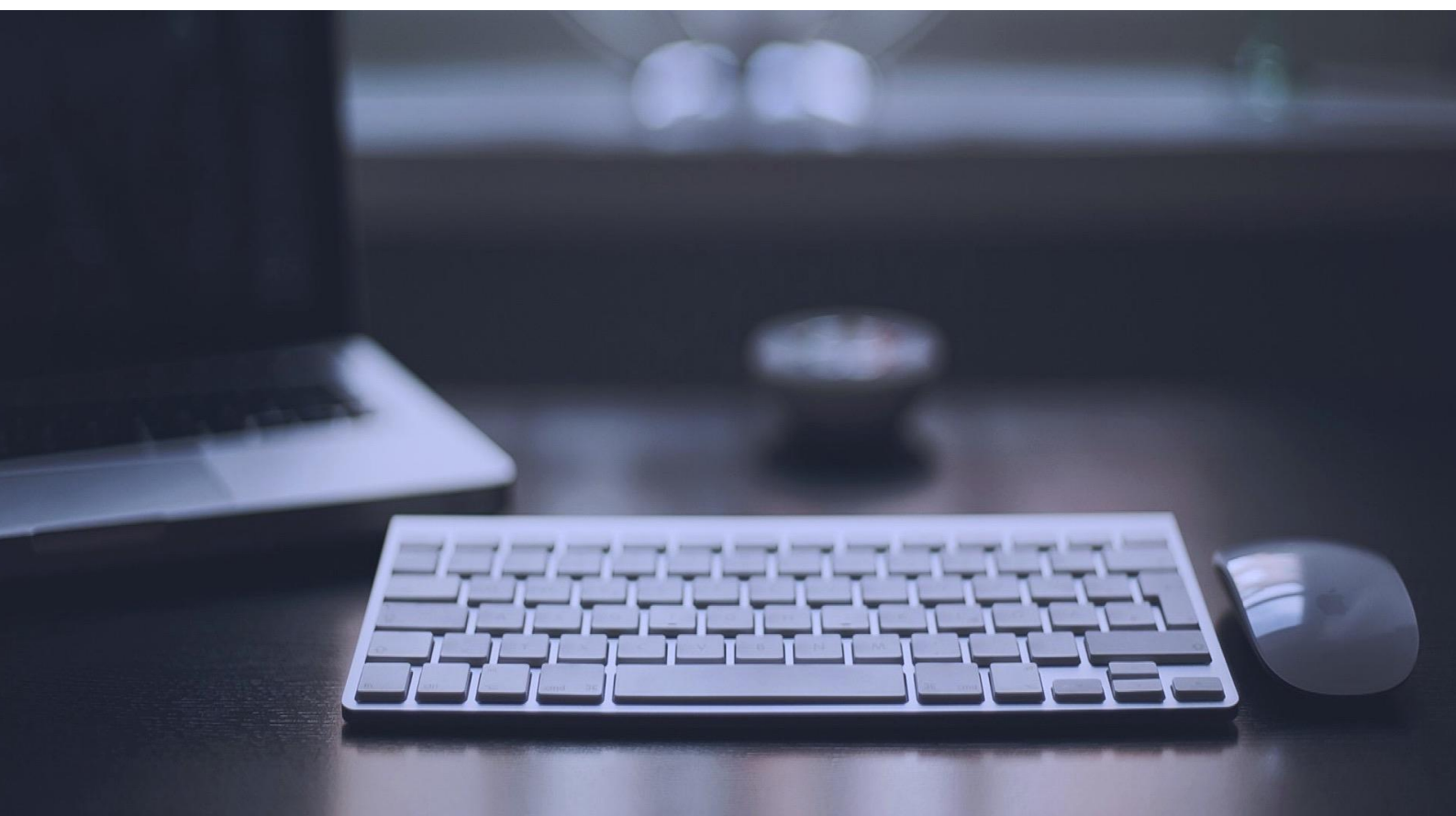


# Annual Report 2018

Information Technology Park  
“Moldova IT Park”



# CONTENT

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<b><u>Abstract</u></b>	3
<b><u>I Preconditions for “Moldova IT Park” development</u></b>	4
<b><u>II The governance model of „Moldova IT Park”</u></b>	5
<b><u>III Financial resources of “Moldova IT Park”</u></b>	6
<b><u>IV Dynamics of "Moldova IT Park" development</u></b>	8
Analysis of growth dynamics by the number of residents	
Analysis of residents’ sales revenue	
Employees of “Moldova IT Park” residents in numbers	
“IT Visa” Program	
Wage growth in the IT sector	
<b><u>V Results of the annual compliance verification</u></b>	17
<b><u>Conclusion</u></b>	20

## Abstract

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The Information Technology Park annual report represents an analysis of the activities of the Park residents by processing the data received from the residents. This analysis is based on the quarterly reports and the annual verification report on the residents' compliance with the provisions of the legislation into force.

The results of this analysis are presented in 5 chapters that describe the dynamics of „Moldova IT Park” and its residents' growth and development.

Chapter I is devoted to the legal framework that served in establishing the Park and the amendments that were introduced in 2018, as well as the analysis of their impact.

Chapter II comes with a brief description of the governance model and the functioning mechanisms of „Moldova IT Park” .

Chapter III provides information on the structure of financial resources of the Park Administration, received in the form of monthly contributions. Also, the distribution of the 2018 budget among the Park residents is presented.

Chapter IV offers a statistical analysis of the main progress indicators registered by “Moldova IT Park” and its resident companies. The analyzed figures show the

sector's development in the framework of the financial issues, foreign investments and human resources.

Chapter V presents a summary of the residents' annual verification and their compliance with the provisions of the Law no.77/2016, as well as a comparative analysis of the companies' real turnover registered in 2018 and the forecasted one.

For this report, a quantitative and qualitative analysis was performed based on the main indicators as: the number of residents, the number of their employees, the average salaries and wages, the total sales income, the income from the export and local sales by the activities covered by the Law on IT Parks, as well as the results of the companies' annual verification.

## I Preconditions for “Moldova IT Park” development

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The Park was established and organized on the base of the Law no.77. that entered into force on June 21, 2016. It represents the innovative legal framework for regulating the procedure of information technology parks establishment and defines the processes of the first virtual park „Moldova IT Park”.

Initially, the Law included 8 types of activities (Art.8), which allowed IT companies to develop their business activities, operating under the preferential tax regime.

On July 20, 2018 the impressive results registered by the “Moldova IT Park” were amplified by the extension of the list of activities stipulated by article 8 of Law no.77/2016. As of the time of the amendments were included, Park registered 224 active residents.

Thus, traditional activities related to the information technology sector have been complemented by neighboring areas related to IT education, research and development, prototyping and the creative industry, which contributes to the development of horizontal links and ensures the full development cycle of products and services in the sector.



Moreover, simultaneously with the expansion of the types of activities list, the interest of foreign companies and investors towards the Park increased.

At the same time, the Law was updated to simplify the process of verifying the fulfillment of the necessary conditions for obtaining and maintaining the status of the information technology park resident.

The data obtained during the compliance verification, conducted by auditing companies or auditors and submitted to the Park administration, served to support the achievement of administrative objectives. The verification process, as an integral part of operating in the new tax regime and as a guarantor of the legitimate use of resident status, made it possible to identify and prevent possible errors, inconsistencies and omissions.

## II The governance model of „Moldova IT Park“

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An integral element of any institution success is its management model.

The organizational structure is based on a predetermined mechanism of interaction between key actors, on a functional institutional framework, an administration with a clearly defined mandate and competencies, as well as a common vision of development.

A unique combination of all these elements found itself at the center of o “Moldova IT Park” activities.

During the first year of activity, all elements of this complex system were strengthened by creating the Administration that was empowered with a set of innovative tools and a mission clearly defined in the Government Decision no.1144, of 20.12.2017.

These efforts have created the operational base of the Park and have been amplified by applying the multistakeholder model in all executed operations.

As an impartial institution that combines the power of the public and private sectors, "Moldova IT Park" has the ability to turn into a cluster facilitator and the main economic power center with efficient solutions for sector development.

Through the prism of these elements, the importance of summarizing the results achieved in 2018 at the General “Moldova IT Park” Residents Meeting, which took place on 04.02.2019, is emphasized.

The tangible successes, supported by the statistical data analyzed and presented below, have been supplemented by various achievements that have contributed to the progress of the Park.

From the growth and image promotion point of view, "Moldova IT Park" participated in the notorious events in the sector held in Romania, USA, Spain, Germany, and the many national events.

At the same time, the support of the residents during the year as well as within the General Meeting, provided the necessary level of independence and flexibility to the newly created structure by approving the budget for the year 2019 in the amount of 2.5 million lei.

The increased level of transparency and clarity of processes was ensured by approving the Park Regulation.

Moreover, the vector of further development with a common vision, as well as clear and measurable mission and objectives found its place in the Strategic Development Plan of „Moldova IT Park“, approved by residents in the framework of the General Meeting.

Thus, with the participation of all parties involved, Park intends to maintain and improve the processes as well as develop innovative leadership.

### III The Financial resources of „Moldova IT Park“

According to p.26 of the Government Decision no.1144 of 20.12.2017, the operational resources of the Park Administration are obtained in the form of mandatory contributions.

The amount of the mandatory annual contribution of the resident company is equal to the sum of the annual expenditures included in the Administration's budget for the current year divided by the total forecasted sales revenue of all residents of the Park for the current year and multiplied by the anticipated sales revenue of the Park's resident for the current year.

Thus, the size of the contribution of each resident depends on the three variables. It changes due to the fluctuation of the number of residents and their annual income.

This method provides the necessary level of parity, as well as observance of the

principles of non-discrimination of small and medium-sized businesses, providing enough space for business development in the IT sector.

The main reference indicators for the year 2018 used in the calculation (per December 2018) are the number of residents - 339 companies, the Park's budget - 1,000,000 lei, and the total forecasted revenues of the companies - 1,878,055,495 lei.

The forecasted income of resident companies varies from 60,000 to 300,000,000 lei.

In order to analyze the distribution coefficient of contributions between residents, their forecasted revenues were divided into 12 categories for providing a more detailed result.

In 2018, one company with income between 100-300 million lei, covered 14% the budget

**Table 1: Distribution of contributions between the resident companies**

Forecasted income 2018, lei		Number of companies	Share
From	Till (incl.)		
<b>60 000</b>	300 000	29	<1 %
<b>300 000</b>	600 000	53	1 %
<b>600 000</b>	1 000 000	60	3 %
<b>1 000 000</b>	1 500 000	31	2 %
<b>1 500 000</b>	2 000 000	24	2 %
<b>2 000 000</b>	3 000 000	34	5 %
<b>3 000 000</b>	6 000 000	47	12 %
<b>6 000 000</b>	10 000 000	24	10 %
<b>10 000 000</b>	30 000 000	27	25 %
<b>30 000 000</b>	60 000 000	6	14 %
<b>60 000 000</b>	100 000 000	3	12 %
<b>100 000 000</b>	300 000 000	1	14 %

At the same time, 25% share is covered by 27 companies with income from 10 to 30 million lei.

Companies with the lowest registered income which varies between 60-300 thousand, covered a share of less than 1% of the total budget of the Park.

#### **4 companies cover 1/4 of the Park's budget**

Also, with the increase of the number of resident companies in the Park, the percentage share will also change depending on the income and number of the companies joining the Park (according to the residents' contribution formula, established by Law no.77 / 2016).

Thus, at the beginning of 2018, 77 resident companies were to cover the budget of the Park. This meant that the monthly contribution of these companies was 97 lei per month for each 1,000,000 lei forecasted revenue.

#### **The monthly fee decreased by 54%**

In December 2018, with a total 339 active resident companies, a forecasted revenue of 1,000,000 lei meant a monthly fee of 44 lei.

At the same time, the data presented in the Table 1 may become unrepresentative after receiving all the annual verification reports. The monthly contributions will change depending on the real incomes generated by resident companies during the 2018.

## IV Dynamics of “Moldova IT Park” development

### Analysis of the number of residents’ growth dynamics

The increase in number of companies with the status of the park resident show a positive dynamic.

During 2018, 346 companies obtained the status of "Moldova IT Park" resident.

From the total number of residents, 6 companies are individual enterprises.

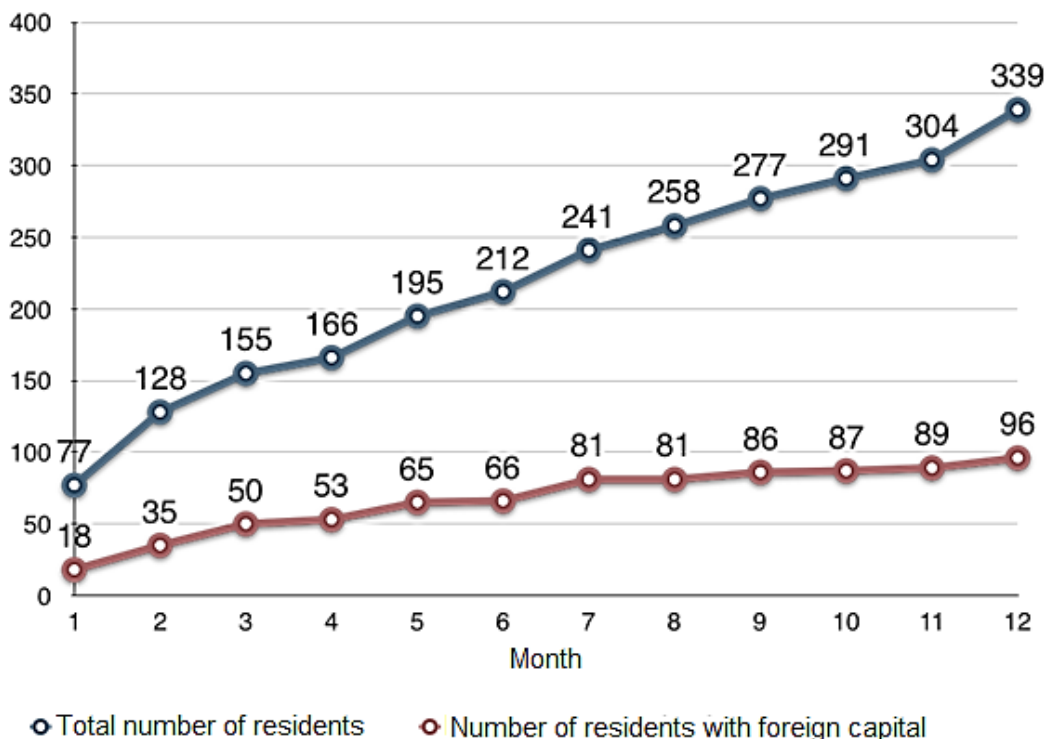
Out of 346 residents, 7 companies have terminated the contracts with the Park Administration in 2018.

The reasons for contract termination are: change in internal company strategies and non-compliance with the provisions of the Law no.77 / 2016.

At the same the interest of foreign investors increased as the number of companies with foreign capital, coming from 27 countries, reached the figure of 96 companies at the end of 2018.

Top 5 countries by capital source are: USA (15), Romania (13), UK (8), Italy (8), Germany (7).

**The dynamics of growth in the number of residents**





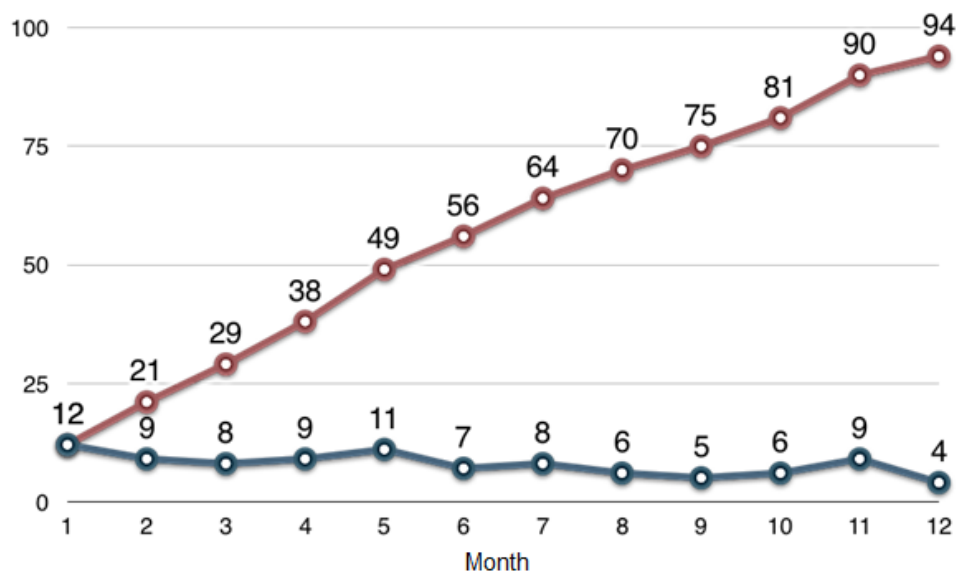
At the same time, the number of resident companies created in 2018 has also increased.

During 2018, 94 newly created companies became residents of "Moldova IT Park", representing about 1/3 of the total number of residents of the Park.

The forecasted revenue for 2018 of newly created companies was 135.3 million lei.

Of the total number of newly created companies, 20 of them represent companies with foreign capital from 14 countries. This figure represents about 1/5 of the total number of foreign residents registered in the Park.

### The growth dynamics of the number of resident companies created in 2018



- ◊ Monthly entrance to the Park of newly created companies
- ◊ The total number of newly created companies in the Park

The positive dynamics in the number of companies created in 2018 demonstrates the growing interest in creating new companies in the IT sector, due to the favorable fiscal environment for the national IT sector.

At the same time, the increase in the number of companies with foreign capital denotes a flow of foreign investments in the information technology sector.

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## Comparative analysis of residents' sales revenue

The increase in the number of "Moldova IT Park" residents directly affects the growth rate of total sales revenue of companies registered in the Park.

According to the above-mentioned data, in the first year of Park operation, many new companies were created, including companies with the foreign capital operating on the domestic and foreign markets.

The 339 active residents, registered in the Park by the end of last year, have forecasted a total revenue of 1,878,055,495 lei for 2018.

These results provide weighty reason to conclude that the positive dynamics of residents' revenue directly affects the ability of companies to reinvest in themselves and in industry-related projects as well as in human resources that are an integral part of the business development processes.

In 2018, the volume of exported sales, as well as sales directed to the local market, grew steadily.

Growth rates vary from quarter to quarter, doubling in the second quarter versus the first quarter of 2018. In the 3<sup>rd</sup> quarter there was a 10% increase in local sales and 20% in exports compared to the quarter II, and in the 4<sup>th</sup> quarter these figures increased by 35% and 30%, respectively.

The share of 2/3 of the total forecasted revenue belongs to the 96 resident companies with foreign capital, reaching the amount of 1,233,484,390 lei.

This ratio reveals the major impact of foreign investment on the formation of the national IT sector and its profitability.

Also, an important factor is the cost of sales, related to the activities allowed by the Law, which represents 1,326,051,100 lei.

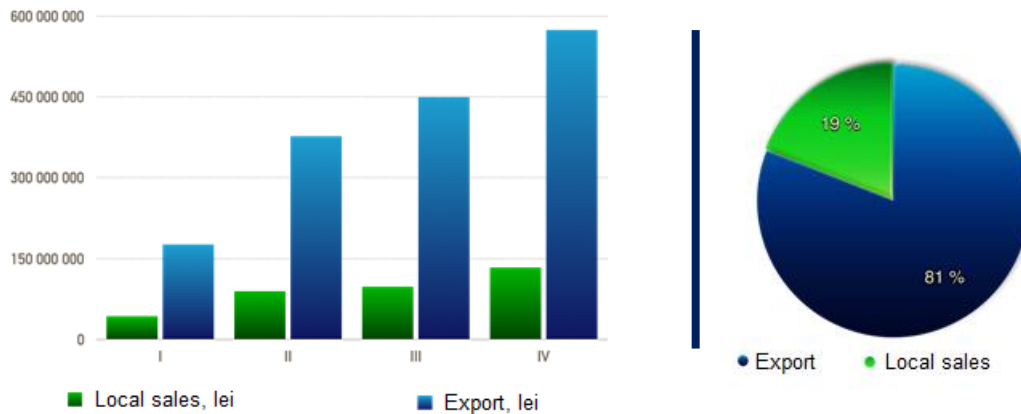
Thus, the cost of sales reaches 69.5% of total company revenue, and as a result, companies' profits make 30.5% of total revenue.

The uneven growth of exports and local sales is due to the number and size of companies in terms of profitability, which have obtained resident status in each of the reported timeframes.

For example, in the 2<sup>nd</sup> quarter the number of residents increased by 39%, in the 3<sup>rd</sup> – by 31%, and in the 4<sup>th</sup> - by 22%.

However, the ratio between export revenue and local sales is 4.32.

## The dynamics of residents' export and local sales growth



The presented ratio in favor of exported sales shows the increased demand of services generated by "Moldova IT Park" residents on the world market and the ability of companies to provide a significant volume of these on the foreign markets.

This is also due to competitive costs based on cost of labor, low operating costs, attractive business environment, and facilities offered by the new tax regime.

This growth contributes to the increase of local companies and of the Republic of Moldova visibility on the international market. In its turn, this leads to the development of the sector by infusing foreign investments in the IT sector and other sectors of the economy, attracting new customers / beneficiaries of local services / products, know-how and technology transfer.

The size of local market does not provide a similar volume of sales, being relatively small to generate requests and requirements similar to those international in the field of IT.

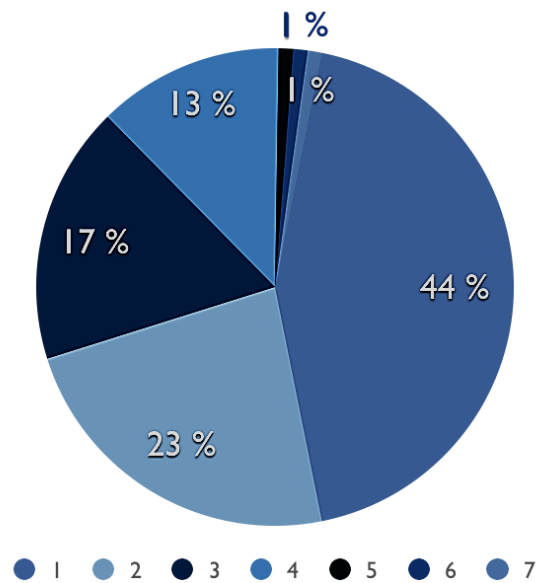
At the same time, the increase of local sales denotes the attractiveness of IT services and products on the domestic market.

The residents of "Moldova IT Park" carry out their main activities in accordance with Article 8 of Law no.77/2016 on information technology parks. The number of activities expanded to 14, allow companies to discover new directions for development, and the Park to attract new players to the local market and provide the necessary cycle to launch innovative products.

The analysis of the types of residents' activity show that the beneath indicated activities recorded the highest volume of export:

1. customized software development activities (customer-oriented software) (62.01) – **690,1 mln lei;**
2. other information technology service activities (62.09) – **367,3 mln lei;**
3. information technology consulting activities (62.02) – **285,6 mln lei;**
4. data processing, web page management and related activities (63.11) – **166,2 mln lei;**
5. editing of other software products (58.29) – **22,4 mln lei;**
6. web portal activities (63.12) – **17,4 mln lei;**
7. management activities (management and operation) of computing means (62.03) – **7,1 mln lei.**

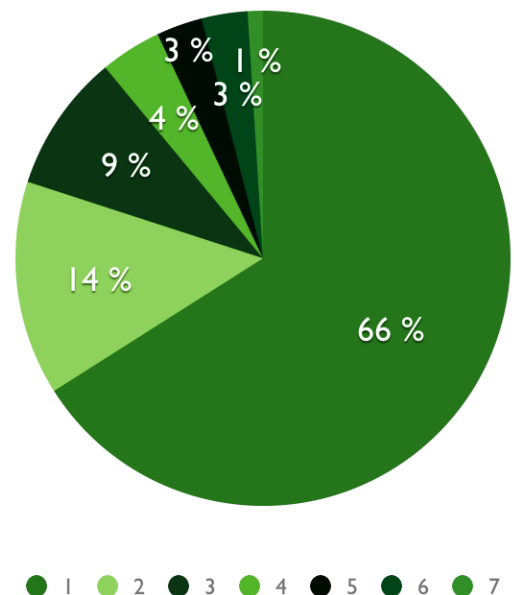
**Exported sales by the activity types**



The analysis of the types of residents' activity show that the beneath indicated activities recorded the highest volume of local sales:

1. customized software development activities (customer-oriented software) (62.01) – **233,1 mln lei;**
2. other information technology service activities (62.09) – **51,2 mln lei;**
3. data processing, web page management and related activities (63.11) – **29,6 mln lei;**
4. management activities (management and operation) of computing means (62.03) – **13,8 mln lei;**
5. editing of other software products (58.29) – **12,9 mln lei;**
6. information technology consulting activities (62.02) – **10,1 mln lei;**
7. computer game editing activities (58.21) – **2,0 mln lei.**

**Local sales by the activity types**



According to the presented data, the highest demand and consequently the highest income comes from development of customer-oriented software, both locally and internationally. This is followed by other information technology activities. This result highlights an increased interest in these types of activities and a response of local companies to the demand growth.

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## Employees of “Moldova IT Park” residents in numbers

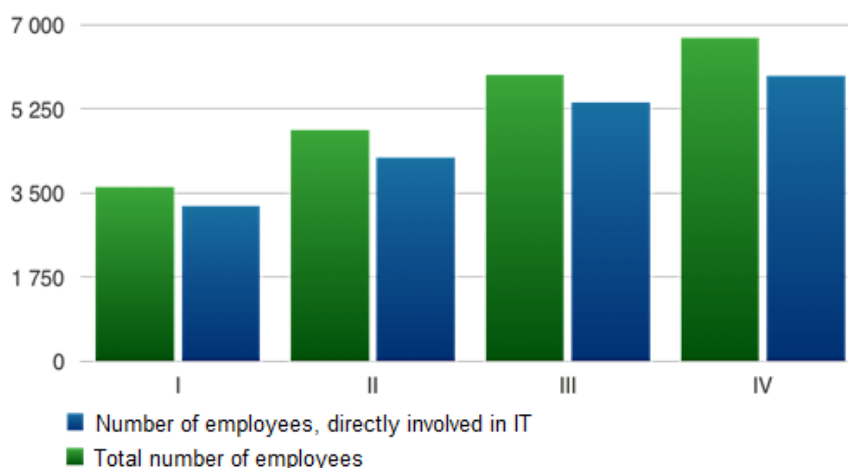
The considerable growth of the information technology sector is dependent on qualified human capital. Thus, „Moldova IT Park” residents registered 6,739 employees in 2018.

According to the data reported in the last quarter of 2018, the number of employees of the Park residents, directly

involved in carrying out the activities provided by Law no.77/2016, reached 5.935 employees.

This indicator shows an increase in the number of employees directly involved in carrying out the activities prescribed by Law no.77/2016 by 83% compared to the 1<sup>st</sup> quarter of 2018.

### **The total number of residents’ employees, and those directly involved in carrying out the activities provided by Law no.77/2016**



The increase in the number of employees within the Park is directly proportional to the number of residents and their size.

Since the accession to "Moldova IT Park", 30 companies registered a significant increase in the number of employees and reached the number of about 320 employees.

The increase of employees’ number shows the relevance of the new preferential tax regime for this sector.

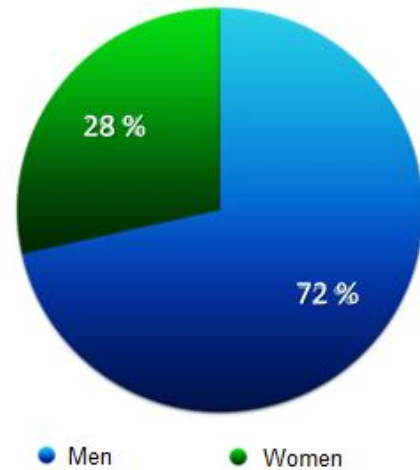
Within the analysis of companies’ data, was registered a significant difference between the number of employees - men and women.

In the last quarter, 4,246 men and 1,689 women were involved in carrying out the activities prescribed by Article 8 of the Law No.77 / 2016.

**The ratio of men and women (employees) directly involved in carrying out the activities prescribed by art. 8 of the Law no.77 / 2016.**

The performed analysis determined that the number of women is smaller than the number of men by 2.5 times.

With the increase of number of companies registered in the Park, the number of employees increases, keeping the same proportion - 1/3.



At the same time, the residency in the Park offers not only incentives related to granting employees an exemption of income tax, but also the possibility of attracting qualified human resources from abroad.

In this context, a new government initiative "IT Visa" Program was launched for the benefit of residents in order to provide the Park residents with more resources and to simplify the process of attracting qualified specialists from other countries.

## "IT Visa" Program

At the moment, "Moldova IT Park" records a high interest from both, foreign investors and foreign specialists, due to the incentives granted to companies from the information technology sector.

For this purpose, the Ministry of Economy and Infrastructure created and launched the "IT Visa" program, which offers an additional benefit to foreign citizens by simplifying the regime of obtaining a temporary residency permit.

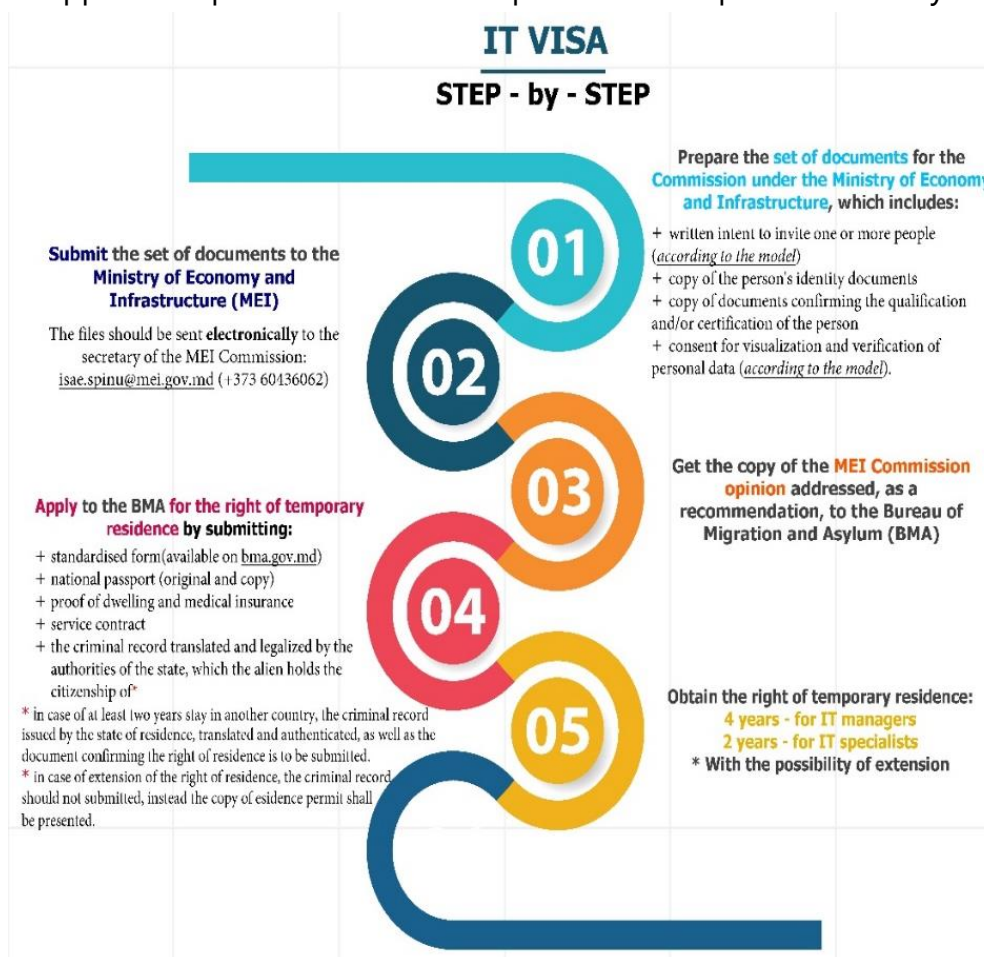
At the end of the year, 45 employees of the Park resident companies are foreign citizens or stateless persons who are directly involved in carrying out the activities allowed in the Park.

During the year, 14 employees benefited from the „IT Visa" program, including 9 IT managers and 5 IT specialists.

In such a way, were attracted specialists from following countries: Russia (3), Germany (1), Belgium (1), Turkey (1), Austria (1), Australia (1), The Netherlands (1), UK (2), Lithuania (1), France (1), Ukraine (1).

The program provides the necessary support to increase residents' capacities and human capital with the skills needed to meet the growing IT market demand and to increase regional competitiveness.

The "IT Visa" application process has been simplified till 5 steps and currently looks as follows



## Wage growth in the IT sector

The development of the IT sector is characterized by increased dependence on qualified human resources in the field.

The company profile, products / services provided by it and the technologies used in the process form the type and specialization of its employees.

Thus, skilled labor resources represent a significant share of the costs incurred by the company, which is less dependent on the typical costs (raw material, infrastructure, etc.) related to businesses in other fields.

In this context, increasing competitiveness and gaining a larger market share implies increased efforts to provide attractive salaries and favorable working conditions for the companies' employees.

From the data obtained during 2018, can be concluded that the average salary indicator of the residents' employees has increased, however, it demonstrates an unstable dynamic that can be seen in the table below.

Quarter	Average salary
Q1	21,991
Q2	24,068
Q3	23,263
Q4	27,906

**Average salary increased by 26.9% since the beginning of the year**

There was a decrease in the average employee salary due to the accession to the Park of a large number of small and medium-sized enterprises in the 3<sup>rd</sup> quarter of the year.

At the same time, there was a significant increase in salaries compared to the previous period reaching the value of 27.906 lei per month in the 4<sup>th</sup> quarter.

This amount represents both, the salaries set out in individual labor agreements and the bonuses, premiums and other payments in favor of employees.

This indicator varies depending on the number and size of companies joining the Park. Nevertheless, the average salary in this sector is one of the highest in the national economy and tends to grow.



## V Results of annual compliance verification

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In accordance with Article 18 of the Law no. 77/2016, the residents of "Moldova IT Park" have the obligation to perform an annual compliance audit, fulfillment of the necessary conditions for obtaining and maintaining the status of the information technology park resident.

This annual verification refers to those resident companies that have benefited from the new tax regime during at least one month of the fiscal year.

In other words, companies that joined the Park until December 2018 were to submit the reports on the pre-established criteria in the Park's Decision No. 1, by March 15, 2019.

The established deadline allows companies to identify non-compliances or operational errors and to remove them without suffering from any penalties. Also, this allows Park Administration to make the recalculation of the contributions for 2018 and to close the fiscal year in accordance with the tax legislation in force.

Thus, reports were received from 279 resident companies out of 297 residents, required to submit the results of the verification, which represents a compliance rate of 94% with the legislative provisions.

The total number of audit firms that conducted this type of verification is 45 entities.

From the analyzed number of resident companies, 9 companies did not register income during the year.

All companies that passed the verification received positive results on the established criteria.

Based on the results received, the residents are not in the process of liquidation and carry out their entrepreneurial activity on the territory of the Republic of Moldova.

Out of the total number of active residents, 122 companies changed their legal address, registered subdivisions, or changed the administrator.

These changes are to be introduced into the Park's Residents Register and made public on the Park's official website [www.moldovaitpark.md](http://www.moldovaitpark.md).

The main criterion for verification in order to maintain the status of a Resident of the Park is carrying out, as the main activity, one or more of the activities prescribed by the Law no.77/2016.

The compliance verification revealed that all business entities fulfilled this requirement, registering 70% or more of the income derived from the core activity, except for 9 companies that did not register income during 2018.

The share of the most demanded types of activity in proportion to the income generated by residents are:

<b>Code</b>	<b>Type of activity</b>	<b>Share</b>
(62.01)	Customized software development activities (customer-oriented software)	57,24 %
(63.11)	Data processing, web page management and related activities	12,20 %
(62.02)	Information technology consulting activities	10,03 %
(62.09)	Other information technology service activities	4,12 %
(58.29)	Editing of other software products	3,84 %
(74.10)	Specialized design activities based on the use of specialized high-performance computing equipment	3,23 %
(62.03)	Management activities (management and operation) of computing means	2,76 %
(59.12)	Cinematographic, video and television program post-production activities, based on the use of specialized high-performance computing equipment	2,25 %
(58.21)	Computer game editing activities	2,08 %
(63.12)	Web portal activities	1,69 %
(85.59)	Other forms of education (85.59) limited to training in computer science	0,56 %

The real income of 279 resident companies, registered during 2018, is 2,230,039,457 lei. This amount exceeds the anticipated income by about 27%.

This increase is due to the fact that 164 companies earned income higher than the forecasted one by 598,469,439 lei

In turn, the forecasted revenue of the 279 resident companies was 1,756,044,109 lei.

Thus, the revenue obtained by the companies during their residency in the Park represents 85.5% of the total annual income of the residents, reaching the value of 1,906,712,842 lei.

Thereby, contribution of the 279 reporting companies formed a single tax in the amount of 133,469,899 lei, with a possible increase of this indicator, that is due to the 30% of the average wage \* No. of employees.

## **Real revenue exceeded the forecast by about 27%**

It is noteworthy that the time period required to obtain the result of the verification varied from 1 to 61 calendar days, with an average of 12 calendar days.

The time required for verification depends on a number of factors, including the timely contracting the audit firm, the quality and accuracy of the resident's recordkeeping, the number of current auditor's contracts, the number of contracts and the partners of the resident company.

Taking into account the unique character of this experience, the intangible part of the process, not reflected in the results obtained from the verification criteria, was evaluated on the basis of a questionnaire. The questions were generated as a result of the most frequent topics addressed by residents in the process of submitting verification reports.

The survey results presented beneath were based on the feedbacks of 55 residents that decided to share their experience.

The results obtained showed that 84% of respondents opted for a compliance verification and 16% for complex financial audit.

The pricing policy of audit firms depends on the type of verification chosen by companies and the volume of work to be performed, in addition to the range of factors listed above.

The costs incurred by the respondent resident companies varied from 2,000 to 77,940 lei.

The price accessibility indicator for residents was 3.6 out of 5, which marks an acceptable price for the companies.

At the same time, this verification was useful for 69% of respondents and served to detect errors and inconsistencies related to the transition to a new tax regime.

## Conclusion

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The analysis of aggregated results confirmed the volatility and dynamism of the information technology market and exceeded even the most optimistic forecasts of „Moldova IT Park“ development.

With 339 resident companies in the Park at the end of 2018, has practically been reached the 10 years forecast of 400 residents, included into the feasibility study.

This proves that the Park innovative initiative awakened a great interest of companies from the IT sector, both at the national and international levels, and became a catalyst for foreign investments in the national economy.

The attraction of 96 companies with foreign capital from 27 countries is due to low tax rates, high qualification of labor resources and relatively low production costs. All these factors rise the foreign investors' interest in national economy.

The flow of foreign investments directly affects the development of both, the sector and the economy overall, offering opportunities for local entrepreneurs to create new partnerships and to share experiences, which increases the competitiveness of local products on the regional and international market.

At the same time, incentives offered to the IT sector and related activities have substantially boosted the entrepreneurial climate, resulting in accession to the Park of 94 newly created companies in 2018.

A more competitive environment created under such conditions stimulates the development of the innovation ecosystem with a focus on research and development, innovative initiatives and intelligent solutions.

The positive impact on the entrepreneurial activity of the residents is outlined by the increase of the total real revenue of the resident companies compared to the forecasted revenue by about 27%.

The dynamics of growth recorded in 2018 persists in the figures forecasted for 2019. Thus, the forecasted revenue of all residents for 2019 increases by 42% compared to the forecast for the previous year, amounting to 2.6 billion lei.

At the same time, there was an increase in the financial remuneration in this sector with an impact on the interest of IT specialists to work on the local market due to the favorable conditions offered to the employees of the Park residents.

The recorded results justify the importance of „Moldova IT Park“ as the core of the IT cluster in Moldova. This potential is to be fully exploited through a series of operational process optimizations, setting an effective collaborative model and strengthening the position and visibility of the Park and its residents on a regional and international scale.