

## ASSESSMENT COMMISSION REPORT

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On „Moldova IT Park”  
Information Technology  
Park Activity for 2018

Developed based on Government Decision  
no.1143/2017 on approving Regulations for  
assessing information technology park activity

Chisinau, 2019

**Report developed on:** April 12, 2019

**Assessed entity:** „Moldova IT Park”

**Period:** 01.01.2018 – 31.12. 2018

**Assessment Commission members (MEI Decree no. 195 of 12.04.2018):**

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**Moldova IT Park Objectives (according to Government Decision no. 1143 of 20.12.2017):**

- 1) increase number of residents, their income from sales, as well as amounts paid by residents as single tax;
- 2) increase IT products and/or services in residents' sales income to over 70%.
- 3) increase volume of IT product and/or services exports by park resident companies;
- 4) ensure mechanisms to attract, advise and support new IT companies;
- 5) increase volume of investments in the activity of the park resident IT companies;
- 6) increase number of innovative IT products created by park residents;
- 7) establish international partnerships for transfer of IT knowledge and technology, as well for attracting foreign IT specialists;
- 8) increase number of skilled IT jobs.

**Commission evaluation results:**

This report was developed based on the annual information submitted by Moldova IT Park as well as following the verification of the main activities carried out in the Park by the audit entities. The purpose of the Report is to make an annual balance sheet of the "Moldova IT Park" activity for 2018, the compliance of its activity and the achievement of the established objectives.

The legal basis to create the "Moldova IT Park" is Law no. 77/2016 on information technology parks, "Moldova IT Park" having launched its operational activity on 1 January 2018, based on Government Decision no. 1144 of 20.12.2017.

**Following the assessment, Moldova IT Park fully achieved its established annual targets, generating a positive and multiplying economic impact.**

## Carrying out the annual „Moldova IT Park” resident verification

According to Art. 18 of Law no. 77/2016, "Moldova IT Park" residents are obliged to perform an annual compliance check with conditions necessary to obtain and maintain the status of information technology park resident.

Annual verification refers to resident companies that benefited from the new tax regime during at least one month of the fiscal year. Therefore, companies that joined the Park **by December 2018** were to submit, by March 15, 2019, the verification reports on the pre-established criteria stipulated in the Park's Administration Decision No. 1.

Thus, within predefined deadlines, reports were received from **279** resident companies out of **297** obliged to present verification results, representing a compliance rate of **94%** with legislative provisions.

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

Of the analyzed number of resident companies, 9 did not record any income.

### Useful figures:

297 companies subject to annual verification by audit entities

279 reports received by predefined deadline (March 15, 2019)

94% compliance rate of residents

45 different auditing entities carried out verifications of residents

9 companies did not record any income

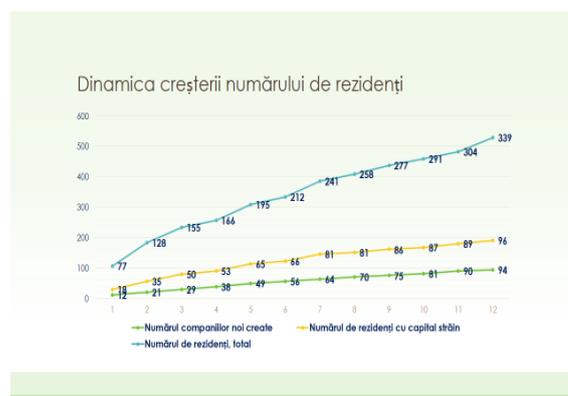
### Summary of verifications accomplished:

- All companies that passed the verification achieved positive results on the criteria verified.
- Based on results received, resident companies are not in the process of liquidation and carry out their entrepreneurial activities on the territory of the Republic of Moldova.

- The main criterion for verification to acquire and maintain the status of resident of the Park is the pursuit, as main activity, of one or more of the activities provided in Art. 8 of the Law no. 77/2016. The verification found that all economic entities met this requirement, generating 70% or more of their main business income, except for the 9 companies which did not record income. The minimum share of annual income recorded by residents in this respect is 70%.
- The percentage shares of the most demanded types of activity, proportionate to the income generated by residents, are: custom-made software (57.24%); data processing, web page administration and related activities (12.20%); information technology consultancy activities (10.03%).

### Objective 1: increase number of residents, their income from sales, as well as amounts paid by residents as single tax.

During 2018, 346 companies obtained Moldova IT Park resident status, while 7 companies withdrew from the Park in 2018, mostly due to changes in their internal strategies and non-compliance with criteria to maintain resident status.



Thus, there is **substantial and constant increase in residents**, showing that the given incentive mechanism of the sector is accepted by the business community and was long awaited.

At the same time, the growing number of companies residing in the industry decisively contribute to the attraction and retention of capital and highly skilled

professionals in the country, these being indirect effects of the IT Park.

The forecasted sales income of 279 Park resident companies with reporting obligations for 2018, was **MDL 1 756 044 109**.

The reported income of these companies' sales as Residents of the Park was **MDL 1 906 712 842**.

That is, during their stay in the virtual park in 2018, the income earned by these residents exceeded the forecast by 9%.

Reported income exceeded forecasts by 9%

In this context, it should be noted that this statistic does not include the income of another 52 companies that joined the Park in December 2018 and did not have a reporting obligation for this period.

Also, an important factor to be noticed is the cost of sales on the activity fields admitted in the Park, which represents **MDL 1 326 051 100**, i.e. - 69.6% of the total income of the companies. As a result, in 2018, the profit of the Park resident companies was 30.4%.

Profitability of Moldova IT Park businesses reached 30.4% in 2018

The positive dynamics of revenue growth for resident companies directly influenced companies' ability to reinvest in development, human resources and investment projects.

The 3rd component of this objective is the 7% single tax collected in the state budget. The figure reported by resident companies at this chapter is **MDL 133 469 899**.

This result positively exceeded the initial estimates due to the registration of a much larger number of resident companies in Moldova IT Park, but also due to economic activity intensification in the Virtual Park.

In addition to the amount of the single tax paid by the resident companies of the Park, in 2018 they generated, according to State Tax Service data, other taxes in the amount of approx. **MDL 165 mln.**, in the form of income tax deducted from the source of payment, VAT and others.

A sample analysis of the business development dynamics of 20 IT companies present on the Moldovan market confirms, beyond expectations, the achievement of the initial objectives to increase volume of sales, salaries and number of employees, as well as reducing the fiscal and administrative burden.

	Anul 2016 (la adoptarea legii 77/2016)	Anul 2018 (funcționarea în regimul parcului virtual IT)	Devieri procentuale
Venitul din vânzări	647.153.310	1.337.068.600	+207%
Salariul mediu	11.000	27.900	+254%
Numărul de angajați	1.423	1.814	+28%
Impozite, taxe și contribuții	154.809.760	76.574.140	-49%
Contribuții de asigurări medicale	41.752.610	11.792.420	-70%
Contribuții de asigurări sociale de stat obligatorii	59.559.500	41.886.060	-30%

**Objective 2: increase IT products and/or services in residents' sales income to over 70%.**

The main criterion for acquiring and maintaining Park resident status is to perform one of the activities stipulated by Art. 8 of Law no. 77/2016 as a main activity with a share of over 70%.

According to audit entity verifications, it was found that all Resident Companies in the Park subject to verification during the reference period fulfilled this requirement, generating over 70% of the main business income, except for 9 companies that did not record any income.



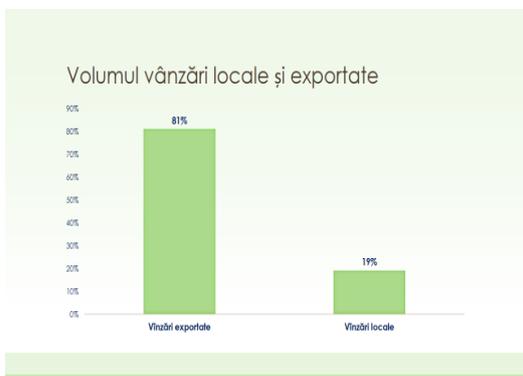
Thus, the core business of resident companies accounted for 94.4%, while business-related activities had a mere 5.6% average sales income share, which is well below the permissible rate but leaves enough space for companies to develop related products.

**Objective 3: increase volume of IT product and/or services exports by park resident companies.**

In 2018, the volume of exported sales as well as sales directed to the local market by "Moldova IT Park" residents registered a stable growth.

Thus, the volume of IT services and products exported by Park residents was **MDL 1 573 594 451**, while local sales were of **MDL 363 646 123**.

Growth rates varied from quarter to quarter, doubling in the second quarter versus the first quarter of 2018. In the third quarter there was a 10% increase in local sales and 20% in exports compared to the second quarter, while in the fourth quarter these figures increased by 35% and 30%,



respectively.

An indirect confirmation of the increase in the volume of exports of IT products and services is contained in the preliminary report of the National Bank of Moldova issued in March this year, according to which, exports of IT products increased by USD 148 mln. in 2018 from USD 99 mln. in 2017, thus being **up 49.5%**. This positive dynamic is largely due to the implementation of the new IT Park legislation, as further additional sector

stimulus measures were not implemented during this period. The ratio between the local sales and the export sales income of Park Resident Companies is **1: 4.3**.

The **81%** export-to-sales ratio denotes an increased level of demand on the world market for products and services generated by Moldova IT Park residents and the ability of companies to provide them in significant and competitive volume on the foreign market. In fact, the export orientation and competitiveness of the local IT industry have been among the main purposes of developing this business model.

The increase in exports contributes at the same time to the increase of the visibility of local companies as well as of the Republic of Moldova on the international market, which leads to the development of the sector by infusing foreign investments in the IT sector and other sectors of the economy, attracting new IT services and products clients/beneficiaries originating from our country as well as technology transfer in the country.

The size of the local market does not provide the same volume of sales, being relatively small to generate demands and requirements akin to international ones, yet local consumption of IT products and services provided by resident companies is very important and exceeded 19%, reaching **MDL 364 mln.** during the year.

Park Residents provided MDL 364 mln worth of IT products and services on the domestic market

At the same time, the increase in local sales denotes the attractiveness of IT services and products on the domestic market and the local sales figure, even if proportionally lower, is steadily increasing and very symptomatic, considering the positive effects of ICT innovations implemented in various sectors of the national economy.

**Objective 4: Ensure mechanisms to attract, advise and support new IT companies.**

Throughout 2018, Moldova IT Park, with support of its partners in both the governmental and developmental dimension, promoting the image and opportunities it offers locally and internationally.

The Park promotion and visibility capacities, as well those of domestic and international resident companies, were enhanced to achieve the proposed objective.

Thus, Moldova IT Park was present at promotional visits in the USA, Romania, Czech Republic, Germany. Also, the country's IT offer was presented to investors at international forums and exhibitions in Germany as well as national events like *Moldova Business Week*, *Moldova Developers' Conference*, etc.

To insure IT companies attraction and support, there were numerous meetings, orientation sessions, conferences and events dedicated to promoting the IT Park, however the direct promotion of certain products and services generated by resident companies in the target markets, supporting companies' own capacities to promote themselves on the market remains an untapped reserve.

With the establishment of the Park, the number of newly created IT companies who applied for Park resident status has grown. Thus, during 2018, 94 newly created companies became resident in "Moldova IT Park", representing about 28% of the total number of companies.

The forecasted revenue of newly created companies for 2018 was MDL 135.3 mln.

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

The indirect effect in this respect is the increase of the sustainability and competitiveness of the IT companies operating in the Republic of Moldova and the reduction of the number of employees as well as companies that migrated to neighboring jurisdictions where conditions of activity were easier and taxes lower.

**Objective 5: Increase volume of investments in the activity of the park resident IT companies.**

The number of foreign-owned residents reached **96** companies at the end of 2018, with a share of **2/3** of the sales income, reaching **MDL 1 233 484 390**.

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



Since the creation of the Park, there has been an increase in the number of foreign-owned companies from 27 countries, which shows the interest of foreign investors in this business model.

Top 5 countries in Moldova IT Park by foreign capital source are: USA, Romania, Great Britain, Italy and Germany.

**Objective 6: increase number of innovative IT products created by park residents.**

Residents of "Moldova IT Park" carry out their main activities according to art. 8 of Law no. 77/2016 on information technology parks. On the day of its entry into force, the Law covered 8 types of activity that allowed IT companies to develop their business under the new tax regime. These mainly concerned the areas of software development, data processing and IT consulting services.

Cota procentuală a celor mai solicitate genuri de activitate proporțional veniturilor generate de rezidenți

Cod	Gen de activitate	Cota
(42.01)	Activități de realizare a soft-ului la comandă (software orientat spre client)	57,24 %
(43.11)	Prelucrarea de date, administrarea paginilor web și activitățile conexe	12,20 %
(42.02)	Activități de consultanță în tehnologia informației	10,03 %
(42.09)	Alte activități de servicii în tehnologia informației	4,12 %
(58.29)	Activități de editare a altor produse software	3,84 %
(74.10)	Activități de design specializat, bazate pe utilizarea echipamentelor de calcul specializate de înaltă performanță	3,23 %
(42.03)	Activități de management (gestiune și exploatare) al mijloacelor de calcul	2,74 %
(59.12)	Activități de post-produție cinematografică, video și de programe de televiziune, bazate pe utilizarea echipamentelor de calcul specializate de înaltă performanță	2,25 %
(58.21)	Activități de editare a jocurilor de calculator	2,08 %
(43.12)	Activități ale portalurilor web	1,69 %
(85.59)	Alte forme de învățământ n.c.a., limitate la instruirea în domeniul calculatoarelor	0,56 %

The impressive results of "Moldova IT Park" were amplified with new opportunities, by extending as of 20.07.2018 the list of activities stipulated in art. 8 of Law no. 77/2016, which included research, development, training, design and digital graphics.

This has enabled the sector to develop horizontally and to provide a wider cycle of development of innovative products and services in the Republic of Moldova, also enabling the Park to attract new residents.

**Objective 7: Establish international partnerships for transfer of IT knowledge and technology, including attracting foreign IT specialists.**

Considering that a considerable share of the sales volume of the resident companies is made by the companies with foreign capital and the main consumers of IT services and products developed in the Republic of Moldova are export-oriented, the Government has developed and implemented the "IT Visa" program exclusively dedicated to Park residents.

This program brings additional benefit to foreign citizens who invest or practice IT Particular Activities, a simplified regime for obtaining a temporary residence permit and eliminating work permits.

By the end of 2018 there were 45 foreign employees, 14 of whom benefited from the IT Visa program during 2018 (9 IT managers and 5 IT specialists).

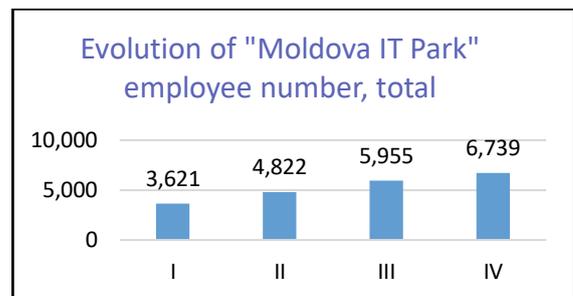
They come from Russia, Germany, Belgium, Turkey, Austria, Australia, the Netherlands, Great Britain, Lithuania, France and Ukraine.

The possibility to obtain the IT Visa is highly appreciated by foreign investors, who consider an activation in this respect, but also demonstrates the opening of the country for highly qualified foreign specialists.

**Objective 8: increase number of skilled IT jobs.**

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

"Moldova IT Park" had a total of 6,739 employees in 2018, of which 5,935 engineers.



A sample analysis shows a **21.3%** increase in the number of employees over a year, in the 78 companies alone that were residents of the Park throughout the year, that is, 781 new jobs.

The salary of the employees of the IT companies, has, along with their adherence to Moldova IT Park, become more competitive, which is of particular interest to professionals in the field, leading them to choose the country and the place for

development and professional growth in the future. The average registered salary was on a permanent increase, and by December 2018 it reached MDL 27 906.00 - up **27%** during the year.

Year 2018	Average salary
Q. I	21.991
Q. II	24.068
Q. III	23.263
Q. IV	27.906

A comparison of average salaries of Park resident companies in December 2018 with the general average salaries in the IT sector in December 2017 **shows a 2.3-fold** increase in the *net* salary of IT professionals - from MDL 12 000 to MDL 27 900.

This positively influenced the retention of qualified IT specialists in the country, the competitiveness of local companies in attracting IT professionals, legalizing wages and stimulating domestic consumption.

Average salary increased 2,3 times  
compared to December 2017

### **The efficiency of the Moldova IT Park administration**

The Virtual IT Park initiative is part of the key measures to stimulate the IT sector's competitiveness, conceptualized in the IT Development Strategy launched in 2014. Also, strengthening this model is one of the objectives of the new Sector Support Policy launched by the Government in 2018.

For these reasons, it would be thoughtful of the Moldova IT Park Administration to synchronize its agenda with the Government's strategies for the sector and contribute to the achievement of the objectives to enhance competitiveness of

the IT industry in the country and promote IT products and services abroad.

During the first year of Moldova IT Park activity, all elements of this complex system were strengthened, the internal administrative capacities, budget management and promotion of the external visibility of the Park were consolidated, according to the mission defined in Government Decision no. 1144 of 20.12.2017.

Also, measures were taken to simplify the annual verification process of residents, while the financial audit is simplified until compliance with the provisions of the Law no.77/2016 has been verified. Based on this procedure, there were 5 verification criteria, subsequently approved by the Park Administration, through its decision No.1 of 18.12.2018.

The extension of the list of permitted activities in the Park was carried out concurrently with the simplification of the quarterly report submitted by the Park residents.

All these measures, as well as increasing the transparency and clarity of the Park's internal processes, were transposed in the terms stipulated by the Park Organizing and Operation Regulation.

The premises for new positive developments in the future and the strategic development directions of the Park were found in the "Moldova IT Park" Strategic Development Plan, elaborated and approved by the General Assembly of the residents.

The park enjoys stable support from the Government and its development partners, but attests to the need to increase the independence of the Park Administration in terms of the financial and organizational capacity to achieve its objectives.

### Following the assessment, the Commission returns with the following conclusions:

Moldova IT Park, launched January 1, 2018, became the most important initiative to strengthen the competitiveness of the Moldovan IT industry in the region, soon becoming a catalyst for economic development, retaining skilled workforce in the Republic of Moldova, promoting technological innovations, attracting investment and new technologies to the national economy.

The results of the country's first IT Park activity far exceeded initial forecasts, and "Moldova IT Park" demonstrated the positive impact for both the IT sector and the economy.

- In its first year of activity, "Moldova IT Park" had **339 resident companies**, increasing **10 times**, compared to the estimations of the initiating companies, reflected in the Feasibility Study for the creation of the Park. Of these, **94 companies** - were newly created entities. This demonstrates that the given fiscal model was fully accepted by the IT community and its contribution to the development of this business type in our country is indisputable. Moreover, the special tax regime allowed unprecedented **officialization** of business in the field and considerably increased the tax base.
- Another effect of reducing the tax burden, but also simplifying the way the business is managed, is the declared annual income for the 2018 sales of Park residents, which exceeded **1.9 bn. lei**, rising by approx. **9%** compared to the level forecasted upon companies' entry in the Park. However, the comparative analysis of the economic activity dynamics shows that the average annual sales income in 2018 by resident companies increased **2.2 times** compared with the average annual sales income of IT companies in 2017 under the general tax regime.
- Residents of "Moldova IT Park" registered a total of **6 739 employees** by the end of the year, most of them engineers, and the average registered salary was steadily increasing, exceeding **MDL 27 900** by December 2018 - i.e. a **27%** increase throughout the year. Compared to the average salaries per sector in December 2017, the average salaries in the resident companies of the Park increased **2.3 times**, which confirms the officialization of wages in the sector.
- Favorable taxation reduced the phenomenon of "wages in the envelope" and allowed, by December 2018, only through the payroll fund of resident companies, for approx. **MDL 180 mln./month** to be officialized as salaries and available for consumption, stimulating other sectors of the national economy (retail, banking, construction, other services), bringing indirect economic benefits to the entire national economy. On the other hand, the competitive and motivating remuneration has contributed substantially to the maintenance in the country and the inclusion in the economic activities of highly qualified IT professionals, respectively to the fight against the process of migration of the young population that is able to work.
- The amount of the single tax collected by the state budget from resident companies until 31 December 2018 amounted to approx. **MDL 133 mln.**, while other taxes generated by resident companies during the year amounted to **MDL 165 mln.** Considering **the doubling of the Park resident salary funds**, implicitly of the general economic consumption, as well as the **doubling of incomes** from the average annual sales of the resident IT companies, we can see a significant increase in the **tax base** and compensation of the impact from the **considerable reduction** of the tax burden.

- In 2018, 279 reporting companies generated **94.4%** of its core business revenue, and only **5.6%** of sales revenue came from non-IT business, indicating a dedication to IT and an increased level of Park residents responsibility, while leaving enough room for the horizontal development of other related innovation products, which, according to the current European Branch, have not yet been explicitly defined.
- Internal consumption of approx. 19% of products and services originating in Moldova IT Park - **approx. MDL 364 mln.**, contributes extremely positively to the proliferation of digital innovation in other sectors and allows increasing efficiency and productivity of work in general. On the other hand, the export of over 81% of the IT products and services developed in the Park speaks of a high degree **of income repatriation and the maintenance of highly qualified expertise in the country.** With a **1:4,3** ratio between local sales and export incomes, it confirms the initial expectations of orienting IT products and services of the Park for export and obtaining the expected benefits.
- The increase in the interest of foreign investors was due to the competitive tax rate, the high level of qualification of the labor force, the favorable operating costs and the simplicity of the single tax operation, resulting in a number of **96 companies** with foreign capital registered in the Park, originating from 27 states and generating **2/3 of the total sales income**, i.e. - approx. **MDL 1.23 bn.**
- The reported cost of sales has reached a share of approx. **70%** of the total income of the companies, and as a result the gross profit of the companies amounted to approx. **30%**, confirming the increased regional competitiveness of IT companies in the Republic of Moldova, as well as their capacity to invest in development and human resources.

Thus, the Moldova IT Park activity has had a positive impact and has undoubtedly contributed to creating a competitive environment for the IT industry in the Republic of Moldova, attracting and retaining qualified specialists and foreign innovative companies in the country.

"Moldova IT Park" is a unique combination of tax incentives, virtual presence, simplification of administrative procedures and interaction with authorities, openness to investors and highly qualified professionals. Cumulatively, these conditions made the offer of the Park attractive for Companies, registration and development of IT businesses in Moldova, generating multiplier effects for the entire national economy.

**Signed by:**

\_\_\_\_\_ Vitalie TARLEV

\_\_\_\_\_ Nicoleta NEMERENCO

\_\_\_\_\_ Andrei CUSCA

\_\_\_\_\_ Carolina RUSSU

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