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New report offers overview of recent changes within Ukraine's ever-evolving expatriate community

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Ukraine's growing integration into global markets and the international economic mainstream has also led to a slow but steady rise in the number of expats living and working in the country. Beginning from a low point in the immediate aftermath of the 1998 Russian financial collapse, the number of expat professionals who regard Ukraine as their primary residence has grown considerably, only to tail off somewhat in recent years due to the often prohibitive expense of hiring foreign specialists together with the emergence of a new generation of qualified Ukrainian professionals. Last year State Tax Administration officials cited a total of 8,000 expat professionals registered as full time residents of the country. This Ukrainian expat community enjoys influence within the Ukrainian business sector that is often far greater than its limited numbers would suggest, largely due to the senior management positions and leadership roles which many in the expat community occupy. However, relatively little is known of what this ostensibly apolitical, executive cadre actually thinks about the changes occurring in the Ukrainian economy or how they feel about the various aspects of doing business in this challenging market.

Gauging expat opinion

A survey carried out in the first half of 2010 by Ernst & Young, Delo newspaper and the American Chamber of Commerce sought to answer these questions and assess the current state of the expat employment market in Ukraine while for the first time also asking expats themselves what they think about various aspects of their work and home life in Ukraine. With Ukraine hoping to be one of the countries to benefit most from an anticipated return to bearish emerging market investment strategies in the coming two years, expat opinion has never been so important. Many of the foreign professionals currently working in Ukraine will serve as the first point of contact for the country when potential investors come knocking, and their ability to offer an honest

Current issue

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but optimistic appraisal could be a key factor in securing the kind of international investment interest which Ukraine is currently in need of. This 2010 Expat Survey features data from hundreds of participants, the majority of whom have been living and working in Ukraine for one year or more. Participants were mainly drawn from the US, Western Europe and the CIS. Most were senior managers and the best represented sectors of the economy were banking, telecommunications, legal services and education.



Crisis cull among Kyiv's international executives

Despite a long-term trend towards higher numbers of expatriate workers, the number of Ukrainian companies looking to hire expats has actually fallen somewhat in the past few years of economic turmoil. As anti-crisis measures kicked in across the country, many companies have looked to shed the burden of high expat salaries and accompanying packages, resulting in a cull of the expat community which has seen a number of long-term foreign professionals forced to change jobs or depart the country. There has also been a significant shift within the expat employment market away from the type of senior management positions synonymous with the swaggering 1990s expat scene and towards professional specialists hired to perform a specific role within an existing management structure. In many cases this has meant foreign specialists being hired in order to teach specific skills to their Ukrainian colleagues, often related to new facilities or technologies.

There has also been a significant drop in the number of expatriates being posted to Ukraine's regional capitals. For some years after 2001 this figure had been steadily rising in comparison to the heavy 1990s concentrations in Kyiv, but the particular severity of the global credit crunch in Ukraine's regions has led to a sharp fall in regional expat postings. Last year Ukrainian companies appointed virtually no new expats to their regional operations, while in many cases those employing foreign staff in the regions cut back on numbers.

Expat salaries survive credit crunch virtually unscathed

Although the global recession has led to hardships and pay cuts for people all over the world, it seems that Ukraine's expat community is one of the few sectors to have survived relatively unscathed, with more than half of the 2010 expat survey participants stating that their income has remained stable or risen since the 2008 crash. In total 45% of expat respondents reported that they'd experienced no changes in their income following the onset of the 2008 credit crunch, while 10% saw their income actually increase. At the same time, 55% of respondents reported no changes in their spending patterns during the crisis, while around 20% stated that they had cut back on day-to-day expenses, 20% reduced luxury purchases and 11% cut down on investments.

Fewer Ukraine expats receiving hardship pay

As well as competitive and stable salaries, most of the foreign employees working in Ukraine also receive a host of additional benefits which vary from company to company. The 2010 expat survey found that these perks include relocation allowance (65% of respondents), cost of living allowance (35%), hardship allowance (35%), end of assignment bonus (10%) and foreign service premium (25%). Compared to results from recent years, these figures represent a significant decline in the percentage of companies offering additional incentives to foreign staff. Considerably fewer now offer a hardship allowance, although the number of employers paying a foreign service premium remained stable. Non-cash benefits for expatriates in Ukraine often include a combination of housing allowance, a company car (often with a driver), medical insurance for the employee and often for his family members, and a pension plan. In this sector there has been little change, with the possible exceptions of a slight decrease in the number of companies offering a housing allowance and a rise in the number of firms looking to offer expat staffers the long-term incentive of a pension plan.

The issue of taxation for expat employees has been a thorny subject over the past 12 months due to recent changes which required foreign workers to pay double the rate which their Ukrainian colleagues faced, but despite legislative instability most Ukrainian companies have not altered their approach to expat tax issues in recent years. The percentage of expats whose host office bears the tax burden for them (56%) in 2009 is only a small drop on the 67% who enjoyed this convenience in 2008. At 33% of the companies surveyed the expatriate bears the tax burden himself. Meanwhile, around 50% of Ukrainian companies ensure tax compliance by hiring external tax consultants to handle their expat contracts.

The expatriate perspective

While expat respondents gave everything from the country's transport infrastructure and ecology to its mass media and medical services low scores, nevertheless a massive 80% declared themselves satisfied with life in Ukraine. Revealingly, the highest scoring themes in this year's survey suggest an expat community which is enjoying the finer things about life in Ukraine. While business and government related themes

received the thumbs down from many respondents, sweeping majorities rated Ukraine's cuisine, entertainment and accommodation as 'highly satisfactory'. In other words, the survey suggests that Ukraine offers a perhaps unheralded lifestyle premium which helps compensate for many of the infrastructural flaws expatriate professionals can encounter.

Much trumpeted media freedoms fail to impress

One of the strongest survey reactions among expat respondents came over the issue of Ukraine's ecology. A clear majority expressed their dissatisfaction over the issue, but while it would be convenient to blame this negative appraisal on the long shadow of the country's Chernobyl disaster, it is more likely a reflection of the country's poor quality water supplies and often problematic handling of waste disposal. The manner in which so many Ukrainians litter throughout the country's places of natural beauty is also thought to have struck a particularly bad note among many in the expatriate community, as have the attitudes often encountered towards ecologically aware industrial policy among official circles. Despite much hype over the liberation of the Ukrainian media, a process which has been widely cited as one of only two concrete gains from the 2004 Orange Revolution (the other being free and fair elections), it seems that Ukraine's expatriate community is not particularly enamored with the Ukrainian media. Free or not, 40% of expats expressed dissatisfaction with the country's media, a harsh but perhaps fair appraisal given that the 2010 Press Freedom Index published by Freedom House saw Ukraine ranked 115th out of 195 countries, alongside Kuwait and Mexico.

Transportation, infrastructure and healthcare are also cause for significant expat dissatisfaction. However, it is important to consider that relatively few expatriates have to deal with the Ukrainian state health system or public transport system on a regular basis. This year's survey found that 85% of companies provided their foreign employees with medical insurance, with 65% providing insurance for their spouses and 60% for their children, meaning that the majority of expats in Ukraine remain firmly on the private healthcare bracket. Meanwhile, the majority of Ukraine's expats continues to live in rented downtown apartment accommodation. 77% of respondents live in rented apartments, with housing allowances ranging from Euro 2152 to Euro 6672 among respondents depending on seniority, size of family etc.

State authorities given expat vote of 'no confidence'

Expat opinion towards Ukraine's state authorities was strongly negative, with 70% of respondents reporting a general sense of dissatisfaction with the government. All the state authorities featured in the survey were viewed with high dissatisfaction – all except for the Tax Administration, which narrowly avoided this censure. Ukraine is currently ranked 146th out of 180 countries in the annual Corruption Perception Index published by Transparency International and corruption remains a major issue for most expat professionals currently working in Ukraine. The State Traffic Inspectorate generated the most dissatisfaction among respondents, with 70% offering a satisfaction level of lower than 30%. This is easy enough to explain: most foreigners use cars to move around the city, and thus may most frequently deal with the State Traffic Inspectorate personally. This is often their most frequent contact with the world of Ukrainian corruption and has resulted in the country's traffic police becoming a visible and all too derisive symbol of the country's chronic graft addiction for both locals and expats alike. The police also received a vote of no confidence from 56% of respondents, while the country's communal services were also given an unfavorable appraisal and critiqued for their legendarily brusque manner and generally unhelpful approach to problem solving. Expats complained that there are currently virtually no English speaking police officers serving in Kyiv – a shortage which the authorities will need to try and rectify rapidly if it is to be in a position to offer sufficient policing and crowd control services during Euro 2012.

Interestingly, Ukraine's much maligned tax authorities did less badly than their fellow state structures, with just 48% of respondents giving them a negative rating. This may at first glance appear something of an anomaly, especially when we consider that Ukraine is currently ranked 181st out of 183 countries in terms of ease of paying taxes in the Doing Business 2010 Rank published yearly by the World Bank Group. However, most expatriates outsource their tax-related duties to external consultants and thus do not face the country's tax authorities personally, perhaps making expats less passionate about the need for tax reform. Similarly, dealings with immigration authorities are now increasingly handled by third parties as expatriates who've spent fraught days chasing stamps and pieces of paper through the rabbit holes and burrows of Ukrainian bureaucracy only to have eventually thrown in the towel and outsourced their immigration work.

Too few expats investing in Ukraine

While many economists continue to look to the international community for increased injections of investment capital, at present only 25% of Ukraine's expats have actually invested any capital in the country. Around 65% of those who have invested have done so in the real estate

market, while 36% have invested in shares and bonds and 29% in bank deposits. These investment figures are worryingly low for an emerging market which should in theory be highly attractive in a global marketplace like today's. Ukraine's expatriate community has clearly voted with its money, refusing in large part to invest into the country despite having had the chance to see a little of Ukraine's much-hyped potential.

In order to attract the kind of international investment which could kick start long-term economic growth the Kyiv authorities would do well to view the opinions of the country's expat business community as a barometer for broader international investment attitudes towards today's Ukraine. Once the expatriate professionals who are already here are investing their personal savings into the future of the country, larger international groups could well follow suit.

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