



American Chamber of Commerce
in Romania

Measures to Stimulate the ICT Sector in Romania

Position Paper

In collaboration with:
ANIS
APDETIC
ARIES

July 2008

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Executive Summary

Subject	Business Perspective	AmCham Romania Position
Role of the ICT Industry	ICT is one of the few fields of excellence in Romania, and definitely one where we can make the difference worldwide; an industry with significant margins of innovation and huge added value.	AmCham Romania and its partners - believe that the ICT sector in Romania needs to get more attention from the Government and deserves to be among the industries of national importance and priority.
Labour Force and Education	One of the assets heavily weighting when choosing to set up R&D Companies, technical support or call centers in Romania is the skilled labor force. Unfortunately, we have heard analysts saying lately that specialist skill levels have shown a slight decrease, given the shortage of labor force.	Romanian authorities should take the lead and incentivize universities to increase the number of graduates as well as their employment readiness and relevance at graduation. AmCham Romania recognizes the importance of the income tax exemption for software developers, and generally the flat tax, and fully supports their maintenance for the coming years. We also recognize the need for a more attractive taxation policy on employers' side.
e-Government	When used properly, e-Gov makes the government more efficient. It helps promote growth by cutting red-tape and corruption, it also helps reconnect people to politics and policy.	Romania should focus on the development and implementation of e-government programs together with bridging the digital divide separating Romania from the EU countries and also the digital divide between urban and rural areas.
Intellectual Property Rights and Piracy	Intellectual Property Rights need to be recognized and protected in order for Romania to promote itself as an attractive country for ICT investments.	We would recommend lobby to the EU for the recognition of software patents and an improved, systematic enforcement of existing legal framework.
Security and Privacy	Given the major changes that are affecting the scope and scale of the Internet and the impact on the real economy the ICT security and privacy have paramount importance in an interconnected world.	We encourage the Romanian Government to develop policy options to sustain trust, information security and privacy in the global networked society.
Environment	Climate change is a serious concern and energy conservation is a cornerstone of climate protection.	We recommend to the Romanian Government to adopt and enforce strict and comprehensive regulations related to energy efficiency and conservation.
Incentives	Existing incentives, as software developers' income tax exemption, are an important asset for the Romanian	AmCham Romania encourages the Government to maintain existing incentives and to explore existing EU

	software industry.	experience and replicate best practices in order to incentivize investment, permanent employment, training programs and Research & Development.
Modern Infrastructure	A strong and modern infrastructure is essential for Romania's competitiveness and Romanians' long-term prosperity, whether they live in large cities or small communities.	Failure to make significant progress towards bridging the infrastructure gap could prove costly in terms of congestion, unreliable supply lines, blunted competitiveness, and growing environmental problems, with all the implications for the living standards and the quality of life.
Public Procurement Legal Framework	AmCham Romania noticed lately major ICT projects being delayed because of lack of execution or "never-ending" complaint processes allowed under the new public procurement legislation.	We consider that the relevant legislation should be amended to eliminate abusive blocking of bidding processes and important projects, with development cycles longer than the electoral mandates should be included among the national objectives.

1 Role of the ICT Industry

ICT is one of the few fields of excellence in Romania, and definitely one where we can make the difference worldwide; an industry with significant margins of innovation and huge added value.

AmCham Romania and its partners believe that the ICT sector in Romania needs to get more attention from the Government and deserves to be among the industries of national importance and priority.

The ICT sector experiences change, consolidation and expansion, these evolutions qualifying it as one of the most dynamic sectors of the Romanian economy.

Despite some positive evolutions, we shouldn't get overwhelmed by our own success and forget statistics which show that Romania is at a relatively early stage in the development of the information society. Much remains to be done, and Romania cannot afford to miss the opportunity of translating the current positive evolution of the ICT sector into a sustainable and long term development factor.

Since the Romanian Government repeatedly acknowledged the strategic importance of the ICT, AmCham Romania strongly supports translating this strategic importance into real actions, and promoting the sector as a driver for Romania's development. We consider that currently, Romania - through the government policies, strategies and their execution - is not fully tapping its potential, and the comparative advantages will soon be worn out unless a coherent and targeted approach is put in place. Worrying signals have already appeared, clearly drawing the attention that the window of opportunity Romania currently enjoys will not stay open just by itself.

AmCham Romania encourages the Government to consider actual measures to further stimulate the ICT sector through long-term strategies, also focusing on additional assets than the highly skilled labor force. We consider that public authorities should focus on creating and sustainably implement favorable and stable public, regulatory and fiscal policies, while improving the enforcement.

While the main reasons for the increased ICT spending in the country include the needs of a fast-growing economy, the high level of foreign direct investment and infrastructure upgrading in order to line up the public sector with EU standards and regulations, as well as meeting the NATO membership requirements, AmCham Romania is concerned with the pace Romania manages to keep up with its commitments as a member of both the EU and NATO.

We have witnessed emerging lately, at the regional level, a sort of intra-region digital competition, and central European countries like the Czech Republic and Hungary losing some edge as outsourcing locations to Bulgaria and Romania. While Romania currently enjoys a position of preferred destination, we should concentrate our efforts to transform it into a sustainable advantage, rather than a circumstantial one.

We must not forget that Romania is also competing with India, Brazil, the Philippines, Vietnam and other developing countries that are similarly building outsourcing sectors, and unless stimulated, companies may easily switch from Romania to another country. Practice showed that investments attract further investments, but the reverse is also true: once some foreign investors decide to leave a country, others follow.

2 Labour Force and Education

2.1 Skilled and Relatively (Un)Available Labor Force

One of the assets heavily weighting when choosing to set up R&D Companies, technical support or call centers in Romania is the skilled labor force. Unfortunately, we have heard analysts saying lately

that specialist skill levels have shown a decrease, given the shortage of labor force. This is a major concern for the business community in Romania, as well as for the regular citizen, since this endangers Romania's potential to further attract such investments, which, at the end of the day, contribute to the overall improvement in the quality and standard of living.

Big market players already present in the Romanian ICT market have announced their intention to hire several thousand employees, and in addition many other companies have announced their intention of bringing their businesses to Romania. The fight for human resources, the key asset for the success of a Company, support, offshoring or research and development one, is getting sharper thus putting pressure on the market and on the wages. Romanian authorities should take the lead and incentivize universities to increase the number of graduates, as well as their employment readiness and relevance at graduation through curricula up-dates and internship stages. The Ministry of Education and Research should find ways to attract, develop and retain the human resources needed to support such an increase. The Ministry should encourage ICT industry's involvement in the development of university curricula and the delivery of courses through volunteerism, visiting professors etc. Government strategies in the educational system should prevent this situation from turning into a crisis.

AmCham Romania salutes the initiative of having a National Pact on Education and through the feedback to the Pact, we clearly showed how ICT can decisively contribute to a modern, functional and competitive education system.

2.2 Labor Costs

The cost of human resources is one of the key factors that drive the offshore market around the world. Because the cost of human resources is inflationary everywhere, customers of outsourcing must constantly explore new alternative locations in order to secure the best cost/performance ratio. While the labor cost advantage has been gradually eroded lately, Romanian must make sure it maintains its reputation for high quality through a strong, up-dated education system and an adequate number of graduates, thus addressing the labor force shortage and the pressure on wages somehow induced by the current shortage, too.

AmCham Romania recognizes the importance of the income tax exemption for software developers, and generally the flat tax, and fully supports their maintenance for the coming years. With forecasts showing further wage increases in the ICT sector by 20% in 2008, we consider that this fiscal incentive plays an important role in keeping Romania's competitive advantage in the ICT sector. Taking into consideration that the social insurance, health, unemployment, injury prevention contributions, etc. add up to the income tax considerably increasing the labor cost, it is utmost important to identify other incentives (such as training to help cope with a more sophisticated and increasing demand). We also recognize the need for a more attractive taxation policy on employers' side.

3 e-Government and Digital Divide

3.1 e-Government

As already demonstrated by champions in the e-government race, like Austria and Slovenia, when implemented with decisiveness, e-Gov makes the government more efficient. It helps promote growth and efficiency by cutting red-tape and corruption, it facilitates fast and easy access for citizens to government services and it creates a platform of collaboration and innovation for all elements of the public administration. Accessibility, availability and affordability must also be addressed in order to

aim for a digitally included society. Romania needs to focus on the development and implementation of an e-government platform in order for the Government and citizens to fully benefit from the advantages of the digital era.

3.2 The Gap with EU countries

In order to bridge the digital divide separating Romania from the average of the EU countries, it is urgent to have a policy at national level encouraging and supporting investments in telecommunication infrastructure, and incentive schemes to increase Internet penetration and ICT spending.

3.3 The Gap between Urban and Rural Areas

We are witnessing a widening gap between the urban and rural areas in terms of ICT penetration and use, therefore we consider that investments in the rural areas should be encouraged by the State through various schemes, including technology-neutral subsidies.

4 Intellectual Property Rights and Piracy

4.1 Intellectual Property Rights

Intellectual Property Rights need to be recognized and protected. Although Romania has a good Copyright Law, we are facing (together with all EU member states) a step back because of the inexistence of software patents. Today Romanian companies that want to patent their innovations go to the US, thus moving the real value there.

We recommend lobbying to the EU for the recognition of software patents. This would also position Romania as an innovation/IP promoter.

4.2 Piracy

AmCham Romania strongly believes that a safe, predictable and law-abiding environment is a sine qua non condition for the development of high value technologies. Thus, in order for Romania to promote itself as an attractive country for ICT investments, the issue of the intellectual property rights protection should be better addressed.

Although the legislation in this area has much improved in the recent years and the laws are in general considered to be both modern and in line with international standards, enforcement continues to be the main problem.

5 Security and Privacy

Given the major changes that are affecting the scope and scale of the Internet and the impact on the economy, we encourage the Romanian Government to develop policy options to sustain trust, information security and privacy in the global networked society.

A recently released report by the American security company McAfee puts the Romanian domain extension, **.ro**, in the fourth position among the most insecure web pages. This affects both the image and the Romanian businesses on the Internet. AmCham Romania calls for a joint effort of the public and private sector aimed at improving Romania's ranking in terms of domain security.

6 Environment

Climate change is a serious concern that warrants meaningful action on a global basis to stabilize the atmospheric concentration of greenhouse gases (GHGs).

AmCham Romania promotes among its members environmental leadership in all of their business activities, from operations to the design of their products, services and use of technologies, and considers energy conservation to be a cornerstone for climate protection.

We believe that the Romanian Government should encourage local and central authorities to conserve energy and continually improve the energy efficiency of their operations, products and services while collaborating with and incentivizing their suppliers to do likewise.

Given the fact that datacenters are contributing globally with 2% of the total CO₂ emissions we recommend to the Romanian Government to adopt and enforce strict and comprehensive regulations related to energy efficiency and conservation, both for public sector users as well as the private ones. Energy efficiency and conservation should be included as mandatory compliance conditions in all public tenders.

7 Incentives

Nowadays, when countries are cutting taxation, existing incentives, as software developers' income tax exemption, remain an important asset for the Romanian software industry and should be maintained for the coming years.

AmCham Romania encourages the Government to explore existing EU experience and replicate best practices, e.g. Ireland, in order to incentivize investment, permanent employment, training programs and Research & Development through grants and taxation.

AmCham Romania appreciates the recently adopted Investment Law and is ready to participate, at expert level, in designing the state-aid schemes that are to be issued, as the implementation means.

8 Modern Infrastructure and Industrial & Technology Parks

8.1 Infrastructure

A strong and modern infrastructure is essential for Romania's competitiveness and Romanians' long-term prosperity, whether they live in large cities or small communities.

Failure to make significant progress towards bridging the infrastructure gap could prove costly in terms of congestion, unreliable supply lines, blunted competitiveness, and growing environmental problems, with all subsequent implications for the living standards and the quality of life.

It is not a secret that many foreign companies avoided Romania or postponed the decision to establish local operations are due to the poor quality of the infrastructure. While this could be seen with less relevance for ICT sector, the impact is also very important because such investments act as a catalyst for the horizontal industry and local R&D.

8.2 Broadband

Although the growth pace of broadband penetration in the last year was remarkable, Romania is still at the start line when compared to the leaders. AmCham Romania finds necessary for the development of broadband to be stimulated through various initiatives (such as providing broadband to schools in

order to stimulate Internet literacy; tax incentives for acquisition of PCs in order to enhance the addressable market for broadband, etc.).

8.3 Industrial & Technology Parks

Industrial and technology parks are becoming more and more popular in other EU member states as facilities for supporting regional development. They offer many advantages for both foreign and local investors. AmCham Romania encourages central and local authorities to incentivize the development of Industrial and Technology Parks. Usually these parks are a 100% export oriented, and besides manufacturing they are becoming centers for local research and development activities. Given the worsening trade deficit, an increase in exports would be beneficial to Romania and its ICT sector, from both financial and image points of view.

9 Public Procurement Legal Framework

As already outlined above, government projects aimed at building and/or improving infrastructure and aligning Romania to EU and NATO standards are one of the main market drivers. However, AmCham Romania noticed lately major ICT projects being delayed because of execution or “never-ending” complaint process allowed under the new public procurement legislation. We have even seen projects delayed, postponed or cancelled, given the fact that the funds were earmarked for one year and by the time a resolution was given to the complaints, the one-year term had expired. We consider that the relevant legislation should be amended so that, on the one hand, the complaint resolution process be expedited, and, on the other hand, the complaint-lodging mechanism be made relevant to the actual case, and not be used as a method of preventing project implementation and abusing the system, as it is often used now.

We also believe that important projects, with development cycles longer than the electoral mandates should be included among the national objectives and be carried out irrespective of political changes. We must not forget that ICT projects have crosscutting, long-term impact, and they contribute to the overall development of Romania and its society, from cutting red-tape and reducing corruption, to scaling up education.

Appendix

Romania – ICT overview

ICT plays a crucial role in:

- improving competitiveness throughout the economy in the face of globalization, boosting innovation, creativity and efficiency;
- scientific and technological development in areas as diverse as medicine and physics;
- modernizing sectors as diverse as education, security, energy and transport, and making Europe's large public sector more efficient;
- tackling social challenges and improving quality of life while meeting the challenge of an ageing society;

Romania as an Offshore / Nearshore location

In the last 3 years, Romania emerged as a country with strong attractions for offshoring/nearshoring the ICT.

Romania's potential stems from a combination of relatively low labor costs, well-educated workforce, proximity to Western Europe, cultural ties, linguistic skills and an attractive fiscal and regulatory environment.

According to Ernst&Young's 2008 Investment Attractiveness Study, "Romania is now perceived by international investors as the most attractive country in South-East Europe".

New international companies are expected to enter the local market due to its rapid level of development and the positive changes brought by the EU accession of the country. So far, the local market's top lure has been the low labor costs, with big names like, Accenture, Ericsson, HP, IBM, Microsoft, Oracle, SAP and others opening technical support centers and call centers.

Romania as an IP (Intellectual Property) creator

In the last 5 years, more and more **Romanian companies** got international and today, they are recognized as market leaders in their fields. Few notorious examples are Softwin(BitDefender), GECAD (RAV, ePayment/Avangate, Axigen), Oxygenxml, Softpedia.com, Totalsoft (Charisma), Siveco. All of them create patents and copyrights, IP that can be exponentially monetized in the global market. The final effects for Romania are a) taxes to the state budget and b) brand recognition.

International companies recognized the quality of Romanian R&D and opened R&D centers in Romania. Well known examples are Alcatel, Siemens, Infineon.

When comparing IP creation and offshoring destination, we notice that:

- a) IP creation is people intensive (Romania has quality people, and not necessarily many people),
- b) IP creation is evaluated in terms of quality, not low-cost, therefore Romania does not risk relocation to lower-cost neighboring countries such as Ukraine or Bulgaria,
- c) IP creation is well-paid, thus generating human capital satisfaction and welfare,
- d) IP creation brings brand recognition, useful for Romania as an investment destination.

IT Workforce and Salaries

One of the main advantages in attracting foreign investments in the ICT sector is the strong education system that heavily emphasizes science and engineering.

Romania leads in Europe and ranks sixth in the world in terms of the number of certified IT specialists (according to Brainbench), with approximately 8,000 ICT graduates every year and density rates per 1,000 inhabitants greater than in the US or Russia. Even if statistically Romania does better than other competitors, the ICT industry draws the attention that the education system does not currently produce the number of graduates necessary to ensure a healthy and long term development of the ICT sector in Romania. An increasing demand created work force pressures leading to shortages on the labor market.

Demand growth in key locations, the pressure on salaries and currency appreciation in the last two years began to gradually erode the cost advantage as a location for IT services or software development.

ⁱ The Economist Intelligence Unit's 2005 ranking of global offshoring environments places Romania the 14th in a list of 60 countries and the 6th in Europe. The EIU scores are based on 9 separate measures and the best rankings obtained by Romania are in labor costs and workforce skills and availability.

A more recent report from EIU ("The new face of offshoring") notes the growing importance of nearshore locations in South-Eastern Europe and considers that "Romania that would have seemed a completely unrealistic offshoring locations just a few years ago, now boast advantages that can be competitive with those in relatively more mature locations".

In AT Kearney's "2007 Global Services Location Index", Romania is placed the 33rd, among the middle of the list, with a overall index of 5,2, slightly higher than in the previous 2005 report. Romania significantly improved its business environment score, kept its financial attractiveness (2nd place in Europe), but suffered from a poor availability of labor force (45th global rank).