt inclusive policy-making processes, which includes consulting businesses and regions – this aligns with building better VCG, because policies can then target the real choke points reported by firms.

5 Good practices at Hromada level

Even amid the ongoing war, local initiatives in Ukraine have emerged to strengthen value chain resilience. One concrete example is the EU-funded project **"Development of Value-Added Chains in Dairy and Berry Clusters of Pyriatyn Hromada to Expand Economic Opportunities for Youth and Rural Residents and Promote Eco-Oriented Growth"**[28] (implemented by the Pyriatyn City Council in partnership with the NGO Civil Society Institute, 2021–2024)[29]. This project focused on building local value-added chains in the dairy and horticulture (berry) sectors, demonstrating how communities can adapt and innovate during wartime.
Key resilience measures introduced under this initiative include:

- **Mini-dairies and local processing:** Establishing small-scale dairy processing facilities ("mini-farms") with modern equipment to maintain local milk production and processing despite broader supply disruptions. These upgrades enabled, for example, a ten-cow farm to produce up to 8 tons of milk monthly, securing dairy supply for the community.

[28] https://decentralization.ua/news/19858

[29] https://www.prostir.ua/wp-content/uploads/2024/05/%D0%9B%D0%B0%D0%BD%D1%86%D1%8E%D0%B6%D0%BA%D0%B8_WEB1-%D0%9A%D0%BE%D0%BF%D0%B8%D1%80%D0%BE%D0%B2%D0%B0%D1%82%D1%8C_compressed.pdf

- **Grain storage for food security:** Introducing a communal grain storage service (using polymer sleeve technology) that allows local producers to safely store thousands of tonnes of grain – over 10,000 tonnes of harvest in Pyriatyn's case – for use as animal feed and food processing, thereby bolstering the community's food security.

- **School-based garden co-working spaces:** Creating co-working spaces at local schools (including garden-based educational facilities and workshops) to engage students in horticulture and agribusiness training. Pyriatyn established six such school co-working centers, where over 11,000 children and young people participated in hands-on learning (from vegetable gardening to culinary and craft skills), cultivating a new generation of entrepreneurs.

This localized, EU-supported approach in Pyriatyn exemplifies a broader trend: **shifting from reliance on raw commodity exports (like grains) toward developing community-led value-added production**, even under the strain of conflict. It highlights how proactive hromadas are leveraging donor partnerships to build more resilient, diversified local economies aligned with sustainable and inclusive growth goals.

Donor programs have often been the trailblazers in demonstrating how to upgrade Ukraine's value chains by clustering firms, improving standards, fostering linkages. Public policy is gradually catching up by creating strategies and joining international frameworks. The trend is positive: Ukraine's leadership is becoming increasingly aware that achieving economic recovery and EU competitiveness requires going beyond macro reforms to the **meso-level of value chains**. The challenge ahead is to scale and institutionalize these efforts so that they do not remain isolated projects. Coordination among donors and alignment with government strategy is improving (e.g., EU's strategic support is coordinated with Ukraine's own plans[30]), but further integration is needed so that, for example, a successful UNDP cluster pilot in one region informs national industrial policy, or a EU-backed quality certification program is sustained by local institutions after donor exit.

III. International and EU Policy Frameworks

Ukraine's value chain governance reforms do not occur in isolation, they are heavily influenced by international frameworks and the EU policy context, given Ukraine's EU candidate status and global trade connections. This section highlights relevant international models, EU acquis requirements, and best practices that frame what Ukraine is trying to achieve.

European Union Frameworks and Acquis

30 https://www.ukrainefacility.me.gov.ua/wp-content/uploads/2024/03/ukraine-facility-plan.pdf

1 Smart Specialisation and EU Cohesion Policy

In the EU, Smart **Specialisation Strategy (S3)** has been a cornerstone of regional innovation policy over the past decade. The concept, championed by the European Commission's Joint Research Centre (JRC), requires each EU region to identify priority sectors or niches based on its strengths and to concentrate resources there, while involving local stakeholders (through the "entrepreneurial discovery" process). Importantly, since the 2014–2020 budget period, having an S3 was a precondition for regions to receive EU Structural Funds for innovation. Ukraine, preparing for cohesion funds in the future, has proactively adopted this approach. The **Methodological Recommendations on S3 at the regional level** (approved by Ukraine's Ministry of Economy in June 2024) ensure that all oblasts define smart specialisations in their development strategies[31]. This aligns Ukraine with EU practice and facilitates integration into EU networks like the **Smart Specialisation Platform**, where regions share knowledge. For value chain governance, S3 is essentially about **focusing governance efforts** on a few key value chains per region and building "Quadruple Helix" cooperation model around them. The EU framework also implies that multi-level governance is needed – local, regional, and national authorities should coordinate to support those specialisations with funding and supportive policy (e.g. innovation vouchers, cluster grants). By embracing S3, Ukraine is trying to embed EU-aligned governance where **public-private-academic-civil society partnerships** manage and upgrade chosen value chains (for example, renewable energy equipment in Zhytomyr region, or agro-processing in Khmelnytskyi, etc., as identified in their strategies).

2 Cluster policy and industrial ecosystems

The EU does not mandate a single cluster policy across member states, but it strongly encourages cluster development as part of boosting SMEs and innovation. The European Cluster Collaboration Platform (ECCP) and the **European Clusters Alliance** are vehicles for this. Since 2022, Ukraine has been engaged through the **Ukrainian Cluster Alliance (UCA)** joining European networks. The EU's recent industrial strategy introduced the concept of **"industrial ecosystems"** (such as the agro-food ecosystem, digital ecosystem, mobility ecosystem, etc.) and formed transnational partnerships. Ukraine is now being woven into these ecosystems – for instance, the **EU-Ukraine Raw Materials Partnership** (established via an MoU in 2021) seeks to integrate Ukraine into European critical raw material value chains[32]. In 2025, a strategic project on raw materials with Ukraine was included in the EU's list of projects of common interest[33]. This means Ukraine must develop governance that meets EU expectations on sustainable sourcing, community involvement, etc., in sectors like mining and metals. Moreover, through cluster partnerships funded by the EU (as mentioned, six pilot partnerships started in 2024[34]), Ukrainian clusters are learning EU best practices in cluster management, benchmarking, and member services.

[31] https://me.gov.ua/view/292a29d8-4871-4798-80cc-4917c1539ec3

[32] https://single-market-economy.ec.europa.eu/news/eu-and-ukraine-kick-start-strategic-partnership-raw-materials-2021-07-13_en

[33] https://single-market-economy.ec.europa.eu/sectors/raw-materials/areas-specific-interest/critical-raw-materials/strategic-projects-under-crma/selected-projects_en

[34] https://eismea.ec.europa.eu/funding-opportunities/calls-proposals/eu-ukraine-cluster-partnership-programme-smp-cosme-2024-clusterua_en

The acquis communautaire doesn't have a law on clusters per se, but various EU regulations influence value chain governance: competition law (to prevent abusive dominance in chains), quality and safety standards (e.g. for food, which require traceability systems), and directives on late payments to protect SMEs. As Ukraine harmonizes its laws with these, the **rules of the game within value chains will change** – for instance, large buyers will be obliged to pay SME suppliers on time under EU-aligned laws, improving fairness in chains.

3 Common Agricultural Policy (CAP) and producer organizations

Under the EU's CAP, a significant aspect is the encouragement of **Producer Organizations (POs)** and cooperatives in agriculture. EU law allows groups of farmers to jointly market their products, negotiate contracts, and even manage supply in certain sectors (like milk) without breaching competition rules – recognizing that collective action can balance market power. As Ukraine aligns with the CAP framework (a process already begun; Ukraine's 2030 agri strategy explicitly aims to meet CAP principles), it is expected to adopt similar measures. In fact, in July 2023 the European Economic and Social Committee (EESC) highlighted the need for Ukraine to develop co-ops and POs to ensure sustainability in its agri-food sector pre- and post-EU accession. We can anticipate that Ukraine will revise legislation on agricultural cooperatives, introduce recognition schemes for POs in fruits, vegetables, milk, etc., and possibly implement programs (with EU help) that provide financial incentives for these organizations (mirroring EU rural development funds). This is a direct import of EU policy that will shape value chain governance by **formalizing the role of collective entities** in chains that were previously atomized. The end-goal is to move from a situation where, say, 50 individual berry farmers separately sell to a buyer, to one where a Berry Producers Organization negotiates on behalf of all – a more governed chain with known rules of member commitments and benefit-sharing.

4 EU market integration and standards

A large part of governance is adhering to standards – quality, safety, environmental, labor. The EU single market has some of the strictest standards, and Ukraine's DCFTA means many of those standards are being adopted. For value chain governance, this imposes new requirements at every link. For example:

- Food safety (SPS measures): Ukrainian food processors and exporters must implement HACCP systems and ensure traceability of farm inputs. This forces greater coordination upstream – processors now have to work closely with farmers to ensure compliance (providing training or inputs) or else risk their exports being rejected.

- Industrial product standards (CE marking, etc.): Manufacturing value chains have to ensure all components meet EU technical regulations. This often means **firms further down the chain audit or support their suppliers** to reach compliance. A car wiring harness producer (of which Ukraine has several major ones) will require its plastic or metal parts suppliers to meet EU safety specs. Governance-wise, this creates a more structured relationship (possibly formal supplier development programs).

- Labor and sustainability standards: The EU is moving toward due diligence laws that require companies to ensure their entire supply chain meets environmental and labor norms. Once Ukraine is in the single market, its companies likely will face these pressures too. It may prompt the creation of industry certification schemes (for example, a “clean metallurgy” label if Ukraine’s steel wants access to green procurement in Europe). We might see Ukrainian value chain governance include sustainability monitoring – e.g. clusters hiring environmental experts, or associations collecting data on carbon footprints of production.

Additionally, **EU funding and programs** (even pre-accession funds) can shape governance. **Ukraine Facility** (EU financing instrument for 2024-2027) include components for private sector support. These could fund cluster initiatives, innovation hubs, and infrastructure, and come with EU-style monitoring and stakeholder inclusion requirements.

International Models and OECD Practices

Beyond the EU, global frameworks also provide guidance or parallels for Ukraine:

1 OECD and inclusive value chains

The OECD has done extensive work on how developing and middle-income countries can integrate into global value chains (GVCs) in an inclusive way[35]. One principle from OECD is to build the capacity of local SMEs to meet international standards and link with multinational enterprises (MNEs), rather than relying purely on low-cost labor. This often involves government as a facilitator – for example, Malaysia or Czech Republic created supplier databases and upgrade programs which Ukraine could emulate. The **OECD’s Inclusive GVCs report** highlights the importance of policies that support training, certification, and clustering of SMEs so they can collectively offer scale to large buyers. Ukraine’s donor programs mirror these ideas, but institutionalizing them (perhaps via a national “SME linkages” program under the Ministry of Economy) would be following a tested path. The OECD also emphasizes **public–private dialogue** in value chain development – bringing in not just firms, but also worker representatives and local governments to ensure broad buy-in. Ukraine’s efforts to create multi-stakeholder regional development strategies (with business forums in each oblast for strategy design) reflect this inclusive governance approach.

2 Global best practices in cluster governance

Various countries’ experiences can inform Ukraine. For instance, Poland in the 2000s set up cluster programs co-financed by EU funds, leading to technology clusters in aviation and IT that helped SMEs internationalize – Poland’s focus was on creating cluster coordinators and giving small grants to cluster initiatives, something Ukraine is now considering.

35 https://www.oecd.org/content/dam/oecd/en/publications/reports/2017/04/inclusive-global-value-chains_g1g62482/9789264249677-en.pdf

Italy's industrial districts and Germany's competence centers show how regional governments can nurture clusters through support centers that provide R&D and training to cluster members. Ukraine's regions, with future EU cohesion funds, could adopt similar models.

3 Lead firm and supplier development models

In East Asia, countries like Japan and South Korea historically had large conglomerates that developed extensive local supplier networks, providing technical assistance to smaller firms. While Ukraine's context differs, some of its larger firms (e.g. in aerospace or machinery) could be incentivized through policy (tax breaks, recognition awards) to mentor and source from Ukrainian SMEs. This "leading firm as a chain organizer" model can coexist with cluster initiatives. Uzbekistan, for example, recently pursued a state-facilitated horticulture value chain model where big exporters aggregate produce from many farms, under government quality oversight[36]. Ukraine's horticulture exports (fruits, berries) might benefit from a hybrid governance model: a few export companies or associations that coordinate many small growers, combining the strengths of scale and inclusivity.

4 Trade agreements and regional value chains

Under the shadow of war, an emerging trend is Ukraine's deeper integration with neighboring EU economies to create **regional value chains**. The **Three Seas Initiative** countries and others have shown interest in Ukraine's potential to fill supply chain gaps in Europe (for instance, substituting inputs that used to come from Russia/Belarus). Here, international support might come in the form of investment and trade promotion. Already, investment funds like DFC (US International Development Finance Corp) and EBRD are prioritizing projects that connect Ukrainian production with EU markets[37]. Ensuring those investments build local value (not just extract raw materials) will require Ukraine to adopt governance guidelines known internationally – such as the **UNIDO value chain development approach** or **World Bank's value chain diagnostics** – which counsel on upgrading product quality, improving logistics, and fostering trust among chain actors.

5 EU Association Agreement and legal alignment

Ukraine's **Association Agreement (AA)** itself contains chapters that affect VCG. For example, the AA's chapter on trade and sustainable development encourages the formation of domestic advisory groups (involving businesses and civil society) to monitor the impact of trade integration. This implies a role for stakeholders in overseeing how value chain integration with the EU affects labor, environment, etc. As Ukraine fulfills these obligations, it will institutionalize more feedback into value chain governance (e.g., a dairy value chain platform discussing how to meet new veterinary standards while protecting small farmers).

[36] https://www.tandfonline.com/doi/full/10.1080/09692290.2020.1737563

[37] https://www.kyivpost.com/post/63185

Also, competition policy under the AA means Ukraine's Anti-Monopoly Committee must enforce rules against abuse of dominance – relevant if a lead firm in a chain tries to unfairly squeeze suppliers. An example could be the grocery retail chains' practices toward food suppliers; EU competition law has a directive on unfair trading practices in food chains, which Ukraine will likely transpose, thereby **regulating power imbalances in value chains.**

In essence, the international and EU frameworks act as both a **carrot and stick**. The carrot is access to a huge market and funding – if Ukraine aligns its value chain governance to EU norms, it benefits from investment and smoother market access. The stick is that without such alignment, Ukrainian products or companies may face barriers or inefficiencies. The overarching model emerging for Ukraine is one of **multi-level, collaborative governance**: European integration pushes Ukraine to adopt collaborative cluster strategies regionally, cooperative structures in agriculture, and participatory policy-making. These are hallmarks of EU's own approach to regional competitiveness and value chain development. By internalizing them, Ukraine is effectively modernizing its economy's operating system to be compatible with that of the EU. This international context validates many of the policy moves Ukraine is making (smart specialisation, cluster alliance, etc.) and provides a roadmap for further reforms.

IV. Analysis and Findings

Bringing together the context, current state, and international frameworks, this section distills the key insights from the research – identifying major **bottlenecks** in Ukraine's value chain governance and highlighting **opportunities** and good practices that could be expanded. The findings are grouped around the focus areas of this brief: mapping governance models, coordination failures/institutional voids, the role of policy/donors, and mechanisms for multi-level governance and public–private dialogue.

1 Diverse value chain governance models coexist, but many need strengthening

Ukraine presents a **mixed landscape** of VCG models: from strong vertical integration in some export sectors to very loose networks in others. This diversity is both a challenge and an opportunity. It means **no one-size-fits-all solution** will work – policy must be nuanced to sectoral specifics.

a In **vertically integrated chains (lead firm governance)** like large-scale agriculture, steel, or chemicals, the main issues are **concentration of power and single points of failure**.

A handful of companies dominating a chain can innovate and move fast, but if one fails (or is sanctioned, etc.), the whole chain can collapse. There's also the risk that these lead firms do not sufficiently share value with smaller actors (e.g., contract farmers or local SMEs). Our analysis shows that Ukraine's big agroholdings and industrial giants do drive a significant share of GDP and exports, yet they operate in silos with limited supply chain spillovers to local communities (aside from employment). The war has also shown vulnerability: when a major steel mill in Mariupol was destroyed, the dependent supplier and distribution networks were crippled.

Finding

Encourage even lead-firm-driven chains to develop **local linkages**. For instance, agroholdings could be incentivized to source some inputs (like machinery parts, agritech services) domestically, which would bolster SMEs and diversify the chain. The current governance model could be adjusted by policies such as local content in public procurement or export finance favoring those who have domestic suppliers. Essentially, Ukraine can maintain the efficiency of large integrated players while injecting a bit more **network governance** around them – through supplier clubs or industry roundtables that include both big and small actors.

b In **fragmented chains (market or network governance)** like smallholder agriculture, light manufacturing, and parts of services, the weakness is lack of coordination leading to inefficiencies. Here, the government and donors have started to introduce **meso-level governance structures** such as cooperatives, clusters, associations to act as the glue.

Finding

These nascent structures show promise but need capacity building and scale. For example, the Kharkiv IT Cluster thrived pre-war and even through war by uniting hundreds of small IT companies and liaising with universities; replicating such cluster governance in other sectors (like an **Engineering Cluster or Construction Materials Cluster**) could similarly unite scattered SMEs. The analysis of cluster efforts in 2025 (UNDP's study) underscores that where cluster organizations exist, MSMEs benefit from shared services like training, joint marketing, and improved resilience. Conversely, in regions or sectors without cluster or association presence, firms were more likely to go out of business when shocks hit. Thus, strengthening network governance through formal clusters or industry associations is key.

We also find that **leadership matters** – many Ukrainian clusters rely on a few passionate individuals (often donor-funded) and lack institutionalization. The **challenge of professional cluster management** is real; addressing it may involve training programs (possibly with EU cluster alliance support) to create a cadre of certified cluster managers who can run these organizations sustainably. The UCA's role in sharing best practices and lobbying for cluster support is a positive development, but more government recognition (including funding) of cluster organizations could help them persist and grow beyond initial donor support.

2 Coordination failures and institutional gaps remain a major constraint

Despite various interventions, several critical **coordination failures** continue to impair Ukraine's value chain performance:

a **Small producers' integration:** Perhaps the most glaring gap is in agriculture and food chains. As noted, over 30% of Ukraine's agricultural output (notably in certain commodities like milk, vegetables, potatoes) comes from millions of small household farms[38]. These households traditionally exist outside formal value chains – they produce for self-consumption or sell in local markets with minimal processing. This disconnect means a vast productive capacity is **not leveraged** for higher value markets (like exports or supplying big processors). Our research confirms that where **cooperatives or aggregators are absent**, small producers lack bargaining power and information about quality requirements, resulting in a vicious cycle of low investment and low quality. For example, Ukraine has been one of Europe's top milk producers in volume, but because a huge share is from backyard producers, the formal dairy industry operates under capacity and imports some dairy products that could be made domestically[39].

[38] https://www.iddri.org/sites/default/files/PDF/Publications/Catalogue%20Iddri/Etude/202406-ST0324-ukraine%20EU.pdf

[39] https://economicscience.com.ua/en/journals/t-15-1-2024/funktsionuvannya-rinku-moloka-dosvid-ukrayini-yak-kandidatki-v-chleni-yevrosoyuzu

Finding

Bridging this gap requires accelerating cooperative development and innovative aggregation models. The government's recent Strategy 2030 and supporting action plan (2025–2027) explicitly call for creating favorable conditions for cooperatives[40]. However, policies must go beyond just allowing co-ops (Ukraine has had laws on cooperatives for years) to actively fostering them. This could include startup grants for new cooperatives, tax exemptions in early years, and technical assistance (accounting, governance training) for cooperative boards. Another complementary approach is digital platforms: for instance, creating an e-platform where small farmers can collectively sell produce to institutional buyers could serve as a **virtual cooperative** stepping stone. In summary, to fix this coordination failure, Ukraine needs both **institutional (co-ops, POs) and technological (marketplace platforms)** solutions that connect smallholders with value chains.

b **Quality and standards enforcement:** A different kind of coordination failure is seen in maintaining consistent quality across the chain. If one link (say a farmer or a component supplier) fails to meet standards, the whole chain's output can be compromised (unsafe food, faulty product, etc.). Ukraine has made strides in aligning standards with the EU, but enforcement is an issue. We find that many SMEs are not fully aware of new standards or lack resources to comply, partly due to inadequate extension services or consultancy support in the system.

Finding

This points to an **institutional void in the area of value chain support services**. In advanced economies, there are institutions like quality labs, certification bodies, training centers specialized for industries, often accessible via industry associations or subsidized by the state. Ukraine's network of such institutions is thin, especially outside major cities. A policy implication is the need to invest in **quality infrastructure** – e.g., more testing laboratories in regions (perhaps mobile labs for agricultural testing), funded under regional development strategies or in PPP mode, so that producers across the chain can verify and improve their output. Also, building up **advisory services** (in the form of modernized "extension" service, or leveraging private consultants) is vital.

40 https://me.gov.ua/News/Detail/7d6ae5c8-f1cd-47b5-8c77-f5b1e0a5bcee?lang=uk-UA&title=UriadUdoskonalivPlanZakhodivStrategiiRozvitkuSilskogoGospodarstvaTaSilskikhTeritorii

Donor projects have filled the gap by funding consultancies for SMEs (like helping them get ISO certifications), but a more systemic solution is needed where either government agencies or empowered associations provide ongoing guidance on standards compliance. Without this, the chain governance is weak – the links do not coordinate on quality, resulting in lost market opportunities (e.g., batches rejected at export or recall incidents).

c **Market information flow:** Another subtle coordination issue is the flow of **market information** upstream and downstream. In efficient value chains, consumer preferences and market trends are communicated back to producers, and supply capabilities are communicated forward to buyers. In Ukraine, these feedback loops are often broken. For instance, farmers might not get price signals until too late (leading to excess in one crop, shortages in another), or manufacturing SMEs might be unaware of new demands in European markets that they could fulfill. This is partly a legacy of poorly developed distribution and marketing systems.

Finding

There is a need for better **market intelligence and communication platforms** as a governance mechanism. One promising development is Ukraine's integration into the **Enterprise Europe Network (EEN)**, which serves as a matchmaking and information network, alerting Ukrainian firms to partnership opportunities and tenders. Additionally, industry associations can play a bigger role in collecting market data and disseminating it, for example, an association of berry producers doing regular analytics on global berry prices and advising members on when to sell or store. In essence, improving VCG means not only physical coordination but informational coordination. The government could facilitate this by supporting market information systems, possibly linked with the Chamber of Commerce or the Export Promotion Office (which already provides export market briefs). Modern digital solutions like smartphone apps for price info or SMS advisories could be leveraged especially for farmers.

40 https://me.gov.ua/News/Detail/7d6ae5c8-f1cd-47b5-8c77-f5b1e0a5bcee?lang=uk-UA&title=UriadUdoskonalivPlanZakhodivStrategiiRozvitkuSilskogoGospodarstvaTaSilskikhTeritorii

d **Logistics and infrastructure alignment:** Effective value chains depend on smooth logistics, but Ukraine's transport infrastructure has been strained by war and historically by underinvestment. Coordination failures here include mismatches between production clusters and logistics capacity (e.g., a region producing heavy crops without nearby rail sidings or with bottlenecked roads). War-created issues, such as the need to reroute exports overland, brought temporary coordination (through solidarity lanes) but at higher cost.

Finding

A long-term solution is to incorporate **value chain considerations into infrastructure planning**. That is, identify key corridors for certain chains (grain, metals, manufactured goods) and ensure policies focus on keeping those corridors open and efficient. The recent Government Action Plan for State Strategy of Regional Development (2025–2027) includes items for comprehensive regional restoration including transport links[41]. Aligning this with value chain needs means, for example, prioritizing the reconstruction of a bridge or rail that connects an important cluster to export routes. Multi-level governance comes in here: local authorities know which industries are critical locally and should feed that into national infrastructure planning. Upgrading VCG implicitly requires that **physical connectivity** issues be resolved, as even the best governance arrangements fail if goods cannot move efficiently from one node to the next.

3 Public policy and donor actions show positive impacts but need scaling and harmonization

The analysis of policies and programs indicates that interventions have largely been fragmented but instructive. Key insights include:

a **Policy coherence is improving but gaps remain:** Ukraine now has a suite of strategies (NES, SSRD, Regional development strategies, sector strategies like the industrial strategy, agriculture strategy, others) that underline similar themes – innovation, clustering, SME support. This is a big improvement from a decade ago when policies were more siloed. However, the operationalisation of these strategies is inconsistent.

[41] https://www.kmu.gov.ua/news/skhvaleno-plan-zakhodiv-na-2025-2027-roky-z-realizatsii-derzhavnoi-stratehii-rehionalnoho-rozvytku-na-2021-2027-roky

For example, while the agriculture strategy calls for cooperatives, the actual budget allocation or laws to operationalise that took some time (the strategy was approved in 2024, and only in mid-2025 did the government update the action plan to implement it). Similarly, the industrial part of NES 2030 envisions cluster development, but as of 2025 Ukraine still lacks a dedicated "Cluster Development Program" with funding.

Finding

There is a need to translate strategic visions into operational **programs**. One encouraging sign is that as Ukraine moves closer to EU funds and programs, it is crafting proposals like the **Ukraine Plan 2024-2027** which mention leveraging the revised Regional Development Strategy and linking it with funding[42]. If implemented, that could mean money flowing into actual cluster projects, tech parks, etc. The coordination among sectoral ministries (or even within the ministries) is crucial so that they implement complementary measures – e.g., Economy might fund cluster support centers while Agrarian Policy funds cooperative equipment and Infrastructure ensures logistics for those clusters. Donor coordination with government has improved through mechanisms like the **Donor Coordination Platform for Ukraine**, but on specific VCG topics it could be tighter to avoid duplication and ensure models are standardized (for instance, if the EU is helping develop a cluster in one sector and GIZ in another, and they share methodologies through a platform like UCA or a ministry working group).

b **Donor pilot projects have demonstrated models:** We identified multiple pilots, such as UNDP's cluster identification in four oblasts, USAID CEP's work with creative industries clusters, FAO's support to small farmer cooperatives in western Ukraine, EBRD's value chain credit lines for food processors. These **pilot projects have yielded success stories** (like honey cooperatives breaking into EU markets, or an IT start-up from a regional tech cluster reaching global clients).

Finding

Successes can be replicated, but they require Ukrainian ownership and scaling. Often pilots remain confined because when donor funding ends, no domestic institution continues the effort.

42 https://www.ukrainefacility.me.gov.ua/wp-content/uploads/2024/03/ukraine-facility-plan.pdf

A remedy is to embed pilots into local institutions early. For example, if a donor sets up a Berry Cooperative in Zhytomyr, involve the Oblast Administration and Ministry from the start, so they can incorporate it into their programs (maybe using state funds or loans to expand it to other communities). One recommendation to the Ministry of Economy is to establish a **Value Chain Development Unit** or assign clear responsibility for cluster and value chain support within its departments. It would institutionalize attention on these issues beyond ad hoc donor projects. International partners could then channel support through that unit, which would act as a clearinghouse of best practices and ensure scaling (somewhat akin to how Poland had a central coordinating unit for clusters that distributed EU funds to regional cluster initiatives).

C **Public-Private Dialogue is underutilised for VCG specifics:** While there are several dialogue forums in Ukraine, few are explicitly tasked with improving value chain functioning. They may tackle broad reforms (tax, deregulation) but not micro issues like "how to increase local procurement in metallurgy" or "how to help farmers adopt a new quality standard."

Finding

There is room to create **sector-specific working groups** that bring all chain actors to the table to develop action plans. Some exist informally, for instance, the IT industry holds regular forums with government IT and education officials. But formalizing them could help. An idea is to leverage the **EU-Ukraine Industrial Dialogue**: this currently is high-level and annual, but one could imagine spinning off sub-groups for key value chains or ecosystems (mirroring EU's 14 industrial ecosystems[43]). These sub-groups, co-led by a Ukrainian ministry and an EU counterpart, plus businesses, could create roadmaps for each ecosystem (like agro-food, machinery, digital) addressing governance and investment needs. Such multilateral engagement would ensure that not only government voices its plans, but businesses and even foreign partners contribute, aligning expectations. Additionally, at regional level, **Regional Development** Agencies could have dedicated cluster or industry committees that involve local businesses in monitoring the strategy implementation. Empowering RDAs with some budget or influence could make them real actors in value chain governance regionally.

[43] The 14 sectors are: Aerospace and defence, Agri-food, Construction, Cultural and creative industries, Digital, Electronics, Energy-intensive industries, Renewable energy, Health, Mobility – Transport – Automotive, Proximity and social economy, Retail, Textile, and Tourism

d **War economy adaptations provide lessons:** One unexpected source of insight is how Ukraine's private sector adapted during the war. For example, when imported inputs became scarce, some manufacturers formed informal groups to collectively source or substitute inputs. Textile companies, lacking imported fabric, coordinated to pool and share what they had or jointly procure from alternate suppliers. Also, many tech companies formed consortia to bid on large contracts they couldn't handle alone. These war-time survival strategies are essentially new governance arrangements born out of necessity.

Finding

Post-war, formalising some of these consortia and collaborations could yield longer-term competitiveness. Government can assist by updating procurement and contracting regulations to allow consortia of SMEs to bid on projects (lowering barriers for small firms to act jointly). Donors can document these experiences and encourage their continuation in peacetime markets, perhaps converting an informal group purchase club into a registered cooperative or joint venture. The agility shown can be harnessed; it showed that Ukrainian businesses can coordinate when incentives are strong enough. Policy can replicate those incentives (for example, offering cost-sharing grants only to groups of firms rather than single firms, thus incentivising them to form alliances).

4 Towards multi-level governance and effective public-private dialogue

Our findings strongly indicate that **multi-level governance** – coordination among international, national, regional, and local actors – is fundamental to improving VCG in Ukraine. The complexity of value chains (often spanning multiple regions or administrative levels) means isolated efforts at one level may stumble.

a **Regional empowerment with strategic guidance:** Oblasts (regions) now have their strategies and identified specialisations, but they often lack resources and sometimes authority to implement big economic initiatives. There is also variation in capacity; some oblast administrations or newly created Regional Development Agencies are quite advanced (often those which had donor support), while others are less experienced.

Finding

The central government should empower regions by devolving certain economic development funds or tools to them, while providing oversight and guidance to ensure alignment with national goals. For instance, a **Regional Cluster Development Fund** could be established, where each oblast gets an allocation (perhaps from a combination of state budget and international aid) to support cluster initiatives in its territory. The Ministry of Economy's job would be to set criteria, ensure transparency, and facilitate knowledge sharing between regions. One could envision annual **"Smart Specialisation Forums"** where regions present progress on their value chain projects and learn from each other (similar to what the EU does with inter-regional S3 cooperation). Multi-level governance also means involving municipalities – cities often drive clusters (like IT in Kharkiv or furniture in Lviv). City authorities manage education institutions, industrial zoning, etc., which affect clusters. Therefore, a coordinated system where city, oblast, and national plans all talk to each other is needed. The updated State Strategy for Regional Development 2027 emphasizes multi-level coordination as a principle, but turning that principle into working inter-governmental teams or joint budgets will be the next step.

b **Public-private dialogue (PPD) as continuous governance mechanism:** PPD is not a one-off consultation, it should be an ongoing process that effectively becomes part of governance. In successful cases (e.g., in the Baltic states), formal bodies were created like National Economic Councils or SME councils that meet regularly and have technical working groups on subtopics. Ukraine had something akin to this in the past (like the National Tripartite Social-Economic Council, largely for labor issues, or ad-hoc business forums).

Finding

Institutionalising PPD specifically for competitiveness and value chain issues would fill a gap. One idea is a **Competitiveness Council** under the Cabinet of Ministers or as part of the Inter-Service Coordination Commission for Regional Development[44], comprising ministry officials, business association representatives, and experts, which monitors progress on things like cluster development, export diversification, etc., and addresses obstacles. This council could steer implementation of SSRD-2027, NES 2030 and other policy documents, ensuring that what's written on paper (e.g., "increase high-value exports by X%") is pursued via tangible measures (like training programs, trade agreements, or tech upgrades) with private sector input.

44 https://zakon.rada.gov.ua/laws/show/714-2015-%D0%BF

At sector level, **value chain roundtables** could be convened by relevant ministries: for example, the Ministry of Economy, Agriculture and Environment could host quarterly roundtables on manufacturing supply chains, food chains, etc., including businesses from across the chain (producers, processors, logistics, retailers). These would be problem-solving sessions – identifying bottlenecks (like "lack of rail wagons for grain in peak season") and agreeing on possible solutions. The presence of all relevant parties in one room can break the blame game cycle and lead to collaborative solutions. It also builds trust, which is intangible but critical for voluntary cooperation in value chains.

c **Inclusivity in multi-level governance:** A caution from global experience is to ensure that multi-level and PPD mechanisms are **inclusive**, not dominated by a few elites or big companies. Ukraine's case, given oligarchic influences in the past, must guard against capture of these dialogues by powerful interests. For instance, if only large agribusiness companies are heard in an agrifood council, the needs of small farmers or agri-coops might be sidelined.

Finding

The design of governance bodies should include representation from SMEs, cooperatives, and perhaps civil society (especially on sustainability issues). The cooperative movement, for one, should have a seat at the table when rural value chain policies are discussed – the recent high-level workshop in Rome (July 2025) on coops and recovery, where a Ukrainian Vice-Minister endorsed coops as "backbone of the economy"[45], is encouraging. That sentiment should translate into coop associations being invited into relevant dialogues domestically, not just internationally. Similarly, worker associations or vocational education representatives could contribute to discussions on workforce development in value chains.

d **Monitoring and accountability:** A multi-level, participatory approach works best when there are clear metrics and accountability for results. Right now, a lot of plans exist (page after page of strategies), but **monitoring mechanisms** are often weak. Ukraine could adopt something like an annual **Competitiveness Report or Value Chain Scorecard**, overseen by the multi-level governance structures. This report would track indicators like cluster formation, SME export growth, value-added per sector, etc., and highlight where governance interventions have improved outcomes or where gaps persist.

[45] https://coopseurope.coop/news_article/cooperatives-contribute-to-ukraines-agri-food-recovery-and-eu-accession/

By making such evaluations public (perhaps with donor support for analysis), it creates pressure on the public sector to act and on private sector to engage. It could even be broken down regionally to foster a bit of competitive spirit (e.g., ranking regions on how effectively they have implemented their smart specialisation priorities, as measured by investment or job creation in those sectors, or other metrics).

The findings paint a picture of a Ukrainian economy that is ripe for transformation in how value chains are governed. The war, oddly, has catalysed many changes that were long needed. It accelerated integration with Europe, forced collaboration for survival and prompted policy reforms. There is strong alignment now between Ukraine's objectives and international best practices: everyone agrees on the need for resilient, inclusive and competitive value chains. The challenge lies in execution. Ukraine needs to build the institutions, skills, and trust to make these governance models work.

V. Policy Implications and Recommendations

Drawing on the above analysis, this section outlines actionable recommendations for policymakers, development partners and other stakeholders to improve value chain governance in Ukraine. The recommendations are structured to address the identified gaps and leverage opportunities, and are aligned with Ukraine's strategic goals of economic recovery, competitiveness, and EU integration. Each recommendation is designed to be **practical and results-oriented**, providing a roadmap for implementation.

1 Establish a National Program for Cluster and Value Chain Development

Rationale

To date, much of the cluster development in Ukraine has been driven by donor projects or spontaneous private initiatives. A coordinated national program would provide the necessary scale, sustainability, and policy recognition to these efforts. The program should act on the understanding that clusters are catalysts for upgrading value chains and that they require initial support to become self-sustaining.

45 https://coopseurope.coop/news_article/cooperatives-contribute-to-ukraines-agri-food-recovery-and-eu-accession/

Key actions

- **Launch a "Competitive Clusters Ukraine" initiative** under the Ministry of Economy (which now also covers agriculture and environment), with a dedicated budget line. This initiative would co-finance the formation and strengthening of cluster organizations in priority sectors and regions (guided by each region's S3 priorities). For example, if Zaporizhzhia's strategy prioritizes metallurgy and machinery, support the creation of a Metalworks Cluster organization there, provide a grant for a cluster manager, and connect it with UCA and EU mentors. Set a target to establish or reinforce at least 1–2 clusters per oblast over the next 3 years.

- **Provide capacity building for cluster management:** In partnership with UCA and European Cluster Alliance, create a training and certification program for cluster managers in Ukraine. This can be done via workshops, study visits to EU clusters, and an online community of practice. By professionalizing cluster management, clusters will deliver better services to members (training, export promotion, innovation brokerage).

- **Facilitate access to finance for clusters and their members:** Modify criteria of existing SME support programs (grants, loans, guarantee schemes) to favour projects that involve collaboration among multiple firms. For instance, an SME applying jointly with others in its cluster for a grant to set up a shared processing facility should get priority. Similarly, work with IFIs to design credit lines where clusters can apply as a consortium (e.g., a cluster of food processors getting a loan for a joint quality lab).

- **Monitor and evaluate cluster performance:** Require clusters supported by the program to report key outcomes (increases in output, export, jobs, new joint products developed, etc.). Use these metrics to refine support – scaling up funding to clusters that show tangible success and reviewing those that lag. Publicise success stories widely to incentivise regions and industries to join the movement. The 2025 UNDP-identified clusters can serve as pilots, with their results tracked as proof of concept.

Expected impact

A national program will mainstream cluster-based governance in Ukraine's economy, creating at least 20–30 active cluster organizations by 2027. This will reduce fragmentation among SMEs, foster innovation through cooperation and increase the resilience of value chains (as firms share resources and information). In the long run, clusters should become self-financed through member contributions, but the initial public investment will have created a culture of collaboration and trust within industries – an essential intangible asset.

45 https://coopseurope.coop/news_article/cooperatives-contribute-to-ukraines-agri-food-recovery-and-eu-accession/

2 Strengthen cooperative and producer organisation development for inclusive value chains

Rationale

To ensure inclusivity[46], that small producers and enterprises benefit from growth, Ukraine must rapidly expand the presence of cooperatives and producer organizations (POs) in its value chains, particularly in agriculture but also in crafts and small manufacturing. This aligns with Ukraine's 2030 rural development strategy and EU's CAP approach, but progress requires concrete measures to overcome historical skepticism and practical hurdles in forming cooperatives.

Key actions

- **Improve the legal and fiscal framework for cooperatives:** Fast-track any pending amendments to the Law on Agricultural Cooperation (or related laws) to simplify registration and governance of co-ops. Introduce tax incentives: for example, exempt cooperative earnings (surplus distributed as dividends to members) from income tax up to a certain limit for the first 5 years, to encourage formation. Ensure that competition law allows small producers to jointly market products without being seen as cartels (mirroring EU exemptions for POs).

- **Provide seed funding and technical assistance:** Establish a Cooperative Development Facility with contributions from the state budget (possibly matched by donor funds). This fund would provide small grants (e.g. EUR 20,000-50,000) to new cooperatives for initial investments like milk cooling tanks, storage facilities or digital platforms. It would also finance expert consultants to help groups of producers with the legal paperwork, business planning, and management training needed to start a coop. International cooperative alliances (from EU countries or Canada's SOCODEVI, which has supported Ukrainian coops) can be partners in providing expertise.

- **Integrate cooperatives into value chain projects:** Whenever the government or donors launch a sector-specific program (e.g., dairy modernisation, fruit export promotion), explicitly include a cooperative component. For instance, a dairy upgrade project should aim to create or strengthen 10 regional dairy cooperatives that supply larger milk processors. Processors receiving support could be conditioned to source via cooperatives, giving market security to those coops. In essence, make coops the "entry ticket" for smallholders to participate in larger value chain interventions.

- **Education and advocacy:** Work with the Ministry of Economy, Environment and Agriculture, local administrations and civil society to overcome mistrust of cooperatives stemming from the past. This can include public information campaigns showcasing modern cooperative principles (voluntary, democratic, member-driven – distinct from forced collectives of the past). Introduce basic cooperative economics into agricultural extension curricula and entrepreneurship training. Celebrate successful cooperatives in media to shift perceptions.

46 An "inclusive value chain" refers to a production and distribution system in which value creation and value capture are more equitably shared among actors, particularly ensuring meaningful participation and fair returns for small producers, SMEs, and vulnerable groups. Inclusivity also implies sustainable development outcomes (economic, social, and environmental), as well as shared responsibilities for risk management, including mechanisms for risk sharing, coordination, and collective responses to market, climate, and operational shocks.

Expected impact

By 2030, aim to have thousands of small producers formally organized: for example, at least 100 new agricultural cooperatives, covering sectors like dairy, horticulture, grain storage, fisheries, etc., and a number of manufacturing/artisan coops (e.g., furniture makers, clothing artisans pooling equipment). With cooperative governance, small players can achieve economies of scale, improve product quality, and negotiate better prices, thus increasing rural incomes and SME profitability. This will also feed into meeting EU accession benchmarks for rural development and could unlock specific EU pre-accession rural support. Importantly, it will address the social dimension: cooperatives inherently develop community cooperation and can empower underrepresented groups (women in rural areas, for instance, often take leadership in coops).

3 Enhance Public-Private Dialogue platforms for value chain coordination and reforms

Rationale

Effective value chain governance requires continuous dialogue and feedback between the private sector (businesses, farms, workers) and the public sector (government at various levels). While some PPD exists in Ukraine, it needs to be more structured, regular, and action-oriented, especially focusing on concrete competitiveness issues. By institutionalizing PPD, policies and programs can be more responsive and better implemented, and trust between government and business can improve – a crucial factor for investment decisions and cooperative behaviour.

Key actions

- **Create a high-level Value Chain Competitiveness Council** under the Cabinet of Ministers or as part of the Inter-Service Coordination Commission for Regional Development. This council would meet perhaps twice a year and include top officials (Ministers of Economy, Environment and Agriculture, Community and Territory Development, etc.) and a balanced representation of business leaders from key sectors (agribusiness, manufacturing, IT, services), as well as SME associations and cluster/cooperative representatives. Its mandate: oversee and guide the execution of strategies like SSRD-2027, NES 2030 in terms of value chain development, and address cross-cutting issues (e.g., export logistics, investment climate, skills gaps). The Council can commission task forces on specific barriers (say, “iron ore value chain green transition” or “integrating SMEs into defense procurement”) and ensure relevant agencies act on recommendations.

- **Sectoral roundtables and working groups:** Under this umbrella, establish permanent working groups for major sectors or ecosystems – aligned with EU’s clusters perhaps: e.g., Agro-Food, Heavy Industry & Machinery, Textiles & Creative Industries, Energy & Raw Materials, Digital & IT, etc. Each working group, co-chaired by an industry representative and a relevant ministry deputy minister, should meet quarterly. They will serve as fora to raise and resolve issues. For example, the Agro-Food group might discuss implementing an e-certification system for farm products to ease export, or the IT group might tackle how to retain IT talent in Ukraine. The key is these groups must have clear outcomes – each meeting yields a short action plan (policy tweak, pilot initiative, regulatory fix) that is tracked.

The government should commit to responding to private sector proposals within these groups (much like the EU's structured dialogues do).

- **Regional PPD mechanisms:** Encourage each Regional Military/State Administration to formalise a **Regional Economic Council** (to be managed jointly with Regional Development Agency) that includes local business, academia, and civil society, to advise on and monitor economic initiatives (including the smart specialisation projects). Institutionalise them by official decree and link them with the national Council. For instance, have a representative from each Regional Economic Council in relevant national working groups when topics intersect (like a cluster in their region). Furthermore, utilise the newly formed **Focus Group Ukraine**[47] at the EU level by feeding its discussions (which involve EU and Ukrainian stakeholders) back into national policy – perhaps through involving Ukrainian PPD participants in those EU-led discussions and vice versa.

- **Transparency and communication:** To ensure accountability, make the activities of these PPD bodies transparent. Publish meeting agendas, minutes, and progress on government websites. Solicit public feedback on major initiatives via online portals. This not only holds participants accountable to follow through, but also educates a broader audience (businesses who are not directly at the table) about ongoing reforms and opportunities to engage. Ukraine can leverage its digital governance strengths (e.g., the Diia platform) to integrate feedback loops – maybe a section where entrepreneurs can submit ideas or issues which the PPD bodies then review.

Expected impact

By embedding PPD in economic governance, policies will be better tailored and implemented, reducing unintended consequences and increasing buy-in. For example, if an export procedure reform is discussed with businesses beforehand, it's more likely to be effective and welcomed rather than resisted. Over time, this collaborative atmosphere can boost investor confidence (domestic and foreign) as it signals a stable, consultative policy environment. Additionally, PPD can help anticipate and diffuse conflicts – if say, farmers and traders regularly communicate, panic-driven export bans or protests can be avoided because issues are addressed proactively. As a metric, one could see improvement in Ukraine's rankings for public-private cooperation in indices like the Global Competitiveness Index, and more qualitatively, testimonies from business associations about feeling heard in the policy process.

47 Focus Group Ukraine brings together relevant stakeholders and business support networks to discuss the latest EU, national, Ukrainian and international initiatives and programmes to support EU-Ukraine business cooperation and collect their feedback. The forum promotes closer trade cooperation between Ukraine and the EU by raising awareness of the opportunities of doing business with Ukraine and vice versa.

4 Align skills and innovation systems with value chain needs (Human Capital for VCG)

Rationale

Value chains are only as good as the people and ideas driving them. Ukraine's human capital, its engineers, IT specialists, skilled workers, farmers, is a huge asset, but mismatches between skills and industry needs, as well as weak links between research and business, limit value chain upgrading. Therefore, a policy focus on aligning education, training, and innovation systems to specific value chain requirements is critical. This will support governance by ensuring each link in the chain has the competencies to perform at quality, and by fostering innovation which often comes from collaboration between industry and academia.

Key actions

- **Expand vocational education partnerships with industry:** Identify key value chains that suffer from skilled labour shortages or outdated skills (e.g., welding and fabrication in machinery, food safety technicians in agri-food, etc.). For each, implement or scale **dual education programs** in partnership with companies and technical colleges. The government should incentivise firms to participate (tax deductions for training expenditures, or co-financing equipment for training centres). For example, modernize the concept of "base enterprises" for vocational schools – a leading company in a cluster becomes a patron of the local vocational school, updating its curriculum, providing internships, and potentially hiring graduates. This ensures a pipeline of skilled workers skilled to current value chain technologies.

- **Smart specialisation in education and research:** In line with regional S3, encourage universities in each region to focus on research and courses relevant to the region's chosen specialisations. For instance, if a region focuses on ceramics and bioplastics (hypothetically), the local university should get support (grants, twinning with EU universities) to build a department or incubator on materials science. National research funding (though limited) and donor scientific support should be channelled to these priority domains. Additionally, create **Innovation Extension Services**: similar to agricultural extension, but for SMEs – teams of tech advisors who travel to companies and help them identify how to upgrade processes or products, connecting them with research if needed. This could be piloted by leveraging the network of the **National Academy of Sciences** institutes in the regions to act more entrepreneurially.

- **Foster startup and innovation culture within value chains:** Clusters should include not just producers but also start-ups that bring new technology into the chain (e.g., agtech startups in an agricultural cluster, or AI firms in an automotive component cluster). Government can support this by funding **challenge contests** or **innovation grants** focused on value chain problems. For instance, a competition for digital solutions to traceability in food supply or for robotics in textile manufacturing. Winning startups receive funding and an opportunity to pilot with established firms. This injects fresh ideas into traditional industries and strengthens governance by keeping the chain competitive.

- **Prevent brain drain and labour shortages:** The war led to significant out-migration, including skilled workers. To keep value chains functional, Ukraine needs to retain and attract talent. Beyond macro measures (like salary improvements), targeted incentives can help. For example, offer returning diaspora professionals tax breaks or relocation packages if they join Ukrainian firms in high-need sectors; provide housing and bonuses for young specialists who go work in rebuilding industries in war-affected regions (similar to a "rural doctor" incentive but for engineers or agronomists). On the governance side, involve these experts in PPD and cluster leadership – new perspectives can stimulate modernisation of the whole chain.

Expected impact

Strengthening human capital alignment will yield medium to long-term dividends. We would expect to see a reduction in job vacancy rates in targeted industries, higher productivity per worker as training improves, more innovation outputs (patents, new product launches) from Ukrainian firms integrated in clusters. By 3-5 years, specific value chains that now rely on imported expertise could become self-reliant. For example, Ukraine could develop a cadre of domestic food technologists and quality managers to support its processed food export chain, rather than having to rely on EU consultants. Another measure of success: more R&D collaboration agreements between universities and companies, indicating that the innovation ecosystem is interacting with value chain development. Ultimately, this keeps more value added within Ukraine, moving it away from being just a raw material exporter to an exporter of higher-tech goods and services.

5 Ensure resilient and sustainable value chains through multi-level coordination

Rationale

Recent experiences underscore that resilience (ability to withstand shocks like war, pandemics, climate impacts) and sustainability (environmental and social responsibility) are now core to value chain competitiveness. Ukraine's recovery efforts should embed these principles. This means building flexibility and green practices into the governance of value chains. Multi-level coordination (national, regional, local, international) is required since resilience and sustainability often transcend one company or locality.

Key actions

- **Develop contingency plans for critical value chains:** For essential industries (food supply, energy, critical manufacturing), mandate the development of **value chain risk mitigation** plans. For example, the grain value chain plan might involve diversifying export routes (as already started) and increasing domestic processing (so reliance on export logistics is less). A manufacturing chain plan might consider dual sourcing of inputs (domestic and imported) and holding strategic inventories. Task relevant ministries (e.g. MinEconomy, MinDevelopment, MinFinance) to work with industry groups on these plans, and integrate them into national emergency preparedness strategies. Donors like the World Bank could assist by modelling the economic impacts of various shock scenarios and identifying chain weak points.

- **Support value chain greening initiatives:** Align with the European Green Deal objectives by encouraging each industry to adopt greener practices – which also opens market opportunities in the EU. Provide technical and financial support for things like energy efficiency in production, waste reduction and recycling within chains, and adoption of renewable energy. For instance, create a program where food processing clusters can get co-financing to install biomass boilers or solar panels, cutting costs and emissions. In heavy industry chains (steel, chemicals), start pilot projects for cleaner technologies (with EU partners from the raw materials partnership[48]). Additionally, prepare Ukrainian firms for upcoming EU regulations like Carbon Border Adjustment Mechanism (CBAM) – effectively, a governance issue where firms across a chain (mines to metal factories) need to measure and reduce carbon intensity to avoid penalties.

- **Leverage regional and international cooperation for resilience:** Work through regional groupings (like the Three Seas Initiative, Lublin Triangle, etc.) to integrate Ukraine's value chains with neighbours for mutual resilience. Example: coordinate with Poland and Romania on logistics infrastructure that benefits all (so alternative routes are always available). Use EU's solidarity and post-war recovery funds to invest in such shared infrastructure. Internationally, diversify trade partnerships to avoid overdependence – e.g., explore new markets in the Middle East or Africa for Ukrainian products, which might require building new value chain links (like logistics hubs or adaptation of products to those markets). The government and export promotion agencies can take the lead in scouting and initial network-building, but involve private sector early so that commercial relationships form.

- **Community and worker involvement in sustainability:** Multi-level governance should include the voices of workers and local communities to ensure social sustainability. This means in any large value chain project (say a new mining operation as part of raw materials strategy), have local advisory committees to address community concerns, ensure job opportunities for locals, and implement benefit-sharing mechanisms. Not only is this fair, it also prevents social conflicts that could disrupt operations (a form of risk management). The EU integration process will press Ukraine on these points, so better to proactively embed them (for example, anticipate and implement parts of the EU acquis on corporate social responsibility and due diligence in supply chains).

Expected impact

By focusing on resilience and sustainability, Ukraine's value chains will be better prepared for shocks but also more future-proof in terms of market access. Resilient chains will mean that, in the event of a local disruption, alternatives keep goods flowing – minimising economic losses. Success can be measured by the continuity of exports even in crises, or quick recovery times (as seen with the rapid organization of new logistics routes during the war – that agility should be codified for the future). Sustainability efforts will ensure Ukraine meets EU market requirements and avoid tariffs or bans, thereby maintaining competitiveness. Over time, Ukrainian products with a "green" or "sustainably sourced" label could command premium prices, adding value. For example, a resilient and sustainably-run sunflower oil value chain might fetch better contracts in Europe than competitors, because buyers trust its reliability and carbon footprint credentials. In essence, weaving resilience and sustainability into governance fortifies Ukraine's economic backbone against both foreseeable and unexpected challenges.

48 https://single-market-economy.ec.europa.eu/news/eu-and-ukraine-kick-start-strategic-partnership-raw-materials-2021-07-13_en

6 Replicate and scale the Pyriatyn hromada and alike good practices for local value chain governance

Rationale

The EU-funded project "Development of Value-Added Chains in Dairy and Berry Clusters of Pyriatyn Hromada to Expand Economic Opportunities for Youth and Rural Residents and Promote Eco-Oriented Growth" (implemented by the Pyriatyn City Council and the NGO Civil Society Institute, 2021–2024) demonstrates how local governments can drive value chain upgrading through coordinated, inclusive action. The project combined investments in small-scale dairy and berry processing, local storage, and training for youth and internally displaced persons (IDPs), creating a functioning local cluster ecosystem. It shows that **hromada-led, donor-supported initiatives** can overcome institutional voids, boost rural employment, and align local economies with EU smart specialisation and cohesion policy principles.

Key actions

- **Embed multi-stakeholder partnerships:** Formalise Public-Private-Civil Society partnerships within hromadas to coordinate producers, processors, schools, and local authorities in managing shared value chain projects.

- **Mainstream human capital and inclusion:** Integrate training for youth, women, veterans, people with disabilities and IDPs into all local chain initiatives, replicating Pyriatyn's school-based "garden co-working" and entrepreneurship programs.

- **Foster inter-regional learning:** Use Pyriatyn and other good practices as national pilots within a Hromada Peer-Learning Platform to share methodologies, indicators, and success cases with other communities.

- **Ensure national alignment:** Embed hromada-level projects into oblast Smart Specialisation priorities to access EU-aligned funding and technical assistance.

Expected impact

Replicating the Pyriatyn and similar models would create a nationwide mechanism for **community-driven value chain governance**. Within several years, this could lead to: stronger local economies with higher value-added production and jobs for youth and women; improved food security and rural resilience through local processing and storage; enhanced coordination between national, regional, and local policies, accelerating Ukraine's integration into EU cohesion and rural development frameworks. This approach transforms local development efforts into a **systemic model for inclusive and resilient economic growth** across Ukraine's hromadas.

The above recommendations chart a comprehensive approach to modernising value chain governance in Ukraine. Implementing them will require political will, inter-agency coordination and strong partnerships with the private sector and international donors. The payoff, however, will be significant: a more competitive Ukraine that creates higher value at home, a more inclusive economy where gains are shared across producers big and small, and a country ready to integrate seamlessly into the European single market. Helvetas and other development partners can play a catalytic role by providing technical expertise, facilitating dialogue, and sharing international best practices as Ukraine undertakes these reforms. The time to act is now – as Ukraine rebuilds and pivots towards the EU, embedding robust value chain governance is not a technical endeavour, it is a cornerstone of the nation's economic resilience and long-term prosperity.

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Analysis of Value Chain Governance in Ukraine