



MINISTERUL ECONOMIEI, COMERȚULUI ȘI  
RELAȚIILOR CU MEDIUL DE AFACERI



# Romania's Tech Ecosystem

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# 1. InvestRomania's strategy

# InvestRomania 2016 strategy will follow 6 guiding principles supporting the improvement of investment value proposition

## Website as a dedicated investor tool

- Relevant database for independent search
- Key links to state aid and local incentive schemes
- Map of the industrial parks in Romania
- Yearly Investors' Survey
- Investors Guide for Romania
- Why is Romania different "The Romanian bug"

## "Industry of the month"

- Monthly proactive promotion on key industries:
  - ICT & BPO
  - Auto and auto parts
  - Aerospace
  - Agriculture
  - Bio-economy
  - Creative industries

## Local assets - key investment driver

- Regular working visits in different areas of Romania to understand the potential but also to build a network of local people that facilitate investors actions in the area

## InvestRomania 2016 strategy

## Connectivity

- Investor meetings: Agenda alignment with key administration officials
- Strategic priorities: Alignment with existing economic development and key partnerships
- Investment events: align with other Government entities, embassies, investor councils

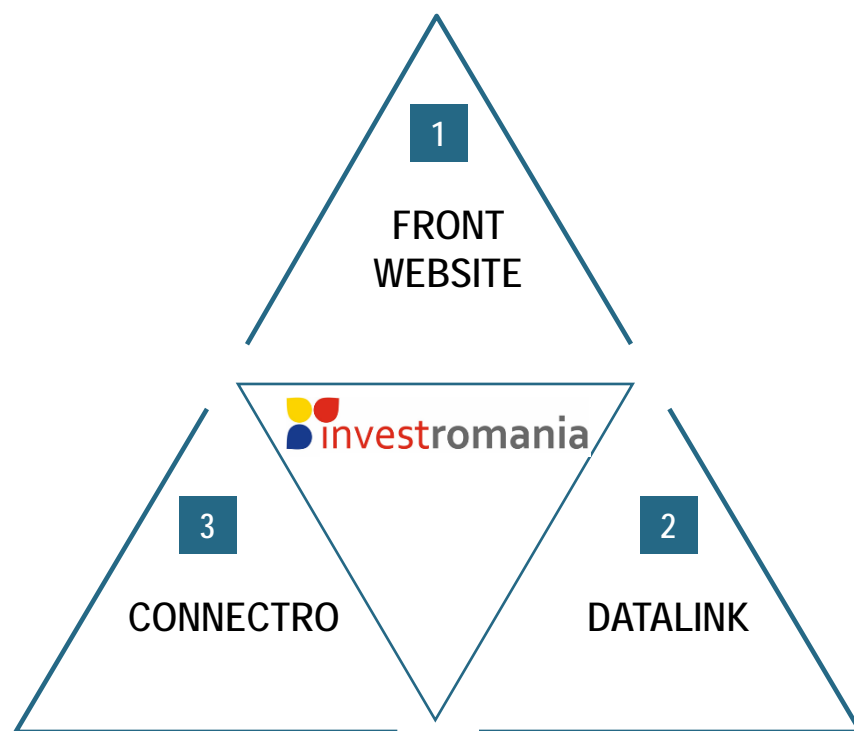
## Client focus and prioritization

- Client centric approach
- Prioritize existing investors – they can be engines of growth, ambassadors, and valuable partners
- Clear direction for reactive and proactive outreach strategy

## Alignment of the message / story

- InvestRomania will function as a unifier of the investment narrative across various channels (e.g., MFP, PM cabinet, other ministries, selectively, other venues)

# A short, cheap and frictionless decision making process for investors in Romania – that is the vision of the dedicated platform



## 1 Front website – [www.investromania.gov.ro](http://www.investromania.gov.ro)

- Reflects why Romania is an important growth opportunity compared to regional peers
- Contains an overview of the Romanian economy, the most relevant business sectors, important legislation and what is it like to live in Romania

## 2 DataLink – the data engine for business in Romania

- Closes the info gap between investors and data
- Contains customizable quantitative information on:
  - Market sizes of the most important sectors
  - Companies' financial data (P&L, BAL SH)
  - Industrial parks capabilities and availability
  - Educational output
  - Employee compensations and labor costs

## 3 ConnectRo – M&A and JV Support platform

- Brings together investors and future partners
- Contains profiles on local companies looking to develop a partnership with foreign investors

# A central pillar for InvestRomania is also the promotion of the 6 key industries for the economy as part of “Industry of the month”

## Key 6 industries

**IT & C**

**Automotive**

**Agribusiness**

**Bio – economy**

**Aerospace**

**Creative industries**

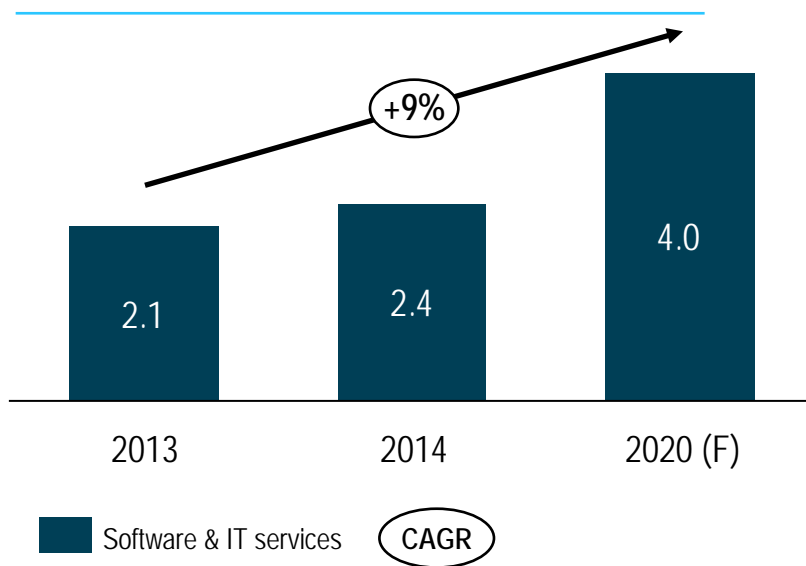
## Overview

- Every month, starting with May, InvestRomania is going to promote each of the most relevant industries for our economy
- The aim of the project is to foster communication and facilitate investment, import of know-how and technology, ultimately leading to sustainable growth
- The first promoted industry will be IT&C, in the month of May
  - InvestRomania has made contact with the most important technology and IT&C associations in the country
  - We will participate in IT&C focused events all over the country, including Techsylvania and Innovation Labs
  - Our input is about solving informational gaps for the local entrepreneurial ecosystem regarding potential financing opportunities
- Follow-up of the project implies maintaining contact with stakeholders and continue to foster communication between industry players and potential new investors

## 2. Romania as a regional tech hub

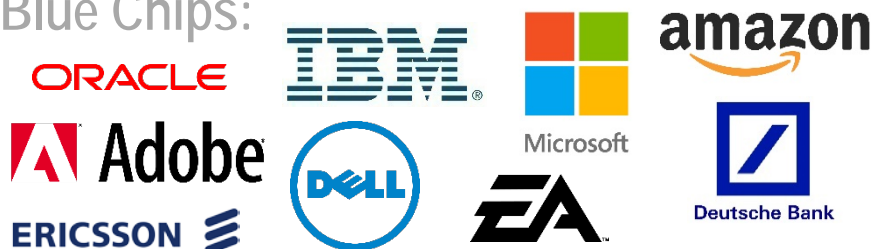
# Technology is a primary growth driver for Romania – the IT&C services sector is forecasted to reach EUR 4 billion by 2020

IT&C services sector (EUR billions)



- Most of the market size is owed to outsourcing activities, with companies such as Oracle, Amazon, IBM or Deutsche Bank leveraging Romanian software development potential at a fraction of the cost in Western Europe
- With low living costs, high relative salaries and more capital at the doorstep, the startup environment is booming – Romanian software developers are also becoming entrepreneurs, creating products aimed at a global market in the main tech hubs of the country (Bucharest, Cluj-Napoca, Timisoara, Iasi)

## Blue Chips:

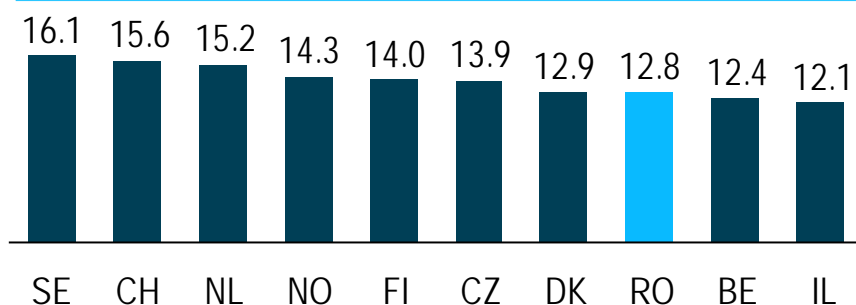


## Startups:

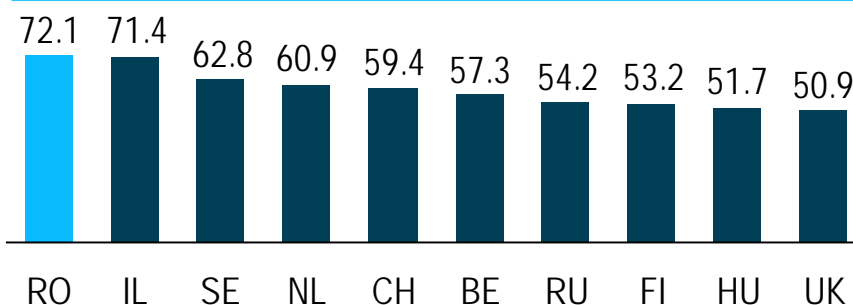


## The rise to prominence stems from a good internet infrastructure used by an increasing pool of talented developers

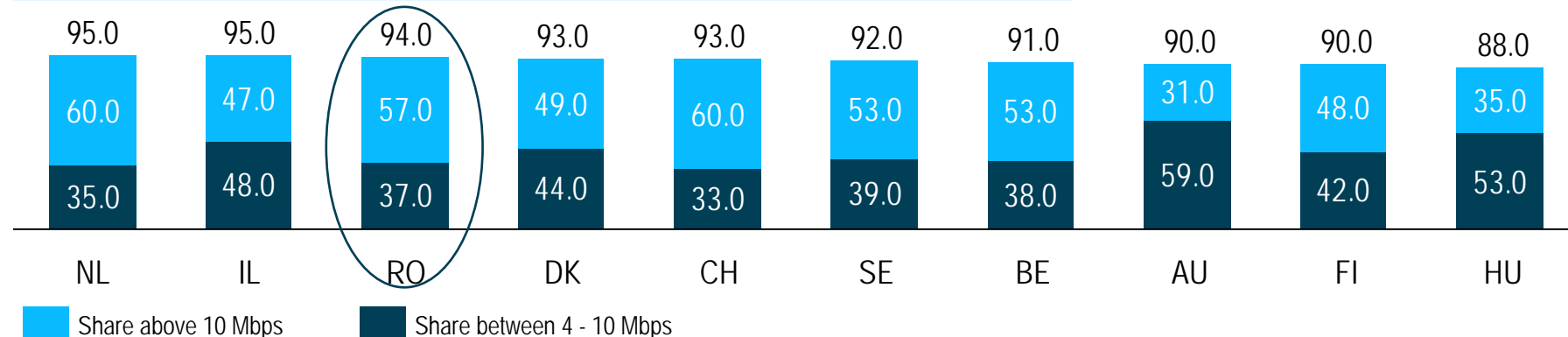
Top 10 EMEA countries by avg. speed (Q2 2015, Mbps)



Top 10 EMEA countries by top speed (Q2 2015, Mbps)

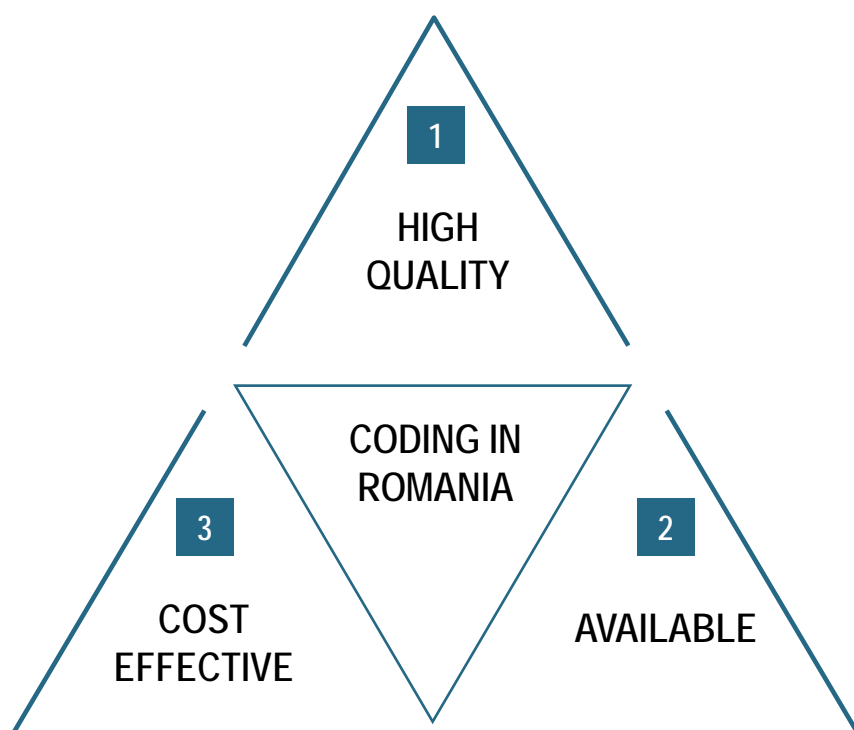


Top 10 EMEA countries by Mbps Broadband adoption (Q2 2015, % >4 Mbps)



- The internet infrastructure has developed along with the developers, who are leveraging the network to offer high quality outsourcing services, although the focus is now shifting towards product design and, consequently, startups

There are 7,000 IT&C grads in Romania every year, adding to a total of 90,000 with forecasts exceeding the 100,000 mark by 2018



**1 High quality – top 10 worldwide at math and computer science international olympiads**

- Romania consistently ranks in the top 10 in International Olympiad competitions in math and informatics, better than any other country in the EU
- Romanian universities have been in the top 3 of the IEEE Design Competition every year since 2001

**2 Available – number of engineers/ capita higher than the US, India, China or Russia**

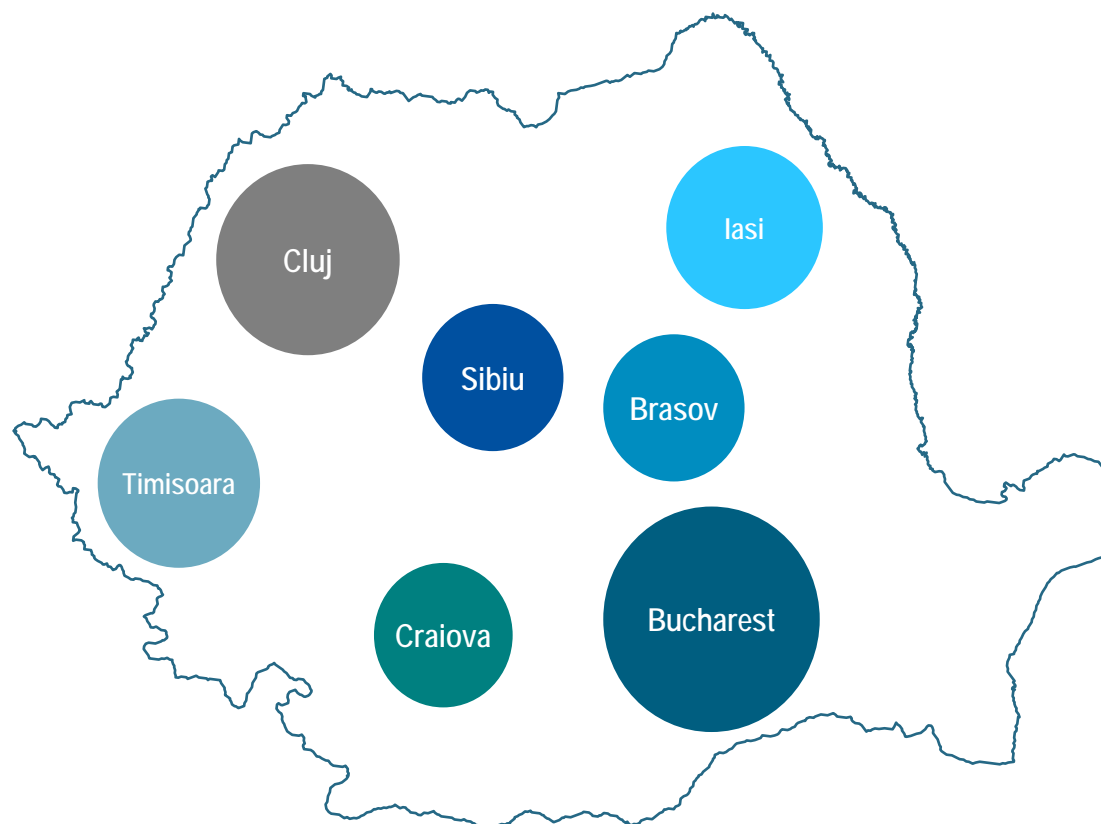
- There are 5 polytechnic universities in Romania, which together with 59 domain specific universities and 174 private colleges supply over 7,000 IT&C engineers every year

**3 Cost effective – value for money is much higher than in Western Europe or the US**

- Avg. annual salary for a software developer working in Romania is EUR 17,000, with the low living costs implying a standard of living better than even London

# The 7,000+ annual IT&C grads specialize in a variety of programming languages, determining the creation of sub-clusters

## Romania's software development map



Size of bubble is directly proportional to cluster size

Grads/ year	Focus
2,000	Mostly specialized developers, rare mix of technologies
1,700	Largest pool of full stack developers; Java, C#, .NET, PHP, Web
1,100	Java, .NET, C/ C++ (embedded developers)
1,100	Large pool of front-end and web developers, telecom engineers
500	Pool for C++ and helpdesk engineers
500	Pool for cloud and virtualization experts
230	Automotive software and gaming engineers pool

# While bootstrapping is still the rule, startups are finding ways to find pre-seed funding through accelerators and tech focused events

## Accelerators



- MVP Academy, Spherik Accelerator and Innovation Labs have incubated over 100 startups, raising in excess of EUR 1,000,000 in financing at various stages of development
- Startups are supported through mentors (VCs, engineers, product managers) as well as with infrastructure from Bitdefender, Microsoft or Oracle

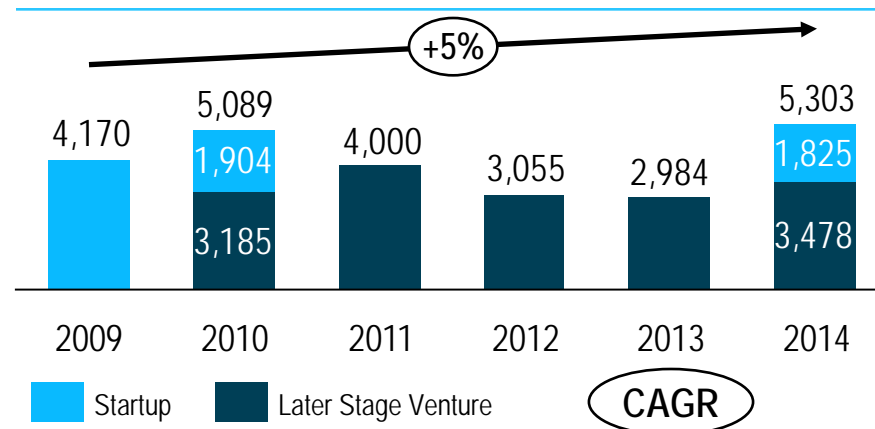
## Tech events



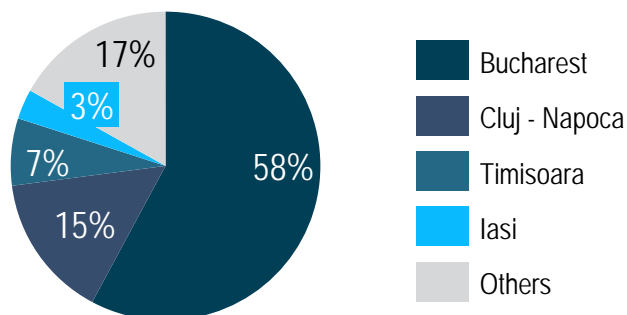
- Several tech events are in fact precursors for accelerators, following increased interest from startups and potential investors (e.g. How to Web, Techsylvania)
- Most of these events are dedicated to connecting startups with potential investors, and often organize pitching contests as a first step

# Venture capital is finding its way into the country, reaching out through accelerators and events – but the demand is much higher

## Venture capital financing (EUR, thou)



## Startup distribution by city



## Financing status

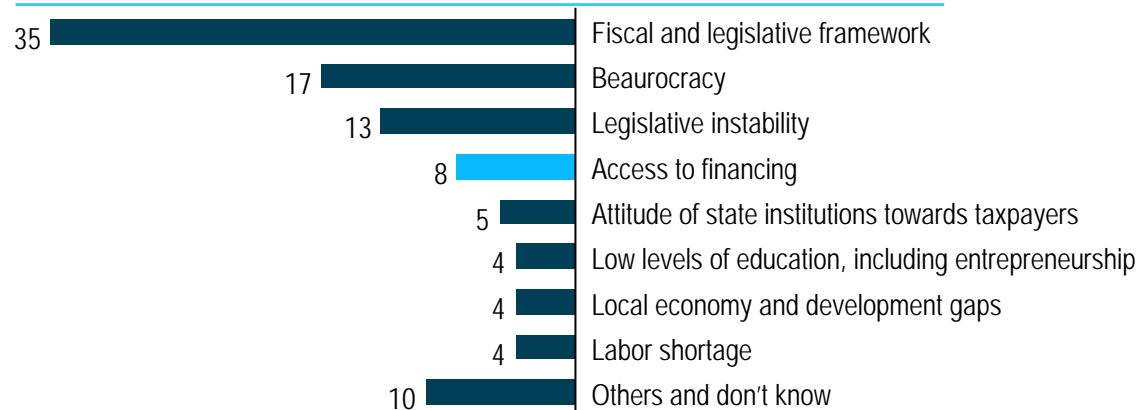
- While 2014 has seen a bounce in VC financing due to increased number of opportunities, 2015 financing is likely larger, only Vector Watch raising EUR 5 million in November
- 2016 is off to a great start: financing totaling EUR 1.1 million has been announced year to date, as well as an acquisition

## Tech hubs in Romania

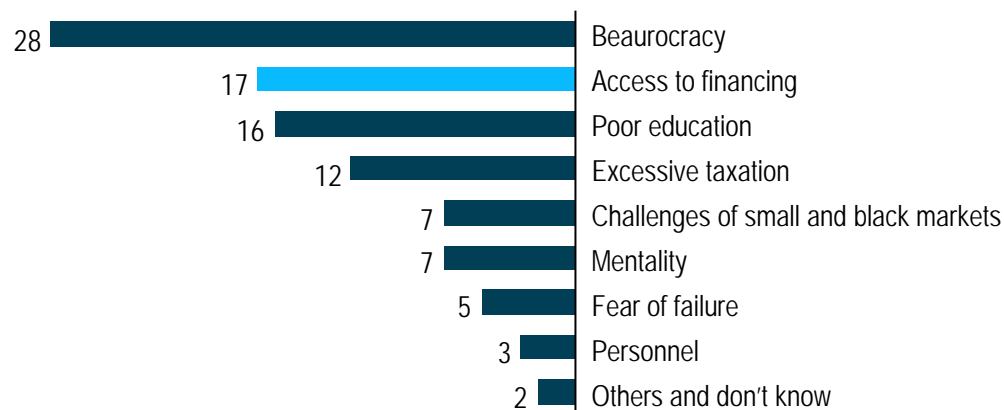
- Bucharest is the largest startup hub in the country (132), as home to tech companies and VC firms as well as to universities focused on technology, engineering and software development
- Cluj (35), Timisoara (16) and Iasi (7) are catching up, attracting companies like Amazon and investors from UK, Germany or the US

As such, it should be of no surprise that access to growth financing is considered an important problem amongst entrepreneurs

### The most important obstacles for entrepreneurs



### The most important obstacles for start-up entrepreneurs



- Despite a definite improvement regarding the entrepreneurs' education and ability to raise financing, access to financing is still considered a challenge
- In fact, 8% of entrepreneurs and 17% of start-up entrepreneurs consider it a major issue, according to EY
- As such, the ability to scale at regional and even global level, which cannot happen without proper resources, is stalled by the lack of the proper amount of financing

# However, breaching through the local market and scaling at least at regional level requires far more than the 3 Fs money

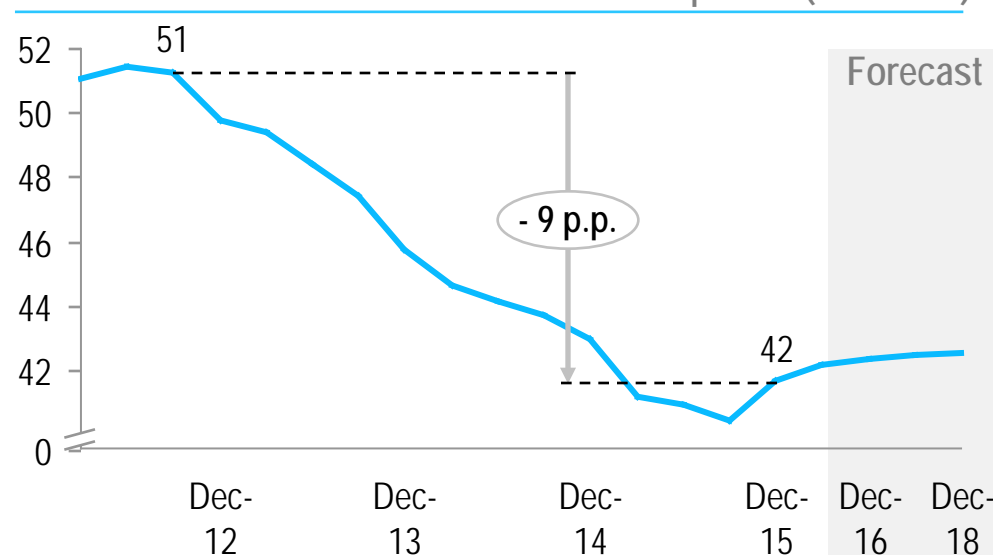
## Market rationale

40%

Of SME entrepreneurs looking to raise credit financing from banks

and yet...

## Net credit value aimed at non-financial companies (% of total)



- Despite an increasing demand from entrepreneurs for financing, share of net credit value has plummeted in the past years due to increasingly harsher conditions imposed by banks in order to offset an approx. 30% SME NPL rate
- The question is how can banks maintain clean balance sheets while entrepreneurs get their money in order to develop regional and even global products
- Mobilizing investments is a priority of the European Commission, which is why the Investment Plan for Europe has been developed

## 3. Financing SMEs through IPE

# To foster growth and boost private investment into value adding projects, the EC and EIB created the Investment Plan for Europe

## Vision

- The EU plans to reverse the downward trend of investment and put Europe back on the path of recovery
- Europe's growth catalyzed through growing investment is also a top priority for the Juncker Commission

## Persona

- Firstly, the investment plan aims to boost investment through private investors who have been more risk averse in the recovery of the post-crisis era
- Secondly, the plan is dedicated to companies and projects with a riskier profile but with potentially significant added value

## INVESTMENT PLAN FOR EUROPE

- Remove obstacles to investments by deepening the single market
- Provide visibility and technical assistance to investment projects
- Make smarter use of existing financial resources and facilitate private investment in value adding projects

## Mission

- To accomplish its objectives, the European Commission and the European Investment Bank (EIB) have established the European Fund for Strategic Investments (EFSI) within the EIB
- EFSI's mission is to break the under-confidence and make use of liquidity held by private investors

## Solution

# EFSI essentially represents a boost to already existing financing programs from the EIB group, designed to facilitate more investment

## Key sectors



Strategic infrastructure, including digital, transport and energy



Expansion of renewable energy and resource efficiency



Environmental, urban development and social projects



Education and training, research, development and innovation



Support for smaller businesses and midcap companies

## Instruments

Loans

Guarantees

Credit enhancement products

Equity type products

## Eligible applicants

- Companies of all sizes, including small and medium enterprises (up to 250 employees) and midcaps (up to 3000 employees)
- Utilities
- Public sector entities
- National promotional banks or other banks delivering intermediated lending
- Bespoke investment platforms

# Aside from the targeted sectors and applicant typologies, EFSI requires particular eligibility criteria and operational mechanics

## Eligibility criteria

Commercially sound, economically and technically viable

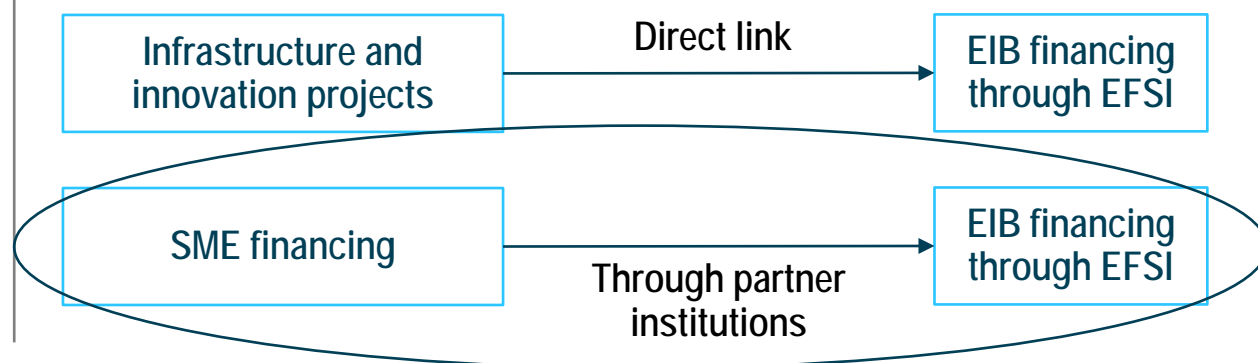
Contributing to EU objectives and to sustainable growth and employment

Mature enough to be bankable

Priced in a manner commensurate with the risk taken

## Application mechanics

- As financing operations will be on the EIB's balance sheet, all applicants are subject to standard EIB due diligence and approval by its governing bodies
- SMEs and midcaps interested in EFSI transactions should refer to information on EIF financial intermediaries
- Also, SMEs do have a wider range of possibilities to access EFSI funds: either through a financial intermediary (as stated below) or through a risk capital fund



# SMEs and midcaps are best served by EIB's regional partners who manage EFSI funds and place capital according to their thesis

## Financing method

### Through financial intermediaries\*

## Steps

- As an SME or midcap looking to finance a project, EIF financial intermediaries must be accessed directly ([http://www.eif.org/what\\_we\\_do/where/index.htm](http://www.eif.org/what_we_do/where/index.htm))
- Final approval lies with the financial intermediary
- As a financial, guarantee or credit institution authorized to carry out lending activities to SMEs, an expression of interest for one of the following programs is mandatory:
  - InnovFin SME Guarantee Facility
  - COSME Loan Guarantee Facility

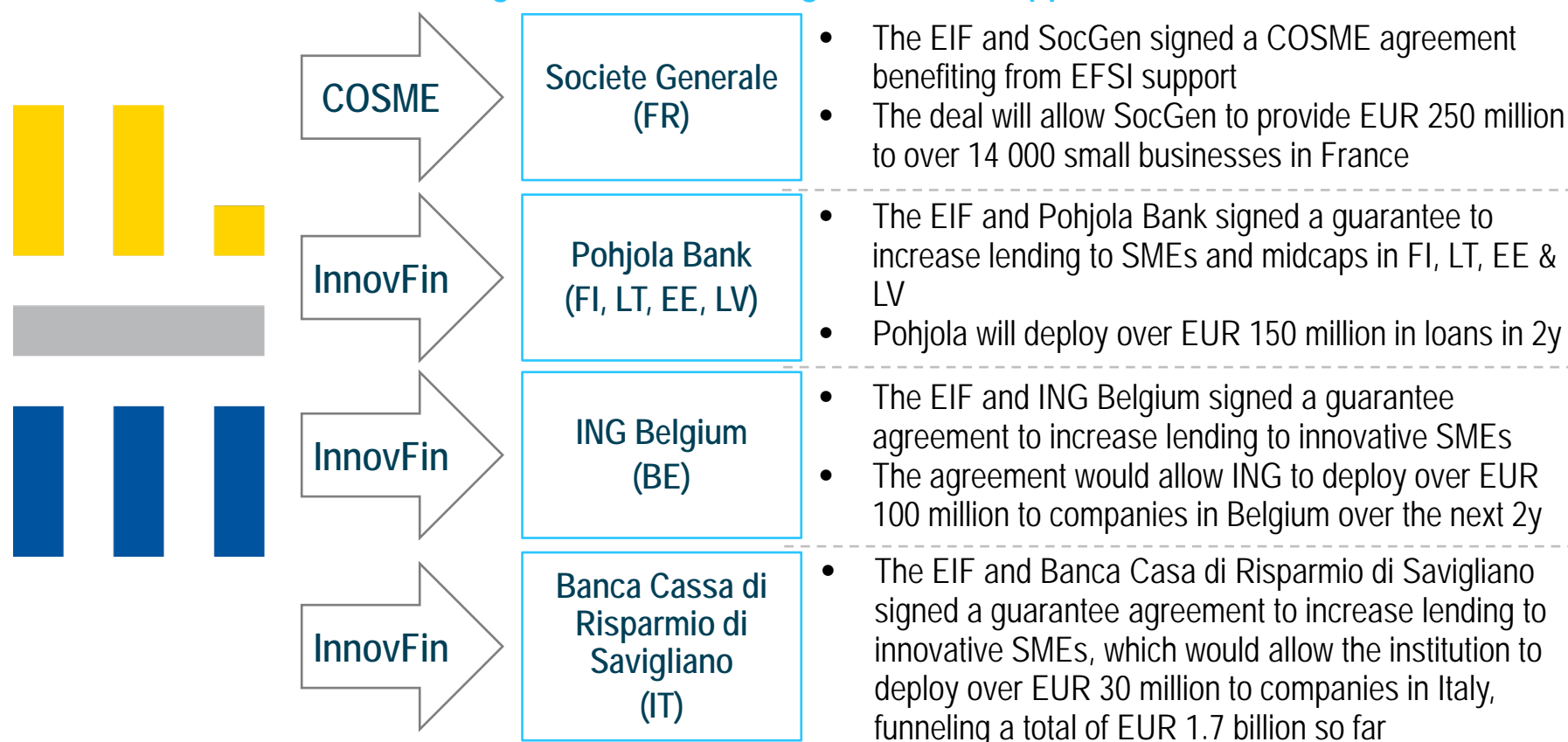
### Risk capital funds targeting SMEs

- As a financial investor (risk capital fund targeting SMEs and small mid-caps), submit a concept paper and/ or a draft private placement memorandum to EIF's Equity Investment department

- Financial intermediaries represent financial institutions with which the EIF partners in order to support micro, small and medium sized enterprises; they can be funds, banks, guarantee and microfinance institutions
- In Romania, financial intermediaries only offer loans or micro-loans and there is only one financial institution financing SMEs through InnovFin SME Guarantee facility

# Success stories involving SMEs do not imply them directly; SME growth through EFSI is achieved through financial intermediaries

## Selection of EU SME focused agreements benefiting from EFSI support



\* The EIF uses the capabilities of the European Fund for Strategic Investments to boost its own already existing mechanisms (while maintaining the same risk) and help their local partners in deploying more capital in order to support the development of local SMEs

# InvestRomania is at your disposal for any inquiry you may have regarding IPE financing, whether you are an SME, bank or VC fund

## Key takeaways

### Local banks apply to the EIF for financial products

- No SME, regardless of how cool it is, can apply for funding through the Juncker Plan directly to the EIB or EIF
- Local financial intermediaries, i.e. banks or venture capital funds can apply for funding to the EIF and then redistribute the capital pool in Romania

### SMEs apply to local banks (intermediaries) for financing

- After the banks obtain the guarantees or the VC funds obtain the firepower, SMEs can directly negotiate with these intermediaries in order to finance their operations
- The final decision lies with the financial intermediary, which decides upon the feasibility of the project from a financing perspective

### There is a mutual benefit for both SMEs and banks to take action

- There is clearly a market here: SMEs requiring capital to grow and banks with the possibility of leveraging their positions with little to no extra risk (covered by the EFSI guarantee)
- As such, both parties to this market must be aware of the incentives provided to them and focus on effectively using such financial instruments

For more information, meet us @  
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[www.facebook.com/InvestRo](https://www.facebook.com/InvestRo)

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