

IT ADVISORY

Exploring Global Frontiers

The New Emerging Destinations

ADVISORY



Ukraine



Ukraine

Country Snapshot

Size of the country	603,700 sq. kms.
Population	46.5 million (2007)
Capital	Kyiv, or Kiev
Currency	Hryvnia (UAH)
1 USD = UAH (average)	4.98 (2008)

Sources: www.eiu.com, www.cia.gov, www.GoCurrency.com

Main macroeconomic indicators:¹

GDP in PPP: USD 322.6 billion (2007 est.)

GDP per capita in PPP: USD 6,980 (2007 est.)

CPI: 16.6 percent (2007)

Unemployment rate: 2.3 percent (2007)

FDI stock per capita: USD 791 (2007 est.)⁵



Political Structure¹

Ukraine is a democracy with a parliamentary-presidential system of government consisting of separate executive, judicial, and legislative branches. A new constitution was approved by the Verkhovna Rada (Supreme Council, or Parliament) in June 1996. Since 2006, a majority of deputies in the 450-member unicameral parliament form a coalition, which then names the prime minister, who in turn nominates other ministers. The Parliament initiates legislation, ratifies international agreements and approves the budget. Its members are elected for five-year terms. The country is administratively divided into 24 provinces, 1 autonomous republic and 2 cities (Kyiv and Sevastopol) with special status.

Business and Investment Climate

Foreign Direct Investment (FDI): Ukraine has seen a sharp increase of FDI inflows in the last 3 years, reaching USD 10 billion in 2008¹. FDI flows are mainly into the financial and the manufacturing sector.

GDP growth: The real GDP growth in Ukraine was 7.7 percent in 2007. The EIU expects this to fall to about 6.5 percent in 2008 and less than 5 percent in 2009 due to the global slowdown.

Inflation: Ukraine has suffered from the worldwide financial crises resulting in severe inflation and recessionary concerns. Inflation in the Jan-Oct 2008 period was 18 percent, over 12.8 percent in 2007².

IT-BPO Scenario in the country

ICT, high tech and consumer electronics are priority sectors of Ukraine's national FDI strategy. The ICT market has grown constantly during the last six years.

The IT outsourcing market accounts for USD 544 million³. There are 800 IT outsourcing companies employing 14,000 IT specialists³. Since 2000, the Ukraine has become an attractive outsourcing destination in Eastern Europe providing software development services to clients in the US and Western Europe.

Ukraine is also an attractive location for offshore / near-shore companies, home to many subsidiaries of international companies like IBM Ukraine, Comarch, Microsoft, SAP, Aricent, ISM eCompany, and Ciklum. Ukraine has several home-grown ICT companies.

Whereas initial outsourcing investment focused on Kyiv (40 percent of FDI projects⁴) companies are now focusing on second tier cities such as Lviv and Kharkiv as potential investment destinations.

The Ukrainian Hi-Tech Initiative and IT Ukraine are the associations representing the IT-BPO industry in the country³.

Government incentives

Although the central government does not provide any incentives, the local governments at the province or city level can offer support and facilitate the setting up process for businesses.

2008 (Rating/outlook)	
EIU's Sovereign Risk Rating	B / Negative
Standard & Poor's Foreign Currency Risk Rating	B/ Negative/ B
Ease of Doing Business Rank (2009)	145
Rigidity of Employment Index (2009)	45

Sources: www.eiu.com, World Bank, Standard & Poor's



- Emerging Destination
- Established Destination

1 www.eiu.com, Economist Intelligence Unit website, various pages, December 2008

2 www.ukrstat.gov.ua, State Statistics Committee, Ukraine, December 2008

3 Ukrainian Hi-Tech Initiative, CEE IT Outsourcing Review, 2007

4 www.oecdobserver.org, Report on Ukraine, 2008

5 Vienna Institute for International Economic Studies, Foreign Direct Investment in Central, East and Southeast Europe, June 2008

City Introduction

- Lviv (or Lvov) is Ukraine's seventh largest city¹
- It is one of the main cultural centers of Ukraine and a UNESCO World Heritage site².



Quick facts	
Geographic Location	Located in western Ukraine, it can be reached from capital Kyiv by air in about one hour
Time Zone	GMT +0200
Climate	Moderate continental climate, with average summer temperature of 18 degrees and average winter temperature of -4 degrees Celsius. The average annual rainfall is 66 cm.
Population ¹	735,000
Literacy rate ²	99.4 percent
Languages	Ukrainian, Russian, Polish
Major industries	Electronics, mechanical engineering, food processing, chemicals, tourism

Sources: 1 Statistical office, Lviv
2 KPMG Analysis

Key drivers for the city to emerge as a favorable IT-BPO destination

- Lviv has an educated workforce with a large number of technical graduates and engineers
- The city has a strong position in IT services in Ukraine. It has several domestic IT-BPO companies, which can be acquired or partnered with to enter the country
- Lviv's cultural and geographical proximity with Western Europe and time-zone advantage makes it suited for offshore delivery to Western Europe
- Lviv is to co-host the European Football Championship in 2012¹, which is likely to bring about improvements in infrastructure and quality of life in the city.

Current IT-BPO scenario in the city

Key IT-BPO companies (Services offered)	
SoftServe (Application development and maintenance services)	Eleks Software (IT services)
Lohika (Application development and maintenance services)	ArtfulBits (BPO services)
InterObject (Research and development center)	Intellias (Software development)

Sources: Company websites, Businesswire news article, Press Release - Lohika Systems, Software development in Ukraine: Mafcon

Development of the current IT-BPO industry

- The Ukrainian IT and offshore outsourcing industry has started to see some consolidation in the last few years
- Induslogic (now GlobalLogic), a US-based provider of outsourced software product development services acquired Ukrainian outsourcer Bonus Technology in 2006³. Another company EDB, a Scandinavian IT service provider, bought a majority stake in Ukrainian Infopulse and Miratech in Kyiv⁴
- The BPO sector in Lviv is still at an early stage of development, but has the potential to emerge as an attractive lower cost alternative to established markets in Hungary or the Czech Republic.

Industry Profile – Size and Specifics

- Software companies in Lviv employ around 2000 professionals⁵
- A number of Ukrainian IT companies like Soft Serve (900 employees) and Eleks Software (250 developers) have large centers in Lviv⁵.

1 International Herald Tribune, Poland and Ukraine to host Euro 2012, 18 April 2007

2 www.lviv-life.com, December 2008

3 www.investukraine.org, December 2008

4 www.goaleurope.com/main.php?p=85&more=1&c=1, Consolidation in Europe, February 2008

5 Munk, Andersen and Feilberg, Software Development in Ukraine, November 2008



Human Resources

- Lviv has a large resource pool of qualified IT specialists, and renowned universities like the Lviv Polytechnic University and the Lviv National University. The Lviv Polytechnic University produces about 15,000 graduates annually, with over 1,000 from IT-related courses¹
- Average salaries for IT professionals in Lviv are lower than salaries in Kyiv²
- IT companies in Lviv such as Softserve, Lohika and Eleks have set up training centers to develop the talent in the city². Competition for IT specialists is moderate in Lviv
- Ukraine currently does not face a threat of emigration of qualified professionals to higher wage European Union (EU) countries, as it is not an EU member and its workforce is subjected to strict EU visa regulations.

Infrastructure

- **Office space (IT Parks):** The office market in Lviv is still developing. The estimated addition to office space is around 120,000 sq. mts. by 2012³. Vacancy rates are currently low
- **Telecom infrastructure:** Although penetration of ICT has improved in recent years, there are some problems in the reliability and quality of fixed telecom infrastructure. Telecom infrastructure improvements are mainly in major regional centers, however there is a lag in terms of penetration to local networks and exchanges. Most investments into the growing mobile sector are private
- **National and International connectivity:** Lviv airport serves domestic and international flights, most frequent services are daily flights to and from Warsaw and Kyiv, connections with Toronto, Manchester, Frankfurt, and airports in Russia, Caucasus and Middle Asia
- **Upcoming projects:** A few technology parks have been proposed around Lviv. The Lviv Airline plans to construct a technology park on its land⁴.

State/ city specific incentives for IT-BPO over and above country level incentives, if any

- Two special economic zones are functioning in the region: SEZ "Yavoriv" and "Kurortopolis "Truskavets". Investment projects in these zones benefit from tax privileges⁵. Over and above this, the local government does not offer formal investment incentives. Companies may seek the administration's support with property and other aspects related to establishing operations in Lviv.

Quality of life

- **Cost of living:** Cost of living, aside from housing, is low in comparison to other large Eastern European cities. Housing costs are comparatively high in Ukraine. The price of secondary housing soared by over 20 percent in 2007, whereas the primary market is still developing³
- **Crime rate:** The crime rate is moderate compared with other Eastern European countries
- **Pollution levels:** Since exhaust filters are not yet required for cars, air quality in Lviv is not up to western European standards
- **Ease of commuting:** Ukraine's infrastructure is still developing, but is comparable to that in Poland, Bulgaria and Romania. A loan to the tune of USD 140 million has been granted by the European Bank for Reconstruction and Development to be used to develop the city's transport (road, railway connections, airport terminal) and communication infrastructure, as a result of Lviv hosting the European Football Championships in 2012⁶
- **Availability of hotels:** Lviv is a well developed tourist center in Ukraine, with good tourism infrastructure. According to the regional state administration, there are plans to build 20 new hotels by 2012 to host visitors to Lviv during the European Football Championships⁷.

Risk: City specific

- **Catastrophic risks:** Lviv province was hit by a flood in July 2008 causing damage to some bridges in the area⁷
- **Political risks:** The political situation in Ukraine has been unstable over the last two years due to animosity between its two political factions. This risk is likely to continue and may impact economic spending and investment decisions of the government⁸
- **History of disruptions:** Lviv was hit by a hurricane in June 2008, which rooted out 3,000 trees and damaged about 100 cars and several buildings⁹.

1 Munk, Andersen and Feilberg, Software Development in Ukraine, November 2008

2 Mafcon, Software development in Ukraine, November 2008

3 CB Richard Ellis, June 2008

4 www.investinpoland.pl, December 2008

5 www.rada.com.ua/eng/RegionsPotential/Lviv, December 2008

6 KyivPost news article, EBRD approves EUR 100m loan for Lviv transport project, 23 December 2008

7 Zik News, Flood kills 22 Ukrainians, 28 July 2008

8 Ukraine Today website and Economist Intelligence Unit, December 2008

9 RedTram news, Hurricane in Lviv, 24 June 2008