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Summary

President Vladimir Putin has signed the Federal Law "On Special Economic Zones in the Russian Federation"

The law sets out the procedures for the establishment, functioning and cessation of activity of special economic zones in the Russian Federation. [read more](#)

23.07.2005

Press Service of the President of the Russian Federation

Russian government to hold \$76 million share in new IT investment fund

The government's estimated share in an investment fund of technology and innovation, which is meant to boost IT development in Russia, will amount to \$76 million. [read more](#)

29.07.2005

RIA Novosty

Session on the development of an IT tech park in St.Petersburg

D.A. Milovantsev, deputy Minister for information technologies and communications of the Russian Federation, and M.E. Oseyevsky, St. Petersburg vice-governor chaired a session of the task force for the development of an IT tech park based at St. Petersburg State Telecommunications University named after Professor M.A. Bonch-Bruyevich. [read more](#)

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Press Service of Ministry for Information Technology and Communications

Google Tipped as Tenant at IT Park

Global Internet giant Google is eyeing Russia's northern capital's new IT park, where it may set up operations employing as many as 3,000 workers, according to a senior IT and Communications Ministry official. [read more](#)

Yuriy Humber, Maria Levitov, 02.08.2005

The Moscow Times

Russia's High Value Call

Russia is gaining recognition with its value-driven outsourcing strategy. While many destinations target repetitive processing work, high-tech is what the country is focusing on. And it is succeeding. [read more](#)

By Nilotpal Chakravarti, 16.08.2005
Global Outsourcing

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In September RUSSOFT (the largest Russian association of software developing companies; the voice of the industry and an active lobbyist of its interests in the Russian Government) summed up the industry results for the period Sept. 2004 - Aug. 2005 at the RUSSOFT Annual Conference. [read more](#)

07.09.2005
Russoft

Reksoft CEO to Serve on the Board of Russoft IT Services Association

Reksoft CEO Alexander Egorov has been elected board member of Russoft, the largest IT Services association in Russia. [read more](#)

09.09.2005
Reksoft

Russia: From the Lab to the Back Office

It may not exactly be an alien name, but the story of Russia, by and large, remains unsung in the world of offshoring. And this, despite the fact that in 2004, the country exported \$560 million of IT services to the world, primarily the US. And by that measure, the country is next only to India, China, and Ireland, and far bigger than top-of-mind locations such as the Philippines, Mexico, and all the other Eastern European nations combined. [read more](#)

By Nilotpal Chakravarti, 23.09.2005
Global Outsourcing

IT Parks: Placebo or Panacea

Probably the biggest event for the industry of Information Technology in Russia this year was the government's decision to set up five IT parks in the country. Though met with some skepticism at home, the idea of gathering different IT companies in one space has prospered for more than 40 years, stimulating industry growth in the U.S., India, Finland, and elsewhere. How has it worked abroad and what could it potentially do for Russia? [read more](#)

By Alexander Yankevich, 04.10.2005
St. Petersburg Times

President Vladimir Putin has signed the Federal Law "On Special Economic Zones in the Russian Federation"

23.07.2005

Press Service of the President of the Russian Federation

The law sets out the procedures for the establishment, functioning and cessation of activity of special economic zones in the Russian Federation.

Special economic zones are defined as territories designated by the government of the Russian Federation as areas where business activity is governed by special regulations.

The aim of establishing special economic zones is to encourage the development of the processing and high-technology sectors, the production of new types of products and to stimulate transport infrastructure development.

There are provisions for establishing two types of special economic zone on Russian Federation territory: industrial-manufacturing zones and technology incubation zones.

Businesses resident in special economic zones will benefit from a broad range of preferential conditions aimed at stimulating business activity.

The President has also signed a decree on setting up the Federal Agency for Managing Special Economic Zones within the jurisdiction of the Economic Development and Trade Ministry.

Also signed was a federal law amending the Tax, Customs and Land Codes as well as a number of other federal laws in the aim of ensuring the conditions required for implementing the provisions of the Federal Law "On Special Economic Zones in the Russian Federation".

Russian government to hold \$76 million share in new IT investment fund

29.07.2005

RIA Novosty

The government's estimated share in an investment fund of technology and innovation, which is meant to boost IT development in Russia, will amount to \$76 million.

The Information Technologies Ministry proposed the investment fund project, which is expected to amount to \$100 million. It is being considered by the Trade and Economic Development Ministry and the Finance Ministry.

Dmitry Milovantsev, Deputy Minister of Information Technologies, said after a meeting on the creation of an IT park in St. Petersburg that several years after the fund's establishment the government would withdraw from it in favor of private investors.

"We hope the fund will serve as a catalyst for the development of small and medium-size companies," Milovantsev said.

According to the Information Technologies Ministry, the fund will attract \$1.2-\$1.6 billion within three years for the implementation of IT projects. Currently, investment in this sector does not exceed \$80 million a year against the needed \$450-\$600 million a year.

Session on the development of an IT tech park in St.Petersburg

29.07.2005

Press Service of Ministry for Information Technology and Communications

29 July 2005 - in St. Petersburg D.A. Milovantsev, deputy Minister for information technologies and communications of the Russian Federation, and M.E. Oseyevsky, St. Petersburg vice-governor chaired a session of the task force for the development of an IT tech park based at St. Petersburg State Telecommunications University named after Professor M.A. Bonch-Bruyevich.

The meeting was also attended by O.V. Byakhov, director of the Department for information-society building strategy of Russia's Ministry for Information Technologies and Communications, A.A. Gogol, president of St. Petersburg State Prof. M.A. Bonch-Bruyevich Telecommunications University, and G.B. Chernyak, deputy general director of Severo-Zapadny Telekom OJSC.

The meeting passed a decision to announce an open single-stage competition for creative ideas for the future IT park development project to be held between 1 September and 15 October 2005. Preliminary competition terms allow consulting firms, well-known architectural studios and youth organizations to submit their architectural designs for review by a panel of judges.

The winners of the first 3 awards will be allowed to enter the architectural urban development contest to produce an IT park design, the tender being scheduled for the period between 1 November 2005 and 28 February 2006. The tender will result in the winner being offered a contract for an IT park development design.

The bid evaluation criteria include architectural treatment considerations and price of the tender bid.

In addition, the task force members discussed the issue of entering into a joint activity agreement among the Information Technology and Communications Ministry of Russia, the Government of St. Petersburg and State Prof. M.A. Bonch-Bruyevich Telecommunications University.

The meeting also passed the decision to hold, in the first half of September 2005, the next session of the task force with participation of Minister for information technologies and communications of the Russian Federation L.D. Reiman and St. Petersburg governor V.I. Matviyenko to approve a concept for development of a IT park based at St. Petersburg State Prof. M.A. Bonch-Bruyevich Telecommunications University.

The IT park in the city of St. Petersburg is to be set up in compliance with the instructions of the President of the Russian Federation of 22 January 2005. The IT park is expected to be set up in the eastern part of St. Petersburg. The IT park is scheduled to open in 2008-2009, but preliminary construction work is expected to start as early as August.

According to what was said at the press conference following the session by Deputy Minister for information technologies and communications of the Russian Federation D.A. Milovantsev, the construction project will be funded using federal budget resources and those of the city of St. Petersburg as well as extra-budgetary resources. Moreover, the project is also expected to be supported by international financial establishments and credit agencies.

Google Tipped as Tenant at IT Park

By Yuriy Humber and Maria Levitov, 02.08.2005
The Moscow Times

Global Internet giant Google is eyeing Russia's northern capital's new IT park, where it may set up operations employing as many as 3,000 workers, according to a senior IT and Communications Ministry official.

"We spoke with Google representatives... and they seemed very keen on the idea," said Deputy IT and Communications Minister Dmitry Milovantsev on Friday, speaking after a meeting with the Bonch-Bruyevich St. Petersburg State University of Telecommunications, which would be a partner in setting up the IT park.

Google declined to comment on the issue but confirmed its interest in Russia's IT market.

"We are very interested in Russia and are working to learn more about this important market. We will continue... exploring business opportunities in Russia," a Google spokeswoman said in a written response.

Google is the world's most widely used Internet search engine. Its revenues reached \$3.189 billion last year.

The draft bill on IT parks - special economic zones created to boost investment in technology - was approved by the State Duma last month. The bill needs the Federation Council's approval and President Vladimir Putin's signature to go into effect.

To draw large technology companies to IT park authorities will "make an offer [these companies] cannot refuse," Milovantsev said.

Resident companies in IT parks could potentially cut company expenses by as much as one-third because of the 20 years of tax breaks and other benefits they would receive, Deputy Economic Development and Trade Minister Andrei Sharonov said last month.

The technology park in St. Petersburg is set to begin operations as early as 2008 and will require an estimated \$1 billion in investment, said Alexander Gogol, dean at the Bonch-Bruyevich St. Petersburg State University of Telecommunications.

The money will come from federal and regional authorities, the World Bank and the resident companies of the park, said St. Petersburg Deputy Governor Mikhail Oseyevsky.

The city of Moscow and its region, Novosibirsk and Tomsk are among other strong contenders for IT parks.

Russia's High Value Call

By Nilotpal Chakravarti, 16.08.2005
Global Outsourcing

Russia is gaining recognition with its value-driven outsourcing strategy. While many destinations target repetitive processing work, high-tech is what the country is focusing on. And it is succeeding.

Recently, when former President Mikhail Gorbachev delivered a sales pitch for Russian software development at Massachusetts, he signaled to the world that Russian society is ready to make a breakthrough, and take its rightful place in the new economic equations, by value-driven outsourcing.

And rightful place it is taking. Big companies like Dell, Boeing, Microsoft, Deutsche Bank, and IBM, are all leveraging Russian expertise and have outsourced some of their operations to Russia. Even Korean companies have set their eyes on Russia.

Few companies in the world have created bigger ripples in global market in recent years than Samsung Electronics Co. The South Korean company has marched ahead of its Japanese and US competitors to take a big share of the international electronics and mobile phone markets. And one important element of Samsung's astounding success is the

Samsung Research Center in Moscow. According to Cha Dae Sung, who is in charge of global technological cooperation, "Russia is our primary destination for technology outsourcing."

And Samsung is not alone. LG Electronics, Daewoo Electronics, and several other smaller companies rely heavily on Russian engineers, who work either from Korean sub-offices in Moscow or in the office towers of Seoul.

Russians believe that they can provide top quality, cut-price programming, but with Russian efficiency and a deep bench of highly educated programmers - some of them rocket scientists and nuclear physicists from the Cold War.

Now, as a strategy, the Russian companies are hoping to tap the growing US appetite for getting work done offshore. Importantly, there is no shortage of Russian programmers. According to a study by the Russian IT Services Professional Association, Russoft, the country has 250,000 software engineers and has more scientists per capita than UK, Germany, India, and France. That's one reason why US companies such as Motorola, Siemens, Sun Microsystems, and Intel, have R&D centers in Russia.

According to Arkadiya Dobkin, a Russian immigrant, who founded EPAM in 1993, the US companies were the target customers from day one. His company now has 1,200 employees, including 50 in the US, with offices in Moscow, Minsk, Belarus, and Budapest, Hungary.

Analysts say that EPAM and Luxoft, two of Russia's top offshoring companies, head a growing industry that boasts about 250 firms. Sales of IT and services for export from Russia have doubled annually in recent years, to about \$450 million in 2004, tiny when compared with India's nearly \$20 billion industry, but Russia is increasingly attractive to the US companies for a variety of reasons.

Russia's expertise in specific areas such as aerospace, and the desire of some outsourcing companies to reduce the risk of relying on one country is definitely proving to be a boon for the industry. The high creative potential of Russian specialists, due to their established system of education in the fields of mathematics and basic sciences, as well as their solid work experience with complex projects and diverse technologies are a distinct advantage.

Also, Russia's low wages are competitive. A typical programmer with experience earns between \$8,000-\$14,000, depending on whether the location is high-priced Moscow or the cheaper provinces. That's a little more than the \$ 7,000 to \$11,000 an Indian might make, but it is well below the \$55,000 or more paid to an American in a similar job.

However, what is noteworthy is that Russia is spending a larger percentage of its GDP on R&D than India. Moreover, IT and Communications Minister, Leonid Reiman has said that Russia would invest some \$650 million in the IT sector over the next five years. This is quite an impressive amount and many would find it more than a welcoming message from the government towards the IT sector.

Remarking about the Russian strategy, which has gained wide acceptance in the West, AMR research analyst Lance Travis made an interesting observation. According to Travis, "Russian firms tend to be more pessimistic in their approach to project management." While, Indians always report the best possible scenario and the Russian firms always the worst possible scenario, many believe the Russian approach is more appropriate for high-risk projects.

However, it must be said here that it is unlikely any of the Russian companies will suddenly leapfrog the competition and begin to approach the size and scope of the Indian outsourcing firms. But the companies have some specific strength, and they do offer an alternative to India for relatively small custom application development and maintenance support on projects in Western Europe, and as an alternative to India to minimize geopolitical risk and cultural differences.

RUSSOFT Sums Up the Industry Results

07.09.2005

Russoft Press Service

In September RUSSOFT (the largest Russian association of software developing companies; the voice of the industry and an active lobbyist of its interests in the Russian Government) summed up the industry results for the period Sept. 2004 - Aug. 2005 at the RUSSOFT Annual Conference.

Today about 500 companies work in Russian industry of software development and export. The total volume of export software market in 2004 has grown 40 percent and achieved \$750 million. In 2005 the industry is expected to grow at 30%, achieving \$1 billion at the end of the year. Turnover of the biggest software companies is about \$20-40 million: most companies are minor (turnover less than \$1 mln. a year).

According to "The Study of the Software Export Market in Russia" conducted by RUSSOFT and the portal Outsourcing-Russia.com (the study is to be finished in October), the main tendency in 2005 is the market growth. Most market participants give priority to the business expansion strategy. Turnover of software development centers of foreign companies in Russia grows rapidly. Programmers' salaries have also grown. The role of St. Petersburg and other cities has become stronger relative to Moscow. Main clients of Russian IT industry remain the same (USA, Germany and Northern Europe). Most top managers are optimistic about the industry perspectives and foresee the continuing consolidation of the industry.

During the period September 2004 - August 2005 governmental attitude to the IT sphere in Russia has significantly changed. New governmental Concept for the Russian IT Market development was implemented. President Vladimir Putin stressed the importance of IT industry for Russian economy and instructed officials to launch the IT parks program. IT legislation changed in several aspects, becoming friendlier for software development companies. RUSSOFT participated as the expert in main studies that Ministry of IT and Communications conducted. Ministry representatives, Dmitry Milovantsev (head of Federal Agency for IT) and Oleg Byakhov (head of the Information Society Formation Strategy Department), speaking at the RUSSOFT Annual Conference, stressed the importance of collaboration between Government and industry associations.

Reksoft CEO to Serve on the Board of Russoft IT Services Association

09.09.2005

Reksoft

Reksoft CEO Alexander Egorov has been elected board member of Russoft, the largest IT Services association in Russia. With headquarters in Saint-Petersburg, Russoft brings together over 80 companies, providers of offshore software development services. Russoft annual general membership conference was held on September 7 in Moscow. The agenda of the conference was built around reviewing Russoft past year's activities and electing a new board for the upcoming year.

Alexander Egorov is elected board member for the fourth time. He is honored to have been re-elected and looks forward to joining efforts with Russoft members in promoting Russia as a serious player on the global market for offshore software development services. "Russian software outsourcing providers have reached the ultimate state of maturity, and are able to perform against the highest expectations", he commented.

Russia: From the Lab to the Back Office

By Nilotpal Chakravarti, 23.09.2005
Global Outsourcing

It may not exactly be an alien name, but the story of Russia, by and large, remains unsung in the world of offshoring. And this, despite the fact that in 2004, the country exported \$560 million of IT services to the world, primarily the US. And by that measure, the country is next only to India, China, and Ireland, and far bigger than top-of-mind locations such as the Philippines, Mexico, and all the other Eastern European nations combined.

Yes, it still looks tiny compared to leader India's export of \$17 billion of IT and what the Indians call IT Enabled Services (BPO) in the same year.

Yet, that is not what is worrying the Russians. After all, India started out much earlier and has a huge manpower base. And what is often hidden in the top level statistics is the fact that the entire export of Russian IT industry were generated by a workforce of mere 30,000 people. That kind of realization is comparable only with that of top Indian IT companies. In other words, Russian IT work is of higher value than that of India.

And the Russians have never been tired of pointing it out. Talk to Russoft, the largest IT industry association. There is every possibility that you will hear how Russia has 20 times as many scientists on a per capita basis, as compared to India; how a vast majority of Russian software engineers and computer programmers have MS or PhD degrees in mathematics or physics; and how Russia is the first destination for research and innovation, where India is the choice for standard IT jobs, with lots of coding requirements. And the fact is-minus the standard exaggeration that you expect in any marketing statement-what the Russians claim is more or less right. Russia has indeed been a destination for research and development, especially in areas like aerospace, engineering, and product design.

So What is the Problem?

Good business is a mix of value and volume. For a new destination like Russia, what is of paramount importance is growth. And that has of late been a cause for worry.

In 2004, Russians IT exports grew just about 17 per cent. This was in comparison to 60 per cent growth registered a year before. Though Russoft projects a somewhat better 32 per cent growth in 2005, it is still not impressive, especially at this small base. A country like India, with its size, still grows at 40 per cent or so.

It is not the best of situation, but hardly surprising. The Russians so far have been successful at bagging the high-tech development and design work. Look at Russia's captive "development" centers that give a better idea of the companies' commitment to a location, at least initially. Those who have been to Russia with love include Intel, Boeing, IBM, Cisco, Motorola, Dell, Siemens, HP, and Microsoft. In contrast, look at the India list. All the companies above are of course there, but so are AOL, AXA, ABN AMRO, AIG, Bank of America, Butler, Citibank, COLT Telecom, Goldman Sachs, HSBC, JP Morgan Chase, Lehman Brothers, Lufthansa, McKinsey & Co, Morgan Stanley, Prudential, P&O Nedlloyd, Reuters, Standard Chartered, Tesco, and Unilever, to name a few.

And now, you can see the difference. Whereas Russia's IT game is restricted to the hi-tech industry, India's is far wider, spanning retail, telecom, energy, logistics, and financial services. And as a discerning reader, you may not have failed to notice that even in India, the majority is from what can broadly be called financial services industry-BFSI, as they are together called in India-the biggest outsourcing community globally.

Without tapping into that segment, it is difficult to grow beyond a point. The good news is: the Russians have finally realized it.

The Lure of the Money Men

According to a Deloitte Research report, The Titans Take Hold: How offshoring has changed the competitive dynamics of global financial service institutions, released in May 2004, as much as \$144 billion will be spent by financial services industry in offshore operations which will increase to \$261 billion by 2010. In a recently released report, Better, Cheaper, Faster: Business process transformation in financial services, Economist Intelligence Unit (EIU) has found that this will happen across the sub segments of financial

services, such as wholesale banking, retail banking, asset management, insurance, and investment banking. As many as 62 per cent of bigger financial services companies (revenue in excess of \$1 billion) either outsource, or plan to outsource in a maximum of three years to a third party in an offshore location. Add the captive centers and the percentage would rise dramatically.

The same EIU report also notes that on being asked where they intend to outsource their business processes (including IT), India predictably featured on top among offshoring destinations. But it was followed by new EU states, and rest of Asia Pacific, with Russia and CIS just making it with less than two per cent preferences in back office, and enterprise services, and zero in front-office services.

Theoretically, Russia could try at least what is intended to go to new EU states. And that is what they have realized.

When we spoke to Russian companies, majority of them wanted to talk about their capability in financial services, reflecting what occupies the mind space of the top marketing people in Russian outsourcing companies.

But Can They Succeed?

Well, they certainly believe they can-and wants everyone to believe that they can-even though the idea of developing financial software systems still evokes a jittery response among industry insiders. There is a popular saying in the financial IT community, "It can only work well when a programmer is literally sitting next to a trader or analyst." However, slowly, but surely, this mentality is giving way as companies are adopting more structured project management practices. Most outsourcing vendors address this issue by offering hybrid on-site/offshore models. But the real question is how well can remote groups understand specific requirements and adapt to the fast paced environment of financial institutions?

Well, the answer lies with the highly trained Russian project managers. While Russian project managers might not be as savvy as in-house personnel, they are strong contenders. Many young people with MBA degrees abroad worked in US companies, and then have returned to Russia to fill top positions in finance IT and management consulting companies, obviously enriched with wealth of Wall Street related knowledge.

According to a Forrester Research, many Russian companies understand the importance of system project management and have taken steps to acquire necessary knowledge, adopting standardized quality practices. Many have developed sophisticated and transparent project management systems, streamlining communication and allowing clients to track projects in real time. They are confident and believe that they would be able to replicate their success in hi-tech and R&D in this sector too.

And Why Not?

Well, may be the Russians have a valid reason to feel upbeat. According to DataArt Executive Vice-President, Alexei Miller, "Today's Russia has the right combination of talent, expertise, and cost to be the location of choice for developing financial technology." DataArt is a leading provider of high-end software outsourcing services for SMBs, specializing in enterprise application development, system integration, and business automation tools, with industry-specific software expertise in financial, telecom, and media sectors.

The strong background of Russian developers in mission critical real-time systems, math modeling, and scientific, and military application is well recognized. However, there is a much less known fact that from the days of the former Soviet Union in the 1980s, hordes of Russian immigrants in the US have established themselves in the US financial services industry. Visit an IT department of any major New York financial services company – and there is every possibility that you will find a significant number of Russian speaking staff doing either quantitative analysis, complex algorithm modeling, or source code development.

Now, with the fall of the Soviet Union and the establishment of a free market economy over the last 15 years, there's been some flow of expatriate professionals from the US and Europe who successfully transferred back to Russia a great amount of financial sector expertise. Some expatriates with critical domain knowledge and experience took leading

position in IT outsourcing firms providing services for the US and European clients. In addition, the recent economic boom in Russia has attracted major financial institutions around the globe like Citigroup to establish local Russian presence.

Just a few years back, it would have been quiet impossible to find a software engineer with sound knowledge of Wall Street in Russia. Today, even though there is a considerable difference in the Russian and Western financial markets, many Russian developers have become experts in the financial technologies, as a number of leading US and UK software providers contracted and trained them, or launched dedicated R&D centers in Russia. There are groups with substantial experience in risk management, trade order management, electronic trading, pricing, swift, and other aspects of financial technology.

Russian Vendors Gear Up

Not wanting to lag behind, many Russian vendors are investing heavily into knowledge transfer and business domain skills across the organization, to capture the business pie. A good number of Russian vendors such as Luxoft, EPAM Systems, IT Consulting International, Reksoft, DataArt, eStyle Software, InfoPulse, Leaves, FORS are notable examples of businesses with niche specialization in the financial industry. They provide services to leading Russian banks (such as Sberbank, or Petrovsky Narodny Bank) and to Fortune 100 financial clients including global investment banks such as Deutsche Bank USA, Commerzbank, and ABN AMRO.

Luxoft has Deutsche Bank among its clients. Others like EPAM Systems, the largest outsourcing provider in Eastern Europe has clients which include financial heavyweights like the London Stock Exchange and Reuters, and Reksoft, manages an offshore center for developing mission-critical trading systems for a leading European banking institutions. So, may be they have every right to feel upbeat.

Luxoft Vice-President, Lilia Tsalalikhin aptly summed up the Russian determination when she observed, "Driving this is an obsession with quality, conformance to global standards, and an end-to-end approach to service." Luxoft is Russia's largest software development outsourcing company, providing its clients with a full spectrum of software development services performed in dedicated offshore centers or on customer sites.

Versus India

Svetlana Vronskaya, Director, Corporate Communications, Reksoft is of the view that Russia and India need not compete. "There are different types of projects that go to these countries." Lilia Tsalalikhin goes a step further. She observes, "Looking into the future, Russia is predisposed to taking a leadership position in emerging high-end knowledge-based outsourcing, as global corporations start moving processes like data and intellectual property researches to offshore locations. Steve Chase, the head of Intel's branch in Russia sums it up when he says, "We at Intel have a saying: Give the urgent projects to the Americans, big project projects to the Indians, and the impossible ones to the Russians."

That was the positioning in high tech. If Russia wants to keep that positioning in financial services, it is going to be pretty challenging. -

The West still does not see them that way. In India's case, coming of Amex and GE helped. They acted as anchor investors in offshoring. What catalyzed the process is the relentless campaign by NASSCOM, with a little help from Indian government. What NASSCOM did-and many associations in the emerging countries fail to do-is NASSCOM never allowed itself to be the platform for Indian vendors. Rather, it has become a neutral "India" champion, with active members including not just captive subsidiaries but companies like IBM, EDS, and CSC etc.

For Russia to be successful in financial services, it has to sell its capability, get in at least one anchor investor, ensure that there is no discrimination between the Russian companies and outside companies, and finally incentivize companies to come to Russia.

IT Parks: Placebo or Panacea

By Alexander Yankevich, 04.10.2005
St. Petersburg Times

Probably the biggest event for the industry of Information Technology in Russia this year was the government's decision to set up five IT parks in the country. Though met with some skepticism at home, the idea of gathering different IT companies in one space has prospered for more than 40 years, stimulating industry growth in the U.S., India, Finland, and elsewhere. How has it worked abroad and what could it potentially do for Russia?

An IT park is a territory with adequate infrastructure on which a concentration of companies in the technology sphere work side by side. IT parks come in two types: "incubator" projects, suitable for start-up firms, and large business-center style constructions housing recognizable market players. The first type especially relies on the nearby presence of a higher education establishment, where new ideas for projects that could turn commercially viable, originate.

An ideal model for IT parks connects the research facilities with the production process, placing together all the links in the chain that take a scientific idea and make it into a commercial product. Aside from universities and companies, parks rely on support from the local authorities and beneficial federal legislation.

The word from abroad

The most prominent IT parks in the world today include India's Bangalore and the French Sophia Antipolis project. However, the world's first park originated in the U.S., literally in a green field. In the early '50s, Stanford University in California started to rent space in its "back yard" to technology companies, which worked on state and military orders.

After 30 years of slowly developing the space into a science park, the territory grew to be known as Silicon Valley. More than 160 IT parks operate in the U.S. today.

In Europe IT parks appeared only in the early '70s. Some of the first were the research park in Edinburgh, ran by the Heriot-Watt university, the science part on the grounds of Trinity College in Cambridge, the Louvain la Neuve in Belgium, and a zone for scientific and technological innovations and production (ZIRST) in Grenoble, France.

Sophia Antipolis appeared more than 30 years ago, and in the last 10 years alone has created more than 10,500 jobs.

The IT park occupies 2 hectares of space, where offices of about 1,000 European and American firms are located, including the headquarters of the European Telecommunications Standards Institute.

Although the main support for the French project has come from the European Union, rather than French government itself, more than 400 million francs were pumped into the park in the '70s to start it up, with a similar amount invested since in expansion and the building of residential quarters. The private sector has contributed about 300 million francs to set up construction facilities and purchase equipment.

The other star on the global map of IT parks is Bangalore in India, which developed as a result of massive investment from the government to kick-start a local IT outsourcing industry. Currently, India runs three kinds of IT parks: software technology parks, export processing zones, and export-oriented units.

The Bangalore project began work in 1984 after sealing a contract with U.S. firm Texas Instruments. Today, the park accommodates more than 80,000 IT specialists, working in close contact with a network of about 55 universities and colleges.

Even if India has only 13 IT parks in the whole country, the volume of the sector is enormous, making the country the global leader in IT outsourcing. India's parks employ nearly half a million people working in 1,300 companies altogether.

Other countries demonstrating a high tempo of development, such as China and the Philippines, have also latched onto the IT park idea. China has a long-term IT park program that is supported by the government. The crux of the support lies in tax breaks for

companies working in China's 50 parks; for the first few years the tax rate may be set at zero.

A leader among Far Eastern countries in technological regard, Japan was one of the first to initiate an IT park scheme in the region. In 1983 Japan's government passed a special law that supported a development of domestic IT parks by building new towns. According to the Japanese model, the new towns, or technopolises, have been set up in 19 special zones spread evenly between the country's four islands. Each techno-polis must be no more than 30 minutes ride on public transport from its "parent-city" that has a population of at least 200,000. And each polis is no bigger than 500 square miles in size.

The brightest example of a Japanese IT park may be the town of Tsukuba, 35 kilometers from Tokyo. It houses 11,500 people, working in 50 governmental research institutes and two universities.

Thirty of the country's 98 state research facilities are found in Tsukuba, although the private sector is not as strongly represented there.

Examples closer to home show that Finland, which with a population of 5 million — almost that of St. Petersburg — has about 20 IT parks. Next year, even Cyprus plans its own IT park. The island country has met with strong industrial competition from Asian producers, pushing Cyprus to push ahead with the project in record time.

Technical and financial feasibility studies for the park will complete this year, while meeting with investors and design and planning will begin in 2006. The government has agreed to sponsor all infrastructure works, leaving the rest of the expenditure to be covered by local authorities and businesses.

Forgotten towns

As much as it seems that Russia is lagging behind in the construction of IT parks, examples of earlier progress at once inspire and frustrate. In the '50s the Soviet government had supported the building of three academic towns: near Novosibirsk, Yekaterinburg, and Vladivostok. All three were research towns with all the infrastructure and financial backing necessary.

The town near Novosibirsk, for example, combined 40 research and education facilities. After the perestroika era financing for the towns was severely reduced, with only recently some attempts made to reverse the situation.

This year the Russian government has finally addressed the need to stimulate the domestic IT industry since President Vladimir Putin's January speech in Novosibirsk promised several key reforms.

The president's visit to Bangalore the previous December had not been in vain, it seems.

The first step in the process has been to set up a law for Special Economic Zones, worked out by the Economy and Trade Ministry. The law has been updated from an earlier draft of 2003 to provide beneficial tax conditions and ease of customs duties, among other benefits, for companies operating in the special economic zones. The zones will divide into manufacturing and research centers.

The second step has been to designate five cities as homes to specialized IT parks: Novosibirsk, Nizhny Novgorod, the Moscow region's towns of Dubna and Chernogolovka, and St. Petersburg. The five will act as pilot projects for further development of the IT park model in the country.

Who will pay?

The IT parks program has been estimated by the government to cost about 123 billion rubles (\$4.3 billion). Of this, about 20 billion rubles, or 16 percent, will come from the federal budget, a further 15 billion rubles, or 12 percent is expected from private Russian investors, and the other 88 billion, or 72 percent, will come from "non-budget sources," the Deputy Minister for IT and Telecoms, Dmitry Milovantsev, said in August.

In addition a \$100 million state venture fund will be set up to generate investments into the IT industry, Milovantsev said after a round table on the IT parks project in St. Petersburg.



As a result of the IT park project, the Ministry for IT and Telecoms expects the value of the IT sector in Russia to reach 1 trillion rubles (\$35 billion) by 2010. Should the program not be successful, the annual growth of Russia's IT outsourcing market could drop to 11 percent from 2007, which would damage domestic companies' competitiveness on the global market, representative of the ministry said.