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## Summary

### City Seeks Software Action

Why go to Calcutta when you can get all your software outsourcing requirements filled in St. Petersburg, the cultural capital of Russia? ... Among the advantages for chief information officers of engaging the services of St. Petersburg firms Narvsky, of eVelopers, listed historical and cultural ties with Europe and the United States, and its educated workforce. [read more](#)

By Vanessa Bittner, 10.02.2004  
The St.Petersburg Times

### Accept Offshore Outsourcing as Inevitable

The trend to offshore outsourcing of IT and business functions is inescapable according to a panel of key executives in the vendor community. The panel, assembled at Gartner Symposium/ITxpo 2004 in Barcelona, Spain, defended the industry against the political and media backlash now raging against the practice. [read more](#)

By Jonathan Green-Armytage, 15.03.2004  
Gartner Group

### City Vies for Position As High-Tech Center

St. Petersburg has made its name as an international source of software engineers, with world-class education in mathematics and physics, providing migrant programmers abroad and working on outsourcing in Russia. [read more](#)

By Robin Munro, 16.04.2004  
The Saint Petersburg Times

### Russia to Cash In on IT Growth

The Russian information technology industry saw rapid growth last year and Russia is well positioned to become a global leader in IT, industry leaders say. [read more](#)

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Business Week

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RIA Novosti, 15.09.2004

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St. Petersburg has made its name as an international source of software engineers, with world-class education in mathematics and physics, providing migrant programmers abroad and working on outsourcing in Russia.

Leading mobile technology firm Motorola has been active in the city since 1994 when it opened a research laboratory. In 1997, it formally opened a software development center that today provides some 300 jobs to local specialists. It plans to boost this number by at least 10 percent this year and is aiming for a local staff of 500 plus.

The operation focuses on writing code for mobile phones, automotive electronics, cellular infrastructure and advanced technologies.

Asked why Motorola had chosen the city for its operations in Russia, Vladimir Polutin, managing director of the firm's global software group in St. Petersburg, said Motorola had been well aware of the city's talent pool. After discussions with the Academy of Sciences in Moscow and St. Petersburg, Motorola found that Russia has only a few major research and development centers.

He listed these as Moscow, St. Petersburg, Yekaterinburg, Novosibirsk, Tomsk and Nizhny Novgorod.

"Moscow is the most expensive," he said in a telephone interview. "St. Petersburg is less so and the other regional centers are even lower but lack some of the other criteria we were looking for."

Motorola wanted an operations center in a location with appropriate infrastructure, an international airport, high-quality and capacity communications, and international standard hotels, Polutin said.

While the cost-effectiveness of Motorola's operation in St. Petersburg is constantly growing, Polutin said the information technology market is rapidly changing.

"The only competitive advantage of St. Petersburg is the talent pool," he said. "That's disappearing steadily compared to other regions of Russia because other cities like Nizhny Novgorod have started to pick up and are improving their cost-effectives and infrastructure."

"If the city authorities continue to ignore what is happening this advantage will disappear," Polutin added. "There is a tendency to locate in smaller cities such as Intel has done in Nizhny Novgorod. People are looking for less costly areas where there is still talent."

Not only is St. Petersburg competing for the outsourcing dollar with other cities in Russia, but also with those abroad, he said.

The economic parameters under which Motorola is operating do not always match the needs of the IT industry and the global industry is changing, added Polutin, who had just returned from India's outsourcing capitals of Bangalore and Hyderabad.

Countries such as Brazil, Scotland, Singapore, Italy and Malaysia provide incentives to the software development industries, while the St. Petersburg city administration is glad to have Motorola as a leading taxpayer in the center of the city. Motorola has also spent \$400,000 supporting three technical universities over the last three years and is a sponsor of the Vaganova Ballet School.

"We will not be able to compete on cost without incentives from the government," Polutin said.

Not only will regulators need to change their stance, but the Russian industry will have to be better at policing itself if the market is to grow, he said.

Quality is uneven with some garage-style companies undercutting the standards of market leaders, he said

Russian programmers work in a different niche than China or India, but the niche it occupies has the potential of less than 10 percent of the whole global IT Technologies market of \$776 billion this year, Polutin said.

The country has the talent to compete against highly developed countries like the United States, France and Germany, but will need a lot more attention to investment before it does, he said.

## Accept Offshore Outsourcing as Inevitable

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The trend to offshore outsourcing of IT and business functions is inescapable according to a panel of key executives in the vendor community. The panel, assembled at Gartner Symposium/ITxpo 2004 in Barcelona, Spain, defended the industry against the political and media backlash now raging against the practice.

Hubert Giraud, Group Vice President, Global Outsourcing at Cap Gemini Ernst and Young, argued that companies in the advanced economies were hurt more by the economic downturn than by any loss of jobs overseas. "It's an historical trend" he said, predicting that, with economic recovery "we will hear less of the evils of outsourcing."

Alexander Egorov, founder and CEO of Reksoft of St. Petersburg, agreed that outsourcing will happen anyway. "It's a fact of life," he said. People will have to be prepared to accept it. But he argued that outsourcing will create new and different jobs in companies that use it. Managing delivery of a contract, he said, was more challenging than coding software.

Francisco D'Souza, COO of Cognizant, agreed that outsourcing creates jobs in the long term. But he accepted that enterprises and governments need to tackle the short-term issues and perceptions. Governments, he said, should be aiming to create an environment that encourages innovation, entrepreneurship and risk-taking. They should encourage life-time education and training and work with the private sector when considering regulation.

The three executives were questioned at Symposium by Ian Marriott, vice president and research director, and Roger Cox, managing vice president with Gartner Consulting.

Egorov said that many of the negative expectations about Russia were no longer relevant and he said European companies should look behind them at a source of services that is close physically and culturally. Giraud said that any sourcing strategy should include offshore sourcing. And D'Souza warned that "if you choose not to do it, your competitors will probably do so and gain a competitive advantage."

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## Russia to Cash In on IT Growth

By Simone Kozuharov, 06.07.2004  
The St.Petersburg Times

The Russian information technology industry saw rapid growth last year and Russia is well positioned to become a global leader in IT, industry leaders say.

"The market experienced very rapid growth last year with over 50 percent growth in some segments," said Anatoly Karachinsky, president and CEO of industry leader Information Business Systems Group (IBS).

The industry as a whole has grown 30-40 percent over the past three years according to Valentin Makarov, president of Fort-Ross Information Technology Services, a consortium of software developing companies in Russia, Ukraine and Belarus.

Systems integration saw a 35-40 percent rise, the infrastructure market went up by 30 percent, the computer manufacturing and assembly sphere rose by 20-25 percent and the software development market grew 40 percent, Karachinsky said.

"We experienced a huge interest toward Russia and Russia is very well positioned geopolitically," Karachinsky said. "There are projections for stability, for economic growth in Russia."

Over the last two years Russia "became the absolute European leader in implementing the highest level of certification," Makarov said. "None of Europe can compete."

Luxoft, a subsidiary of IBS, was awarded the highest possible certificate recognizing software development.

"Only nineteen companies in the world have this level of certification," Karachinsky said.

Additionally, Russia became the global leader in IT training programs, "which means our higher schools [of education] are the best in the world," Makarov said.

The internal Russian IT market is growing more than 10 percent annually, Makarov said, with an overall 24 percent increase in the IT market as a whole last year.

"More business means better quality of our work," Makarov said.

The Russian government has taken notice of the exponential growth and recognized Russia's potential in the industry, experts said, although they are still crying for more governmental support.

The government itself is working on developing its use of IT internally and has reorganized itself to better handle the growing IT field, experts said.

Formerly known as the Ministry of Communications and Information, the ministry has been renamed and reorganized as the Ministry of Information Technology and Communications.

"The government now realizes it's a very fast-growing, innovative industry," Makarov said.

One reason for Russia's potential IT success is its geopolitical position, Karachinsky said.

Russia's main competitors in the industry are India and China, with India dominating 20 percent of the market share. Russia and China tie for second place, with one percent each.

But where both India and China are viewed respectively as unstable politically and geographically, Russia is a vessel of stability, Karachinsky said.

"There are many aspects in India and China that are unpredictable in different combinations," he said.

"If you look at China, there is a big conflict between the form and the context because their form is communistic, but they are a capitalistic country in every essence.

"And India is very unlucky in its geographic position right now," Karachinsky said, citing the instability in the region with Iraq and Kashmir.

It is unlikely, however, that Russia will overtake or equal India's dominating position for one main reason.

"It is impossible because India has 1 billion people and the English language is widely spread there. So obviously it will always be easier to find people for very cheap work in India and as time progresses, it will be more and more difficult to do that in Russia," Karachinsky said.

However, Russia's future is concentrated in dealing with the industry's complex issues, he said.

"The education level in Russia is much higher, so obviously it will be easier to find specialists who can handle difficult problems and solve complex issues."

Other experts say Russia's future also looks bright on the simple side of the industry that focuses not on technology for giant corporate entities, but on software for everyday use, like shareware.

Shareware is simply software that can be downloaded from the internet for a free trial period. If the user decides to purchase the program, he or she can do so right over the internet.

One company capitalizing on both sides of the industry is Novosoft Russia, a conglomerate including Novosoft, Novosoft Development, Novosoft Novosibirsk and Novosoft Zheleznogorsk.

Located in Akademgorodok, Novosibirsk, the Russian equivalent of Silicon Valley, Novosoft is due to complete a contract with Norilsk Nickel, the global leader in nickel production, and is negotiating further contracts for future participation with the nickel giant, Novosoft founder and president Vladimir Vaschenko said.

"This type of company [Norilsk Nickel] is using a lot of equipment to support technological processes during all stages of metal production so we provide them with a system that manages all these types of equipment," he said.

Once a joint Russian-American venture, Novosoft split with its American counterpart last year, leaving the Russian and American partners headed in different directions.

"Novosoft Inc. declared its bankruptcy in the United States, or tried to declare it, but Novosoft Russia is working successfully here," Vaschenko said.

Although one of Novosoft's major focuses was offshore software development, the company has experienced loss since September 11 and is adapting to the change in demand by shifting its focus to shareware.

"The shareware model of business is to build a small program which costs an average price [of] 30 bucks so people can download it from the internet, install it and use it for free for one month...and then decide [whether] to buy it or not," Vaschenko said. "And you can do everything using the internet only. You can download it, install and make payments on the internet and you don't need to go to any shop."

Shareware is particularly popular because it is simple, inexpensive and can be managed by small companies and even one person.

"A lot of individual developers are doing this business in Russia," Vaschenko said. "I see this as a good direction for growth in this industry, in Russia especially."

## A Renaissance For Russian Science

By Jason Bush, 13.08.2004  
Business Week

It's an emerging-market economy that still suffers from widespread poverty - but somehow manages to produce more than 200,000 science grads a year. Students so well-trained in computer science, physics, mathematics, and engineering, that growing numbers are being snapped up by some of the world's biggest tech companies.

India? Wrong. China? Nope. The correct answer is Russia. "We continue to see very good students come out of the universities," says Steve Chase, president of Intel (INTC ) Russia. When it comes to writing complex computer programs, "the Russians are absolutely tops," he adds.

It's one of Russia's surprising survival stories -- the resurgence of the country's once-superb scientific education system. State funding for scientific research and education plummeted with the collapse of the Soviet Union, and many of Russia's best and brightest left the country, lured by higher-paying jobs abroad. But Russia's universities and scientific institutes are slowly adapting to the harsh realities of a market economy, by tapping private funding and research contracts and forming partnerships with international heavyweights such as Intel, IBM (IBM ), and Cisco Systems (CSCO ). Meanwhile, enrollment in science courses is rising once again.

That's the good news. The bad news is that the ranks of Russian academia are thinning, as most of the newly minted science grads are recruited by the private sector or foreign universities. Without an influx of qualified teachers, Russian science may be living on borrowed time. "Russian basic science is still at a very high level, but when the current generation of teachers retires, the experience may be lost," warns Irina G. Dezhina, senior researcher at the Institute for the Economy in Transition in Moscow.

### Wowing the world

For now, at least, Russians young and old continue to wow the world with their scientific and mathematical talent. As has happened in three of the past five years, a Russian university won top honors at the 2004 ACM International Collegiate Programming Contest, an IBM-sponsored competition that pits university teams from around the world against each other in solving complex problems. Universities in the ex-Soviet Union took 10 of the top 30 slots this year. "The educational system has become shaky but still works well," says Natalia Kasperskaya, CEO of Kasperskaya Labs, a local software company.

The system might have collapsed altogether without a recent increase in state support, made possible by Russia's economic revival since the end of the 1990s, coupled with a growing stream of private funding. Government spending on science is up by 90% since 1998, although it remains a fraction of what it was under communism. Meanwhile, private finance now makes up around 45% of all research funding. "The 1990s was a difficult

time for the whole system of education, but since 2000 we have been able to work more or less normally," says Nikolay Kudryavtsev, rector of the Moscow Institute of Physics & Technology. Founded on Joseph Stalin's personal orders in 1951, Phystech remains one of Russia's leading scientific universities. These days the institute no longer gets its electricity cut off because of unpaid bills -- and can even invest in much-needed student dormitories.

Some of the partnerships between academia and the private sector have already begun to bear fruit. Take Unichimtek, a company founded by a group of Moscow State University researchers with the help of local investors. The enterprise invented Graflex, a material that can be used to insulate everything from electric cables to space ships, and now employs some 700 university chemists and research students. "It's a good example of the cooperation of Moscow State University with industry. That's exactly what our science needs now," says Moscow University Rector Viktor Sadovnichiy.

### Scouting talent

Russian science is also getting a helping hand from international heavyweights. Trailblazer Intel Corp. began working with a half-dozen Russian universities back in 1997. Intel Russia President Chase explains that the chipmaker usually starts off with an equipment donation, and gradually becomes more involved, helping develop curricula, and even contracting out work to university research staff. Right now, a team at Nizhny Novgorod State University is helping Intel develop security software for high-speed wireless communications.

But the biggest draw for Intel is the chance to scout for new talent. "We're partly doing this because we want a good pipeline [of students] in the future," explains Chase. Intel already employs 500 Russian engineers at research centers in Moscow, St. Petersburg, and Nizhny Novgorod, and plans to recruit 500 more this year. Chase says Russian programmers are remarkable for their creative approach and for their grasp of complex mathematical algorithms. It helps, he says, that unlike their counterparts overseas, many of the best Russian programmers trained as physicists, chemists, or mathematicians.

Luckily for Intel and others, there's a growing pool of Russian science grads to fish in. According to research by Auriga Inc., a Russian information-technology company, this year's graduating class of computer scientists, engineers, mathematicians, and physicists will be 11% larger than last year's, totaling 225,831. Despite the recent vogue for management or marketing, Russian youth is rediscovering its traditional interest in old-fashioned science. Moscow University's Sadovnichiy says there are now six applicants for every place at the university, compared with just two or three in the mid-1990s, with the most intense demand for places on science and mathematics courses.

Trouble is, these newly minted grads are opting out of teaching, so Russia's professorial ranks are graying. "The main problem is low salaries," says Walter Pogosov, 28, a recent graduate of Phystech, who now works as a postdoctoral researcher at Okayama University in Japan. Pogosov earns \$3,700 a month in Japan, while an assistant professor in Russia collects a mere \$100 a month. He says around half of his classmates are working or studying abroad, while others have become millionaires in Russia by ditching science for banking or business.

According to a report that Moscow State University's Sadovnichiy prepared for the Russian government earlier this year, almost two-thirds of Russia's scientists are over 40. If current trends continue, 42% will be over 60 by 2010. In March, Sadovnichiy presented his findings to President Vladimir V. Putin himself. "It seemed that the President is very interested," he says. To draw more candidates into science careers, Sadovnichiy recommended a range of steps, from channeling funding to the most promising research areas, to allowing innovative scientists to get more of the commercial benefit from state-funded projects.

A further boost in state funding would help enormously. Despite the increases in recent years, Russia spends just 1.24% of gross domestic product on research and development, half the level of France or Germany, and a 60% decline from 1990 levels. The comparison is less flattering still when defense-related research - still a huge chunk of Russia's science budget -- is excluded. Still, even expatriates like Pogosov aren't ready



to write off their homeland. His ambition is to earn enough money in Japan so that one day he can return home to work as a scientist. With dedication like that - and more support from government and business - Russian science may yet have a future as well as a glorious past.

## Production of Information Technologies in Russia Going Through Genuine Boom

RIA Novosti, 15.09.2004

During ten years the production of information technologies in Russia can become comparable with oil production, Russia's Minister of Information Technologies and Communication Leonid Reiman stated addressing the third Baikal economic forum on Wednesday.

According to him, this holds true first of all of the Russian market of software. Today this market is estimated at \$4.5-5 billion. The export of software currently runs into a mere \$500 million, Mr. Reiman noted. It is planned to bring this export to \$1 billion in 2005, and to \$2 billion in 2006.

"This task is practicable if we look at the dynamics of this sector's development in the past few years," the Minister believes.

The Minister said that to boost the export of software, systemic integration and in the longer term also of Russian computer equipment, state support of these sectors, development of special economic zones, a flexible system of customs-tariff measures, and aggressive marketing both on the domestic and foreign markets are necessary.

Mr. Reiman stressed that the development of information-communication technologies is a catalyst of the development of all economic sectors, and will enable a foundation for the country's security to be built, and the task of combating poverty to be accomplished. Ensuring every Russian citizen's access to Internet will help do away with the so-called "digital inequality of the population", the Minister noted.