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OF EUROPE'S UNDER-
THE-RADAR LOCATIONS

Moldova's hidden gems for investment

PHOTO: Maxim Ciunș

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Moldova puts foreign investment first

MOLDOVA FACES ONGOING TENSIONS BETWEEN A SOVIET PAST AND AN EU-FRIENDLY FUTURE. BUT A PRAGMATIC APPROACH ACROSS THE BOARD HAS MEANT IT IS CONTINUING TO ATTRACT INVESTMENT.
SEBASTIAN SHEHADI
REPORTS

A small, landlocked eastern European country, Moldova is most commonly known for its wine. After a banking crisis that caused a recession in 2015 – together with many disruptive and ongoing changes of government – the economy has stabilised and the former Soviet state is becoming increasingly EU-oriented.

Despite a decade of a seemingly endless procession of different political parties rising to power, there is agreement across the political spectrum that foreign investment is necessary for national growth. To this end, a generally held commitment to economic reform has pushed the country up the World Bank's Doing Business index, taking it from 108th position in 2008 to 48th today.

Rough waters

Over the past five years, Moldova has witnessed political and economic upheaval, but has emerged in reasonable shape. The wine industry – vital to the country's economy – was hit by Russian sanctions in 2013, in retaliation against Moldova's growing economic alignment with the EU and, in particular, the EU-Moldovan Association Agreement.

The following year saw an economic crisis, as years of endemic corruption culminated in the theft of \$1bn from three Moldovan banks, made worse by an internal political stalemate, the financial downturn in Russia and the conflict in Ukraine (two of Moldova's key economic partners).

These factors resulted in a large fall in FDI numbers, says a spokesperson from the National Bank of Moldova (NBM), the country's central bank. According to Unctad data, foreign investment flows dropped from \$338m in 2014 to \$91m in 2016.

Bouncing back

Despite these difficulties, from 2016 on the economy began to stabilise. GDP growth bounced back to 4.4%, remaining around that

mark in the following years, with 2019 expected to register 3.8% growth, according to the EBRD. Meanwhile, GDP per capita (at purchasing power parity) has risen impressively over the past decade, and Moldova is currently rated as 'B3 stable' by Moody's.

Since 2016, FDI has also recovered – growing consistently to hit an annual total of \$228m in 2018, according to Unctad, while the export of services has also grown to record (albeit still modest) levels since 2016.

In the first half of 2019, Moldova received \$294m in FDI, surpassing all total annual inflows since 2014, according to data from the NBM, which measures FDI in terms of assets and liabilities. In this regard, the country is on track for a stellar performance in 2019, despite attracting limited greenfield FDI this year, according to greenfield investment monitor **fDi** Markets.

Moldova's recovery of foreign investment can be partly attributed to increased trade and investment garnered by the 2014 EU-Moldovan Association Agreement. Moreover, from 2018, significant banking sector reform attracted new investors into five of the 11 Moldovan banks, while agro-processing is another sector that has recently attracted significant FDI.

Investment incentives

One factor that could explain the country's rising popularity with investors is that it takes just one day and four procedures to set up a business in Moldova. Excluding construction and electricity permits, the country performs well across all categories in the World Bank's Doing Business index, which ranks it alongside the likes of Italy and Belgium.

Another pull factor is that corporate income tax is one of the lowest in eastern Europe, at 12%, while VAT is 20% and social insurance contributions 18%. "The good news for investors is that there's a political consensus in Moldova that tax rates aren't going to rise, and that in periods of political volatility,



THERE'S A POLITICAL CONSENSUS IN MOLDOVA THAT TAX RATES AREN'T GOING TO RISE





Easy reach: Chisinau is only a 90-minute drive from Romania

it is actually very difficult to change the tax regime,” said former minister of finance Natalia Gavrilita, during the annual Moldova Business Week in the capital, Chisinau.

There are also special areas for reduced tax within Moldova’s free economic zones, for example, or the 7% unique tax on turnover in virtual IT parks, while the government pays investors €2000 per job created (mostly in manufacturing).

Although the average gross salary has risen since 2015, it remains low at €357 per month, according to 2019 figures from the National Bureau of Statistics. This makes an attractive proposition for would-be foreign investors when combined with the high productivity rates per capita, especially in labour-intensive industries such as manufacturing. The manufacturing sector has the highest stock of foreign investment in Moldova, as measured in 2018, according to the NBM.

Though Moldova is not in the EU, and looks unlikely to join within the next decade, its location between EU member Romania (Chisinau is a 90-minute drive away) and Ukraine places it strategically between the east and the west. The country has free-trade agreements with the EU and the Commonwealth of Independent States, as well as with Turkey and the Balkan states.

East-west tension

There are undoubtedly tensions, however, between Russian and EU influences in the country. The primary language is Latin-based Romanian, but many people (especially the older generation) speak Russian, while a fast-growing

proportion of the younger generation speaks English, French or German. Since independence in 1992, these tensions have been reflected in Moldovan politics. The separatist Transnistria region has remained in a frozen military conflict since 1992.

Ongoing political tension led to the collapse of Moldova’s recent coalition between the pro-EU PAS Party and the pro-Russia Socialist Party in November 2019. It remains to be seen in what direction the country’s new, much more Russia-friendly coalition will take. However, all parties want to attract FDI and it was Moldova’s nominally pro-Russia Communist Party that began EU negotiations more than a decade ago, in a good example of how paradoxical Moldovan politics often are.

Over the past 15 years, the country has become increasingly EU-oriented, especially economically. Exports to the EU have risen to almost 70% of the country’s total in 2018, at €1.64bn, up from 40% in 2013, while exports to Russia have dropped sharply as a result of punitive embargoes on Moldovan wine.

In 2019, Moldova’s leading investors were Romania, the UK, the Netherlands, France, Estonia, Italy and Russia, in that order. There has been limited greenfield FDI from Russia into Moldova since 2013 – ending a steady stream of investment in the decades before, reports fDi Markets. Meanwhile, the proportion of foreign investment coming from the EU continues to grow. Which way Moldova will point over the next decade remains to be seen, but its EU ambitions and the influence of Russia on the country are unlikely to go away. ■

Q&A: IGOR DODON

Ready for work

THE PRESIDENT OF MOLDOVA EXPLAINS TO **SEBASTIAN SHEHADI** THAT, SHOULD INVESTORS LOOK BEYOND THE COUNTRY'S POLITICAL TURBULENCE, THEY WILL SEE A POPULATION READY FOR WELL-PAID EMPLOYMENT

Q How important is foreign investment to your economic strategy for Moldova? What are the new government's priorities in terms of foreign investment attraction?

A Investment is an important issue for any economy, regardless of the level of development. And, of course, investments are important for the economy of Moldova, which needs to be improved. We intend to build mutually beneficial partnerships with all potential investors, and we are preparing proposals that include [benefits] and support for companies that invest in Moldova and create jobs.

Q What specific projects would you like to see, and in what sectors would you like to promote more foreign investment in the coming year?

A Moldova's priority now is regional development, which means the creation of permanent jobs and the development of local infrastructure. When we talk about building partnerships with industrial investors, we think of multinational corporations operating worldwide. In this way, we want to include the Moldovan economy in regional, and even global, economic flows. This economic model also provides more employment and personal growth opportunities for young people.

Q How can you reassure them that Moldova's political instability will not affect their investments?

A We understand how much political instability [worryes] investors. Here, I would mention that Moldova is a young democracy, and that political instability is normal for such democracies.

On the other hand, Moldova's people are known for being very patient and friendly. All we dream of is to have a well-paid job somewhere close to our homes. Thus, political instability is not good but it doesn't mean national instability. What is most important to keep in

mind is that people want stable jobs and are ready to work.

Q What is your strategy to improve Moldova's shortage of skilled workers and encourage people not to leave the country?

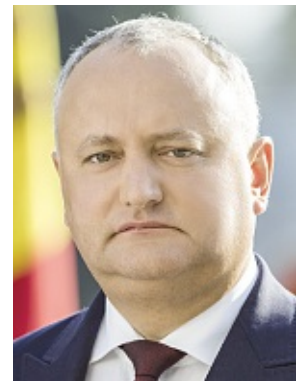
A This is a very painful problem that really threatens the future of Moldova. We understand why people leave Moldova – they are looking for better opportunities to build their future. This phenomenon is about well-paid jobs, and economic and social stability. It is also about developing infrastructure that plays a decisive role in the quality of people's lives.

To reduce this phenomenon, and to encourage people to return to Moldova, we have to bring all these things to our country. We designed a vision of national economic growth that is based on regional development. The vision is focused on creating industrial platforms in each [regional] centre.

We are determined to create the best conditions for business development in Moldova, and offer investors land, assets and infrastructure. We are open to negotiations with all investors for creating individual solutions for their investment.

Q The EU and Russia are important economic partners for Moldova. How do you intend to expand Moldova's financial activities with both of them?

A We believe that only mutually beneficial relationships can be sustainable. This is why we intend to continue to communicate permanently with the EU and Russia, as well as with all of Moldova's other partners. We also believe that creating a close friendship with one of our partners does not mean losing the opportunity to do the same with the other. We know we need to learn to be better communicators and negotiators. Here I am reminded of a quote by Barack Obama: 'Democracy requires compromise even when you are 100% right.' ■



CURRICULUM VITAE

IGOR DODON

2016

Moldova
President

Previously
Member of the Parliament of the Republic of Moldova; minister of trade and economics; associate prime minister



Money in: German automotive component supplier Dräxlmaier has been a significant investor in Moldova

In the driving seat

MANUFACTURING IN MOLDOVA HAS GROWN CONSIDERABLY IN RECENT YEARS, MAKING IT A HOT SPOT FOR FOREIGN INVESTMENT, ESPECIALLY THE AUTOMOTIVE AND ELECTRICAL COMPONENTS SECTORS.

SEBASTIAN SHEHADI REPORTS

During the Soviet era, Moldova was a centre of industrial production, which made up 60% of the country's economy in the early 1990s. Although Moldova's economy has since diversified, this heritage underpins its modern, thriving manufacturing scene.

Manufacturing has been the main target for greenfield foreign investment since 2003, both in project numbers and capital expenditure. This is particularly true of automotive and electrical component production, where German and Japanese companies have been the most active investors, according to greenfield investment monitor fDi Markets. Greenfield FDI into Moldovan manufacturing has created an estimated 11,174 jobs since January 2014, through 16 projects valued at an estimated total of \$767m, according to fDi Markets.

To the wire

Although Moldova is internationally known for its wine, the country's top export in recent years has been insulated wire. The production of electrical cable and wire harnesses rose by 52.6% in 2018, according to Invest Moldova, the country's investment promotion agency. Indeed, industrial production in Moldova is a key pillar of the economy, growing from

14.4% of national GDP in 2011, to 15.2% in 2018, according to data from Moldova's Ministry of Economy and Infrastructure.

The automotive components industry has a particularly strong track record, especially for tier-two and tier-three suppliers. Exports within the sector have risen consistently for many years, growing by 240% since 2013 to reach \$437m in 2018, for example, and the industry accounts for roughly 20% of Moldova's total exports. Meanwhile, employee numbers have tripled since 2013, hitting 19,000 in 2018, according to Invest Moldova.

The number of foreign investors in Moldova's manufacturing sector has also increased and now boasts major companies such as Dräxlmaier Group, Gebauer & Griller, Fujikura Automotive and Sumitomo Electric Bordnetze. In 2018, German wire and cable manufacturer Coroplast announced it was expanding capacity at its Free Economic Zone Balti facility. The company has invested about €17.3m in the expansion, and boosted the plant's workforce from 410 to about 1000.

Zone strengths

Coroplast is typical of investors in Moldova's automotive components sector, which mainly operate out ▶

of the country's seven industrial parks or free economic zones (FEZ) that are spread across 38 locations nationally. FEZ Balti is by far the largest, with 18 subzones employing roughly 10,500 people. Almost two-thirds of them work for Germany's Dräxlmaier Group, which supplies premium automobile manufacturers.

Investment in and exports from FEZ Balti have grown strongly over the past decade, with the zone's tenants numbering 66, according to chief administrator Marin Ciobanu.

Moldova's second largest FEZ is Ungheni, which employs about 3000 people, most working at Michigan-based Lear Corporation, a global supplier of automotive seating systems and electrical systems that has expanded in Moldova in the decade since it began operations there. The company's Moldova branch proved so successful that Lear transferred production of BMW leather seats to it, according to Sergiu Gaibu, an analyst at think tank Expert-Grup.

A CEE advantage

Moldova's free zones are also conveniently located logistically for easy business with the EU and the countries of the Commonwealth of Independent States, as well as Turkey and the Balkan states – all thanks to numerous free-trade agreements. Most trade within the automotives sector goes to and from the EU, especially Romania.

Mr Ciobanu says: "We're seeing a lot of movement of global manufacturers from, or based in, Romania, coming to Moldova, because we have the same language and culture, and investors are encountering very low unemployment rates in Romania. Fritzmeier is moving for this reason. Dräxlmaier temporarily transfers people from its Balti plants to its Romania plants, due to [Romania's] shortage of labour."

So Moldova is benefiting from spillover investment from Romania, which is one of eastern Europe's leading destinations for foreign investment, especially in automotives. However, Moldova can offer cheaper labour and operational costs than Romania (and, indeed, the whole of the EU). The national average monthly wage in Moldova is €357, according to Invest Moldova, though in FEZ Balti this rises to €500.

Moldova's free zones also boast some attractive fiscal advantages that come with a 10-year state guarantee, such as corporate income tax of between 6% and 9%, depending on where companies export to. Investors face 0% corporate income tax for three or five years if they invest more than \$1m or \$5m, respectively, and are exempt from customs duties and VAT on the export of goods and the import of raw materials and equipment.

Buying land for ground-up investment is also cheap and widely available in Moldova's FEZs. However, there is still a lack of ready-to-go industrial buildings for rent. "We're looking for developers to build and sell industrial space. There's a big demand for that," says Mr Ciobanu.

Adding value

Moldovan automotives are on course for increased added-value activity, especially as the country is reconfiguring its educational system.

"One should always focus on value addition for Moldova. But [remember] how other countries developed their industry. Always start with the basics, which means labour-intensive, low-salary costs. From this, companies will develop [added value]," says Sebastian Metz, executive director at AHK Romania, the German-Romanian chamber of industry and commerce.

For example, after several years

in Moldova, Germany's Coroplast upgraded from wire harnessing to add plastic injection moulding to its production line, while Dräxlmaier now has an R&D centre designing car interiors. Moreover, Arobs Software (a spin-off firm from Romania) provides microprocessor programming for the German car industry, as well as writing the program for some of Renault's gearboxes, according to Mr Gaibu.

"I see good opportunities in Moldova in terms of development activities; less so [in] research activity, as this is a later step. Moldova is progressing in the right direction. An increase in qualified skilled workforce is key, so I'm very happy that the country is making improvements to its professional education. Improved logistical infrastructure is also very important," he adds.

Filling the qualification gap

Moldova is aware of its shortage of qualified labour and is working to reverse this. For example, in 2018 the College of Engineering opened its doors at FEZ Balti, using the German dual-education system to prepare mid-level specialists for resident companies in industrial equipment and mechatronic engineering. It is home to Moldova's only industrial-grade robot and the Haas Technical Education Centre.

FEZ Balti is also a partner of the University of Balti's innovation and technology transfer centre, which offers free zone residents innovation support via access to specialist laboratories, equipment, services and finances. A similar centre is set to be created in Chisinau, within the premises of the technology park of the Academy of Science of Moldova, while initiatives such as the Technical University's FabLab are already successfully developing practical education through technical prototyping in innovative areas such as autonomous and electric vehicles. ■



WE'RE SEEING A LOT OF MOVEMENT OF GLOBAL MANUFACTURERS FROM ROMANIA, BECAUSE WE HAVE THE SAME LANGUAGE AND CULTURE



Q&A: GUIDO MEINELT

Dräxlmaier's skills focus

GUIDO MEINELT, PLANT MANAGER AT DRÄXLMAIER'S MOLDOVA BRANCHES IN BALTI, TELLS SEBASTIAN SHEHADI HOW THE GERMAN AUTOMOTIVE COMPONENT SUPPLIER IS THE EASTERN EUROPEAN COUNTRY'S LARGEST FOREIGN INVESTOR – AND IS STILL EXPANDING

Q What first attracted Dräxlmaier to Moldova?

A The Dräxlmaier Group came to Moldova in 2007, where it found a professional and skilled workforce. We have succeeded in creating a strong team of production staff and experts from various industries. To promote the skills of our employees, we focus on training courses for the latest technologies and machines, and we work with universities and vocational schools in the region in this regard. By training its staff, Dräxlmaier can guarantee consistent high quality in education levels.

To us, it is important to be close to our customers. We are present in over 20 countries with more than 60 sites, and we are always in close proximity to them. This ensures that every single product is functionally tested and gets to our customers' assembly lines both in good time and at the right time.

Q Are these the reasons why you are expanding your business?

A We have two plants producing wiring harnesses in Balti [Moldova's second largest city] at the moment; we completed an enlargement of our second plant in 2017. Besides this, Dräxlmaier Group opened a new product development office in [the Moldovan capital of] Chisinau in December 2017, and decided to open a third manufacturing plant of electrical components and wiring harnesses [whose] production started at the end of 2018. The number of employees in Moldova [is currently] approaching 5000. Our [initial] plant in Balti gained the trust of its customers and managed to constantly expand its product portfolio and its team [which meant] we could invest and open other sites [across] Moldova.

Q Have you found the business environment in Moldova easy to operate and invest in? What could still be improved?

A When the company first came to Moldova, we encountered some difficulty in delivering 'just in time', as the time spent at customs was different. After becoming a resident in a free economic zone, our company was able to carry out import and export operations on a 24/7 basis, as the Moldovan customs officials are present around the clock. The customs clearance [located] in the building of our plant is a big advantage for us, as we have to assure deliveries to the customer just in time or just in sequence.

Q Do you contribute to any educational engineering programmes across Moldova?

A Dräxlmaier is a pioneer in the field of apprenticeships. In 2014, the company launched the Dual Education System and after one year the first graduates were hired. In co-operation with the professional schools in Moldova, Dräxlmaier developed a specific curriculum that not only fulfils the requirements of the company but has also been approved by the Ministry of Education. Both the theoretical and the practical lessons take place in well-equipped classrooms on the company grounds. The lessons are coordinated by teachers and experienced employees of the company.

Furthermore, Dräxlmaier participated in designing the curriculum for a new bachelor's programme in engineering and the management of automobile manufacturing in Moldova. About 100 students are studying the first to the fourth courses at Alecu Russo Balti State University. The best students from each course get a scholarship from Dräxlmaier and are given the chance to do paid summer practice at our plants. This summer practice helps them to implement the theoretical topics [they've studied] by working with modern equipment, and it increases their chances of getting a highly qualified job. ■



CURRICULUM VITAE

GUIDO MEINELT

2014

Dräxlmaier
Moldova branches, plant manager

A tech edge

MOLDOVA'S BUSINESS-FRIENDLY AND COST-EFFECTIVE TECH SCENE IS GAINING THE ATTENTION OF MAJOR FOREIGN INVESTORS. SEBASTIAN SHEHADI REPORTS

The IT sector in Moldova has rapidly become a major driver of economic growth over the past decade, and a policy priority for all ruling parties. It contributed 5.7% to the country's GDP in 2017, and presents a slew of opportunities for foreign investors.

Moldova's ICT infrastructure is one of the country's greatest strengths, ranking 59th out of 175 countries in the ICT Development Index and providing faster internet speeds than many of its peers in central and eastern Europe, such as Ukraine and Serbia. The country's e-government system for online public services is also highly regarded.

Vladimir Bobo, project manager at the Frankfurt Biotechnology Innovation Centre, says: "Moldova is getting more eye-catching for foreign investors, especially for IT due to its tax rates and legislation. Foreigners can easily open a joint-venture investment, and Moldova's cultural harmonisation is also key, as most people speak English and it is located right next to the EU. Moldova also has cheaper labour and intelligent people."

Export growth

Moldova's tech scene remains modest in size and maturity, but is growing fast and boasts very competitive legislation. It has expanded almost consistently over the past decade, and in 2019 it employed a record high of about 14,000 people, while its export of IT services has almost trebled since 2012 to reach a total of \$164m in 2018, comprising one-tenth of the country's total export of services, according to the National Bank of Moldova.

For the first time ever, IT services exports exceeded that of wine in Moldova, for one quarter in 2019, according to Marina Bzovii, executive director at the Moldovan Association of ICT Companies (ATIC).

Over the past two years, exports have shown particularly impressive growth, partially due to the opening of Moldova IT Park in 2018, a virtual park that provides simplified and reduced administration to local or foreign tech companies on Moldovan soil; for example, a single tax of 7% on turnover.

"This specific legislation is probably one of the region's best. After [36 months], about 490 companies are registered [employing about 9000 people]. We also offer support in terms of obtaining residency and work permits. Basically, all procedures [considered], you can start your operations within a month," says Valentina Stadnic, an administrator at Moldova IT Park.

The vast majority of the park's companies are exporting services abroad, and about 25% of them are funded by foreign capital originating from 27 different countries, especially the US and the EU, according to Invest Moldova. The average monthly salary at the park is €1300, against a national average of just below €350.

Adding value

Moldova is home to a small but growing number of successful tech companies, both local and foreign. The country already has a strong track record in IT nearshoring for major global players such as Orange, DHL, Xerox, Ford and LG, according to a recent report from the International Data Corporation (IDC).

However, because the country does not have the resources for outsourcing centres employing thousands of people, it needs to transition to higher value-added services, says the IDC. It estimates that over the next five years, R&D and engineering services within IT will be the best performing segment in Moldova.

The transitions has already begun. For example, fintech company Endava has grown fast in recent years to now employ 900 world-class engineers in Moldova. It is the country's only tech unicorn, founded in London and Chisinau almost 20 years ago. A more recent success story is Salt Edge, a fintech company with offices in London, Toronto and Chisinau that was

co-founded by a Moldovan.

Meanwhile, artificial intelligence-based recruitment chatbot company Xor raised \$9.5m in 2019, according to Ana Chirita, ATIC's strategic projects director, who says that this small but impressive sum in a national context shows how Moldova's landscape is changing.

Foreign companies are taking notice of such innovative talent. Ellation, a Silicon Valley-based company, acquired Yopeso Chisinau in 2017 and now employs dozens of software developers to operate its premium video experiences. Moreover, US-based company Mixbook (which designs unique photo products) has its main development office in Moldova, while Japan's Metal Product employs people in Chisinau to export complex digital designs within engineering.

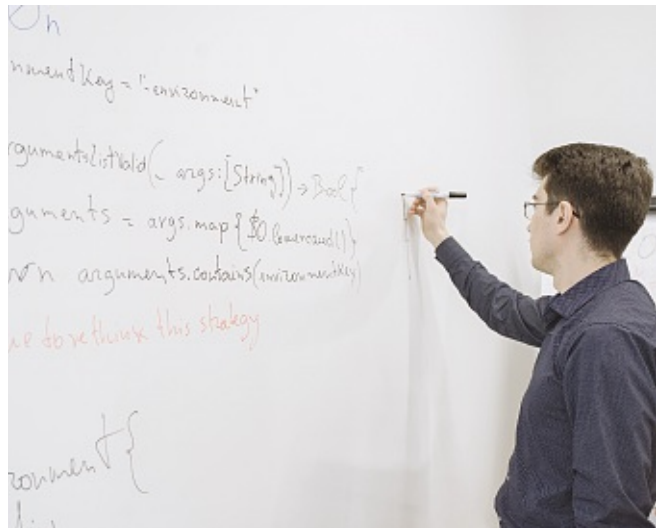
Companies wanting to hire foreign talent in Moldova now go through the IT Start-up Visa, launched in 2017 for EU or non-EU professionals.

Talent and training

Moldova's tech sector is attractive due to its quality employees, alongside the country's very low labour and operational costs, according to Keisuke Mizuno, director-general of the Japan External Trade Organisation. The average salary for a software developer is currently €1300 per month, one of Europe's lowest and cheaper than Bulgaria and Romania.

Doina Nistor, chief of party of the Moldova Competitiveness Project, which is funded by USAID as well as Swedish and the UK aid agencies, adds: "[However], the quality of our IT professionals is as high as Romania, where they employ many more people in ICT, but the value and productivity generated by our numbers is greater."

Moreover, the number of employees in Moldova's IT industry is growing, despite other sectors and the national population witnessing decline [due to migration out of Moldova] while Moldova's small population has already made it a good testing ground for new IT applications, such as 5G deployment, she adds.



People power: Silicon Valley-based Ellation acquired Yopeso Chisinau in 2017 and now employs dozens of software developers on its video technology

However, alongside perceptions of political instability, arguably the greatest threat to the Moldovan economy is the ongoing exodus of talent. Even the tech sector is witnessing an under-supply of available talent, according to Ms Chirita at ATIC. The country's annual output of 2000 ICT graduates a year is, she says, insufficient.

The Moldovan government is aware of the human capital problem, as are professional associations such as ATIC, which are making concerted efforts to amend the situation. For example, ATIC, supported by international development partners, created Tekwill in 2017, a \$4m innovation space to develop human capital and support start-ups – in partnership with Moldova's Technical University (MTU) and the country's government, among others.

In just two-and-a-half years,

Tekwill has trained 43,000 people in its educational programmes funded by the likes of Oracle, Microsoft and IBM, according to Ms Chirita. Moreover, Tekwill has implemented educational robotics classes across 140 schools in the country.

Retaining the brains

Other evidence of progress in Moldova is the fact that collaboration between universities and tech companies, such as Endava, is on the rise, while the number of students admitted to MTU's computer science-related programme has

increased from 400 in 2015 to 700 in 2019, according to university rector Viorel Bostan.

The ongoing construction of Chisinau's \$35m Digital Park is another impressive example of Moldova's IT development. Already home to two US companies and an educational programme, it will provide grade A office space for more than 2500 people when complete.

Since Moldova's medium IT salary is triple the national average, and purchasing power is high, the tech sector appears to be the country's best defence against the 'brain drain'. ■

THE QUALITY OF OUR IT PROFESSIONALS IS AS HIGH AS ROMANIA, BUT THE VALUE AND PRODUCTIVITY GENERATED BY OUR NUMBERS IS GREATER

Q&A: RADU LAZAR

Charms and challenges

THE REGIONAL MANAGER AT ENDAVA – MOLDOVA’S LARGEST TECH COMPANY, NOW LISTED ON THE NYSE – TELLS **SEBASTIAN SHEHADI** ABOUT THE DIFFICULTIES OF OPERATING IN SUCH A SMALL MARKET, BUT ALSO ACCENTUATES THE POSITIVES

Q What role does Moldova fulfil for Endava?

A Endava has 5600 staff globally. Moldova is one of our biggest delivery organisations, [employing] 900 people who deliver a whole spectrum of projects. We have big names that we deliver to from here.

Q How would you describe Moldova’s tech evolution?

A It has evolved from where it was a few years ago, but it hasn’t evolved as much as I’d like it, just because of the size of the market. The types of companies in this market are not big enough to cultivate enough depth and breadth of experience in [their staff]; 90% of them are pretty much ‘custom shop’ companies that are working for one client, or even on one project.

[However], I have to commend Endava’s talent pool, which is almost entirely from Moldova. I know there are bright people [here]. Our local employees have good experience at delivering commercial projects and have the skills to work basically anywhere. So after two or three years of working with us, for instance, these people can work in any company in any country.

With most of the companies delivering from this market, the vast majority are delivering to Western clients – we have the cultural affinity for these areas. So there are skills and there is still some cost advantage [in Moldova]. As long as you know that you might need to sometimes invest back into the economy, and in the people, to

[develop] them and not just use them for short-term projects. [Moldova] is quite a workable environment.

Q Is there an undersupply of tech talent in Moldova?

A There are a few fundamental problems. One is people leaving Moldova, which is a decrease in the number of our students, as well as the number of professors and people that teach at the universities [which affects the quality of the teaching]. Moldova’s supply of graduates has remained at about 500 to 600 people a year over the past few years.

One thing companies can do is invest more in the universities, and support the development of [graduates] by increasing their [training and education] intake as much as possible.

Endava has made a lot of investment in the universities in Moldova. Our staff give classes at universities, for example. We recruit quite a lot of graduates and we have a mentorship programme. In the last financial year alone, we recruited more than 150 people through our internship programme.

Q What impact does Moldova’s political uncertainty have on its tech scene?

A It doesn’t affect us directly, at least right now. We no longer deliver to the local market as all our business is in exports. However, because of political uncertainty [such as the recent collapse and change of government], there might be an increase of migration. ■



CURRICULUM VITAE

RADU LAZAR

2007

Endava

Manager

Previously

CNFA, grant manager

OUR LOCAL EMPLOYEES HAVE GOOD EXPERIENCE AND HAVE THE SKILLS TO WORK ANYWHERE





Sensing an opportunity: 22% of Moldova's wineries are fully or partially owned by foreigners

Mixing wine with tourism

MOLDOVA'S WINE INDUSTRY HAS GAINED SOME INTERNATIONAL RECOGNITION BUT THE COUNTRY REMAINS LARGELY UNTRoubLED BY TOURISTS, A COMBINATION THAT IS ENTICING SOME FOREIGN INVESTORS.
SEBASTIAN SHEHADI REPORTS

Moldova is known for its wine, one of the country's main exports. And as the industry revives and redefines itself in Moldova, interesting opportunities have arisen for first-mover investors in the sector, especially in association with the country's untapped tourism potential.

Wine production and tourism to Moldova have blossomed in recent years. However, both sectors have huge space for growth, especially in the form of premium and authentic products.

Moldovan wine is growing in quality and international acclaim. The country had about 170 international awards in 2016, but now boasts 799, according to Moldova's National Office of Vine and Wine (NOVW). Meanwhile, National Geographic stated in 2018 that Moldova is amongst the 'top 10 places that deserves more travellers'.

A taste of success

Since the fall of the Soviet Union, the land covered by Moldova's vineyards has shrunk consistently due to abandonment, natural causes and political disruption.

Once one of the USSR's largest

wine producers, Moldova's production volume and exports are a shadow of their former selves. Things worsened in 2006 and 2013, both following a Russian embargo on Moldovan wine exports in retaliation for the country's growing EU alignment.

Nonetheless, Moldovan vineyards boast excellent soil conditions and 30 grape varieties, covering 128,000 hectares – the world's 14th largest surface coverage and the highest density of vineyards per capita, according to Moldovan consultants Business Intelligent Service (BIS).

Volume of production has increased strongly and consistently since 2014, now equal to the pre-embargo year of 2005, shows the NOVW. However, over the past five years, Moldova has shifted focus to higher value-added consumers in the EU and elsewhere, from whom demand has increased non-stop since 2014, according to Irina Bistritchi, deputy director of the NOVW.

Indeed, the average cost per litre of Moldovan wine has been steadily rising, while in 2018 export revenues from the EU had the highest share of wine exports for the first time, followed by the Commonwealth of Independent States, according to BIS. Wine now accounts for 7% of Moldova's total exports.

An opportunity uncorked

Overseas investors have already stepped in, with 22% of Moldova's wineries being fully or partially owned by foreigners, according to BIS.

"The opportunity for foreign investment is in small to medium-sized wineries, both in terms of pro-

cessing and production, because we inherited 180 companies from the USSR...The majority of active wineries have out-of-date equipment; updating these and/or replanting shrinking vineyards could yield high rewards. Buying land requires a joint venture, [which is] a simple process," contends Ms Bistritchi.

Horizon Capital, a UK-based private equity firm, did exactly this with family-run Purcari Wineries, turning it into one of Moldova's largest and most renowned producers. Meanwhile, Moldovan-owned Et Cetera winery has successfully merged wine production with premium 'experiential' tourism.

Moldova's potential is widely seen as lying in wine tourism and local hospitality. If properly supported, research from the Moldova Competitiveness Project claims the tourism sector could grow tenfold in the next 10 years, contributing up to 5% of Moldova's GDP.

While Moldova's tourism numbers have been rising since 2015, the country remains off the radar for most travellers. "Moldova has great tourist potential. It has authentic, unspoiled living culture. Done carefully, one can [commercialise] this; turn peoples' passion for their culture, food, music or outdoor activities into authentic experiences, not mass tourism, which is so in demand now," says Jack Delf, a tourism strategy specialist and founder of adventure travel specialist company Black Mountain Montenegro.

Opportunities for large-scale investments are also abundant, since Moldova's only major hotel chains are a Radisson Blu and Marriott hotel. ■

MOLDOVA

GEOGRAPHY

Area
33,847km²



Primary languages spoken
Romanian, Russian, English



Population
2.7 million

TRADE & INVESTMENT

43

free-trade agreements signed including the Deep and Comprehensive Free Trade Area with the EU

The EU is Moldova's primary export and import region



Volume of exported goods increased by 11.6% in 2018

FDI, net inflows (% of GDP) in 2018 **2.05%**

ECONOMY

Inflation rate (2018)
3.9%

Employment rate (2018)

41.98%

GDP per capita at PPP (2018)

€6333

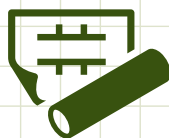
Average wage per month (gross)

€357

INCENTIVES

World Bank Doing Business 2020 ranking

48/190



500-plus hectares of free buildable space across free economic zones

Corporate income tax rate: 12%



Unique tax on turnover in IT virtual parks: 7%

