

## Ukraine faces labor shortage: No longer business as usual



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**Just some five years ago lamentations of entrepreneurs in Ukraine were connected with anything but labor. Red tape, high taxes, expensive credits, high energy prices – all of these were named as serious obstacles for doing business, while skilled and cheap labor force seemed to be in abundance. Now, labor shortage and growing**

**labor expenditures are among the most common reasons for entrepreneurs' worries about the future of their businesses.**

To understand how this problem can be fixed, it is necessary to look at the underlying causes for the situation.

### The causes

First, the economy has been growing dynamically for the previous eight years and cyclical unemployment has been steadily shrinking. ILO

unemployment reached 6.2 % in the third quarter of 2007, which may be quite close to the natural level of unemployment for Ukraine. This means that easy enrollment of additional labor is no longer possible.

Second, the liberalization of the internal market and of foreign trade conditions has led to enforced competition among producers and increased quality standards. Thus, the value of specialized knowledge and skills has risen significantly.

Third, the structure of the economy has been changing rapidly. After a steep decline in the 1990s, the industrial sector resurged in the 2000s, creating huge demand for engineers and professional workers.

Furthermore, due to the market transition in Ukraine and fast technological changes in the world, many new sectors and, consequently, professions have emerged. As a result of structural transformations, lack of qualified specialists in industry and in "new" sectors has appeared, and the supply

of skilled "new" professionals (HR directors, logistics specialists, development managers) is also scarce.

### The responses

In response to the increased demand for labor, most firms are adjusting their remuneration policies. Common practices among the leading firms are increased frequency and magnitude of the revisions of wages, generous non-monetary benefits, and huge bonuses for successfully completed projects.

Trying to employ and retain highly qualified professionals, businesses substantially increase remunerations to the most valuable specialists. Meanwhile, non-experienced staff receives intensive teaching. At the same time, however, many firms have to accept a deteriorating quality of their workforce: trying to fill the vacancies, they soften the requirements to candidates, and it often happens that promotions become faster (and then junior staff is loaded with tasks with which seniors were charged before).

Government's attention to the problem is also growing. While the Ministry of Economy is concerned about the impact of wage dynamics on inflation (in 2007 nominal wages rose by 29.7%, and real ones increased by 12.5%), the Ministry of Education is considering ways to increase the quality of training and to overcome imbalances between the proportions of graduates by specialty and the structure of the demand on the labor market. In the near future, the government will also have to think about counteractions to the expected tensions on the labor market created by population aging.

### Prospects and strategies

In any case, fundamental factors of economic development suggest that crucial changes in the availability of labor are not likely to occur. Despite some expected adjustments on the labor market due to market forces and possible changes in government policies, it seems the time of abundant labor has gone.

Hanna  
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After obtaining a BA and MA in Economics from the National University of Kyiv-Mohyla Academy, Hanna Cherednychenko, started working at ICPS in Kyiv in May 2005. Here she has dealt with various economic questions, specializing in the issue of business and investments.

Failure to take the new reality into development plans may result in serious competitiveness losses, so businesses should be attentive to the state of the labor market and change their strategies accordingly.

## Corruption: Diagnosis and prescription

INTERVIEW WITH  
LONE HØGHOLT  
DLA PIPER

**People who think of Ukraine as a country ripe with corruption will have their beliefs confirmed when looking at recent studies conducted by Transparency International and the World Bank. Nevertheless, legal advisor Lone Høgholt's hands-on experience testifies to the fact that it is indeed possible for businesses to operate without corruption.**

The World Bank's 'Doing Business 2008' comparison of the difficulty of dealing with licenses ranks Ukraine as 174th out of 178 countries surveyed. In particular the construction sector faces difficulties when dealing with licenses: without contacting an intermediary consultant, it took the World Bank investigators 429 days to obtain the 29 officially required licenses for setting up a new warehouse in Kyiv. This may be the reason why some business people turn to bribes, and corruption thrives. In Transparency International's most recent publication,

Ukraine shares the position of 118th out of 179 countries with Malawi, Mali and Sao Tome and Principe.

These figures and analyses paint a gloomy picture of Ukraine. But what is the experience of people dealing continuously with the challenges of the Ukrainian private sector?

### Black or white?

In fact, the business life has undergone tremendous changes in the right direction, and those who have spent years in the region confirm this. One of them is Lone Høgholt, Of Counsel at DLA Piper and legal advisor for companies wishing to establish sales or production in Russia. She does acknowledge that corruption still exists in Eastern Europe, but she also points out that the word 'corruption' has several, different meanings.

What she calls 'black corruption' is the classical blackmail involving money for security, and it was quite wide-spread in the 1990s. Today, however, investors generally know how to handle this type of corrup-

tion, and it should no longer be considered a problem.

What investors are more likely to face - typically in connection with public administration is 'white corruption'. "Flowers, bottles and chocolate are considered a normal cultural gift, and any investor will face it at some point", Lone Høgholt says. In some cases investors are still met by a demand to pay bribes to officials, but it is generally acknowledged that Western companies have internal policies prohibiting participation in unethical practices.

### ...Or simply not transparent?

Also, while it is clear from newspapers and other publicly available resources that corruption does play a role in imports, customs handlings, invoices, permissions, licenses or any other consents required to operate a business, many delays and costs are not due to corruption, but to lack of transparency in legislation. Lone Høgholt explains that investors are often unaware that expedition fees in relation to a number of application procedures or other

procedures involving public authorities are fully legal. "For instance, obtaining a visa for travelling to Russia takes two weeks - unless you pay an expedition fee and get it the very same day. This standard principle of expedition fees is fully legal, generally accepted and applies to a number of administrative functions".

### How to deal with it

Nevertheless, even if you do pay the expedition fees, most administrative procedures are heavy and time consuming, and this is why some businesses may still be tempted to take shortcuts through participation in corruption. Lone Høgholt warns that this is a dangerous route as you may start an avalanche of expectations. Furthermore, you may get into trouble if the management of the bribed authority is replaced and the new people find out that your permissions were issued on an illegal basis. Lone Høgholt's advice: "in the long run, it is cheaper to accept that you have to act in compliance with rules and regulations".

### The lesson to be learned

The survey figures and the hands-on experiences certainly tell different stories, but they all point to one advice: Be prepared that operating in Eastern Europe will inevitably lead to situations, where your business ethics are challenged. However, entering Ukraine with preparedness and the right set of principles will save you time and costs. If you do this, it is indeed possible to operate a fully legal, and very profitable, business.

"As a matter of fact, avoiding corruption and irregular or unethical proposals is often much easier for a foreign investor than for a Russian company, as it is generally accepted that norms in Europe and the United States are different from local habits", Lone Høgholt explains before concluding: "you may of course point out market segments, where corruption is part of the routine and as such unavoidable, but I think you may find such areas of business in any country".

Lone Høgholt



Lone finished her law studies in 1991 and has since then combined a profound knowledge of Russian language and culture with her legal work. From 1996 to 2000, Lone worked as an in-house counsel at Dandy A/S, before taking up a position as head of the Moscow offices of Danish law firm Bech-Bruun Dragsted International A/S. In 2004, she switched to a similar position at the Moscow offices of DLA Piper. Today, Lone works as a lawyer for Team-Venture, which benefits from her solid experience and knowledge of the Central and Eastern European markets.