Yuri Bender

Tech entrepreneurs see Ukraine as future IT leader

T-shirts and trainers are becoming the new corporate uniform in the east European country

Технічні підприємці бачать Україну як майбутнього лідера ІТ
Футболки та кросівки стають новою корпоративною формою у східноєвропейській країні
Прихильники нової економіки, з ентузіазмом переливаючи свою українську мову з англомовним технологічними словами, заявляють, що вони з часом перетворять Україну на провідну країну Європи для інновацій з інформаційних технологій. "Три роки тому в Києві всі були банкірами і фінансистами", - говорить Роман Мотичак, радник інвестиційної компанії ICU. "Тепер ви бачите футболки та кросівки в ліфті найдорожчих офісів, - каже пан Мотичак. "Це змінило соціальну динаміку у центрі Києва". За даними аналізу ринку комерційної нерухомості, в першій половині 2017 р. в Івано-Франківську на ІТ-компанії припало більше половини всіх операцій з оренди офісів. У 33-поверховому бізнес-центрі Гулівер, поруч із станцією метро Палац Спорту, технологічні компанії займають 60 відсотків оренди офісів. Програмні компанії говорять про те, що військовий конфлікт у Донбасі, повільні темпи реформ та непередбачуваний діловий клімат стримують інвестиції. Однак вони бачать яскраве майбутнє.
https://www.ft.com/content/1a7e7ae4-91b4-11e8-9609-3d3b945e78cf

Lviv is a hub for Ukraine's IT sector © Alamy

Advocates of the new economy, enthusiastically peppering their Ukrainian with English tech-speak like "co-working hub," believe they will eventually transform Ukraine into Europe's leading country for IT innovation.

"Three years ago, Kiev was all banking and finance," says Roman Motychak. He is an adviser to investment firm ICU, which is based in the capital city's Leonardo Business Centre, opposite the landmark National Opera Theatre. "Now you only see T-shirts and sneakers in the lift," says Mr Motychak. "IT has changed the social dynamic of downtown Kiev."

According to a commercial property market analysis by agents Cushman & Wakefield, IT companies accounted for more than half of all office transactions (including expansions and relocations) in Kiev in the first half of 2017. That did not include many start-ups taking space in co-working hubs and some boutique IT firms renting smaller suites.

At the 33-floor Gulliver Business Centre, close to the Palats Sportu metro station, technology companies account for 60 per cent of office rentals. A recent arrival is Grammarly, a start-up online grammar checker, which has taken two floors to accommodate 200 staff.

"This is a fast-developing trend and the pace of building new offices in Kiev is very slow. So if you have the space, then IT, software and other creative industries are keen to move in," says PR director Tatiana Atadzhanova.

Kiev's IT crowd is described by industry insiders as imitating their US counterparts: unwinding in on-site gyms and "spa salons", and spending their disposable income on green consumer goods, such as electric cars. The value of Ukraine's IT services industry is increasing by 16 per cent annually, with 2017 exports worth $3.6bn. The sector has been earmarked as a "locomotive for growth" by prime minister Volodymyr Groysman.

Software developers and coders with three to five years' experience earn $1,500 to $2,000 per month in the provinces and up to $3,000 in Kiev, according to industry-provided figures. Most work freelance, paying minimal taxes. The average monthly wage across Ukraine's economy is closer to $300.

Outsourcers, including homegrown SoftServe and its US rival EPAM, contribute to Ukraine's more than 100,000 IT jobs, developing software for the big US tech companies. According to investment firm AVentures Capital, 500 firms service this global market, clustered around technical universities in Lviv, Kiev, Kharkiv, Dnipro and Odessa.

SoftServe and EPAM both have offices in Lviv, 70km from the Polish border. SoftServe provides 6,000 Ukrainian jobs, and serves clients including Google and Hewlett-Packard. Each year, the firm welcomes 800 recruits to its academy for six months' unpaid training, after which 70 per cent graduate to full employment as software developers.

SoftServe's co-founder Taras Kytsmey says he seeks "future leaders" to transform Ukrainian society over the next 30 years.

"The next generation are dedicated, intelligent and, most importantly of all, have a global outlook," he says.

But the attractiveness of outsourcing reduces as the salary gap narrows, says Yurij Riphyak, chief product officer at YouTeam, which helps tech firms outsource development to eastern Europe. "Ukrainian IT specialists are already earning six times the average wage. The income trap [where wages catch up with developed markets] will be reached sooner rather than later," says Mr Riphyak, who splits his time between Ukraine and Silicon Valley.

In response, traditional outsourcing groups are entering consultancy and tech innovation, rubbing shoulders with SMEs and start-ups. Mr Riphyak points to a series of Ukrainian firms setting up US outposts. These include mobile app developer Readdle, tattoo simulator InkHunter,

which allows users to see how a tattoo would look on their arm, and Wi-Fi camera Petcube, which allows owners to play with and train domestic animals remotely.

The latter received a $10m injection in 2017 from venture capital funds, which invested a total of $630m over the past five years in Ukrainian start-ups and IT companies, according to the Ukrainian Venture Capital and Private Equity Association (UVCA).

Other recent deals have included $160m funnelled into Lviv's Innovation District IT Park, providing 14,000 workplaces alongside a hotel, tech labs, kindergartens and restaurants. There has been an accompanying boost for the local economy. Lenna Koszarny, chief executive of Horizon Capital — one of the funds behind the park — says Lviv's 20,000 IT workers have made an estimated $60m in property purchases and are responsible for just below a third of new cars bought locally.

The UVCA's Supervisory Board Chairman, Andrey Kolodyuk, a serial entrepreneur and managing partner at AVentures Capital, says that early adoption of blockchain technology has given Ukraine an edge compared to other regulation-heavy countries.

"The sector has developed organically and in a decentralised fashion," says Florence Cahill, political analyst at London-based risk consultancy GPW. It has avoided the tentacles of oligarchs and an intrusive state, she adds.

Funding remains a challenge. Oksana Borysenko, president of the IT association Digital Ukraine, feels the authorities can do more to champion start-ups. Ms Borysenko spent several years developing her Enable Talk wearable glove — used to translate sign language into text and speech — but failed to raise further development funds. "The opportunities are there, the desire is there, but there is no overall national strategy for innovation, which is badly needed," says Ms Borysenko.

Software companies say the military conflict in Donbas, slow-paced reforms and an unpredictable business climate have hampered investment. Yet they see a bright future in big data and artificial intelligence. EPAM is developing chatbots for a global ticket sales company and a cloud platform to link car manufacturers with digital services.

The government's agency for foreign investment backs this co-operation between IT and traditional industries, which could also help combat Ukraine's dramatic depopulation and brain drain.

Daniel Bilak, chairman of the supervisory board at UkraineInvest, has been building the country's "Silicon Steppe" brand, embracing tech firms that can transform the agricultural sector.

"There will soon be a guy sitting in a control room with a joystick, moving village tractors around," he says, adding: "You won't have to worry any more if your drivers disappear to Poland for two months during the harvest to earn more money."