

IT ENTREPRENEURSHIP IN UKRAINE DURING THE MILITARY CONFLICT: RELOCATION AND OFFSHORING

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Abstract: *With the beginning of the full-scale war of Russia against Ukraine, the relevance of IT business relocation within Ukraine and offshoring outside its borders has increased significantly. This article shows how government decisions to support IT entrepreneurship in Ukraine under conditions of military conflict, as opposed to taxation in other countries, affect the processes of relocation and offshoring. In addition, it was established that the specifics of offshoring IT entrepreneurship based on the outsourcing of project solutions.*

Key words: IT entrepreneurship; IT technologies; relocation; offshoring; military conflict.

The digital economy and IT community of Ukraine developed rapidly before the war. In 2021, Ukrainian IT exports increased by 36% compared to last year and amounted to 6.8 billion US dollars, which is 10% of the country's total exports. Meanwhile, the number of Ukrainians employed in the IT industry increased from 200,000 to 250,000 through startups, small and medium-sized enterprises, and large companies [1].

Today, the functioning of Ukraine's economy is affected by a significant number of limiting and negative factors, the main of which is the war. The year of the war clearly demonstrated that in order to preserve the economy and create opportunities for its further reproduction, it is not enough to focus on the use of traditional methods only, it is necessary to look for new approaches that will allow you to get the expected result, but with less expenditure of time and resources. One of these tools is information technology, the application of which can allow to radically change the production and economic system of the economy and employment of the population by adding to it such characteristics as greater economic efficiency, rationality, stability, endurance and insurance against undesirable conditions and influences.

The introduction of IT technologies accelerates the transition of small business entities and large companies to the segment of the digital economy and ensures the acquisition of competitive advantages not only in the real trade of goods, but also in the field of providing virtual services that are associated with it. The value of the contribution of IT technologies to the digitization of the economy is realized through the simplification and improvement of the control system of the operational activities of international companies, the acceleration of interaction processes between customers and suppliers, sellers and buyers, employees of all services during the control of sales processes, logistics management and sales in general.

We note that the demand for building a career in IT among young people is growing every year. The industry offers a relatively high starting salary level and lack of dependence on the study schedule or place of work, which is the basis for building the doctrine of youth innovative entrepreneurship [2]. However, taking into account the rapid development and spread of information and communication technologies, as well as the resulting global trends of virtualization of business processes, the problems of digital transformation of the economy and the development of IT entrepreneurship in today's challenges require further study.

With the beginning of a full-scale war between Russia and Ukraine, the relevance of relocation of IT companies has increased significantly. Company owners are trying to save themselves from the war and preserve the opportunity for work, create reserve funds protected from the consequences of the war, expand the business structure. Most companies want to stay in Ukraine and, accordingly, relocate within the country to safer regions, and some companies create units abroad.

As of August 17, 2022, 1,796 applications from enterprises were registered under the government relocation program in Ukraine, 710 enterprises were relocated, 500 of which resumed operations. The Ministry of Economy is in the process of finding solutions for changing the location or method of transportation for 515 enterprises, other applications (576) were withdrawn due to de occupation [3].

As you can see, the relocation program brings quite positive results, given that over a 6-month period, 58% of the enterprises that applied were relocated, and 40% even resumed their activities [4].

In addition to the assistance provided by the state program, IT companies can also relocate their

company within the country on their own, since the specifics of the activity usually do not involve extensive production complexes or stationary equipment.

Renting a new office and moving staff to a new place of business are the main elements of the aforementioned relocation, which are quite simple to implement. At the same time, for companies that practice remote work, there are no problems at all - it is enough to change the location of the company to a new address in the relevant region and help those IT specialists who cannot organize the move on their own (materially or, rather, organizationally).

In order to carry out a full or partial relocation abroad, it is necessary to start with a detailed study of the conditions offered by this or that country, to compare the costs that will be incurred during the creation of the company and during its operation.

One of the main indicators of expenses will be the tax burden itself, while the taxation procedure in each country is formed differently. That is why the best option for preparing for relocation will be a comparative analysis of taxes in countries that are attractive for doing business.

Relocation abroad means opening a company, branch or representative office in another country. It is possible to register a company remotely by issuing a power of attorney to perform registration actions and sending it to a representative who will deal with registration, or by signing registration documents online.

In order to open and maintain a company abroad, most countries today require the constant availability of substance. The essence of this concept is that in many countries there is a legal requirement for companies that plan to carry out their activities on its territory, to be actually present in this country, to carry out commercial operations, to have employees, assets and premises. In other words, the fact that the company is registered in that country and has an open bank account is not enough for the country's fiscal authorities. There is a requirement for the presence of a really working company office, a director or manager in the state, the beneficiary's participation in managing the company and making key decisions from the territory of this country, and the availability of local means of communication. However, it is worth understanding that the requirements for substance may differ depending on the jurisdiction and type of activity of the company [5].

The processes of globalization, the growth of the role of intellectual labor in the world, the search for new methods and approaches to business organization lead to the emergence of demand for outsourcing services. The integration of Ukraine into the global information space and the high quality of domestic labor resources make it possible to strengthen the position of domestic specialists in the field of information technology (IT) in the global market of offshore outsourcing and freelancing. In conditions of limited demand for IT product development services in the domestic market, the development of IT outsourcing in Ukraine allows to ensure the employment of IT specialists at a sufficiently high level of remuneration for their work.

Depending on the country where the service provider is based, outsourcing is divided into local and offshore. Local outsourcing involves placing orders in the country where the customer company is based, and offshore outsourcing - outside its borders. Offshore outsourcing involves the transfer of non-critical business processes to companies physically located in another country [6].

The basis of offshore outsourcing is the difference in the scope or conditions of payment of labor in the countries of the customer and the contractor. It is worth noting that one of the main advantages of such distribution of business processes is that the outsourcer is familiar with local specifics and possesses the technologies necessary for productive work.

Among the currently most common types of offshore IT outsourcing, the following should be highlighted:

- outsourcing of secondary infrastructure support services to another country (ITO-infrastructure technology outsourcing);
- outsourcing of non-business-critical processes that require a large amount of unskilled labor to another country (BPO-business process outsourcing);
- custom software development (Software R & D, Application Development) [6].

Ukrainian IT specialists, as a rule, act as executors in offshore IT outsourcing projects. The level of wages, on the one hand, is lower than in the client countries, and the high qualification of domestic specialists allows them to strengthen their competitive positions in the market of services for the development of software products. Unfortunately, there is no possibility of supporting IT entrepreneurship through the mechanism of tax benefits inherent in offshore jurisdictions in Ukraine, since the practice of functioning of their prototypes in the form of free economic zones in Ukraine is currently complete [7]. At

the same time, it is worth noting that the prospects for the development of IT outsourcing, which over time can create conditions for Ukraine to become a powerful independent player in the market of IT services, are determined by the volume of the global market for such services, the segment currently occupied by Ukraine, and the potential for increasing this segment in future.

Thus, we state that the Ukrainian IT business was the least affected by the war among all industries. This was facilitated by a quick response to the challenges of a full-scale invasion. Among the main tools is the relocation of offices and employees. Among the advantages of running an IT business in Ukraine under the conditions of relocation of the office within Ukraine are the following: the income limit on the single tax for sole proprietors and legal entities has been increased to 7 million UAH (over 250 thousand US dollars), and the amount of the single tax (including for legal entities) is 5% of the turnover; no value added tax on the supply of software products; the government of Ukraine has signed a large number of agreements on the avoidance of double taxation, which facilitate the structuring of dividend payments; the mandatory sale of foreign exchange revenue was cancelled; it is possible to apply progressive contracts with non-residents (with flexible terms and without the translation of the contract text, which is often problematic for foreigners); unique banking service conditions are provided specifically for IT representatives (for example, there is no commission for cash withdrawals).

The organization of business abroad became an alternative possibility of relocation of IT enterprises. For Ukrainian programmers, who are used to the fact that the tax does not exceed 5% (and during 2022 even 2%) of their income, the tax rates in most European jurisdictions turned out to be relatively high. Even in those countries that try to stimulate the influx of highly paid expats through taxes, the tax rate will not be less than 20 percent. As a result, IT entrepreneurship was reformatted into offshore outsourcing. The multifaceted benefit of offshore IT outsourcing, both at the macro level – for customer companies and contractors, and at the macro level – for the countries where these business entities are residents, allows us to predict the further spread of such forms of business organization in the world.

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