Annals of "Dunarea de Jos" University of Galati
Fascicle I – 2010. Economics and Applied Informatics. Years XVI – nº 2 - ISSN 1584-0409

Analysis of the Industry Potential in Republic of Moldova

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Abstract
This article identifies several competitive sectors of the economy that have potential to lead to sustainable economic growth for Republic of Moldova. Sectors were chosen for analysis combining quantitative and qualitative methods. A pool of sectors was selected based on export and sales performance over the last eight years. The final decision of the top sectors was based on the qualitative factors such as prevalence of the SMEs in the sector, gender makeup of the workforce and the regional presence, as well as employment levels and sales growth. The results of analysis showed that following industrial sectors: wine; textiles and apparel; information and communication technology; footwear; construction materials and furniture have the most potential for contributing to transformational growth in the Republic of Moldova economy.

Keywords: Strategic sector, competitiveness, industry sector, industry potential

JEL Code: L000, L150

Introduction

Moldova was showing impressive economic growth from 2000 through 2008, with average GDP growth rates of 5 percent and foreign direct investment of 11.4 percent. However, with an economy largely driven by consumption as a result of relatively high remittances from abroad comprising up to 30 percent of GDP, the global financial crisis had an immediate and devastating impact on Moldova. In the first three quarters of 2009, Moldova saw a 7.7 percent drop in the GDP; a 24.2 percent drop in exports, and a 42.5 percent drop in foreign direct investment. Credit, which was difficult to access before the crisis, became even more inaccessible because banks immediately tightened their lending requirements as a risk-reduction measure. This more conservative lending approach continues to hamper growth and investment in Moldova's businesses. Furthermore, the strong Lei caused Moldovan exports to be relatively more expensive abroad and domestically, further reducing competitiveness of Moldovan products.

The composition of Moldova's exports underwent significant structural changes from 2000 to 2008. The most important change was that agricultural products for export and domestic consumption decreased significantly. Another important shift was that Russia and other CIS countries were no longer the main trading partners for Moldova, having been eclipsed by European Union (EU) countries. This shift is partially the result of the fact that several Central and Eastern European countries have joined the EU (thus causing a change in the allocation of the statistics from "Central and Eastern European countries" to the "EU countries"). However, another more significant and positive reason for the change was that more of Moldova's exports went to core EU countries over the past decade thereby diversifying its export base.

The shift to EU markets and other underlying structural changes in Moldova's economy, such as the decline in agriculture and increases in foreign investment, indicate that Moldova will need to capitalize on these changes to continue successfully competing in world markets. Despite export growth, the trade balance for the country remains negative at 32.5 percent in 2008, although it has been steadily decreasing from 2001 levels of 63.4 percent. The current economic situation is poised for improvement. According to the International Monetary Fund's assessment in January of 2010, growth is projected to reach 1.5 percent in 2010 and increases in external and domestic demand bolstered by improvements in the business environment are expected. Over the medium-term, the economy is expected to return to pre-crisis growth of five percent while inflation remains low and stable. Investment and exports are rebounding and remittances are gradually recovering to their 2008 levels.

2. Sector selections

The methodology we used to select sectors of focus for this report drew from competitiveness and value chain methodologies. The goal of the selection process was to identify three sectors with the most potential to be competitive in Moldova and the region. We used measures such as current and past sales performance, share of exports in the economy, and employment. We also used a number of qualitative factors such as sector maturity and enabling environment, feasibility of government support to the sector and geographical and gender diversity in selecting sectors for further analysis. While we used quantitative analysis in our selection process, judgment and qualitative factors were also weighted in contributing to the final selection. The resulting selection process was not based upon novel data collection and a resulting econometric or statistical analysis. Rather, our approach drew from facts and opinions of industry experts and publicly available studies and data, which were compiled, reviewed, refined, analyzed, and are presented herein.

This analysis was undertaken only for non-agricultural production sectors using data from the Moldova National Bureau of Statistics and the United Nations Commodity Trade Statistics Database. Agricultural products, with the exception of wine, were not included in this analysis. Furthermore, because there is not enough reliable data available for service sectors in Moldova, those were not analyzed to the same extent as non-service sectors. The analysis was limited to existing sectors of Moldova's economy, not potential sectors for development per the scope of the study.

In conducting our analysis, growth in exports was weighted more heavily than growth of domestic market share because the Moldovan economy is relatively small compared to that of its neighbors and large-scale growth of the economy is unlikely to happen through domestic sales alone. Therefore, while strong domestic demand was considered in our analysis, we did not choose sectors that lacked strong export potential.

The rankings for each of the four categories were added together to form an overall score for each sector. Categorization in the HS system sometimes disaggregates sectors that we believe to be a single sector. Therefore, we combined certain categories into a single sector, detailed in the table 1. and leaving us with nine sectors for our qualitative analysis.

Table 1. Scores of Top Sectors of Moldovan Economy

Commo dity code	Commodity description	Rank by share in non agric. sector	Rank by the rate of growth 2008/2009,%	Rank by the rate of growth 2008/2007,%	Rank by variation coeffici-ent	Total score	General rank
H1-85	Electrical/electronic equipment	3	17	5	20	45	1
H1-73	Articles of iron or steel	13	12	13	9	47	2
H1-94	Furniture	8	19	17	11	55	3
H1-25	Salt, sulphur, stone, plaster, lime and cement	5	8	32	17	62	4

Commodity code	Commodity description	Rank by share in non agric. sector	Rank by the rate of growth 2008/2009,%	Rank by the rate of growth 2008/2007,%	Rank by variation coeffici-ent	Total score	General rank
H1-64	Footwear	9	20	30	4	63	5
H1-83	Miscellaneous articles of base metal	24	9	12	24	69	6
H1-39	Plastics and articles thereof	14	10	40	6	70	7
H1-57	Carpets and other textile floor	11	26	29	5	71	8
H1-90	Optical, photo, technical, medical, etc. apparatus	12	24	26	14	76	9
H1-42	Articles of leather	15	38	22	2	77	10
H1-22	Beverages, spirits and vinegar	1	50	16	10	77	11
H1-61	Articles of apparel, accessories, knit or crochet	4	34	37	3	78	12
H1-72	Iron and steel	6	3	19	52	80	13
H1-60	Knitted or crocheted fabrics	36	14	3	29	82	14
H1-62	Articles of apparel, accessories, not knit or crotched	2	45	39	1	87	15

The sectors chosen for analysis at this stage were electrical/electronic equipment; furniture; footwear; construction materials; articles of base metal; plastics; and small equipment, meters, and instruments.

In the second-step of our analysis, the highest-scoring sectors were put through a further analysis of employment levels, sales growth, and qualitative factors such as prevalence of SMEs in the sector, gender makeup of workforce, and regional presence. The results of the second step of analysis indicated that Moldova's furniture; footwear; and construction materials industries had the most potential to lead to growth in the economy. Results of the quantitative analysis at this stage are graphically represented in the chart 1. While this chart does not take deciding qualitative factors into account, it shows the performance of second-round of sectors relative to each other. In this chart, the horizontal axis represents average sales growth, while the vertical axis represents the sector's share of exports. The size of each bubble represents the employment level of the sector.

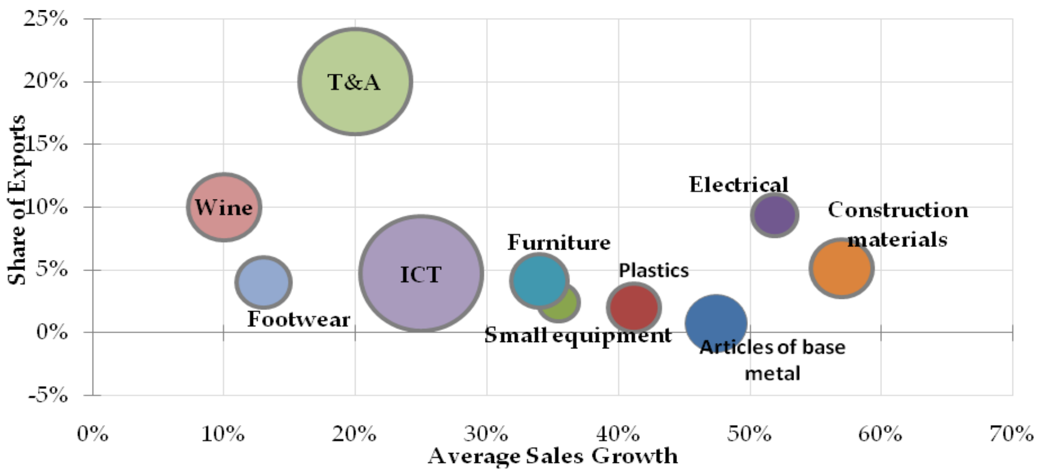

Chart 1. 2008 Sales, Export, and Employment Performance

We completed the third and final step of our analysis of the top six sectors: wine, textiles and apparel, ICT, furniture, footwear and construction , by conducting a thorough study of each sector.

3. Textile and Apparel Sector

The textile and apparel (T&A) sector of Moldova is one of the oldest branches of the national economy and continues to remain of critical importance because 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. It is the country's top export and one of the most profitable and viable industries in the economy.

Moldova's apparel sector is mostly based on (cut and make) C&M services, which make the apparel companies highly dependent on foreign demand and the orders of their foreign clients. One of the key advantages for Moldova is its proximity to European markets, which allows C&M orders to be filled in four to five days, as compared to China, which requires four to six weeks. Many foreign clients express demand for other higher-value-added business schemes such as FOB (full package) or Private Label, but not all apparel companies are ready to undertake these schemes yet, so these potential markets identify other sources to accommodate their needs. Moldova's main export markets are the EU for apparel C&M services and CIS countries for Own Label products. Out of the total value of textile and apparel products, the CIS market represented only 9.8 percent in 2007 and were mainly textiles (Own Label products) while the EU market for C&M services represented 90.2 percent and the main clients are Italy, Germany, and Belgium. Although the sector remains C&M based. Several textile and apparel companies has been successful in moving to higher-value-added FOB, private, and Own Label product schemes.

The textile and apparel sector is on the verge of radical transformation since the crisis has reduced demand by more than 30 percent. If the sector does not restructure, it will not be able to meet the demands of the regional and global economy. Over the last five to seven years, certain support industries were created and are slowly developing, such as embroidery service providers, distributors of accessories, equipment and gadgets, and spare parts, and academic facilities for labor force training. However, these are only in the initial phases of development and are not fully conforming with or contributing to the growth of the apparel sector. There is currently no real cooperation between these service providers and apparel companies. The educational field does not cooperate closely with the apparel sector and generally speaking, the capacity of industries and support bodies is rather low. In order to compete in the future, service providers and support sectors will need to align more closely with the needs to the sector and market conditions.

4. Wine Sector

Despite its recent shocks, the Moldovan wine sector remains among the major exporting industries, a top earner of currency for the country, and is one of the major employers of rural populations. The sector accounts for around 2.3 percent of GDP (2007 data), around 10 percent of all exports from Moldova (2008 data), is a source of income for around 50,000 grape growing farmers, and directly employs 7,100 people, or 7 percent of agricultural food processing industry labor force. In 2009 wine production decreased by 22.7 percent compared to 2008, which supports the widespread opinion that even if exports to Russia resumed as they did in November of 2007 following the ban in March 2006, the hopes for a quick market recovery have faded among the winemakers. In addition to a loss of market, the ban resulted in approximately 320 million liters of unsellable wine stock at the end of 2009 and $105 million (as of January 1, 2010) of wine sector debts to the banks. The crisis affected the number of operating companies, which decreased to around 50 from a high of 120 in 2006. Despite the crisis though, Moldovan wineries are still exporting, and some producers have begun the slow, painful process of reorienting their products to new markets. The process will take time though, as new vine stock matures, and new market linkages are formed. If the wine sector is going to recover, support in this process will be critical.

The structure of Moldovan wine exports is slowly changing and the markets become more diverse, with about 77 percent of the exports going to CIS countries compared to 90 percent in 2005. Russia remains the most important market for Moldovan wines; however, that spot was supplanted by Ukraine in 2009. Belarus remains the most *stable* market for Moldova bulk wines, and a new lifting of bulk wine restrictions by the new government in Moldova gives promise to that market. Several companies have promoted sales to Eastern European markets, especially to Poland and the Czech

Republic, but also to Germany. Sales to these markets are on the rise demonstrating that the sector is producing wines more appropriate for target markets in terms of style. The proximity to Western European countries, Russia, and Belarus allow for lower transportation costs, so the sector could have an advantage over New World rivals such as Chile, Argentina, South Africa, and Australia. Southeast Asia and India are also new, growing markets where Moldovan wine could have a lot of potential. The domestic market is not a main market because of the predominant preference for homemade wine and a lack of clear strategy of the government to promote the domestic market for wine over the domestic market for other alcohols. A few advanced Moldovan wineries have started producing dry premium wines appropriate for western markets. However, expanding this practice to less-progressive wineries will be essential to capturing new markets and market segments and for the viability of the Moldovan wine sector.

Given its long history of exporting, Moldova's wine sector is relatively mature with established links to main export markets and an established value chain. While lacking in sophistication, there are three educational institutions that offer degrees in oenology. A poor institutional and regulatory environment has been the major barrier to growth in the sector. The new government recently removed restrictions on the export of bulk wines, improving conditions for the mainstay of the sector and offering some relief to the crisis. Although progress has been made in collective promotion at the winery level—an example being the Moldova Wine Guild—the country still lacks a consistent approach to wine sector promotion and branding. This particularly concerns the generic country promotion for which the government and sector lack the strategy, consistency, and financial resources.

5. ICT Sector

The ICT sector in Moldova has been one of the most productive and fastest growing industries over the past several years. The contribution of ICT to the country's GDP was approximately 9.5 percent for 2008 (compared to 7.5 percent for 2004), which amounts to $580 million, putting the sector on par with agriculture. ICT is an important employer in the country with the number of people employed at 20,500, a number that is expected to grow to 40,000 in a few years. It is also one of the highest paying industries, as jobs in ICT pay on par with those in the financial sector, which have historically been among the best paying jobs in Moldova.

Although communications is one of the largest by output in the ICT sector, which is made up of communications, hardware, and IT services, it is driven entirely by domestic demand and technological progress. Therefore, its role is to act as an *enabler* of the IT subsector and the entire economy rather than as a productive industry. Additionally, hardware in Moldova consists mostly of trade of imported equipment for domestic consumption thus having little scale for large and fast growth; this leaves software development as the productive subsector with enormous growth potential. We have identified the IT subsector as the highest potential subsector for further development. IT has recorded ten-fold growth in exports during the last five years, from $2.6 million to $26.3 million. The critical importance and driving nature of IT for the rest of the economy has been recognized by government and industry experts as has the fact that IT is an important engine for economic growth. These trends are noticeable in Moldova, however, the pace of development of ICT and the degree to which it has been embraced by the non-ICT industries varies and is lower than elsewhere in the region. Additionally, the sector tends to attract the younger generation with the average age of IT professionals in Moldova estimated at 26 years, which is an important factor in social stability, encouraging future generations to stay in Moldova.

The transport and telecommunications sector is the main consumer of software (for which it spent $6 million in 2007) and is also the only sector spending more for software than for hardware. The financial sector is the main consumer of IT equipment with $5.7 million spent in 2007. The public administration and public services sectors are the main customers for the design and development of the information systems ($2.7 million). With estimated official exports of $26.3 million, it is clear that exports are a strong driver of the sector and will be an important factor in its competitiveness. While there are some cases of Moldovan IT firms developing and exporting proprietary products, the major strength for Moldova could be in hosting near shore and offshore operations of foreign IT companies. This could be driven by Moldova's relatively inexpensive and skilled labor, its time zone, its language skills, and its western cultural similarities. Signals that demand for near shore and offshore activities in the region are quickly increasing mean that Moldova should capitalize on assets in this sector. In general, financial, telecom and government sectors are the key clients. Moldovan software development services in such areas as e-government, business process integration, integrated solutions for the financial sector, and web programming could be capitalized on for these markets.

The IT sector is non-homogenous and somewhat fragmented, in terms of both products and players. As a relatively nascent sector, it mostly consists of small enterprises and a large number of independent contractors, which may or may be not formally registered as legal entities. Most IT companies are micro-, small or medium-sized enterprises, and there are less than a dozen large IT companies; most are subsidiaries of foreign firms in the software development subsector. There are some signs of cooperation between domestic IT companies observed recently in the form of cooperation on public tenders, indicating that companies are maturing and becoming more specialized. The newly created Moldovan ICT Association, which is one of the most vibrant associations in the country, is another sign that firms are making crucial steps toward efficiency-enhancing cooperation. Furthermore, the recent embrace of industry quality standards such as IT Mark and CMMI are signals that the sector is aligning its processes to international standards.

There are two main supporting industries for a competitive IT sector: education and infrastructure. Education has benefited from the rapidly growing number of young talented people; the number of graduates in IT specialties has doubled in the past five years. However, as the market grows and competition becomes fiercer, the sector must move to a higher stage of development, which will require large numbers of highly trained IT specialists. Infrastructure, mainly Internet and mobile telephony, has grown more than 10 times since 2004. However, it is worrying that broadband connections still have an extremely low penetration rate.

6. Construction Materials Sector

The construction materials sector developed swiftly over the past several years, making it one of the most dynamic growth industries in the country. The sector is divided into two major segments: raw materials and processed materials, and Moldova is rich in raw materials, such as gypsum, stone, and sand, needed for such products as bricks, plaster, and cement. The production of cement, lime, and plaster and products made of these materials represent more than 90 percent of construction materials in Moldova. The total volume of sales of construction materials in 2008 constituted around $305.3 million, accounting for almost 5 percent of GDP, having doubled since 2003. This remarkable development has been fueled by local raw materials and rising domestic real estate demand. Despite the downturn, the sector has remained viable as construction and home renovations continue despite the crisis. The sector employs just more than 5,000, primarily men, at about 380 companies. Empirical evidence shows that the majority of new companies in the sector are small.

While 80 percent of the construction materials sector is oriented to the domestic market, Moldova is a net exporter of construction materials. The exports of construction materials are highly concentrated, 80 percent of which is gypsum, on regional markets such as Russia, Ukraine, and Romania. The availability of raw materials, proximity of markets and similar standards make Moldovan products competitive in neighboring markets. While the financial crisis dramatically affected some construction markets, the most affected companies were extraction companies, while companies producing finishing materials used for current repairs, e.g. plaster, which accounts for much of the Moldovan sector, remained relatively stable. Most imports for construction materials are complementary, meaning that there is no need for import-substitution since Moldova is capitalizing on available raw materials. For the medium and long-term, real estate development in Moldova will likely be a growth sector as it is one of the last countries in Eastern Europe or the former Soviet Union to develop commercial and residential real estate on a large scale. Most

existing real estate is old and depreciated and needs capital renovation, which will stimulate demand for construction materials on the domestic market. Furthermore, following the economic recovery of 2010 it can be reasonably expected that the government will increase its spending on fixed capital investments and infrastructure projects, which will in turn increase demand for construction materials.
The construction materials sector developed rapidly in recent years in conjunction with the construction boom in Moldova and the region, largely fueled by remittances from abroad. The value chain for the sector is, by definition, a relatively short one since these products usually form a part of more complex value chains created within real estate development projects. Cooperation between firms is almost non-existent. The most successful exporters, such as Lafarge (cement) or Knauf (plaster products), are part of bigger multinational companies, and thus they are in a different position from the domestic companies that are trying to export. Progress is being made however, with the recent formation of the Association of Building Materials Producers, which mostly serves as an umbrella for dialogue with the public authorities to discuss common concerns and promote common interests. The association is still in the infancy of its development and support will be needed to make it a viable industry association.

7. Furniture Sector

Furniture manufacturing is one of the most dynamic and rapidly growing sectors in Moldova, with its growth rate outpacing GDP growth. As of 2008, the sector's sales performance amounted to about $67 million, having increased more than four times during the past five years. Likewise, exports have grown significantly from only $3.4 million in 2001 to $35.2 million in 2007. Given that Moldova is not a producer of raw materials for furniture, the vast majority of component parts and raw materials are imported. The furniture sector employs about 4,400 people, who are employed in 379 firms, mostly small and medium enterprises. Rapid growth in the sector has been a result of a fast growing decade in real estate development in Moldova and the region. While the sector has slowed since the crisis, it is still growing and demand for furniture will continue as real estate recovers, tastes evolve, and migration to urban areas continues.

Moldova manufactures a wide range of furniture products including upholstered, office, bedroom, and kitchen furniture. About half of locally manufactured furniture is custom-built and the rest is mass produced. Destination markets for Moldovan furniture products are diverse, with the CIS accounting for nearly 60 percent (Russia and Ukraine), and the EU for about 35 percent (Romania, Slovakia, Belgium and Italy). The two top products for export are upholstered seats and wooden bedroom furniture. Price and proximity to market are the two main competitive advantages. The volume of imported furniture consistently exceeds exported furniture by approximately two times, with 2007 seeing imports of about $66 million. These data suggests that there is significant unmet domestic market demand particularly in the low- to medium-priced segment, as well as for custom-made furniture. Future opportunities to develop products in niche subsectors could provide significantly more value-added. Some examples include traditional, decorative furniture, and furniture using certified wood for high-end European markets. The latter could capitalize on nearby sources of raw material from certified forests in Southeast Europe.

The furniture sector in Moldova has a long history, and after coming through the transition after the collapse of the Soviet Union, the sector is now in a stage of active renewal. The number of companies in the sector has tripled in the past five years to meet the growing demand of the market, although the number has stabilized in the last year. Competition is fierce, so it could be expected that some of these companies will go out of business. Since most furniture companies are located around Chisinau and in district centers, they have ease of access to labor markets, and to necessary infrastructure and support services. The furniture value chain is relatively well-developed and organized, although weaknesses still exist in business sophistication, labor skills, and technology. Many companies entered the market during the housing boom with low investment and do not produce the quality products that will be demanded in the future. There is virtually no government support of the sector, and while there is some cooperation through the Association of Furniture Manufacturers and Federation of Designers, it is still very weak. Strengthening these institutions will be an important step as most furniture companies are small and cooperation will be necessary for the companies to operate efficiently and competitively in international and domestic markets.

8. Footwear Sector

While still small, the footwear sector has registered exceptional growth over the last five years, doubling its sales. It now represents approximately 0.8 percent of total Moldovan industrial production. The volume of footwear exports from Moldova and Transnistria increased 3.2 times from 2003 to 2008, and represents four percent of all exports from Moldova. While the Moldovan footwear sector in mostly represented by CMT services for Europe, domestic market growth has also contributed to its recent performance. The footwear sector encourages SME collaboration with larger producers. Larger producers can afford to invest in high-efficiency machines but remain eager to work with smaller manufacturers who can respond to large orders quickly. This has established collaborative relationships between large and small companies and has facilitated knowledge transfer to those smaller companies and eliminates the overhead costs that keep many micro-producers uncompetitive. The sector employs around 4,000 people. A number of strong footwear companies are located in Transnistria, and support to the sector aligns with national and donor goals of integration with the autonomous republic.

The footwear market is primarily oriented to CMT services to Europe with final products going to Russia and CIS countries. In 2008, about 45 percent of Moldovan shoe exports were shipped to Romania and 26.5 percent to Italy. Meanwhile, CIS countries held roughly 21.5 percent of the Moldovan market with Germany trailing at 6.2 percent. The main European countries from which Moldova imported were Romania, Italy, Slovakia, Germany, Spain, and Poland, which held more than 50 percent of the total shoe imports for that year. While the last six years have seen a stable growth tendency in exports, the domestic market has been largely neglected, except for the very low end markets whose consumer decisions are based more on price than preference. To capture medium and medium-high-end domestic and international markets, Moldovan shoe-makers will have to make significant upgrades to orient themselves to design services, marketing, and sales.

The footwear sector in Moldova and Transnistria is relatively immature. While there are several strong lead firms in the sector, they are still oriented toward low value-added CMT products. Due to the fact that all materials and accessories are imported from abroad, the footwear value chain in Moldova is practically nonexistent. Moldovan manufacturers have strong processing and production links in the value chain but need to develop capacity on either end of the chain to become more competitive and stabilize the sector. Managers of Moldovan footwear companies have asserted that there are good working relationships among the various companies. Due to the different technologies used (cemented and direct injection) and different markets targeted (domestic, CMT), companies sometimes are able to collaborate and support each other. Two years ago, the Patronage Association of the Light Industry was established. Unfortunately, the association is not functioning and maintains only a nominal presence. Generally speaking, the capacity of industries and support bodies is rather low, and this is seen as an area of opportunity moving forward. Close and mutually beneficial collaboration among sub-industries would contribute to stronger Moldovan branding through more competitive pricing structures and workforce development.

9. Future challenges and conclusions

Textile and Apparel Sector

Although the demand for C&M services is currently strong, foreign clients are always seeking lower costs and greater value. Companies will have to continually increase these efficiencies to keep prices competitive in the C&M scheme. This will come from adopting new technologies, increasing productivity, and continuing to invest in the product. Moldova is well positioned to offer higher-value-added services in the apparel sector given its strong foundation in C&M and the introduction of Own Label pilots. However, to move pilots to a critical mass, the Moldovan apparel sector will have to make significant strides in upgrading their product concept and design skills, sourcing raw materials and developing brand management and marketing skills. To do this, supporting institutions and regulations will be an important enabler of the sector, including development of a sector association.

Wine Sector. While the Moldovan wine sector faces immense challenges in recovering from the global economic crisis and Russia's 2006 ban on Moldovan wine, the sector still has opportunity for success. Although painful, Moldovan wine producers will need to dramatically restructure the sector to move to less risky western and Asian markets, starting from the types and quality of grapes produced, to major upgrades in marketing and sales at the sector level. This includes developing a country-level marketing strategy. Streamlining the regulatory framework for wine and revisiting domestic taxes for wine are important for supporting the sector, particularly for small wine producers trying to enter the market. Debt restructuring and unsellable wine stocks resulting from the ban will also need to be addressed by the sector. The Moldovan wine sector is at a crossroads this year, and without further support, there is little chance for the survival of a strong wine sector.

ICT Sector. According to the ICT Policy White Book drafted by the ICT association, in five years, the ICT sector will be the main driver behind Moldova's economic growth, augmenting labor productivity and enhancing international competitiveness through the wider use of the ICT products and services across economy and society. Because of its high potential for development we have selected IT as the subsector of focus for further development. It will be driven by the enabling factors of rapidly increased mobile and widespread broadband penetration and the supporting factors of an effective regulatory framework and a skilled and competitive workforce. To facilitate growth in the sector, policy-level needs include implementing an efficient and transparent government procurement system, and improvement in the fiscal environment for the ICT sector. As well, further investments in strategic actions such as education and R&D are needed to actively stimulate sustainable ICT growth in the country. To achieve an effective and transparent dialogue with the government, a cohesive and focused ICT sector will have to ensure that changes introduced at the government level are matched by the desired response from the ICT sector companies.

The sector will need to capitalize on offshore activities to make Moldova the offshore location of choice for IT services. This requires strong and consistent country positioning. Continuously increasing the quantity and quality of graduates from IT faculties whose skills are aligned with market needs will be a major priority. Investment in industry quality will be required for attracting offshore operations, and R&D will be necessary for moving toward high-value-added products. Government spending in this sector should encourage the use of local businesses.

Construction Materials Sector. The most significant challenge moving forward for the construction sector will be to survive and grow despite the economic downturn by diversifying the product base to include alternative and higher-value products, and by continually improving quality standards and efficiencies to access new markets. In anticipation of future depletion of raw materials, Moldova will need to diversify its product base and market segments, upgrade technology and technological know-how, and develop marketing and sales skills. There is significant opportunity for developing new niche subsectors within the construction materials sector, particularly in the area of green building materials, which are in high demand in Europe and have future demand potential in the CIS. Ecological and legal concerns surrounding extraction must be considered when developing the sector, as sources are depleted and environmental degradation must be minimized. High transport costs continue to be a major challenge for the construction materials sector, making them less competitive, however, upcoming road infrastructure spending by donors and governments could provide needed improvements to facilitate transport efficiencies and contribute to the market for construction materials. Future donor and government infrastructure projects should make efforts to support domestic producers.

Furniture Sector. While the collapse of the real estate market has some negative implications for the furniture sector, there are still significant opportunities for domestic market growth through import substitution. Currently, domestic manufacturers cannot offer their clients a full range of products in the high-quality segment where there is demand, but they can begin moving toward this goal given up-to-date technological and technical strengths. Likewise, improving design capacities for low- to medium-priced furniture could "convince" a large segment of price-driven consumers to buy domestic products. Nevertheless, growth of exports will be key for continuous improvement of the sector, given the small size of the domestic market that will require continuous gains in efficiency and quality. Seeking foreign investment in the sector through joint ventures, and taking advantage of the free economic zones for items that are re-exported are also ways to promote sector competitiveness. As the sector matures, developing niche subsectors could be a source of significant value for Moldovan furniture producers.

Footwear Sector. One overarching impediment for companies that provide CMT services and those involved in Own Label designs is VAT for imported raw materials and accessories. The companies that work on the Own Label model need to pay VAT and managers indicate that applying for and receiving VAT reimbursement is a lengthy process. Exemption of VAT for imported equipment is permitted only for companies located in rural areas, and for the sector to remain competitive, such regulatory impediments will have to be reconciled. As previously noted, footwear presents a unique opportunity for development given its growth; and it is also low risk. Given the CEED project's work in the T&A sector and the potential seen in this sector, it seems likely that the shared production and design models could be replicated and developed in the footwear sector, generating a full-spectrum Moldovan brand.

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