

**NEWSLETTER**

**INTERNATIONAL**

 ENGLISH VERSION



## UKRAINE: ECONOMIC GROWTH PROVIDES OPPORTUNITIES



P. 2

INTERVIEW:

**Andreas Lier**

“WAITING ON THE SIDELINES CAN BE EXPENSIVE” ►



P. 4

ANALYSIS:

**Christian Tegethoff**

CURRENT TRENDS ON THE UKRAINIAN LABOR  
MARKET ►



P. 6

**Dr. Martin Hoffmann, Stefan Kägebein**

ALUMNI DATABASE: ACHIEVING SUCCESS  
WITH FRESH FORCES ►

## “WAITING ON THE SIDELINES CAN BE EXPENSIVE”

### How is BASF positioned in Ukraine and what are your goals for 2018?

As BASF we are traditionally broad-based. We are represented in almost all value chains and feel the pulse of the country every day.

We have more than 150 employees and we have been present in Ukraine since 1992. In fact, we noticed that things have been developing very positively since mid-2016. Examples include the agricultural and food industries, the construction sector and various light industries. Here, small and medium-sized enterprises invest, especially in the regions, entering new markets.

Insofar I am sometimes much more positive than someone who works in a single industry only. There are certainly some challenges, such as adapting products to international standards and developing new export markets.

As BASF, our mission here is to make our customers a little more successful every day and to accompany them along the way. This brings me to the many opportunities resulting from import substitution and companies' drive to enter new export markets with their specific requirements.

As BASF, we are committed to the long term. We have also expanded our team between 2015 and 2017 and will continue to do so in the future to assist our partners and customers with meeting the needs of local and international markets.

As in the previous year, we recorded double-digit growth in 2017 and plan to do so again in 2018.

### In your opinion, which are the biggest obstacles to doing business in Ukraine?

The German economy still sees great need for improvement in many areas. This is especially true in the judiciary system and the fight against corruption. Both are reasons why the business and investment climate in the country brightens more slowly than demanded. Consequently, many foreign investors are still standing on the sidelines and waiting.

Overall, Ukraine needs stronger growth, especially through higher foreign direct investment. To achieve this, a more attractive investment climate needs to be created. At the same time, a broader basis for growth should be aimed for.

Another important issue is the increasing shortage of skilled labor, because the visa-free regime for stays of up to 90 days means that more and more workers are moving to neighboring Poland.

On the other hand, there are significant opportunities for German companies. Especially the export-oriented sectors, industrial goods suppliers and companies integrating themselves into value chains in Western Europe are promising buyers. Infrastructure projects financed by development banks are also interesting.



**Andreas Lier**

is Head Country Cluster East Europe at BASF and President of AHK Ukraine. He lives in Kiev.

## **What aspects make Ukraine an interesting market for European companies?**

Ukraine is a country with more than 40 million consumers, a well-educated population, a convenient location between West and East, North and South. In addition, there are enormous resources, mineral resources and almost 30% of the world's black earth soils.

German companies consider the restructuring of the economy a major opportunity, which continues to pick up speed. Thus, the economy is evolving from energy-intensive heavy industries to light industries, e.g. by finishing goods.

For example, German companies report on investments and positive changes in the agricultural and food industry as well as in the furniture, footwear and household appliances sectors. German companies frequently register double-digit sales growth rates. More and more Ukrainian manufacturers are exporting to the EU.

Western Ukraine is becoming an increasingly important location as it has many advantages for foreign manufacturers of automotive parts: the geographical proximity to the EU, favorable labor costs and many years of industrial tradition.

## **What concrete changes has the Ukraine-European Union Association Agreement brought so far?**

The Association Agreement entered into force on 1 January 2016 and has now been ratified in 2017 by the last remaining country, the Netherlands.

For the economy, changes are particularly evident in initiatives to reduce and simplify licensing procedures and to simplify the registration of property. The technical regulations have been and will continue to be aligned with EU standards.

Overall, it can be said that these measures have already shown initial success. In 2017, Ukraine ranked 76 out of 190 countries in the World Bank's annual Doing Business Ranking (2012: 152th place). Companies are already realizing the changes in cross-border trade. The visa-free regime has led to further opening and exchange of work force.

## **What further economic development do you expect in Ukraine?**

After the two years of heavy recession in 2014 and 2015, the Ukrainian economy is recovering. For 2017, economic growth of about 2% is expected.

For 2018 and the coming years, moderate growth rates of 3-4% have been forecasted. With the shadow economy still close to 40%, real growth is likely to be higher. Overall, I see the further development positively. It should continue to gain momentum if reforms are implemented faster and more sustainably.

For any company considering investing in a market with over 40 million consumers and a skilled work force, waiting on the sidelines could be costly as other companies are likely to seize the opportunities in the meantime.

## CURRENT TRENDS ON THE UKRAINIAN LABOR MARKET

The Ukrainian economy has been severely affected by the events of 2014 - domestic political tensions, the conflict in the East and the reduction of economic ties with Russia have contributed to a significant decline in gross domestic product over two years.

Symptoms of the crisis were high inflation rates of up to 43% annually (2015) and the fall in the value of the hryvnia (UAH). The Ukrainian currency lost two-thirds of its value to the euro between January 2013 and January 2018.

Accordingly, imported goods have become more expensive for businesses and consumers. Employers were unable to compensate for inflation by raising salaries.

However, the Ukrainian economy has bottomed out in the meantime and is moving into calmer waters with growth rates of 2% in the last two years.

The official **unemployment rate** during the year 2017 amounted to 8-9%. However, this figure reflects the real situation in the country only to a limited extent. Not all jobseekers are registered as unemployed, and the government assumes a high percentage of undeclared work in total employment.

In any case, the available labor market indicators are pointing upwards. According to the job portal „Headhunter“, the number of vacancies advertised there at the end of 2017 was more than a quarter higher than in January. According to Headhunter, 23% of the searching Ukrainian companies indicated that they planned to fill the vacancies in connection with expansion projects.

The Ukrainian minimum salary has been raised to 3,200 UAH in 2017 (approx. 94 euro) and the average statistical salary in November 2017 was 7,479 UAH (approx. 220 euro).

A survey by the job portal „Headhunter“ showed in 2017 that 36% of the surveyed companies have increased salaries for all employees, while one third of the companies have only increased the remuneration of selected employees. In a quarter of the companies there were no adjustments and only 5% of the surveyed companies has cut salaries. According to Headhunter, salary increases averaged 10-15%. In view of the expected inflation of 12.5% in 2017, the vast majority of Ukrainian employees would at best have modest real wage increases.

A survey by EY in the first half of 2017 showed that 77% of the polled Ukrainian companies are fixing all employee salaries in hryvnia. 18% had fixed the remuneration of the top management in foreign currencies and 5% had fixed all salaries in foreign currency.

Many Ukrainians consider **emigration** as a response to the very low salaries in their country. At the same time, the abolition of visa requirements has opened the doors to the countries of the Schengen area.



**Christian Tegethoff**  
Managing Director CT Executive



### Basic Data Ukraine

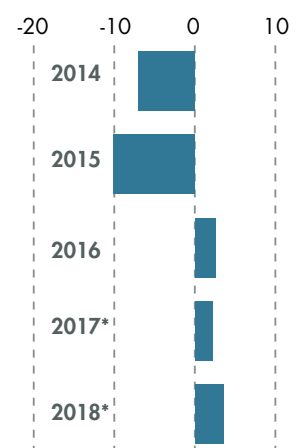
Population: **45 million**

Population growth (2017)  
**-0,4%**

GDP per capita (USD, nominal)  
2016: **2.459**

### GDP Growth

YoY in %, real



\* 2017/2018: estimation/forecast

Although Ukrainians still need a work permit to work in the European Union, the elimination of the visa requirement makes it much easier for them to find work and accommodation in their destination country.

Especially in Poland there is high demand for manpower as many Poles are themselves working in Western European countries. The average Polish wage is about four times higher than the Ukrainian average.

According to the Polish Employers and Business Association, more than 1.3 million Ukrainians were working in Poland at the beginning of 2018. RIA Novosti cites the Ukrainian State Employment Service with an estimate of 5.5 million Ukrainians working abroad.

The most popular destination is Poland, followed by Russia, the Czech Republic, Germany and Italy. The emigration of the workforce already causes problems for the Ukrainian companies. Especially in western Ukraine, competition abroad makes it difficult to recruit and retain employees. Above all, the manufacturing sector and the IT industry are affected.

At the same time, according to BNP Paribas, private remittances from abroad to Ukraine amounted to 4 billion dollars in 2016 alone. These transfers are a vital income for many low-founded households.

The low salaries make Ukraine a location particularly interesting for **labor-intensive** production processes. Especially in western Ukraine, several European automotive suppliers are benefitting from this cost advantage while being located geographically close to the European market.

For the same reason, Ukraine is also of interest as an **outsourcing** location. The IT industry is already successfully leveraging the Ukraine's skilled specialists, accessing a pool of well-trained and motivated professionals.

Foreign companies are generally in a comfortable position when recruiting. Most Ukrainians prefer an international employer, which many associate with transparency and professionalism.

**Executives and managers** suitable for international companies are very unevenly distributed in Ukraine. Most foreign companies manage their local business from Kiev; accordingly, most Ukrainian managers with international exposure are located in the capital.

In the other regions, companies will find it much more difficult to hire managers with English language skills and an understanding of how international companies work.

From a compliance perspective, Ukraine is a high-risk country. Executives working there need to be aware of the rules of the local game, while at the same time being able to comply with rules and standards of an international corporation. This ability is a key skill that needs to be considered during the candidate selection process.

## ALUMNI DATABASE: ACHIEVING SUCCESS WITH FRESH FORCES

The German Committee on Eastern European Economic Relations operates an on-line database of CVs of Ukrainian professionals interested in working for a European company in their home country.

The database is freely accessible to companies at <https://alumni-ua.org/> and the candidates can be approached directly by interested companies.

These are alumni of the Internship Program of German Business for Ukraine, which offers young graduates and students from Ukraine the opportunity to spend internships of several month in leading German companies.

In the years 2015 to 2017, the 75 participants were hosted by around 50 German companies. The 44 scholarship holders of the 4th year will complete their assignments in German companies from February 2018 on.

The scholarship holders received insights into the corporate culture in Germany and acquainted themselves with modern management styles and work processes. This kind of practical employment is particularly valuable for young professionals from Ukraine with its highly theoretical university curriculums.

The program participants were selected from an annual application pool of approx. 400 candidates, of which approx. 90 were shortlisted and introduced to interested companies.

After their stay in Germany, the scholarship holders returned to Ukraine to apply their knowledge and skills. The fresh experience and business contacts strengthen economic development in Ukraine and promote bilateral relations with Germany.

There are alumni from almost every industry and function, so looking at the database can pay off for virtually any company with Ukraine ambitions.

With the establishment of the alumni network, the program generally makes an important contribution to sustainable economic development, intensifies economic relations and creates a cross-industry network of young, cosmopolitan young professionals.

Companies that have hitherto welcomed scholarship holders include METRO AG, SAP SE, PwC Deutsche Revision AG, Commerzbank AG, DEG mbH, various companies of the Robert Bosch Group, John Deere GmbH & Co. KG, Allianz SE, KWS Saat AG, Leoni AG, Bombardier Germany, the German Insurance Association, Deutsche Bahn AG, GLORIA Haus- und Gartengeräte GmbH, Dyckerhoff GmbH and many others.

The program is funded on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ), implemented by the German Association for International Cooperation (GIZ) GmbH and implemented by the German Committee on Eastern European Economic Relations.



**Dr. Martin Hoffmann**

Regional Director Eastern Europe, contact person for Ukraine at German Committee on Eastern European Economic Relations



**Stefan Kägebein**

Project Manager, contact person for the alumni database Ukraine / German Committee on Eastern European Economic Relations



## EXECUTIVE SEARCH

### EXECUTIVE SEARCH EXPERTS IN THE EMERGING MARKETS

CT Executive Search focuses on placing key positions in the emerging markets – in Russia/ CIS, Africa, the Middle East and Asia.

We are experts in cross-border search processes and identifying top-notch candidates for international companies. Leveraging a broad network of analysts and consultants across the emerging markets, CT Executive Search has established itself as a reliable partner for well-reputed companies.

#### MOSCOW

CT Executive Search LLC  
Central Office  
Shlyuzovaya nab. 8,1  
115114 Moscow, Russia  
Telephone: +7 499 678 2111  
E-Mail: office@ct-executive.com

- ★ CT Executive Search Central Office
- CT Executive Search Liaison Locations
- International Research Capacities

