



**Ukraine – a Budding Destination  
for Your Shared Service Center**

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# Ukraine as a location for SSC compared to the neighbouring countries

Practices of developing Global Shared Service Centers (hereinafter, SSCs) reveal a significant potential for Eastern and Central European countries, thus we have performed a research to compare the advantages of Ukraine against those countries. In recent years, Ukraine has moved toward integration into the global economy, thus it signed the EU-Ukraine Association Agreement, adopted a visa-free regime with the European Union (hereinafter, the EU) and entered into a free trade agreement with Canada. Moreover, large international companies have started to establish its production sites in Ukraine. The country has succeeded significantly in the development of over 1,000 IT outsourcing companies that serve various North American and European companies and employ over 100,000 people. Yes, Ukraine has a vast untapped potential that is expected to be realised in the upcoming years. Nonetheless, each country of Eastern and Central Europe offers its own advantages, and the choice of a right site location for SSC depends on the combination of criteria considered to be the most critical for each organization.



**Labor force with advanced education** is considered to be one of the key criteria for selecting a site location for SSC. The countries leading as per this criterion include **Turkey** (23.3 m), **Ukraine** (16.7 m), **Poland** (14.8 m), and **Romania** (7.7 m). Moreover, a higher education enrollment rate in each country enables a continuous supply of competent labor force.



**Country's average salary rate** is yet another important criterion for choosing a right site location for SSC. In 2017, **Ukraine** has the lowest country's average salary rate which equals to €286 per month, with a 33% decrease since 2012. By 2020, country's average salary rate in Ukraine is expected to increase by 16%. In the meantime, country's average salary rates in the EU are significantly higher, e.g., €896 per month in Romania and €1,127 in Poland, and they are expected to grow at a moderate rate.



**Relatively low tolerance level for corruption and** political, operational, security, economic, tax, and legal **risks** are historically attributable to **the Baltic States**, such as Estonia, Latvia, and Lithuania. Those countries also have attractive conditions for doing business, particularly due to the advantageous taxation terms and higher safety rating due to a low level of crime.



**The number of Shared Service Centers** implemented by global companies is continuously growing. As such, **Poland and Romania** have already developed a substantial SSC implementation practice. Ukraine has only a few operating SSCs so far, though more and more companies tend to consider Ukraine as a SSC site location with a vast potential.

# Approach



**We have performed a research on 15 countries in Eastern and Central Europe**, as they are deemed comparable in terms of the economy and market development level, geopolitical position, as well as existing SSC implementation practice.



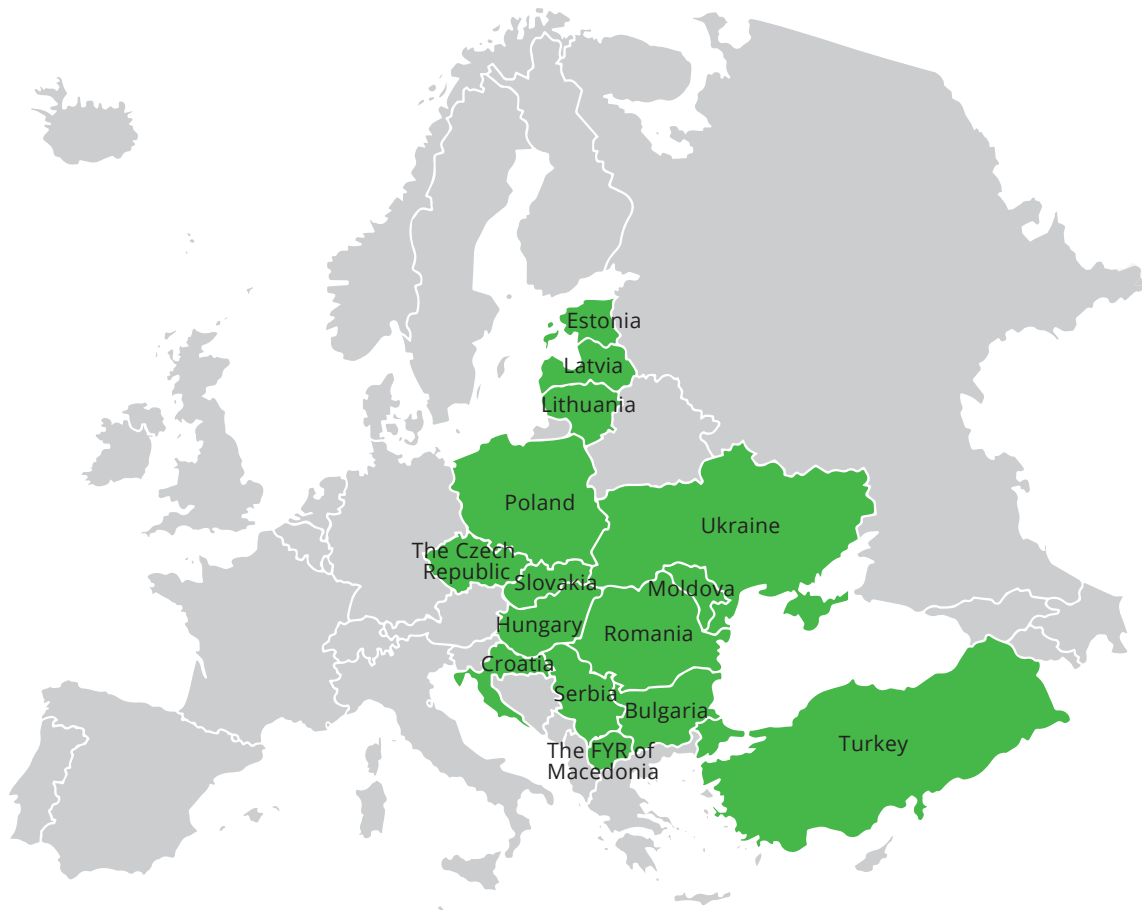
**We have used six criteria categories to compare the selected countries**, including human resources, infrastructure, risks, taxation and incentives, operating environment, and location appeal for residence.



**Our research is based on open-source information, such as reports published by** World Bank, Organization for Economic Co-operation and Development, Transparency International, National Statistical Committees, the Economist Intelligence Unit, and International Telecommunications Union, as well as other publicly available data.









**Our research has been limited to matters** which we have identified to appear to us to be of significance in the scope of our research, and information available to us in open sources. Given these circumstances, our research may not be comprehensive, as we may not have become aware of all the information that may be deemed relevant. No party is entitled to rely on the research for any purpose, and we accept no responsibility or liability to any party whatsoever, in respect of the research.



# Methodology

We have used six dimensions combining qualitative and quantitative characteristics to determine a location's 'business fit' in function of each company's specific SSC requirements. We have performed a retrospective data analysis within a 5-year horizon and compared the last available data against the data for 2012, except for the criteria where no data for 2012 were available. The criteria analysis is presented in terms of top 5 countries with the most favorable conditions, additionally including Poland and Romania due to the continuous growth of Shared Service Centers in those countries over the recent years.

Though, in the mid- to long-term perspective, qualitative dimensions are more important to the success of SSC than costs, in the short-term perspective, human resources cost is often deemed to be a key dimension influencing a decision on SSC site selection. As such, a forward-look on country's average salary rates has been performed to highlight the expected changes in the upcoming years.

Category	Criteria	Comparable data
	<b>Human resources</b> <ul style="list-style-type: none"> <li>Country's average salary rate, € per month*</li> <li>Labor force with advanced education, m</li> <li>Higher education enrollment rate, %</li> </ul>	<ul style="list-style-type: none"> <li>2020 and 2017 vs 2012</li> <li>2015 vs 2012</li> <li>2015/2014 vs 2012</li> </ul>
	<b>Infrastructure</b> <ul style="list-style-type: none"> <li>Prime office rent, € per sq. m.</li> <li>Fixed-broadband subscriptions, %</li> <li>Average Internet speed for country, kbps</li> </ul>	<ul style="list-style-type: none"> <li>2017 vs 2012</li> <li>2016 vs 2012</li> <li>2017 vs 2012</li> </ul>
	<b>Risks</b> <ul style="list-style-type: none"> <li>Country Safety Index, scores</li> <li>Global Insight Country Risk Ratings, points</li> </ul>	<ul style="list-style-type: none"> <li>2017 vs 2012</li> <li>2016 vs 2012</li> </ul>
	<b>Taxation &amp; incentives</b> <ul style="list-style-type: none"> <li>Paying Taxes - Doing Business, rank</li> </ul>	<ul style="list-style-type: none"> <li>2016 is covered within the report issued in 2017 vs 2012 covered within the report issued in 2013</li> </ul>
	<b>Operating environment</b> <ul style="list-style-type: none"> <li>Corruption Perceptions Index, scores</li> <li>Doing Business, rank</li> </ul>	<ul style="list-style-type: none"> <li>2016 vs 2012</li> <li>2016 is covered within the report issued in 2017 vs 2012 covered within the report issued in 2013</li> </ul>
	<b>Location appeal for residence</b> <ul style="list-style-type: none"> <li>Social Progress Index, scores</li> </ul>	<ul style="list-style-type: none"> <li>2016 is covered within the report issued in 2017 vs 2014 covered within the report issued in 2015</li> </ul>

\* Country's average salary rate for each country was adjusted for applicable labor tax and contribution rates paid by employers.

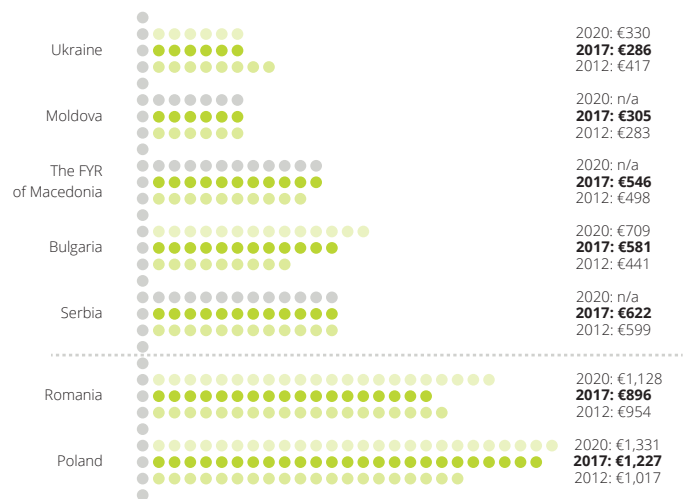


## Category assessment: Human resources



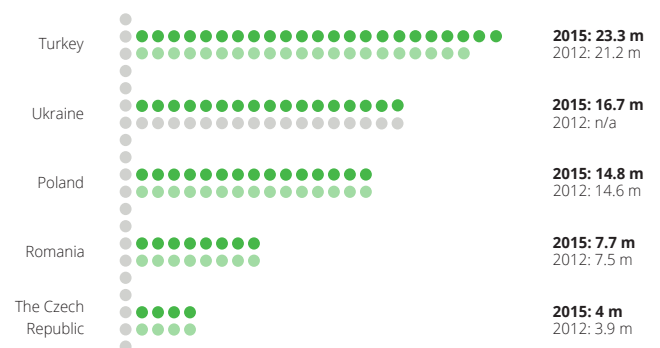
**Country's average salary rate in Ukraine is €286 per month in 2017**, which is the lowest average salary rate compared to Moldova (€305), the FYR of Macedonia (€546), Bulgaria (€581), Serbia (€622), Romania (€896), and Poland (€1,227).

Country's average salary rate in Ukraine has decreased by 33% since 2012, resulting from a significant national currency depreciation due to a political and economic turmoil. One should note that the economic situation began to stabilize in 2016, which resulted in GDP growth and stabilization of Ukrainian Hryvnia. Country's average salary rate in Moldova has grown by 8% since 2012, in the FYR of Macedonia – by 10%, in Bulgaria – by 32%, in Serbia – by 4%, in Poland – by 21%, and has decreased by 6% in Romania. By 2020, country's average salary rates are expected to grow by 26% in Romania, by 22% – in Bulgaria, by 16% – in Ukraine, and by 8% – in Poland.



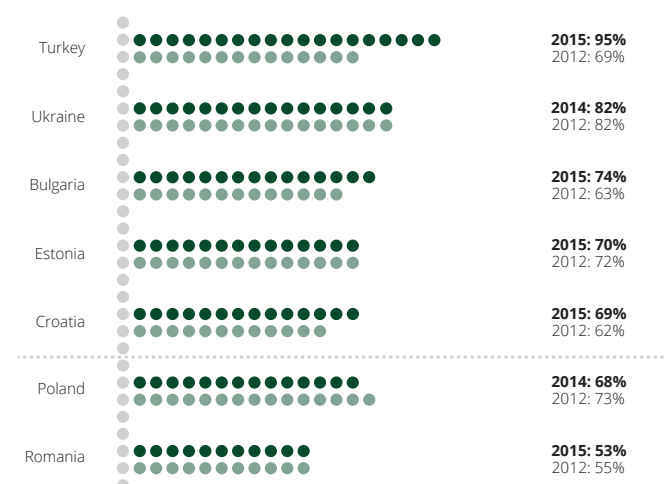
**Labor force with advanced education in Ukraine amounted to 16.7 m people in 2015**, which is the second largest figure after Turkey (23.3 m), and followed by Poland (14.8 m), Romania (7.7 m), and the Czech Republic (4 m). Labor force with advanced education has grown by 9% in Turkey since 2012, by 3% – in Romania, by 2% – in the Czech Republic and by 1% – in Poland. No comparative data for Ukraine in 2012 is available.

A significant increase in labor force with advanced education in Turkey has been influenced by the continuous growth in young population, partially due to the receipt of refugees, as well as a shift in the government's education policy.



**Higher education enrollment rate in Ukraine reached 82% in 2015**, which is the second highest level after Turkey (95%), followed by Bulgaria (74%), Estonia (70%), Croatia (69%), Poland (68%), and Romania (53%). Higher education enrollment rate is not only the highest in Turkey, but it has also shown a sufficient increase by 26 pp since 2012 due to the government's education policy shift. Meanwhile, higher education enrollment rate has grown by 11 pp in Bulgaria, by 7 pp – in Croatia, and less than 1 pp in Ukraine, and has decreased by 2 pp – in Estonia and Romania and by 5 pp – in Poland.

In Ukraine, about 253 thousand students enrolled to higher educational institutions in 2016, and 319 thousand students obtained Bachelor's degrees, whereas approximately 37% completed social and business area programs and 17% – engineering ones.



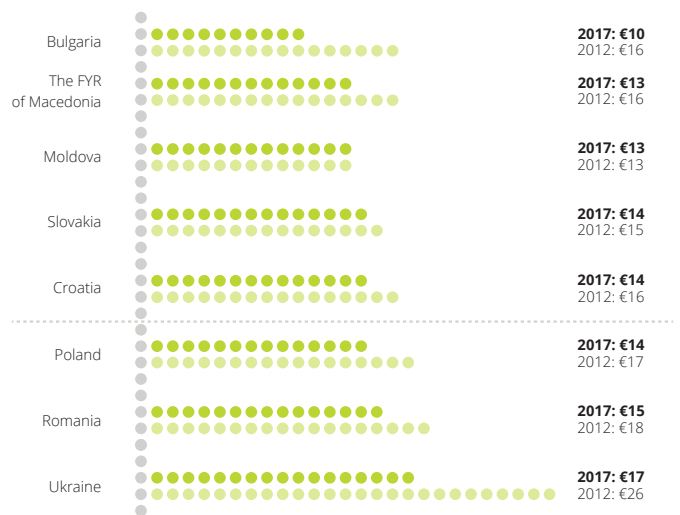


## Category assessment: Infrastructure



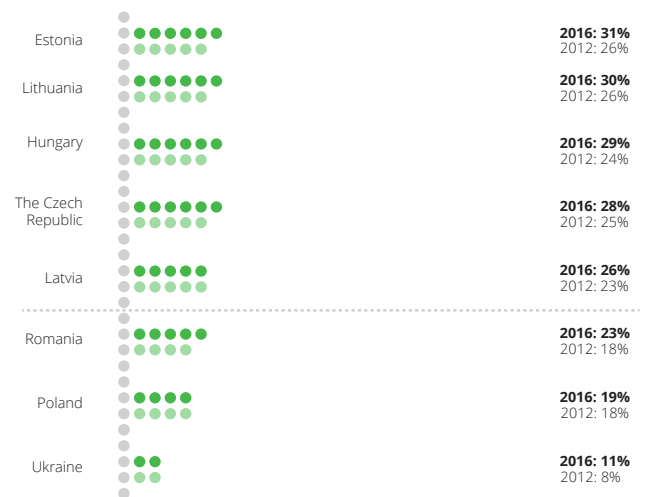
**Prime office rent in Ukraine amounts to €17 per sq. m. in 2017** and is higher than in Bulgaria (€10), the FYR of Macedonia, and Moldova (€13), Slovakia, Croatia, and Poland (€14), and Romania (€15).

Enhancing business activity in Ukraine as well as decrease in vacancy rate in Kyiv may drive rent prices up. Rental rates in Warsaw (Poland) are expected to remain relatively stable due to both strong construction activity in respect of office spaces and a high demand from tenants. Prime office rent in Bucharest (Romania) is likely to increase due to the simultaneous growth in business activity in IT and BPO&SSC sectors as well as office supply due to a moderate level of the construction activity. Rental rates in Bratislava (Slovakia) are expected to remain stable due to both growing business activity and leasable area capacity. Prime office rent in Sofia (Bulgaria), Skopje (the FYR of Macedonia), Chisinau (Moldova), and Zagreb (Croatia) are likely to remain relatively stable due to a moderate level of economy growth, and an expected slight increase in the office premises supply.



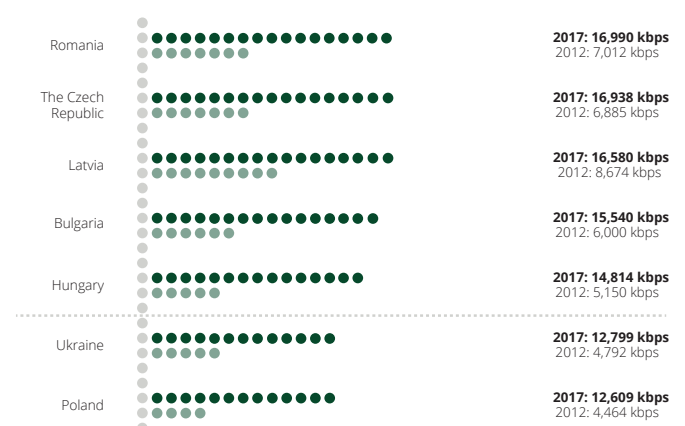
**Fixed-broadband subscriptions covered 11% of population in Ukraine in 2016**, which is the lowest level in comparison with Estonia (31%), Lithuania (30%), Hungary (29%), the Czech Republic (28%), Latvia (26%), Romania (23%), and Poland (19%).

Fixed wired broadband subscriptions include the total number of subscriptions to the following broadband technologies with download speeds of 256 kbit/s or greater: DSL, cable modem, fiber-to-the-home, and other fixed technologies (such as broadband over power lines and leased lines). Fixed-broadband subscriptions in Ukraine, Latvia, and the Czech Republic increased by 3 pp in 2016 in comparison with 2012, in Estonia and Romania – by 5 pp, in Lithuania – by 4 pp, in Hungary – by 5 pp, and Poland – by 1 pp.



**Average Internet speed in Ukraine is 12,799 kbps in 2017**, which is inferior to Romania (16,990 kbps), the Czech Republic (16,938 kbps), Latvia (16,580 kbps), Bulgaria (15,540 kbps), and Hungary (14,814 kbps). Yet, Poland has a slower connection of 12,609 kbps.

An average Internet speed is dependable on the broadband infrastructure, particularly, fiber-optic networks built within the country. The Internet speed in Ukraine has grown by 167% since 2012, while in Romania – by 142%, in the Czech Republic – by 146%, in Latvia – by 91%, in Bulgaria – by 159%, in Hungary – by 187%, and in Poland – by 182%.







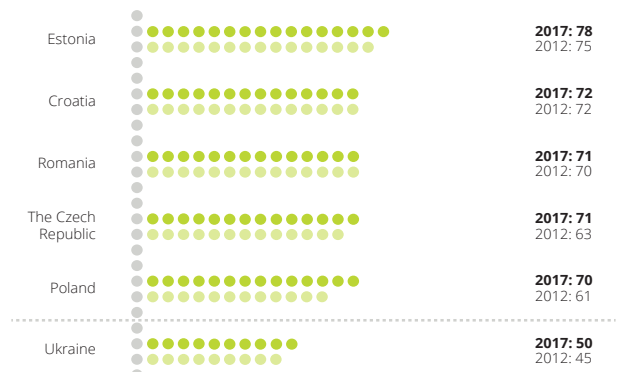
## Category assessment: Risks



**Ukraine has scored 50 points out of 100 within Country Safety Index in 2017**, which is inferior to Estonia (78 points), Croatia (72 points), Romania and the Czech Republic (71 point), and Poland (70 points).

The Country Safety Index is an estimation of crime level in a given country, where higher scores are attributed to the countries that are considered to be more safe.

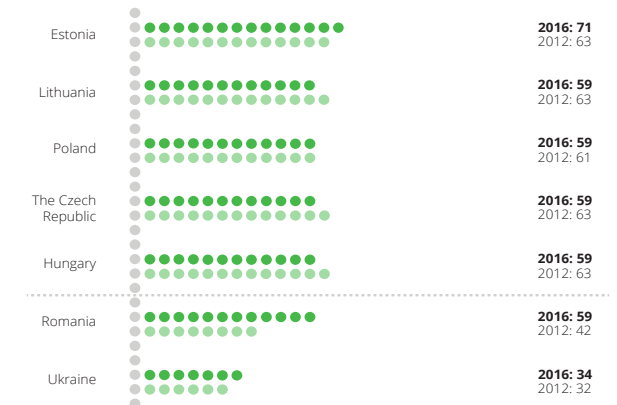
In 2012, Ukraine scored 45 points, Estonia – 75 points, Croatia – 72 points, Romania – 70 points, the Czech Republic – 63 points, and Poland – 61 points.



**Ukraine scored 34 points out of 100 in Global Insight Country Risk Ratings in 2016**, while Estonia scored

71 point, Lithuania, Poland, the Czech Republic, Hungary, and Romania – 59 points. This rating covers political, operational, security, economic, tax, and legal areas as major risk factors.

In 2012, Ukraine scored 32 points, Estonia, Lithuania, the Czech Republic and Hungary – 63 points, Poland – 61 point, and Romania – 42 points.

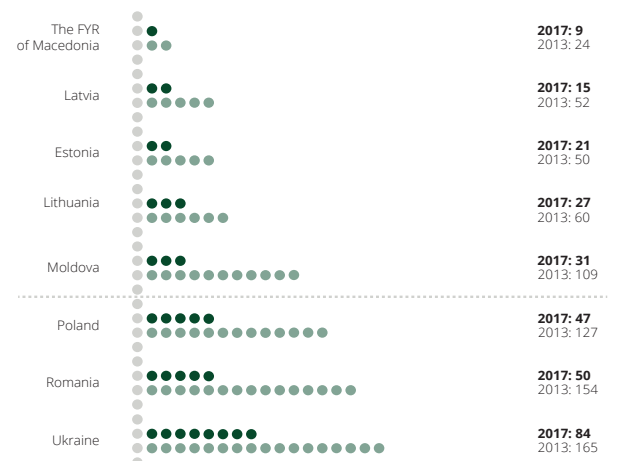


## Category assessment: Taxation & incentives



**Ukraine ranks 84th in Taxation Ranking within the Ease of Doing Business Index 2017**, being inferior to the FYR of Macedonia, Latvia, Estonia, Lithuania, Moldova,

Romania, and Poland. In 2016, labor tax and contribution in Ukraine amounted to 22%, whereas in the FYR of Macedonia – 0%, in Latvia – 23.59%, in Estonia – 33.8%, in Lithuania – 31.18%, in Moldova – 27.5%, in Romania – 23.10%, and 16.93% plus 40.65% x 6% x average salary in Poland. Despite the modest ranking position, Ukraine has the lowest number of payments among other countries covered by the research, though quite a long time required for taxes administration adversely affects its ranking. However, one should note a positive dynamics in the index. **Ukraine has climbed from position 181 in 2013 to 84 in 2017.** Moreover, labor tax and contribution for employers in Ukraine were reduced to 22% of the taxable base in 2016, whereas previously they ranged from 36.76% to 49.7% depending on the class of a professional risk and income above payroll cap.







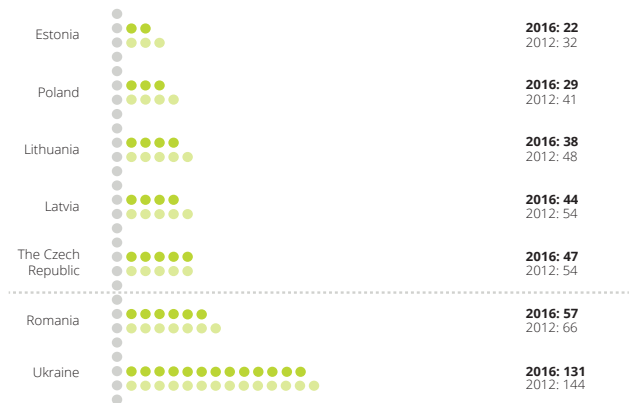
## Category assessment: Operating environment



**Ukraine ranked 131 within Corruption Perceptions Index in 2016**, being behind all countries within the research. Nevertheless, Ukraine has climbed

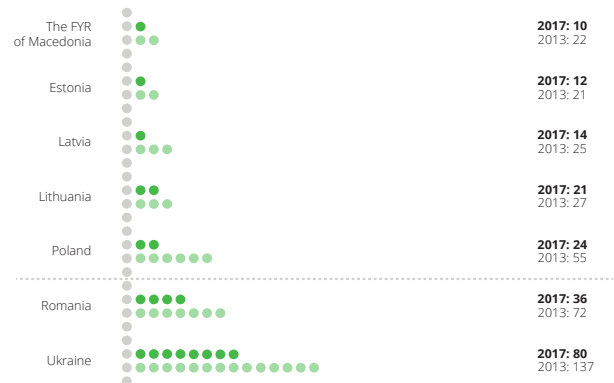
13 positions up since 2012, similar to Estonia, Lithuania, and Latvia (10 positions), Poland (12 positions), Romania (9 positions), and the Czech Republic (7 positions).

Despite a political and economic turmoil in Ukraine, moderate changes are taking place, e.g., e-declaration system and electronic system of VAT reimbursement have been launched, electronic tender system ProZorro for state procurement is extensively used.



**Ukraine ranks 80 in the Doing Business 2017**, being behind all countries within the research. However, one should note a positive dynamics in the index – **Ukraine has climbed from position 137 in 2013 to 80 in 2017**, while

the FYR of Macedonia has raised from 22 position to 10, Estonia – from 21 to 12, Latvia – from 25 to 14, Lithuania – from 27 to 21, Poland – from 55 to 24, and Romania – from 72 to 36.



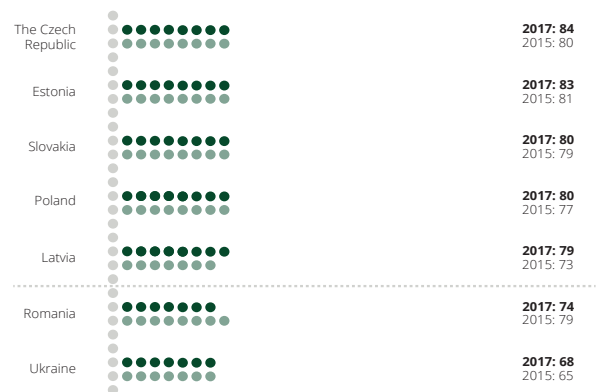
## Category assessment: Location appeal for residence



**Ukraine has scored 68 points out of 100 in the Social Progress Index 2017**, falling behind the Czech Republic, Estonia, Slovakia, Poland, Latvia, and Romania. Social

Progress Index is an integrated index covering such areas as basic human needs, foundations of wellbeing and opportunities.

The main underperforming subareas for Ukraine in this index are environmental quality and personal safety, although Ukraine has slightly outperformed the above-mentioned countries in the access to advanced education.



# Examples of operating SSCs in Ukraine

## Nestle

**Industry:** Consumer products

**Implementation date:** 2010

**Location:** Lviv

**Number of employees:** >800

**Countries serviced by the SSC:** More than 30 countries, including the Baltic States, the Adriatic, Scandinavia, North America as well as Russia, Poland, Romania, Hungary, Bulgaria, the Czech Republic, Italy, Greece, Brazil, Colombia, Japan, and other countries

**Processes transferred to the SSC:** Finance, Procurement, Other functions

## AB InBev

**Industry:** Consumer products

**Implementation date:** 2009

**Location:** Kharkiv

**Number of employees:** >500

**Countries serviced by the SSC:** Russia and Ukraine

**Processes transferred to the SSC:** Finance, Human Resources, Procurement, and Logistics

## Veon

**Industry:** Telecommunications

**Implementation date:** 2016

**Location:** Lviv

**Target Number of employees:** ~900

**Countries serviced by the SSC:** Ukraine, Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, Armenia, Georgia

**Processes transferred to the SSC:** Finance, Human Resources, Procurement, Other Functions

## Gruma

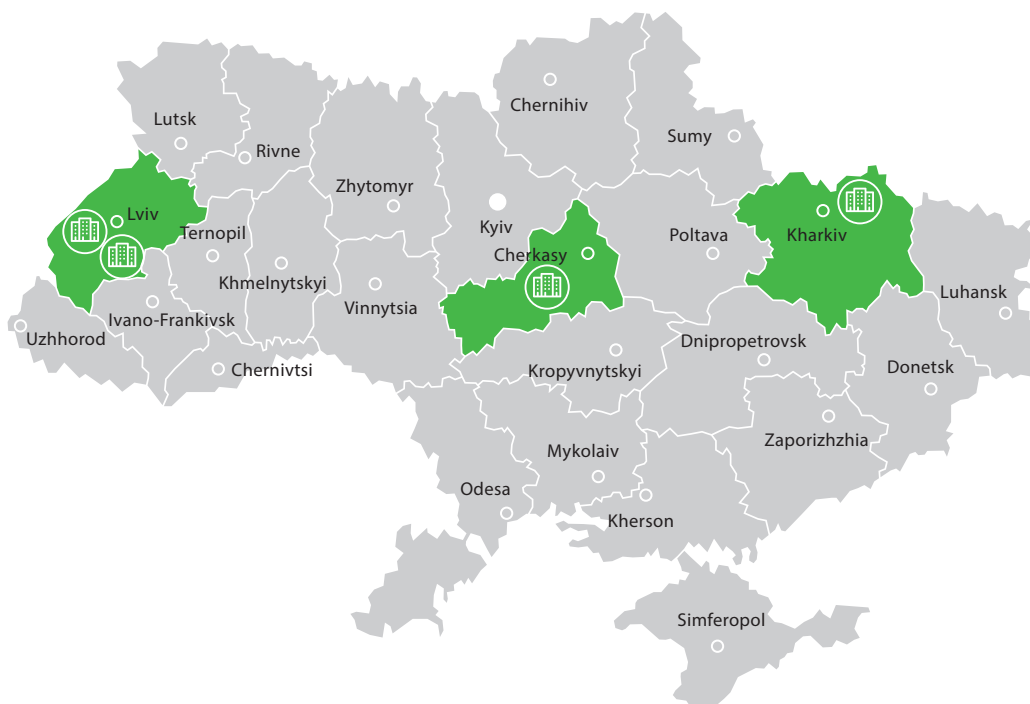
**Industry:** Food

**Location:** Cherkasy

**Number of employees:** >25

**Countries serviced by the SSC:** Gruma EMEA companies

**Processes transferred to the SSC:** Finance



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