A guide on **IT outsourcing to Romania**

Samuel Andras
IT Outsourcing Consultant

evozon

Table of contents

About

Romania is a country in Eastern Europe with **a population of 19.6 million people**. It's a member of the European Union since 2007, the 12th largest country in the EU and the **18th largest economy** by nominal GDP and the **10th largest economy in the EU** by PPP with an annual economic **growth rate of 7%** in 2017, the highest in the EU. It's also the **42nd largest economy** by GDP in the world.

In 2017 **its GDP** was worth $211 billion dollars. On **A.T. Kearney Global 2017 Services Location index**, Romania ranks 18th worldwide, the 5th most attractive location in Europe.

Over the past 15 years Romania has also grown to an attractive location for IT outsourcing. It currently employs **more than 110.000 people**, the best ratio for IT&C professionals per capita in CEE countries. There are more than 20.000 companies in the IT&C sector that need to add 12.000 professionals per year in their roster. Overall there are more than 450.000 people working in the IT&C industry in Central and Eastern Europe, which means that more than 20% of them are in Romania. Regarding workforce, Romania is second only to Poland.
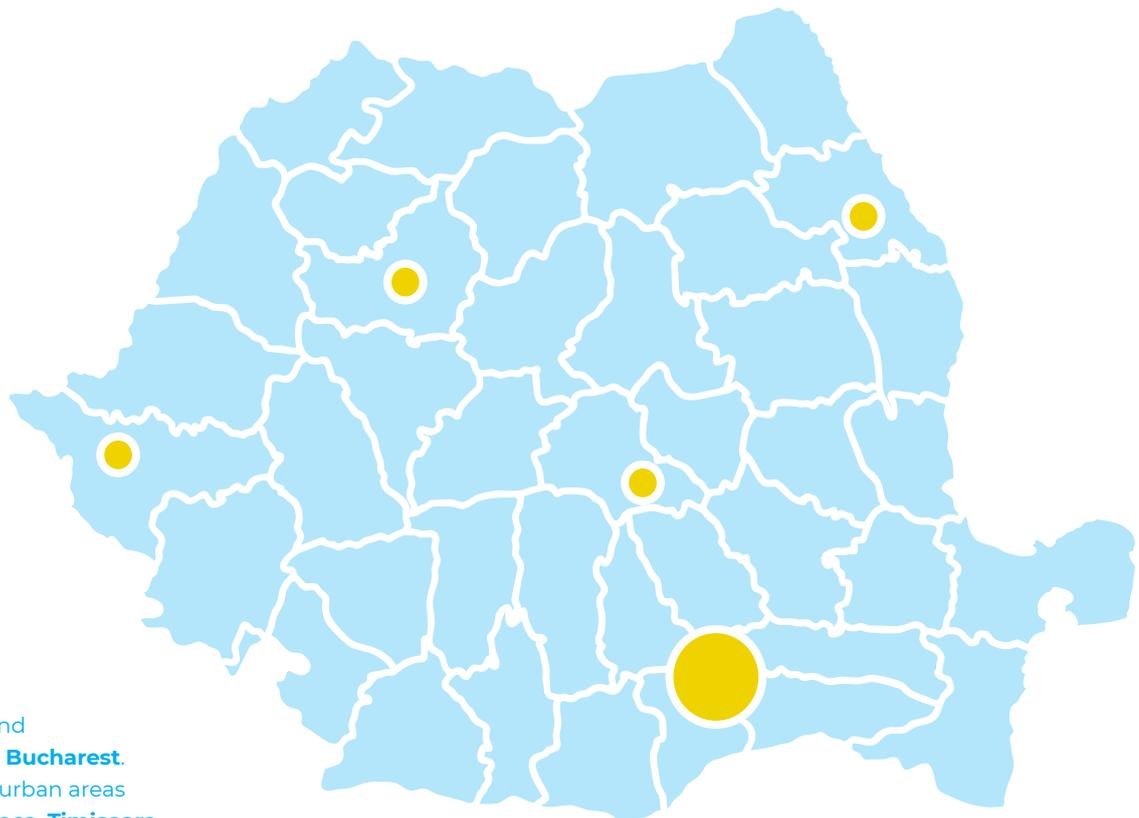
The IT sector **represented 6.2%** of its GDP in 2017 or $12.6 billion, up from 5.5% in 2016. Since 2000 the IT sector has grown by **15-20%** per year. There is no income tax for people working in the IT sector, a measure which helps its continuous growth and makes Romania an attractive location for software development.

Romania is also well known for its Internet infrastructure and quality, **it ranked 5th** in the world in 2018 with an average download speed of 38.6 Mb. To compare, the U.S ranked 20th, the U.K. 35th and Germany 25th.
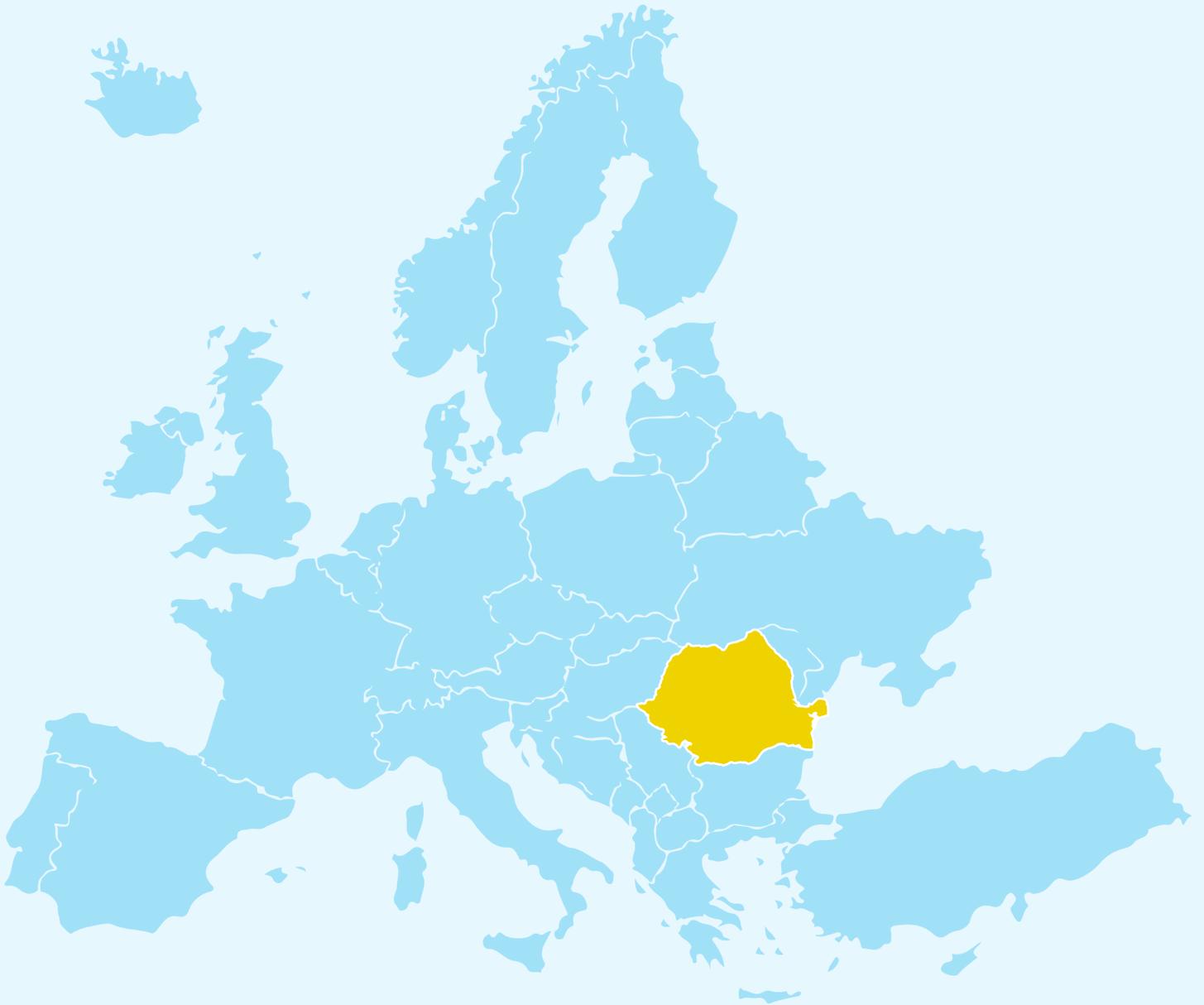
It ranks 52nd on the **Human Development index**, with an index of 0.811.

It also ranks 45th in the World Bank's "Doing Business 2018" index.

Prefix: +40

The capital and largest city is **Bucharest**. Other major urban areas are **Cluj-Napoca**, **Timisoara**, **Iasi** and **Brasov**.

Location

Romania is located in the south-east of Europe, bordered by Ukraine to the north, Hungary to the west, Serbia to south-west, Moldova to the east and the Black Sea to the south-east.

Its main urban centers have direct flights to most European capitals, while travel to the United States is accessible through a layover.

GMT/UTC +2
Timezone difference

New York
UTC -5h

San Francisco
UTC -10h

Culture and society

Romanian culture is heavily influenced by its history, which was marked by other ruling powers' dominion over its territory, starting with the Roman Empire all the way to the Austro-Hungarian and Ottoman Empire in the 19th century. The 42 years of communist rule also had a considerable impact on its culture.

Today Romania has a modern culture, but rich in traditions, folklore and customs. After the 1989 Revolution and the fall of the communist regime, things changed considerably. Romanians came in contact with western values, culture and principles. Although the traditional aspects of its culture remain significant, the exposure to the modern world changed the overall dynamic of Romanian culture and society.

The generations born in the 1980's and 1990's went through a different educational system, a different upbringing and mindset. English started being taught as a primary foreign language and the introduction of mostly English speaking entertainment sources heavily impacted Romanian culture and society.

In 2018, urban Romanian society is modern and cosmopolitan, while its rural areas adhere to the traditions that define its cultural roots.

Holidays

There are 15 non-working public holidays, in 2019 12 of them will be during the working week.

New Year - 1st and 2nd of January

Unification Day - 24th of January

Easter - Orthodox Good Friday, Easter - falls always on Sunday

Second Day of Easter - Monday

Labour Day - 1st of May

Orthodox Whit Sunday and Monday - depends on the Easter date.

International Children's Day - 1st of June

Saint Mary's Day - 15th of August

Saint Andrew's Day - 30th of November

Romanian National Day - 1st of December

Christmas - 25th and 26th of December

Economy

- 18th largest economy in the EU, nominal

- 10 largest economy in the EU by PPP

- 7% economic growth rate

- 42 largest economy by GDP (Purchasing Power Parity) in the world

- GDP nominal, $211 Billion

- **GDP per capita**: $10.821

- **GDP** based on PPP, $481.45 billion

- **Per capita GDP** based on Purchasing Power Parity in 2017 - $23.313

- **Inflation** rate: 4.7%

- **55,7%** labour participation rate

- **GDP growth**: 6.9%

For 2018 **IMF predicts** a 5.1% GDP growth rate.

The Romanian economy has one of the highest growth rates in the EU. A strong financial sector increases investor confidence and in the IT&C sector companies continue to invest and expand their Romanian operations. The external debt is on a gradual incline, in 2017 it reached 49.7% of GDP, from 74.6% in 2012. By 2023 it should reach 41% of GDP (IMF).

The unemployment rate has continued to fall in recent years, **reaching 5.3%** in 2017, from 5.9% in 2016.

Foreign direct investment was at $81.52 billion in 2017, up by 4.8% from 2016. Information and communications technology **stood at 4.1% of FDI**, or 3.150 billion euros.

The top five countries by share of total FDI stock by 2017 were:

- The Netherlands **25.9 %**
- Germany **12.8 %**
- Austria **12.6 %**
- Italy **6.2 %**
- France **6.2 %**
- United States **1.5%**

The main economy sectors:	Agriculture	Industry	Services
Value added to GDP in %	4.2%	33.2%	62.6%
Employment in % by total employment	22.9%	29.1%	48%

Software development represents one of the rising stars in the services sectors reaching 6.2% of the GDP in 2017.

The services sector employs the most people and also contributes the most to GDP. It's poised to reach 10% of the GDP in the next few years.

Outsourcing has huge economic potential in Romania due to lower wages, strong educational output and a skilled workforce.

In 2016, 73% of the revenue in the software and IT industry was foreign owned and 27% was Romanian owned.

41% of employees in the industry work for foreign owned companies and 59% work for Romanian owned companies.

77% of the market is foreign, meant for export and 23% is mean for the domestic market.

Politics

Romania is a semi-presidential republic, with an Executive Branch where the Chief of State is the President and the Prime Minister is the head of the Government.

The Parliament has two chambers and consists of the Senate with 136 seats and the Chamber of Deputies with 329 seats.

The main parties in Romania are:

- Social Democratic Party (PSD)
- National Liberal Party (PNL)
- Save Romania Union Party (USR)
- Party of the Alliance of Liberals and Democrats (ALDE)

Travel

Travel to Romania from most European capitals is easy, there are several carriers that offer plenty of flights to the most important cities in Romania, mainly the capital, Bucharest, Cluj-Napoca, Timisoara or Iasi.

Travel from the United States requires a stopover in another European major city.

For EU citizens there is no need for a VISA, for non EU countries and the US a VISA can be obtained on arrival. However, **there is a list of countries** that need a pre-approved VISA, mostly countries from Africa and Asia.

International Airports

Bucharest   Henri Coandă International Airport.
Cluj-Napoca   Avram Iancu International Airport
Timișoara   Traian Vuia International Airport
Iași   Airport

Minor airports
Sibiu, Bacau,
Targu Mures, Craiova,
Constanta, Suceava,
Oradea, Satu Mare

National airline
Tarom

Major airlines
Lufthansa, Air France, British Airways, Qatar Airways, Turkish Airlines, Swiss International Air Lines

Low cost carrier services
WizzAir, Blue Air, EuroWings, Ryanair

Education

A strong educational system is the backbone of the outsourcing industry, especially in IT&C. Skilled workers sustain and fuel the IT sector in Romania. It's not just a matter of numbers, but of quality professionals.

Beyond universities most major software companies have yearly internships for students, where they receive practical trainings.

Romania has **49 public universities and 8 private** universities with **more than** 500.000 students enrolled each year, including 27.000 international students.

There are around 8.500 IT graduates per year (Brainspotting study) and around 1500 Telco graduates. These figures are only a part of the story, as the IT sector is very sought after due to higher than average salaries.

Beyond tech graduates, there are also people switching fields or self-taught individuals that retrain themselves, take classes, join internships in order to work for an IT company. At the same time, some students start working in the software industry and drop out of university or postpone graduating.

English is a widely used second language, Romania ranks 4th in the EU when taking into account the number of students in upper secondary education (high schools) that learn two or more foreign languages according to a **Eurostat study**. 100% of students learned English in 2016, 82% French and 13% German.

Here are a few large Romanian universities:

Babes-Bolyai University - the largest higher education institution in Romania with more than 41.000 enrolled students, based in Cluj-Napoca. Established in 1919. It has 21 faculties and offers courses in Romanian, German, English, Hungarian and French.

University of Bucharest - second oldest university in Romania, established in 1864. It has approximate 32.000 students and 18 faculties.

Polytechnic University of Bucharest - the oldest and largest technical institution in Romania, its roots go all the way back to 1818. It has around 23.000 students a year.

Technical University of Cluj-Napoca - founded in 1922, it has a very strong technical background and 9 faculties with around 12.000 students a year.

Polytechnic University of Timisoara - founded in 1920, it's one of the largest technical universities in Romania and eastern Europe with around 12.000 students a year.

Gheorghe Asachi Technical University of Iași - founded in 1813, a university with a strong tradition in engineering. It has around 17.000 students a year.

University of Bucharest - second oldest university in Romania, established in 1864. It has about 32.000 students and 18 faculties.

Alexandru Ioan Cuza University - the oldest university in Romania, established in 1860 by its namesake. It has around 26.000 students and 15 faculties.

West University of Timisoara - established in 1962, it has 11 faculties and around 11.000 students.

The top universities in Romania

Students in the Information and Communication Technologies **represent 6.8%** of total students.

5
polytechnic universities

59
domain-specific universities

174
private colleges with technical specialties

Innovation

There are 353 startups in Romania by 679 founders with 12 accelerators and 52 startup related events. Romania won Best Fintech Startup with Instant Factoring and Founder of the year for Mondly, an app with more than 30 million users in 190 countries, at the 2018 Central European Startup Awards.

Bucharest is the largest start-up hub in Romania with over 200 startups, it also houses more than half of the IT outsourcing industry in Romania. Second is Cluj-Napoca, the second largest IT hub in Romania. It recorded a 281% growth in startups between 2011-2016.

Besides being an outsourcing hub Romania also has an active startup culture. There are foreign entrepreneurs that come to Romania to launch their startup because of the lower costs for such an endeavour, but there is also a strong innovative spirit that also influences the outsourcing sector.

The technical backbone that supports the service based IT sector, also offers plenty of opportunities for tech startups.
At the same time, product experience is valued both in the startup world and in the outsourcing sector, business analysis and UX being skills that are sought after by both industries. Talent wise they all offer trainings and real life opportunities to further develop these skills. People who work in startups have a different mindset and become very valuable in the product world.

Investors take notice of the Romanian innovative spirit, **UiPath** received a Series B investment of **$153 million dollars**, which makes it **the first Romanian unicorn**, a billion dollar startup. It was founded in 2005 in Bucharest and now has HQs in New York, London, Singapore and Tokyo.

Outsourcing as a concept seems the opposite of innovation, just menial labour in the form of lines of code, but the startup environment in Romania actually fuels an innovation current that turns outsourcing into software development done remotely.

Workforce

There are more than 110.000 people working in the IT sector in Romania. According to a Brainspot study Romania has the best ratio for IT&C professionals per capita among CEE countries.

The demand for skilled professionals exceeds the number of yearly graduates and with more than 20.000 IT&C companies spread in 4 major cities and several small ones, the lure of everything that this industry offers, brings in people from other professions as well.

That IT&C workforce is constantly growing, as beyond the IT graduates that join the workforce each year, more and more people choose to transition to IT&C either through internships, courses, self-teaching or informal schools. The less-technical roles in QA, business analysis, UX or HR are very appealing, especially to graduates from other specialties.

Romania has one of the lowest labour costs in the EU, the minimum wage is around 400 euros, but the IT sector offers higher than average salaries which makes more and more people consider converting professionally.

Major cities with strong IT programs:

Bucharest
holds more than half of the outsourcing business in Romania

Cluj-Napoca
Timisoara
Iasi

Minor cities:

Sibiu
Brasov
Targu-Mures
Constanta
Craiova

The industry expands to smaller cities to be able to source new people and match the need for recruitment.

Productivity by employee stands at 48.570 euros per year, up from 41.842 in 2015 and predicted to grow to 55.248 in 2020.

Engagement models

Romanian outsourcing companies offer several engagement models that work towards building long lasting relationships with clients. Outsourcing companies offer more than the traditional lines of code outsourcing and put themselves in a position to enhance the client's business and contribute substantially to its growth and development, offering complete services in the IT sector, going beyond software development and testing all the way to UX, product design, business analysis, project management and R&D.

Outsourcing in Romania is no longer just about cutting costs, but also about finding the right talent to satisfy company demands.

Incubation
- incubating a team inside an outsourcing company which grows the team, trains it and over a fixed period, delivers it to the client. This arrangement offers an end result where the client takes ownership of the team, thus having more control. This type of model is usually negotiated depending on the situation.

Augmentation
- an extended team that is usually dedicated and works on a long term engagement. This team works with the clients' team and is an integrated part of the business. With a project manager or SCRUM master on each side it's much easier to manage the relationship.

Independent
- outsourcing an entire project means the software company completes the project independently, in house. The client is involved in the project, but the outsourcing company handles all the development.

Cost plus

- an engagement model that offers complete transparency for the client. Each developer or team member is paid directly by the client and the outsourcing company received a fixed fee on top of that to cover their expenses and of course make a profit. In this model the client interviews people directly and has complete control over the team.

Custom - flexible

- the beauty of working with a software company is that you can scale your team up and down per your needs, which means you can do more with less overhead. Your partner makes sure you have the right people to get the job done, you can have a dedicated ongoing augmented team and also add project based teams.
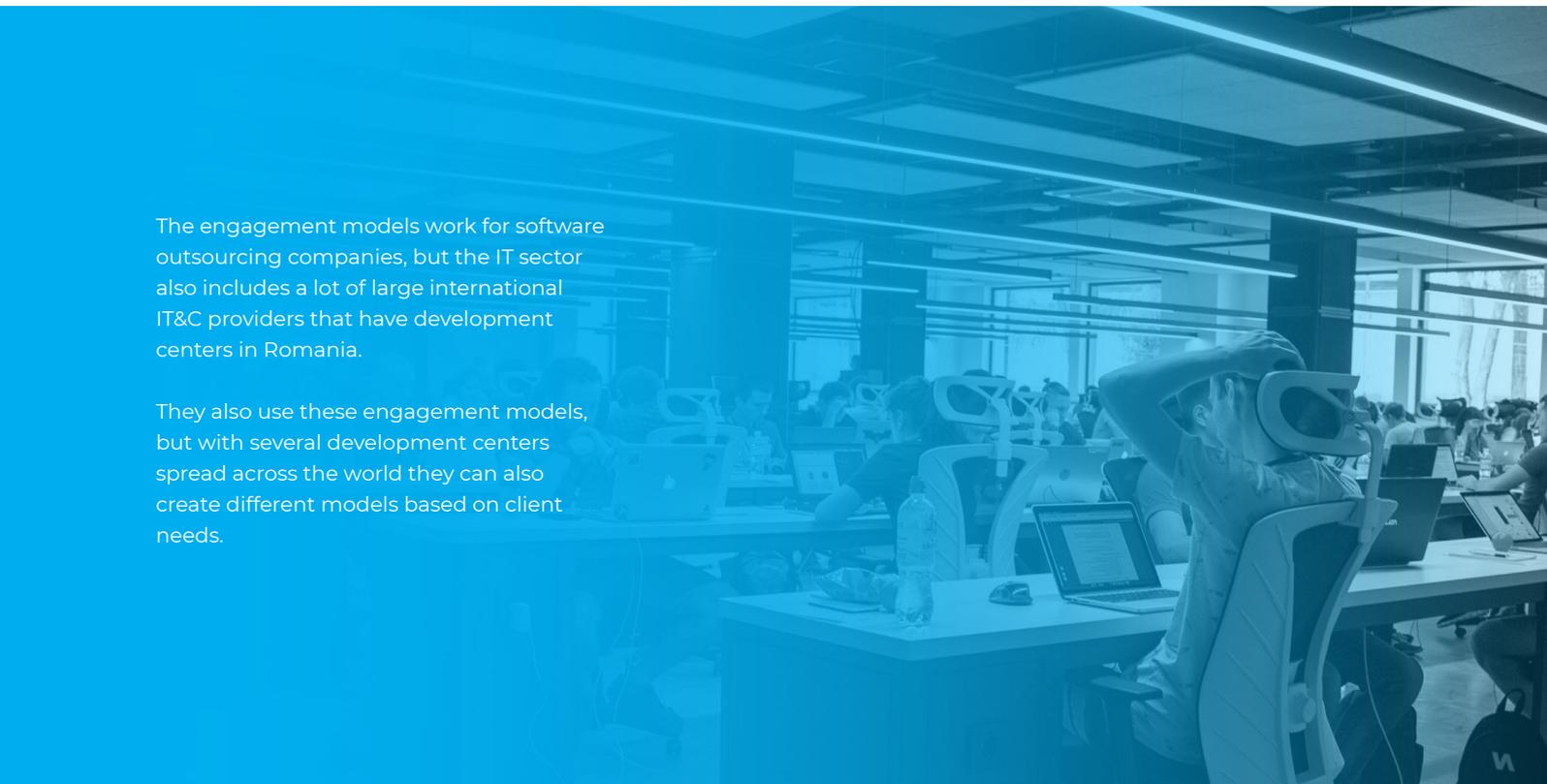
On site presence

- for some situation on site presence on the client's side can be accomodated, especially for project liftoff. Most companies will comply with this client demand.

The engagement models work for software outsourcing companies, but the IT sector also includes a lot of large international IT&C providers that have development centers in Romania.

They also use these engagement models, but with several development centers spread across the world they can also create different models based on client needs.

Pricing

Eastern Europe is not a cheap region for IT&C outsourcing, if you're considering price as the most important factor in your decision to outsource, then Eastern Europe may not be the best place to start. Most countries here including Romania, have higher rates than Asian countries, but lower than Latin America according to an Accelerance study of the market.

In the CEE (Central and Eastern Europe) space, Romania is middle ground on pricing.

Data taken from Accelerance study, 2018 Global Software Outsourcing rates. Figures in dollars, hourly rate.

The average hourly rates in Romania are between $30 to $45 or 25 to 45 euros an hour.

Position	Romania	Eastern Europe	United States
Business Analyst	$35 - $40	$40-$63	$110-$205
Project Manager	$40 - $45	$45-$70	$133-$233
Graphic Designer	$35 - $40	$35-$56	$79-$163
Architect	$55 - $65	$50-$77	$198-$292
Junior Developer	$30 - $35	$25-$42	$105-$111
Mid-Level Developer	$35 - $40	$35-$56	$132-$140
Senior Developer	$40 - $50	$45-$70	$154-$163
Mid-Automation QA	$35 - $40	$35-$56	$132-$140
Mid-Manual QA	$30 - $35	$30-$49	$99-$105

Data from SourceSeek survey

Country	United States	W/N Europe	Eastern Europe	Asia
Rate	$100 - $250	$60-$120	$25-$45	$15-$30

Pricing models

Time and material (hourly) remains the most popular pricing model because of its flexibility. Although it starts as an hourly payment, it's always billed monthly, per team member. T&M is ideal for an ongoing engagement.

Fixed price is bit more difficult, this pricing model only works when a project has mapped out the entire requirement spectrum and the client does not predict any more changes. As these situations are quite rate, fixed price is used only in certain situations.

Cost breakdown for an application

Let's take the same estimation for building a V1 version of an application: **1000 hours.**

Eastern Europe
$30.000 to $45.000

N/W Europe
$60.000 to $120.000

United States
$100.000 to $250.000

$

Bottom line

The IT&C sector is a worldwide phenomenon and although India remains a dominant force in terms of scalability and labour force, Eastern Europe has been rising as a preferred region for other European countries who use it for nearshoring or for American companies that require specific skills and partners that can deliver on quality, not just on quantity.

Poland, Belarus, Bulgaria, Hungary and last, but not least, Romania are IT strongholds, countries where this industry is constantly growing, fueled by the amount of technical talent available and also by large number of people that convert professionally to the high paying outsourcing sector.

Good English skills, a mature level of technical acumen and the ability to work independently and a timezone that can sustain a daily working relationship are among the reasons why many companies choose to use software companies in Romania or open development centers. As an outsourcing destination, it's no longer a place to go just for lowering costs, but to create good software products at a more affordable rate, while maintaining the level of quality and technical innovation. It's not a place to churn out endless lines of code, but a place to create impactful products.

Selected bibliography

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- **educations.com**

- **Romania Business Passport, 2018 edition, EY**

- **InvestRomania**

- **Romanian Startups**

evozon

Evozon is a software development company with over 13 years of experience and more than 500 people. Over the years we've helped dozens of enterprises achieve their digital goals, either by starting early in the digitization phase or by getting involved later on in the growth stage - we become an integral part of our clients' business. As end to end software development providers, we cover various industries and technologies while maintaining a consistent approach to deliver top notch solutions.

No matter the business model, our policy is to build products and support businesses, not just provide lines of code. That means that besides our army of software developers we also employ business analysts, product managers, UX designers, manual and automation QA testers, offering a full range of services.

Samuel Andras
IT Outsourcing Consultant

samuel.andras@evozon.com
evozon.com