



UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION



COVID-19
RESPONSE



COVID-19: IMPACT ON INDUSTRIES IN THE REPUBLIC OF MOLDOVA

The pandemic of novel coronavirus (COVID-19) has led to a critical economic downturn causing substantial damage to the global economy. National COVID-19 policy response strategies and containment measures put in place to prevent the spread of the virus such as quarantines, travel restrictions and closures of international borders severely affected demand and supply of goods and services along the global value chains disrupting numerous industrial processes and models, and putting many businesses at risk of insolvencies.

The containment measures in advanced economies have already started impacting less developed countries through decreased manufacturing production, trade volumes and investment flows. The United Nations (UN) report that supply chain disruptions halting the global manufacturing industry, compounded with the falling commodity prices, in particular oil, have already resulted in USD 50 billion decrease in manufacturing production in February 2020. This is bound to negatively impact developing countries' export volumes.

The crisis will severely affect the development and industrialization prospects of Moldova. The pandemic struck the country, while the economy was in a period of growth – in the first two months of 2020, industrial production activities showed robust year-on-year growth, except for the export-oriented production of automotive components – and its negative consequences still need to be thoroughly assessed. Lower demand from trade partners will weaken Moldovan exports, especially from the free trade zone which is well integrated into the global supply chains.¹

The crisis will have severe impacts on employment numbers in countries, where the share of self-employed, daily wage earners, as well as workers in the informal sectors and micro-, small- and medium-sized enterprises (MSMEs) is quite high. The number of unemployed in Moldova already increased by 40% between February and mid-April, and the figure is continuing to grow.

Linked to this, job losses among migrant workers are also expected to heavily impact the economy that greatly depends on remittances. In 2019, Moldova received USD 1.2 billion in remittances (16% of GDP), which makes it among the largest in the world. As the number of Moldovan migrants return to the country (as per the initial estimates of the International Organization for Migration, 150,000 are expected in 2020, which represents 10% of working-age population), unemployment is likely to rise as they will have limited possibilities for return to their previous jobs. A drop in remittances could be associated with a fall of around 14% in consumption and 23% in investment.

MSMEs play an important role in Moldova's non-financial business economy – they provide 70.6% of employment and 70.7% of value added, higher than the EU average (66.5% and 56.3% respectively). They are also concentrated in the wholesale and retail sectors where the containment measures have hit hard (they account for 24% of total employment). MSMEs are likely to be affected both on the demand and the supply side. A drastic drop in demand is likely to complicate the financial situation of multiple businesses, which will translate into a reduction in income and consumption.²

¹ Regional Economic Prospects. COVID-19: From Shock to Recovery, EBRD, May 2020

² Republic of Moldova bracing for domestic and external COVID-19 shocks, UN & Oxford Economics, 29 April 2020

NEEDS AND CHALLENGES: PROPOSED RESPONSE BY UNIDO

Analytical work, policy advice, mapping, and partnership formulation. UNIDO is working with Governments and industry-related stakeholders by informing national policy, investment, and partnership formulation decision-making processes, thus helping them prepare appropriate sustainable and inclusive response actions to the current and potential future health and economic shocks. Concrete technical assistance responses by UNIDO may include the following:

- Establishment of virtual collaboration platforms to enable Government and industry actors share experience, best practices and data enabling a coordinated and agile response.
- Country- and global-level data management work, foresight information on supply chains and market assessments for traditional sectors – e.g. automotive, agro-food, textile and apparel, electronics, etc.
- Value chain mapping to identify firms willing to diversify their production into medical equipment, personal protective equipment (PPE) and other most-critical sectors, coupled with firm-level business plan formulation support.
- Launching a digital investment opportunity portal with GIS mapping providing a wide range of investment analysis and investment tracking functionalities.

Re-purpose manufacturing, promote targeted inclusive and environmentally sustainable solutions, ensure continued learning. UNIDO is working with Governments, business sector and stakeholders along the value chains to assess possibilities of re-purposing manufacturing capacities towards the production of soft medical equipment while promoting targeted solutions across a number of sectors to help respond to the crisis. Concrete technical assistance responses may include the following:

- Expand e-learning capacities to increase virtual outreach during the response period.
- Work across sectors and value chains to help MSMEs aiming to ensure business continuity.
- Work with Governments to ensure adequate quality infrastructure services when revising food safety control systems and standards to enforce hygiene practices from farm to fork. Support businesses across food value chains through access to tools and training to diversify food supply and distribution chains. Whenever required, help train and redeploy catering, tourism and hospitality industries workforce towards the food processing sector.
- Work with light industries and selected value chains to convert their manufacturing processes towards the production of PPE, e.g. masks, plastic boots, medical outfits, hospital bed sheets. Help in identifying alternative local/regional raw material sources and in reforming product range.
- Work with health facilities on medical waste management protocol integration and equipment installation reducing the risk of further contagion.
- Assist local pharmaceutical manufacturing sectors in moving towards local production of generic medicines through increasing access to technology and investment. Work with national quality infrastructure bodies to increase pharmaceutical testing capacities and prevent counterfeit medicines from entering the market.

Boost economies in an inclusive and sustainable manner. UNIDO is working with Governments, MSMEs and stakeholders along the value chains proposing smart solutions for the manufacturing, energy and transport sectors to help them recover in an inclusive and environmentally sustainable manner. Concrete technical assistance responses may include the following:

- Establish manufacturing platforms for formal and informal sectors assisting Governments in prioritizing actions towards industrial revitalization.
- Conduct reviews of food systems emphasizing resilience and local/regional sourcing through reengineering of the supply chains and market systems.

- Assist the informal and MSME sector in revitalizing their activities while generating job opportunities for women and youth.
- Forge partnerships with the business sector on Industry 4.0 initiatives to help Governments leverage investments into digital infrastructure and innovative industrial solutions, thus enabling manufacturing sectors to build resilience against similar crises in the future.
- Promote the new generation of innovation clusters adopting Industry 4.0 technologies and business models to leverage technical capacities and collaboration allowing accelerated development of new products/treatments in the biopharma and medical sectors, reducing clinical trials periods, or using artificial intelligence and Big Data for predicting product performance.
- Promote green and circular economic recovery.

WAY FORWARD

Within the ongoing UNIDO Country Programme (CP) for Inclusive and Sustainable Industrial Development of Moldova 2019-2023, the following two priority projects have been identified by the Government and are in the formulation and fund-mobilization stage:

- **Supporting Moldova's industrial SMEs through the Subcontracting and Partnership Exchange (SPX) Centre.** The purpose of the project is to stimulate and facilitate a modernization and growth process for Moldovan SMEs to ensure that they are competitive both in the domestic market, as well as in international markets. The project will support the efforts of the Government in mobilizing private investment, both domestic as well as foreign direct investment (FDI), in prioritized industrial sectors with a view to create additional jobs in manufacturing, something that has become even more important in the wake of the COVID-19 crisis. The SPX will be a vehicle to maximize FDI contribution in times where FDI becomes scarce. A well-functioning SPX will be in an excellent position to alleviate supply chain issues through its matchmaking function. It will support the modernization and growth of Moldovan SMEs, who have been hit hard by the COVID-19 crisis.
- **Development of Innovation, Entrepreneurship and Technology Transfer (IET) platforms for strengthening linkages between research and industry in Moldova.** The purpose of the project is to increase the industrial competitiveness, create jobs and promote an innovation-driven economic development in the country. The project seeks to boost regional and sectoral innovation ecosystems by strengthening the innovation cluster to realize the commercialization of innovative technological applications developed locally and simplifying the transfer of new technologies for improving SMEs competitiveness and promoting their internationalization. The project will support the efforts of the Government to increase industrial competitiveness and create more sustainable jobs by strengthening the linkages between the science and research institutions and the industrial sector to promote innovation-driven economic growth. It will also contribute to improving the regulatory framework and policies for strengthening the regional and sectoral innovation clusters, support the development of IET platforms, and increasing Moldovan SMEs competitiveness, digital transformation, and market access.

The above-listed initiatives have been prepared for the fund mobilization from multi-donor trust funds, bilateral donors and other available sources. In addition, as specific needs for socio-economic recovery from COVID-19 are identified in cooperation with the Government and the United Nations Country Team, UNIDO is ready to design other projects to deliver technical assistance services indicated in the previous section of this document.

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