



Bulgaria: The IT and Telecommunications Sector

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Sector: IT and Telecommunications

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Abstract:

Outsourcing IT and telecommunications in Bulgaria has a considerable potential. The general increase of the economic activity in Bulgaria has a positive impact on the IT sector which combined with the advantages of the Bulgarian IT specialists makes Bulgaria an interesting IT destination.

Several leading international IT companies have already established cooperation with Bulgarian companies. High level of education, low salaries, and the short distance in both geographic and time terms between Denmark and Bulgaria may tip your thoughts to seriously consider Bulgaria when outsourcing development of tailored software applications is on the agenda.

Introduction

The development of the IT & Software industry is part of the key priorities of the government. It has stable growth of around 30% per year. Bulgaria ranks 3rd in world for certified IT professionals per capita and 8th in the world in terms of absolute numbers. Among key advantages of the industry is highly qualified workforce, competitive pricing, many talented youngsters majoring in IT and long traditions. Positive factors for the continual growth and stable development of the industry are the strategic geographic location and stable political and macroeconomic environment.

Some years ago Bulgaria was recognized as the "Soviet Silicon Valley" - a centre that for many decades supplied hardware and software to the Soviet Union and Eastern Europe.

Over the last decade, Bulgarian software specialists have gained a worldwide reputation of talent and competence. The number of Bulgarian developers working successfully in the international IT industry demonstrates the dynamism and potential of the Bulgarian software sector. Subsidized during the communism era, this sector is currently booming despite the major difficulties which Bulgaria is experiencing in its painful transition to capitalism. Thus, the professional field of information technologies is becoming ever more attractive to Bulgaria's young generation, especially among college and university students.

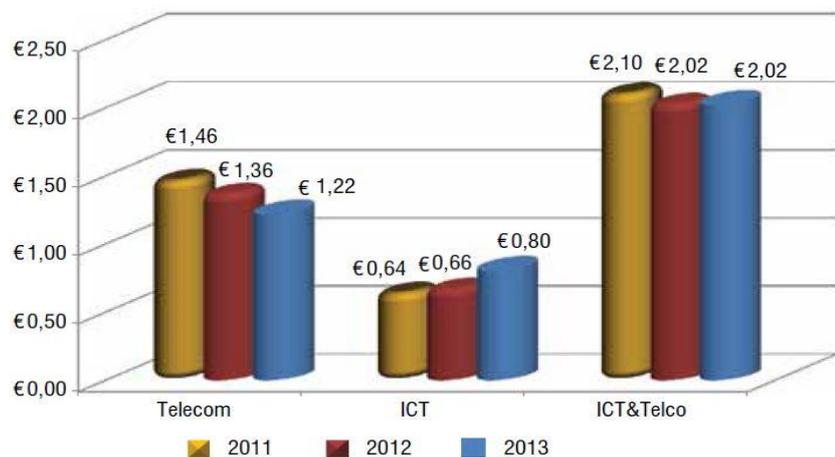
Market overview

Bulgaria still lags its EU partners on many information society indicators. Recent years have seen new initiatives in public sector computerization and further introduction of e-government services. The government views e-government as one of the key components of its drive to modernize administrative procedures.

IT sector in Bulgaria is one of the few industries remained virtually unaffected by the economic crisis. It is the only sector where no unemployment is read, and the available qualified workforce is immediately engaged in the business. IT sector employs almost 40 thousand people and possesses a considerable potential for generating employment, innovation and export-oriented growth. This is also proved by the fact that Bulgaria's export of information and communication technologies has increased again this year, and the expectations for 2014 are about 20% growth of business processes in the entire sector of Telecommunications, Software and Outsourcing.

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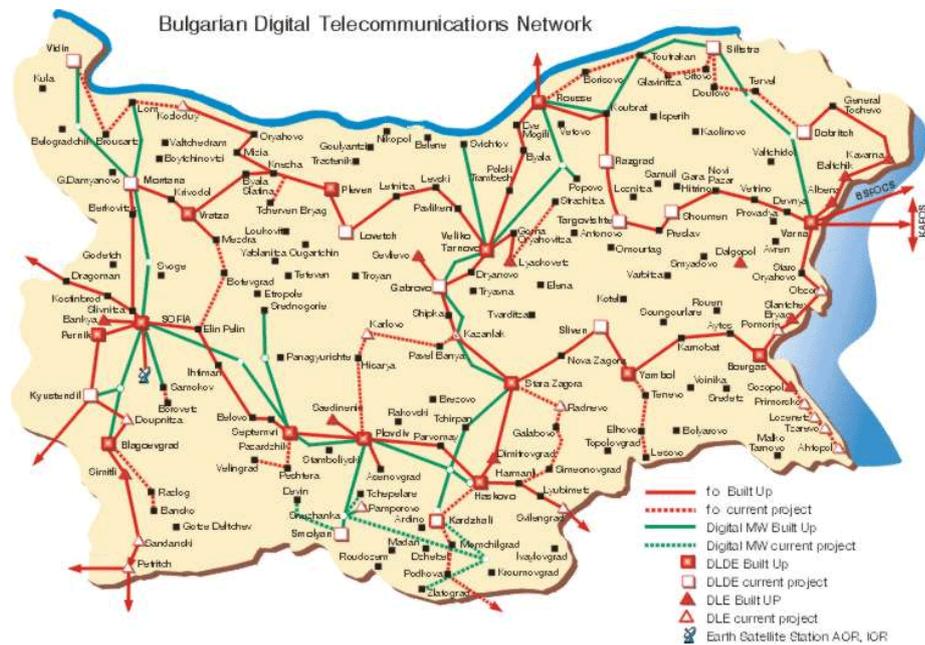
ICT and telecom market in Bulgaria, mln. €



Bulgarian R&D projects financed under the EU's Seventh Framework Programme (FP7). The ICT sector accounts for 90 percent of all Bulgarian patents in USPTO for the period of 2001-2010, as well as the largest number of Bulgarian R&D projects financed under the EU's FP7. Software, hardware, telecommunication, and information services together account for almost 70 percent of Bulgaria's international patents, and the number of patents has increased significantly since 2004. Data processing, digital processing, software development, digital communication, and electrical computers have the highest total number of patents.

Some of the largest investments in IT services continue to come from the banking and telecoms sector as well as larger enterprises. There has also been a wave of foreign companies' investments in call centers in the last couple of years, with organizations relocating some customer service functions to Bulgaria. Bulgaria's attractions to these companies include low electricity costs, low office rents and a good level of connectivity to Europe and the world via Turkey-bound data-pipes which connect to Asia.

In recent years, as much as 40-50% of total IT spending has been generated by the government sector. However, some manufacturing enterprises and private companies, particularly from the trade and tourism sectors, represent growing sources of demand, as do municipalities, water and power suppliers.



After the Bulgarian government, among the largest end-user groups of ICT products and services come telecoms operators **Vivacom**, **MobilTel** and **Globul**, followed by big commercial banks and large private enterprises. SMEs are the least intensive users currently, but remain the largest potential growth area.

Unfortunately, a software piracy rate of 64% is estimated in the region for 2013, while 60% of the profit of the software industry in Bulgaria comes from export. This tendency has increased rapidly in the past few years that have been marked by the crisis. The export of

ICT sector was a saving lifeboat, which opposite to the economic stagnation, has flourished. The competitiveness of Bulgarian companies is supported by the increasing demand for their products all over the world.

Numerous Bulgarian companies are not only working in the outsourcing industry, but also develop and offer their own software solutions and products which are present and sold on the Western European market and in the USA. An example of such company is Telerik, which has been expanding recently and even acquired the Danish EQATEC company which develops interplatform solutions for analysis.

The IT sector keeps its position as the sector with the highest value added in the industry. In 2013, this sector registered between 15 and 20 percent growth in employment over the previous year (a key indicator that defines the industry growth). This was announced by Mr. Bumov, chairman of the Bulgarian Outsourcing Association (BAA) and General Director of "Sofica". Estimates for the growth rates are expected to persist in 2014 which is real good news due to the increased demand for new types of services. The average monthly salary in the software industry in the country is around BGN 2300 by official data. Sector forms one of the highest added values in the Bulgarian economy and creates 6 percent of gross domestic product, according to the "White Paper on new high-tech industrialization 2015 -2025".

These trends are confirmed by Coca-Cola Enterprises, which in 2013 opened a centre for financial services in Sofia, which currently employs about 150 people. Gradually the outsourcing branch orientation of the IT sector becomes much more diverse and offers highly exported services.

The two main subcategories are the software developers and the outsourcing companies. Both have similar contributions and face some challenges; they report for a steady growth in the past two years as well as shortage of qualified working force. It is expected that the outsourcing industry would continue to develop even with a faster pace than before. On the other hand, web developers are a bit more vigilant and prefer not to comment in depth what are their prognoses for 2014.

Market trends

The Bulgarian IT sector has a lot to offer Danish companies that want to outsource their software production. Low salaries, a very well-educated workforce and the short distance to the market are all strong arguments in favour of outsourcing to Bulgaria.

The newly created Bulgarian Outsourcing Association (BOA) expects that until 2015, the sector would double its working force and from 15 thousand people in 2012, it will become 30 thousand and even for 2017, it will triple and will account for 45 thousand people.

Software development is acknowledged as one of most dynamic and prospective sectors in Bulgaria. A growing number of software-oriented companies are working on assignments for foreign markets alone. The main reason for this tendency is the great number of highly qualified and skilled professionals, who offer their services at

comparatively low price thus attracting foreign employers who are interested in good quality at low costs; i.e. value for money. Lots of the Bulgarian software companies have already established beneficial partnerships with German, American, Canadian, French, Dutch and Japanese companies.

The software market shows that 90% of the software produced in Bulgaria is customized and only 10% is off-the shelf application. Ten companies hold the majority of the market, but it is estimated that there are approximately 200 smaller software-developing companies. These companies are often working on sub-projects for larger international enterprises.

So far the sector has primarily concentrated on development of tailored software applications for computer systems, network and Web design, CAD/CAM/CAE, Telecommunications and wireless connections, various applications and firmware.

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SWOT

<p style="text-align: center;">Strengths</p> <ul style="list-style-type: none"> - High-value per employee outperforming most of the sectors - Good R&D potential, taking into account ICT patents and ICT projects under - Active presence of top-multinational ICT companies, with local R&D and BPO centers - Rapidly increasing contributions of local companies in the highest value added market segments - Well-developed ICT infrastructure including high-speed broadband 	<p style="text-align: center;">Weaknesses</p> <ul style="list-style-type: none"> - Below average R&D spending & ineffective spending of funds - Inefficient system for the protection of intellectual property rights, specifically service innovation and business process innovations - Shortage of labor combining technical knowledge with business and soft skill sets - Increasing brain drain due to relatively low salaries (from a global perspective)
<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> - Small but growing domestic market, access to and presence in global markets 	<p style="text-align: center;">Threats</p> <ul style="list-style-type: none"> - Dependence on foreign companies for patent development

- Upcoming e-Government initiative will spur further innovation and growth
- Opportunity for technological absorption via FDI
- Leveraging diaspora knowledge and networks can create opportunities for higher value added further development and global capacity
- BPO, R&D and data centers growth opportunities are significant. ICT cluster could further develop outside Sofia
- There are key areas where ICT capabilities in the country are highly competitive on a global level and could be a basis for “Centers of Excellence”

Conclusions and recommendations

Bulgarian software firms have changed a lot during the past ten years – from outsourcing contractors into developers of own products and value-added services, and they need more good employees and leaders than ever.

Experts expect that the annual rate would steadily be increasing with 6.7% for the next 5 years, while amongst the customers security remains the biggest concern. The forecast for 2014 is that investment in ICT solutions would increase with 3% to a total of 53% of the companies.

Generally, the Bulgarian IT sector has a lot to offer to Danish IT companies. Outsourcing in the country has lead many businesses towards success. Some challenges stand ahead such as insufficient economic resources in education and ensuring good prospects for Bulgarian IT graduates to choose Bulgaria for their career rather than emigrate abroad. These tendencies however are being less noticeable as the level of foreign investments rises considerably. The general increase of the economic activity in Bulgaria has a positive impact on the IT sector which combined with the advantages of the Bulgarian IT specialists makes Bulgaria an interesting IT destination.

In conclusion, the ICT sector in Bulgaria has a considerable potential. Several leading international IT companies (Hewlett-Packard, VMware, SAP, Software AG, IBM, and etc.) have already established subsidiaries or cooperation with Bulgarian companies. High level of education, low salaries, and the short distance in both geographic and time terms between Denmark and Bulgaria may tip your thoughts to seriously consider Bulgaria when searching for development of tailored software applications is on the agenda.

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