

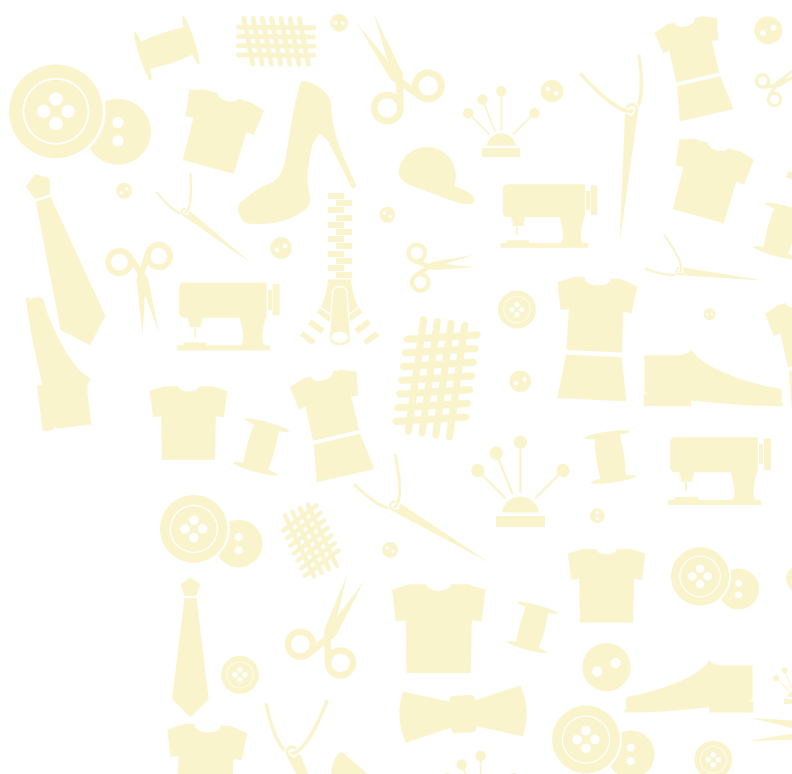


Textiles Report

Republic of Moldova

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Executive Summary

Moldova is one of the smallest countries within the CIS (Commonwealth of Independent States) with a population of approximately 3.6 million people, mainly Romanian speaking. It is located in Eastern Europe, bordered by Romania and Ukraine. Its location and skilled workforce make it an exceptional location for trade between East and West. The country is considered to be a bridge between the EU markets and the growing CIS markets with an open economy, increasingly integrating with the EU.

Moldova benefits from:

- EU autonomous trade agreements
- CIS countries free trade agreements

The Moldovan industrial sector has developed along with the privatization and liberalization in trade, especially since 2005, when the quotas in textile and apparel trade were eliminated by the WTO (World Trade Organization).

Manufacturing textiles, apparel, leather, leather articles, and footwear (TAFL) represents the sector that is referred to as the Light Industry. It is a industry branch that started its successful development after World War II, and remains to be one of the most important industries of the Republic of Moldova.

Nowadays, the sector is vibrant and growing, and represents approximately 300 enterprises. They are active in producing:

- textiles (knitted garments, carpets, fabrics)
- wearable apparel
- leather and leather accessories, travel accessories
- footwear.

The Government's Industry Development Strategy for 2009-2015 lists the Light Industry as one of the key economic branches, given its significant advantages, such as: The possibility to engage a large number of employees into various branch activities, a relatively fast rotation cycle of current assets, moderate investment need and a professional training system for employees in place.

Presently, the TAFL industry plays an important role in the Moldovan economy, representing nearly 20 percent of the total country's export volume, 86 per-

cent of which is exported to the EU countries. 80 percent of manufactured goods are being exported; the rest is being consumed in the domestic market. The manufactured products are being exported to countries such as: Italy, Germany, Romania, Austria, France, USA, UK, Belgium, Bulgaria, Netherlands, Poland, Greece, as well as to the CIS. Famous brands like Versace, Armani, United Colors of Benetton, Max & Co., NafNaf, Trussardi, Primark, Max Mara, Prada, Nike, Dolce & Gabbana, Calvin Klein produce their clothes in Moldova.

The Textile, Apparel, Footwear and Leather (TAFL) Industry overview

TAFL manufacturing is an industry with long-standing traditions in producing and exporting a wide range of products. Since 1990, this important industry has been restructured, upgraded and re-equipped in order to meet market economy demands.

The TAFL industry has recorded a continuous growth since 2000, significantly outperforming the overall development of Moldova's industry. TAFL sector's contribution to the total industrial production grew up to 7.4 percent in 2011. This sector also significantly contributes to Moldovan exports. TAFL industry exports rose from around 16 percent in 2003 to up to 20 percent in 2013. In terms of employment, according to the National Bureau of Statistics there were nearly 21,000 employees, constituting roughly 19.4 percent of all industrial sector jobs, occupied in over 390 enterprises. Most of these jobs are rural-based and occupied by women who make up 85-95 percent of all TAFL industry workers.



As manufacturing moves to lower cost countries, Moldova remains an attractive opportunity for investment in a sector. The textile/apparel cluster has become one of the leading exporting sectors in the country. Its proximity to the EU is a key element among its strategic advantages as a supplier of textiles and apparel to consumer markets.

The TAFL sector plays a major role in the economy of the Republic of Moldova, accounting for more than a quarter of the total volume of the country's exports. A large number of enterprises, around 61 percent, are located in the central region of the country (Chişinău, Ialoveni, Orhei, Străşeni); 21 percent are situated in

the north of the country (Bălţi, Soroca, Floreşti, Edineţ, Rîşcani, Sîngerei); and 18 percent in the south of Moldova (Cahul, Taraclia, ATU Gagauzia).

The competitiveness of the Moldovan products in the TAFL industry is a direct result of a combination of high quality levels of finished production that are guaranteed by modern systems of quality control, the timely realization of contractual obligations with foreign clients, and a speedy delivery to the main markets in EU and CIS countries. This helps promote a broadening of collaboration between Moldovan enterprises and foreign business partners.

SWOT analysis - Moldovan apparel, textile, footwear and leather industry



Strengths

1. Industry has large and diversified segments that provide a wide variety of products.
2. Production capacities in all geographic zones of the country that attract local work force
3. Availability of Stable, Low Cost and Skilled Labor force provides competitive advantage to the industry.
4. Well-organized and equipped education system that assures skilled labor force for the industry.
5. Quick deliveries of the products for EU states
6. Modernization, re-engineering and SMEs start-ups require relatively low investments as compared to other industrial branches
7. Favorable investment/tax law
8. High potential of growing for work productivity, workloads based on using modern technologies;



Opportunities

1. Unlimited and duty free access to the EU market for all products based on Moldova-EU autonomous trade preferences
2. Geographical advantages (proximity to the EU)
3. Unexploited potential to regain the former position of the industry in the Russian and other ex-USSR countries' markets
4. Important investment projects in infrastructure, environmental protection and rural & regional development are underway
5. Growing awareness in the industry about the need to improve competencies in fields like quality management, research, design, export marketing, and branding
6. Increased use of CAD/CAM systems to develop designing capabilities and workflow.



Weaknesses

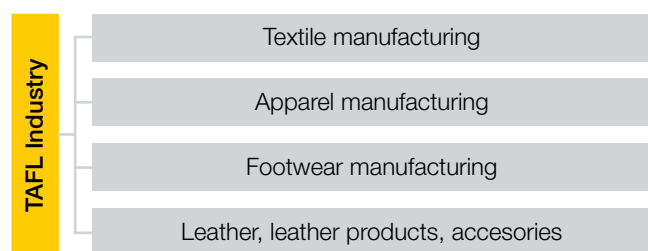
1. Most of the Moldovan companies work under the CM or CMT systems, which limit the access to finance, technology and value retention.
2. Lack of own products, product sales networks on foreign markets
3. Limited access to investment funds and working capital
4. Small financial resources on local markets



Threats

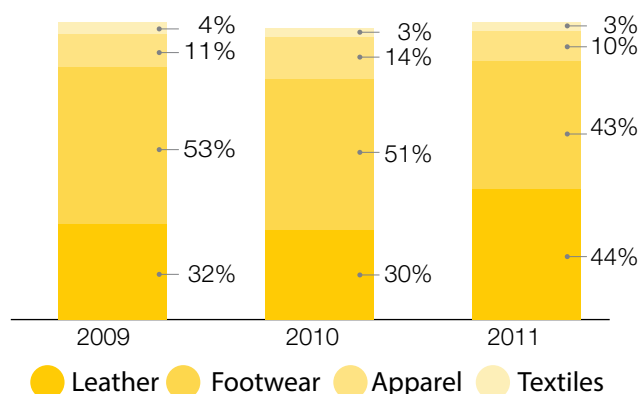
1. Growing requests for eco-labels and other conformity certifications or customer demands, will imply de facto export barriers unless Moldovan companies can rapidly comply to these demands.

The sector is structured as follows:



The dynamics of the development of each subsector during the past years is presented in the following chart:

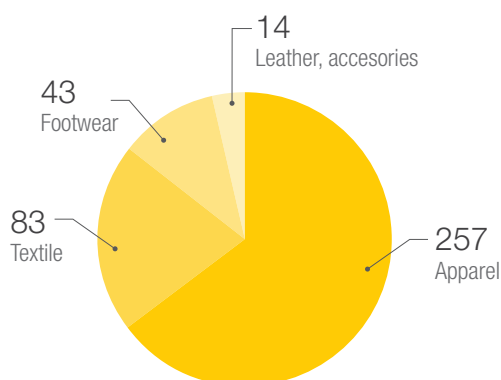
According to the National Bureau of statistics in 2011 there were 393 companies, registered as activating in Moldova's TAFL industry, structured as follows:



Source: Ministry of Economy.

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Companies in Moldova's TAFL industry



Source: Ministry of Economy.

This number of companies represents around 8 percent out of the total number of enterprises working in the Moldovan industry. Mainly these are small and medium sized companies, most of them being registered between 1990 – 2000.

Most companies chose one of the following corporate forms:

- Joint Stock Company (JSC)
- Limited Liability Company (LLC)
- Joint Ventures – partially local investment and partially foreign capital
- Companies with Foreign Capital – 100 percent owned by Moldova's non-residents

The only company in the sector with a share of the state is "Floare Carpet" which produced carpets. Now it represents a great investment opportunity as the state share is announced to be for sale.

Considering the regional distribution of enterprises of the sector, it should be noted that the light industry is developed in all regions, but the textile and apparel industry is prevalent. The ratio of the enterprises for the production of textiles and clothing in relation to companies that produce shoes in the north and in the center is 85 percent to 15 percent, in the south – 90 percent to 10 percent.

Several international practices of collaboration are established in the light industry, which are well defined and known: CM, CMT, FOB, Own Label and Private Label.

Inward processing customs regime, hereafter "**CM**" or "Lohnarbeit" – a production cycle system, comprises: cutting, sewing, ironing and packaging.

"**CMT**" or "semi-lohn", includes CM plus accessories and packaging supplies (buttons, thread, cardboard, labels, bags, plastic etc.).

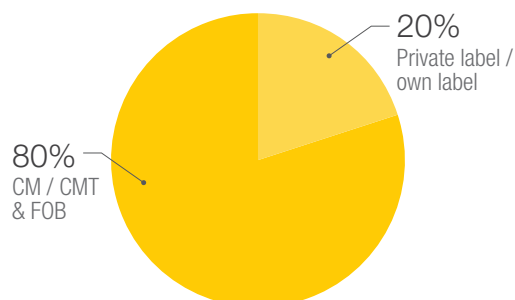
Another form is "**FOB**". In this case, the foreign client comes with a sample and places the order. The goods are subsequently shipped from the manufacturer to the destination specified by the customer. In many cases, the customer indicates where the raw materials and accessories may be purchased, and sometimes even negotiates prices on behalf of the manufacturer.

"**Own label**" - the stage at which the company is active starting from the product's idea, its development, production, promotion, own brand development, marketing and sales.

"**Private label**" is the next stage in the development of enterprises from pure "lohn" to own brand. The

system involves the actual production, raw material supply, design and patterns development.

Different degrees of value creation:



Nowadays the production under Private Label is already at 20 percent of the total amount of production, and this share is steadily increasing. However, the main business model in the light industry is processing of raw materials (toll manufacturing, or "Lohnarbeit"). Local companies can turn this model into an advantage by using it to access new tech-

nologies and by accumulating funds for modernization. In this model, about 80 percent of the sector products are manufactured.

During the last years, mixed business models continuously evolved, i.e. enterprises took on the purchase of a part of necessary raw materials, and provided an increased value added to the products in Moldova.

During the last decade, the output volumes of the TAFL Industry overall grew constantly. The highest level of production has been registered in 2008, when it reached the sum of 144 million US dollars. As well as the entire world economy, in 2009 the sector suffered from the world economic crisis. The quantity of orders from foreign clients sharply decreased, but by the end of the same year the situation had already stabilized again. The output volume growth in 2010 was 9 percent, and reached pre-crisis levels already in 2011. The next table presents the production of the main industrial products in the referred industry.

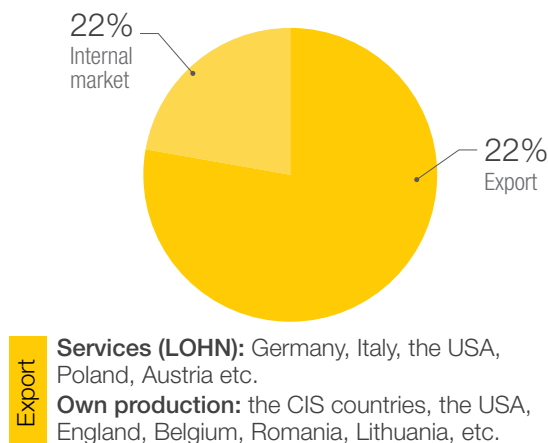
Production of main industrial products

	2007	2008	2009	2010	2011
Fabrics, thsnd. m2	201	174	111	55	20
Hosiery, thsnd. pairs	1428	1558	1463	1288	1463
Knitwear, mil. pcs.	16,9	19,3	17,6	20,2	17,2
Workwear, thsnd. pcs.	5659,6	5580,9	4034,3	6190,7	6507,4
Overcoats, car-coats, capes, cloaks, anoraks, thsnd. pcs.	938,8	791,4	776,0	649,8	616,3
Suits and ensembles, thsnd. pcs.	435,3	270,0	126,6	97,7	136,8
Jackets and blazers, thsnd. pcs.	509,0	601,4	565,4	458,4	502,9
Trousers, bib and brace overalls, breeches and shorts, thsnd. pcs.	2258,4	1650,6	1529,7	1775,5	1594,6
Dresses, thsnd. pcs.	670,5	1013,1	734,7	798,9	1033,7
Skirts and divided skirts, thsnd. pcs.	526,4	367,4	377,3	250,4	335,9
Women's or girls' blouses, shirts and shirt-blouses, thsnd. pcs.	1823,8	1939,4	1920,2	1915,7	1822,2
Trunks, suitcases, vanity-cases of any materials, thsnd. pcs.	279,2	339,8	137,9	129,2	136,9
Handbags of any materials, thsnd. pcs.	101,0	154,5	116,9	95,1	131,3
Footwear, thsnd. pairs	3796	3832	2221	2717	2845

Source: Ministry of Economy.

The share of exports in the industry is at approximately 80 percent. The largest part of this production is toll manufacturing of sewed and knitted products. The remaining part is concentrated on the export of carpets.

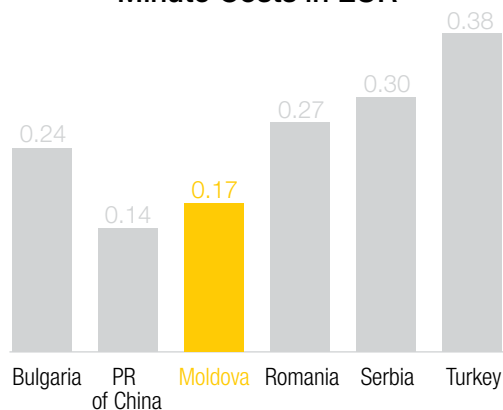
Structure of deliveries of production



Industrial Production Costs

Compared to other Eastern European countries, Moldova's unit labor cost is stable and slowly growing. In 2012, average unit labor costs achieved EUR 1.99/ hour (full load cost).

Minute Costs in EUR

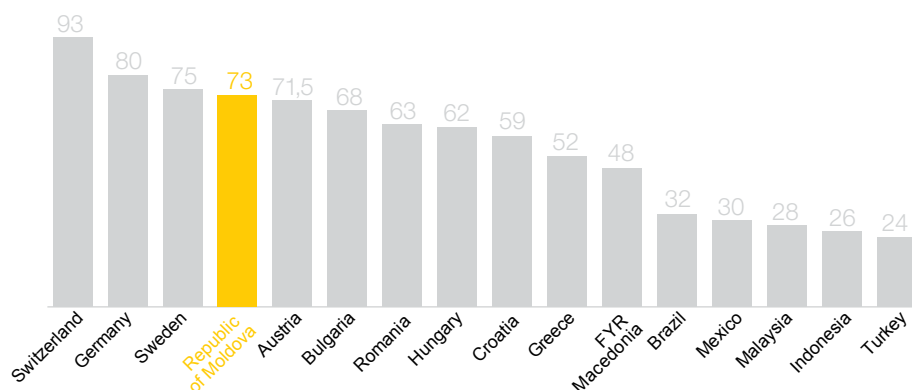


Source: Spelleken Assoc. and Avanz Experts' Panel

Quality of Labour Force

Education level, % of population with upper secondary education and above

Source: UNESCO Institute for Statistics (April 2011)



Textile sub-sector overview

The textile production is divided into two branches:

1. Fabric manufacturing
2. Rugs and carpets manufacturing

Moldova's textile industry is represented mainly by the rug industry with an annual production of around 45-50 million USD. The carpet manufacturers are primarily export-oriented, the two major ones being Floare-Carpet and Moldabela (with affiliated yarn manufacturer Filatura-Ungheni). Floare-Carpet is specialized only in the production of wool rugs and Moldabela specializes in wool and synthetic fiber rugs. The main wool supplier for the production of rugs is New Zealand. Only around 10-15 percent of the total volume of supplied wool is bought locally. Synthetic fibers are imported. Synthetic yarn is produced out of fibres, and then the rugs are spun. Floare-carpet factory has an integrated mill and Moldabela factory buys yarn from the sister mill. Both companies enclose the whole value chain. The majority of rugs (78 percent) are sold to European countries, around 20 percent in Moldova, and 2 percent in other markets, such as the US and Japan.

Though the greatest share of textile manufacturing includes carpet and rug manufacturing, there is also fabric (cotton) manufacturing, bed linen and hoisery production. These are unique for the Republic of Moldova and there is one factory for fabric and bed linen manufacturing in Tiraspol, and one hoisery producer in Chisinau.

Value of industrial production, by type of activity

	2007	2008	2009	2010	2011
Industry-total, million lei, current prices	26,173.5	29,988.4	22,643.9	28,140.1	34194.4
Manufacture of textiles, million lei, current prices	670.8	626.1	487.6	548.2	1104.8
Manufacture of textiles, year-on-year growth %	14%	-7%	-22%	12%	102%
The share in total industry, %	2.56%	2.09%	2.15%	1.95%	3.2%

Source: Ministry of Economy.

Carpet-making is a bright page in the artistic culture of the Moldovan people. The ideas of beauty and harmony are reflected in carpets as well as in other folk and creation. During the centuries different kinds of ornamental motifs and composition were selected for a better and pleasant vision of a carpet. The Moldovan carpet art has perennial roots. The technical processes, terminology and ornamental designs bear traces of various ethnic layers, as Thracian, Roman, Slav, Turkish and others.

In the past 5 years, the apparel industry represented more than half of the turnover in the TAFL industry. In 2011, apparel alone took up 7.4 percent of the whole Moldovan industry being a rise compared to the years before. In 2011, the total apparel production turnover was estimated at 151 million Euros (35,000 million units).

The apparel sector of Moldova is one of the oldest branches of the national economy and continues

to remain vibrant and competitive, as it is based on one of the most important resources available in Moldova: a strong and competent labor force. It is a sector with long-standing traditions in exporting a wide range of products. Major foreign partners for outsourcing are of Italian, German and Dutch origin, and include famous brands such as Dolce&Gabbana and Trussardi.

Moldova combines several unique features that will contribute to the further growth of the sector: due to its geographical location, Moldova delivers **Fast**

Fashion. Within 1 truck day, goods are delivered to Eastern Europe, within 2 truck days to Western Europe. Moldova perfectly satisfies the ever-growing demand for **Sustainable Fashion.** The Moldovan apparel industry is competitive in prices and maintains social and labor security standards at the same time. The proximity to the EU market also gives customers the possibility to out-source large



Photo: Production of Carpets, Filatura Ungheni

Apparel sub-sector overview

The apparel industry has been one of the most dynamic sectors and has benefited from the nearshoring of the production of (fashionable) knitted and woven clothing for the EU market.



Designer Georgette - Moldova Spring Fashion Walk 2013, spring-summer 2013 collections, created by local brands and young designers.

parts of the value chain: **Fashion, Taste, Design in Moldova is European**, especially among the young generation of designers. **Price, quality and lead-time are thus the main strengths of the Moldovan apparel sector.**

In 2011 there were an estimated 257 registered apparel producing companies in Moldova, of which an estimated 15 are considered to be large companies that take up approximately 32 percent of the total Moldovan apparel production turnover. The majority of the turnover was generated by approximately 242 small and medium sized enterprises (SMEs) as shown in the figure below:

Large
> 250 employees

15 companies with **4750** employees and an estimated turnover of **37 million** euro (32%)

SMEs
50-250 employees

112 companies* with **9390** employees and an estimated turnover of **65 million** euro (57%)

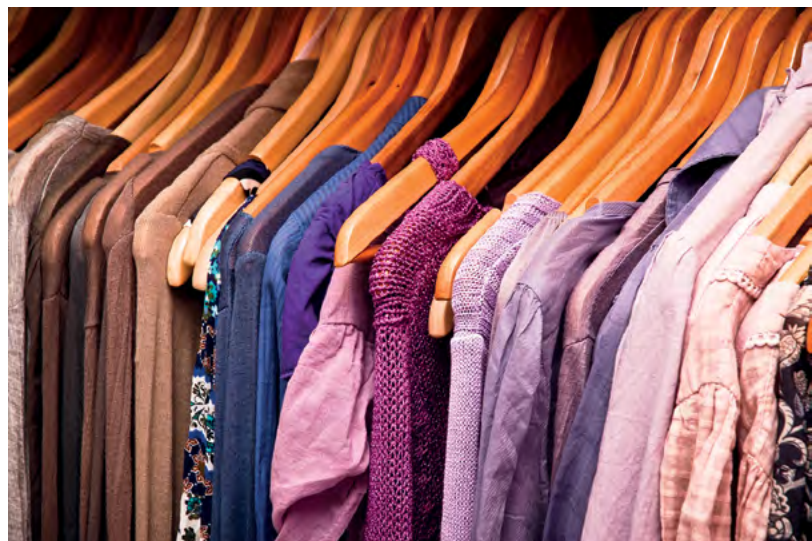
Small
< 50 employees

130 companies* with **1762** employees and an estimated turnover of **12 million** euro (11%)

***Note:** only registered companies, estimates for companies operating informally are higher.

- Shares are calculated from the total apparel turnover of 114 million euros in 2010.

Source: NBS Moldova, USAID



The contribution of the apparel sector to the GDP rose between 2004-2011 from 1.3 percent to 1.8 percent. In 2011 there were over 16,000 people working in this sector and, despite the international recession and productivity gains, their number is likely to increase.

The domestic apparel consumer market in Moldova is highly competitive due to low cost clothing imported from China and the lively trade in second hand clothing. Additionally, the size of the population is small, salaries are low and the average annual expenditure on all consumer goods was estimated

in 2008 at 800 euros per year, which is less than half of the expenditure in other countries in the region.

In order to be able to produce at full capacity, the majority of Moldovan apparel producers are presently dependent upon export to the EU, CIS and Turkish markets.

In 2011, around 70 percent of the Moldovan apparel-producing companies worked on C&M/CMT basis for EU export markets, led by Italy, UK and Germany. The provision of C&M/CMT production often does not require large investments for producers. In addition, they do not have to purchase their own raw materials,

as this is done by their European Buyers. In the past few years, many Moldovan producers have gained experience in developing a skilled labor force that is capable of working with new technologies and producing high quality clothing, especially since some companies produce for high-end brands such as Prada, Armani, Dolce&Gabbana, Calvin Klein etc.

However, margins in C&M/CMT production are low, and international investors could use the Moldovan potential to the fullest in deciding to intensify the value creation within Moldova by moving away from contract manufacturing and instead starting to design, create, produce and export.

Average prices of exports of apparel products by the Republic of Moldova, FYR Macedonia and Albania, 2005-2011 (in €)

	Moldova	Macedonia	Albania
Knitted blouses of man-made fibres for women*	3.27	3.49	3.31
Woven trousers and shorts of cotton for men**	6.57	12.34	6.46
Woven trousers and shorts of synthetics for women*	9.64	11.09	4.38
Woven anoraks etc. of man-made fibres for men**	23.96	35.73	14.05
Woven shirts of cotton for men**	6.69	8.85	6.38
Knitted T-shirts, singlets etc. other than cotton	4.61	5.92	3.43
Woven blouses/shirts of man-made fibres for women*	4.68	8.92	3.75
Woven trousers and shorts of synthetics for men**	9.38	16.02	11.87
Woven jackets of synthetics for women*	14.92	18.17	10.80
Knitted dresses of artificial fibres for women*	3.90	5.71	6.77
Woven anoraks etc. of man-made fibres for women*	22.67	39.94	16.55
Woven suits of wool for men**	35.07	116.15	68.41

* women including girls / ** men including boys

Source: ITC/Eurostat (2012)

The apparel industry used to be concentrated in the center of the country around the capital city of Chisinau. In recent years it has become more decentralized, because salaries in rural areas are lower.

Most apparel producers receive the raw materials (fabrics) from their foreign customers. This differs from the producers who sell under their own brand, since they buy their fabrics from Italy, Turkey, or China for lower costs.

Footwear, Leather and Accessories sub-sector overview

The footwear, leather and accessories sector in Moldova contributes roughly 0.3 percent of GDP and 4.5 percent of exports. The industry employs an estimated 4,000 people in around 60 companies, located throughout Moldova, with concentrations in Chisinau, Soroca and Transnistria. The operators in this industry follow three types of business models: contract manufacturing for the EU market, production and distribution on the local market, production and export to Central Asia and regional markets (such as Russia, Kazakhstan).

Moldova has sufficient experience in the footwear production sector: The technological level of footwear and accessories companies allows them to produce competitive products. This fact is confirmed by long-standing cooperation between Moldovan companies and renowned foreign brands from Italy, Germany, UK, France and Romania. The fashion accessories industry, specifically the production of footwear, handbags, synthetic and leather goods, creates significant exports for Moldova.

There is an established supply chain of components for footwear which are imported from Italy, Germany, Spain, Poland, Ukraine, Romania and Turkey. The price per minute in the footwear industry is lower than that of other countries in Central Europe, the Baltic States, Ukraine and Belarus. Most of footwear and accessories companies are small or medium sized, and capable to handle small production volumes with ease.

Value of industrial production, by types of activities

Million lei, current prices

	2007	2008	2009	2010	2011
Industry – total, million lei, current prices	26173.5	29988.4	22643.9	28140.1	34194.4
Manufacture of leather, leather products and manufacture of footwear, million lei, current prices	260.6	300.1	234.1	333.1	346.7
Manufacture of leather, leather products and manufacture of footwear, year-on-year growth, %	5%	15%	-22%	42%	4%
The share of leather, leather products and manufacture of footwear in total industry, %	1.00%	1.00%	1.03%	1.18%	1%

Source: Ministry of Economy.



3. Specific incentives / Investment Opportunities

Moldova is an attractive destination for several reasons:

1. Lowest wages in Europe for a qualified, multilingual workforce
 - a. Average monthly salary €230 – depending on the location, size of company and level of worker's experience.
 - b. High education level (80 percent attain secondary education, 38 percent pursue higher education), strong technical education.
 - c. 70 percent of the population is multilingual.
2. Regionally attractive fiscal and non-fiscal regime
 - a. Attractive corporate tax rate of 12 percent and 6 percent in Free Economic Zones
 - b. Extensive network of double taxation treaties
 - c. Fiscal and non-fiscal incentives for Free Economic Zone¹ residents
3. Stable macroeconomic indicators and high growth
 - a. GDP growth higher than in EU and neighbouring countries: 6.5 percent (2011)
 - b. Budget deficit: 0.9 percent (2012 IMF estimate)
 - c. Inflation rate: 6.5 percent (2012 IMF estimate)
 - d. Unemployment rate: 6.2 percent (2011)
4. Access to EU and CIS growth markets (500m + 275m = 775m potential customers)
 - a. Liberal trade: autonomous trade agreements with the EU, free trade agreements with the CIS
 - b. 2 truck-days away from Western European countries
 - c. International port access (Giurgiulești Container Terminal) – container and bulk services worldwide

Tendencies that could offer good prospects for exports from Moldova:

- Fast-fashion remains important in the EU markets with flexibility in production and fast delivery (transport within 3 days, compared to 4-6 weeks from China) are more important. As demand in EU markets is more fragmented and less predictable, EU retailers prefer to order in smaller quantities, with shorter delivery times and on an irregular basis.
- The demand for ethical clothing continues to develop in the EU. More and more European retailers and brands focus on Corporate Social Responsibility (CSR) to ensure decent working standards. Compared to many Asian garment-producing countries, Eastern Europe has high official and de-facto standards for social security and rights of workers. This has resulted in a growing interest of buyers in Eastern European production locations.
- Besides the demand for ethically produced clothing there is also a growing demand for sustainable clothing. Organic and sustainable fabrics are available through the European and Turkish fabric suppliers. In addition to this, Moldova is located near the European market, which has a positive effect on the carbon footprint of their products.



- Moving from CM to CMT or Fob production. European buyers are searching for manufacturers who can offer value added.
- As a middle class develops in nearby eastern EU countries and in the other CIS countries, demand for fashionable knitted and woven clothing, sports clothing, work-wear and baby clothing is expected to develop further. Opening up factory outlets or single brand stores in these countries could be a chance to get easier access here.
- Rising wages in China have increased the costs of Chinese apparel imports, and European buyers are looking for new production locations. This has resulted in a grown interest in Eastern European production possibilities.
- Because of the rising costs in the neighboring countries, Moldova is the next logical country for European buyers to expand to. The price-per-minute cost in Moldova is lower than in Central Europe, the Baltic States and Ukraine.
- New European brands, small retail chains and web-shop brands are an important target niche market for Moldova. These new brands, small retail chains and web-shops are not searching for the lowest price but value quality and flexibility. The common cultural background, absence of time difference and short travel distance make Moldova an attractive country to conduct business with.

All Companies operating in TAFL industry sector benefit from:

- Zero customs duties for import of raw materials for TAFL industry (the law "About custom duties" № 1380-XIII from 20.11.97)
- VAT at zero rate - services provided by enterprises of TAFL industry sector on the territory of the Republic of Moldova (art.104, g), of The Tax Code № 1163-XIII from 24.04.97
- Exemption from VAT payments and customs duties on raw materials and components supplied on the basis of the industrial cooperation (agreement with the CIS countries on industrial cooperation).

3 basic conditions need to be fulfilled in order to benefit from those exemptions:

The goods should be made in Moldova

The goods should be delivered directly from Moldova in the countries of the European Union

The goods should have the certificate on origin EUR 1

4. Sources and References

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www.ceed.md/en/activities/apparel-and-textile

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www.miepo.md

www.cbi.eu

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The Investment Attraction Team works under the direct mandate of the Prime Minister of Republic of Moldova and is located in the Prime Minister's Office.

We provide high-quality services for potential investors throughout the investment decision process. As well, we support existing investors in extending their operations.

Our team consists of permanent investment attraction staff, sector related consultants, as well as regional officers.

Combining our experience, we are able to provide you with information relevant for your decision making, as well as links to business and government.

