

IT OUTSOURCING IN UKRAINE

OVER THE LAST SEVERAL YEARS UKRAINE HAS EMERGED AS ONE OF THE MOST ATTRACTIVE OUTSOURCING DESTINATIONS IN EASTERN EUROPE

The Information Technologies (IT) market continues to grow steadily, and though domestic demand is still not very high, Ukrainian IT products are attracting more and more attention outside of Ukraine's borders. Ukraine has in its favor a host of highly qualified specialists, as well as a geographic position almost midway between the vast North American and Asian markets. But what are the prospects for the development of the outsourcing market in Ukraine? Will it bring new jobs to the country, contributing significantly to its exports? These are the questions that the market players as well as the Ukrainian government are starting to think about.

At first glance, Ukraine's prospects in the IT outsourcing business look extremely good. As the second largest country in Eastern Europe after Russia, it is in itself a great market with huge potential for de-

velopment. The size of the workforce, the quality of their education, and the low cost of labor are all major factors favoring the attraction of outsourced IT contracts.

The United States and Europe are already major customers of Ukrainian IT services. Although programmers' wages in Ukraine are growing steadily, they still lag far behind those paid in more developed markets. Ukraine is also geographically close to Europe - far closer and more convenient for conducting business than China or India. To add to this, the government has introduced visa-free travel for visitors from the EU, the United States, and several other countries.

Since Ukraine is geographically and culturally a part of Europe, U.S. and European customers are attracted by the Western mindset of Ukrainians, as well as the country's time zone proximity. Ukraine has

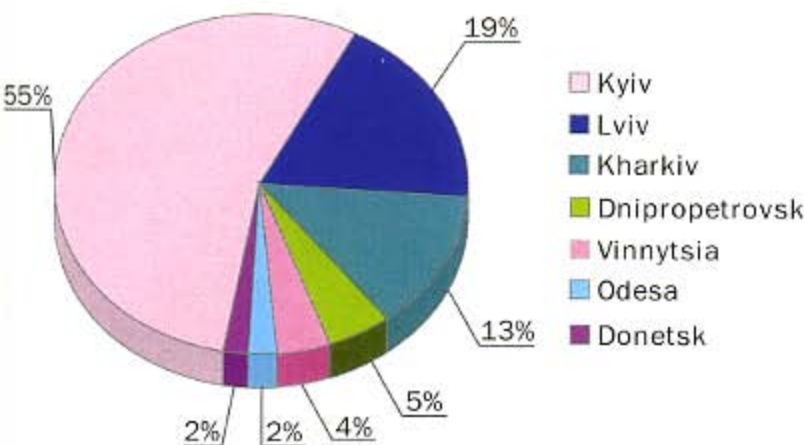
become especially attractive for nearshoring, a new trend in offshore outsourcing. Basically, nearshoring involves outsourcing IT products and services from locations that are cheaper, but still rather close geographically, to the customer. And in these terms, Ukraine's place on the European map plays a key role. So, while Ukraine cannot rival cheap outsource coding from China, India and Indonesia, it is nevertheless successfully rendering a number of

Why Ukraine is considered to be an IT outsourcing hub:

- *availability of educated and English-speaking human resources
- *low labor costs
- *highly motivated specialists
- *proximity to the EU
- *Western cultural values

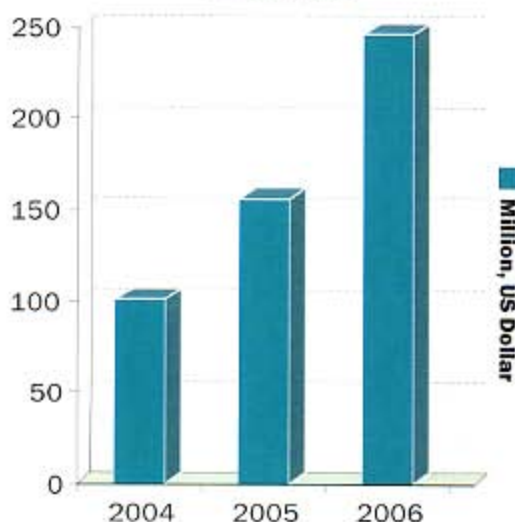
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Distribution of IT Outsourcing Companies in Ukraine's Regions:



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Ukraine's IT Outsourcing Market Size:



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services to U.S. and European companies, and is steadily gaining a good reputation.

Among the contracts already won by the country are ones for developing and servicing payment systems, servicing and supporting already existing IT products, supporting and administrating the IT systems of foreign companies, and creating and running operating centers, call centers and data centers in Ukraine for customers from Europe and the United States. Ukrainians' superior grasp of English and other European languages compared to Asian countries is also a plus for its European partners.

However, the low cost of outsourcing IT products and services from Ukraine is still only attracting small- and medium-sized foreign companies, which means the volumes of IT service exports from Ukraine in 2007 remain modest. For the major IT market players, the risks in Ukraine, both political and economic, are still too high. Only the launch of State support programs for the domestic IT industry, along with a marketing campaign for Ukrainian IT products abroad, will allow Ukraine to secure business from the larger foreign companies. Ukraine's political instability and frequent changes of government are still making many foreign firms think twice about doing business here.

On the other hand, political instability in other parts of the world could work in Ukraine's favor. Troubles in the Middle East, with the constant threat of military conflict in the region, and tension in South Asia have caused international corporations that previously outsourced IT products and services from long-established industry leaders such as In-

dia, Pakistan and Israel, to look for more stable partners. Central and Eastern European countries are increasingly seen as safer bets. With the prospect of the IT outsourcing market being reshaped, Ukraine has a great chance to take a large share of the business that previously went to countries further away.

Reshaping the Ukrainian IT market itself is also contributing to its growing attractiveness. One recent trend is the decentralization of the market, which together with growing competition is keeping prices at a reasonable level, while at the same time raising the general quality of the products on offer. Although Kyiv remains Ukraine's major outsourcing location, other companies are starting up in regional cities, such as Kharkiv, Donetsk, Dnipropetrovsk, Lviv, and Odesa, with each benefiting from low labor costs and a steady rise in IT graduates from well-established technical universities.

Ukraine still has few large IT players, and the majority of the IT companies in Ukraine are rather small, averaging about 100 employees, whereas the leading role on a developing market is usually taken by medium-sized companies, which have the resources to rapidly expand. Western companies tend to outsource from companies larger than themselves, which can provide more workers along with highly trained specialists, so the tendency will be for the market to merge into several large providers.

All the same, the development of this young market will depend not just on the number and quality of specialists at its disposal, but to a large extent in the level of support it gets from government. The

country's IT industry shows great promise, with the potential to make a significant contribution to Ukraine's GDP and export growth, while consuming minimal resources. Recognizing this, the government has recently named the IT sectors as one of its priorities for development. With increasing government support for the industry, through developing new projects and training highly skilled specialists, the whole country stands to benefit from the IT industry in future.

The main cloud on the horizon is the high cost of research and technology in IT, which is by definition hi-tech, and which will require big investment for progress to be made. Chronic under-funding of education in Ukraine since independence could put the brakes on IT industry development. Although the number of IT graduates from Ukrainian universities is high and rising compared to other countries, education funding per capita in Ukraine was the lowest in Europe in 2006. The potential for a lack of qualified workers in an expanding market is a bug that will have to be fixed.

As well as patching the educational system, Ukraine needs to urgently address intellectual property rights legislation, as well as the system of taxation on IT products, in order to strengthen its bid for a larger share of the IT outsourcing business. But further improvement of the investment climate in Ukraine, government support for the IT industry, and the attraction of key global businesses to Ukraine would definitely put the country among the top providers of international IT services in the next few years.

By Dmytro Zotsenko