

# Assessing the potential for attracting pharma investment projects to Moldova

**Björn Vogler**

Berlin/Chişinău, December 2021

# Executive summary

**Considering recent FDI trends and the development impact of investments, the pharma industry offers a promising potential as a strategic target group. However, regarding the competitive position, it still needs to be verified whether Moldova's value proposition allows to attract substantial pharma FDI**

The table below summarises the results from the assessment focusing on the three key dimensions (1) investment trends, (2) development impact and (3) competitive position:

<b>Investment trends</b>	<ul style="list-style-type: none"><li>• Increasing role of pharma industry in global FDI patterns<ul style="list-style-type: none"><li>– Ranked sixth among manufacturing industries in terms of value of greenfield FDI in 2020</li><li>– Robust investment dynamics during the pandemic – bucking the overall trend</li><li>– Positive outlook considering likely investments in strengthening the resilience of value chains</li></ul></li><li>• Growing interest in Eastern Europe indicated by recent surveys and investment projects</li></ul>
<b>Development impact</b>	<ul style="list-style-type: none"><li>• Considerable impact with respect to upgrading the economic, export and employment structure<ul style="list-style-type: none"><li>– Major contribution of pharma industry to R&amp;D spending and exports in several countries fostering the integration into global value chains and markets</li><li>– Potential to create highly-skilled jobs, opening up new perspectives for pharmaceutical and medical professionals in Moldova</li></ul></li><li>• In addition, substantial linkage and image effects of successfully attracted FDI projects</li></ul>
<b>Competitive position</b>	<ul style="list-style-type: none"><li>• In principle, favourable conditions – in particular with respect to the availability of graduates and specialists, competitive cost structures and access to important international markets</li><li>• However, intensifying competition at the international level – pharma among the TOP 3 target groups of investment promotion agencies around the globe</li><li>• So far, no distinct profile of Moldova as pharma location or developed ecosystem</li></ul>

# Executive summary

---

**To verify the potential and refine the value composition, a test campaign should be carried out as a first step – before a roll-out of further measures**

- Main focus should be on generics companies – in light of their more decentralised production networks and stronger efficiency-orientation
- As part of the test campaign, generics producers with a strong presence in Eastern Europe should be directly approached
- Furthermore, small scale lead generation and fact-finding activities should be carried out in the context of leading trade fairs
- In this context, it should be considered to integrate further segments within the life sciences sector including medical products, digital healthcare and processing of natural ingredients
- Depending on the results of the test campaign, a comprehensive road map for the development of the pharma industry should be developed in close consultations with the main stakeholders
- The road map should place particular emphasis on the areas (1) regulatory framework, (2) training and education, (3) investment sites and (4) linkages

# Outline

---

1. Introduction
2. Investment trends in the pharma industry
3. Development impact of pharma investments
4. Competitive position of Moldova
5. Conclusions and recommendations

# 1. Introduction

---

**In light of changes in the investment environment, this briefing assesses the potential for attracting pharma investment projects to the Republic of Moldova**

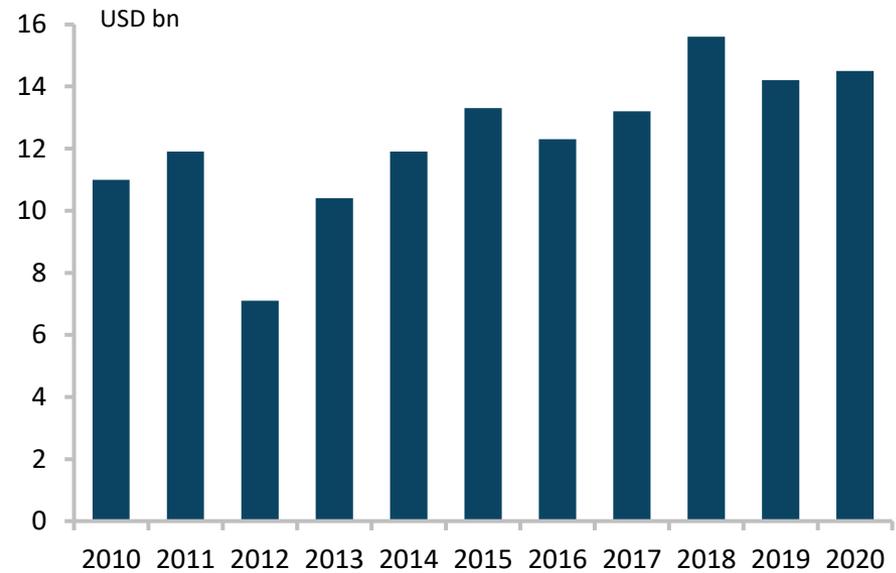
- FDI plays a critical role for the development of Moldova's economy
- Empirical research and practical experience confirm that a targeted approach increases the effectiveness and impact of investment attraction efforts
- Defining target groups is a dynamic process. The selection should be regularly reviewed taking into account changes in the investment environment
- Against this background, the German Economic Team has been asked by the Government of the Republic of Moldova to assess the potential of the pharma industry as a future target group for investment attraction efforts
- The assessment, which was carried out based on interviews with investors, investment attraction and industry experts in Moldova and at the international level as well as complementary research, focuses on the three dimensions:
  - Investment trends considering the impact of the pandemic
  - Development impact, e.g. in terms of upgrading, employment and spill-over effects
  - Competitive position of Moldova as an investment location for the pharma industry

## 2. Investment trends

**As indicated by its recent performance, the pharma industry offers a substantial investment potential**

- Between 2010 and 2020, the value of announced pharma FDI greenfield projects increased by 31% at the global level
- In the same period, total FDI declined by 32%, manufacturing FDI even by 46%
- The pharma industry also displayed robust investment dynamics during the pandemic
- It was the only manufacturing industry showing an increase in value of FDI greenfield projects between 2019 and 2020

**Global value of announced FDI greenfield projects in the pharma industry**



Source: fDi Markets 2021

## 2. Investment trends

**Against this background, the pharma industry plays an increasing role in global FDI patterns – in terms of both greenfield as well as M&A projects**

- Pharmaceuticals belong to the top ten manufacturing industries by value of global FDI greenfield projects
- Accounting for approximately 6% of total manufacturing FDI, the pharma industry ranked sixth in 2020 – ahead of the textile, metal and machinery industries
- In terms of the value of cross-border M&As, pharmaceuticals even belong to the top three of all industries
- In 2020, the value of M&As amounted to USD 56 bn
- At the same time, the number of transactions rose significantly

**Top 10 manufacturing industries by value of FDI greenfield projects in 2020**

Rank	Industry	FDI (USD bn)
1.	Electronics and electrical equipment	45.6
2.	Chemicals	39.8
3.	Automotive	32.9
4.	Coke and refined petroleum	29.7
5.	Food and beverages	17.2
6.	Pharmaceuticals	14.5
7.	Textiles, clothing and leather	11.2
8.	Basic metals and metal products	8.0
9.	Machinery and equipment	7.0
10.	Paper and paper products	6.5

*Source: fDi Markets 2021*

## 2. Investment trends

---

### **Recent surveys as well as investment projects indicate a growing interest in Eastern Europe and EU Eastern Partnership countries by pharma investors**

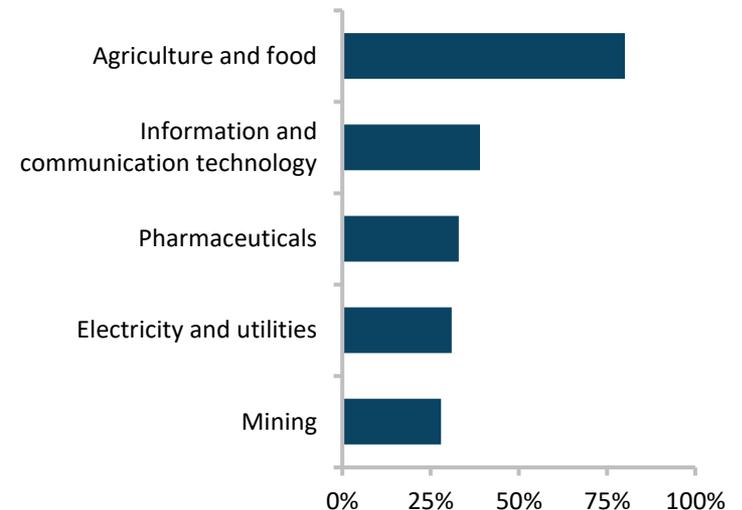
- According to a recent survey by Kinstellar, Central and Eastern Europe is rapidly emerging as an attractive investment destination for the healthcare industry – in particular in pharmaceuticals, diagnostics, medical devices and biotech
- The surveyed investors and advisors expect Central and Eastern European countries to attract the third greatest volume of investments within Europe in the near future, after Germany and the UK
- Important investment locations for the pharma and biotech industry in Central and Eastern Europe comprise Poland, Hungary and the Baltic States
- More recently, investment enquiries and projects indicate an increasing interest also in EU Eastern Partnership countries
- Examples include the investments by Global Clinical Trials in Georgia or by the Stada Group in Ukraine
  - The generics producer Stada acquired the pharmaceutical business of Biopharma
  - This also involved investments in production facilities in the Kiev region

## 2. Investment trends

**The outlook remains positive considering likely investments to strengthen the resilience of production networks in the context of the pandemic**

- Demographic changes and rising health expenditure entail a promising long-term growth and investment potential
- In light of the pandemic, investments in adjustments of production networks are likely offering opportunities to benefit from:
  - Nearshoring projects
  - A diversification of value chains
- The findings are also confirmed by a UNCTAD survey of IPAs for the World Investment Report 2021
- The share of IPAs considering pharma as one of the most important industries for attracting FDI has markedly increased

**Most important industries for attracting investment in 2021 according to expectations of investment promotion agencies (IPAs)**



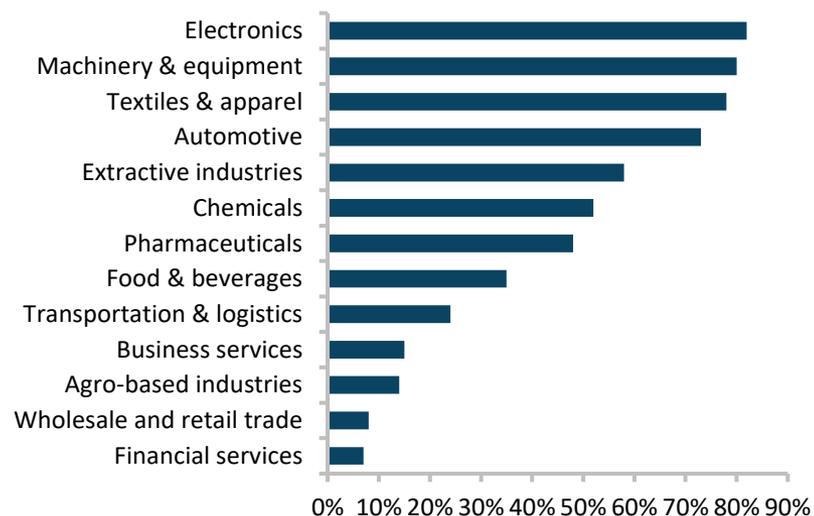
Sources: UNCTAD 2021

### 3. Development impact of pharma investments

Pharma investment projects can make a considerable contribution to upgrading the economic, export and employment structure

- The industry is a major contributor to R&D spending and exports in several countries fostering the integration into global value chains and markets
- It belongs to the manufacturing industries with the highest added value per person and share of female employees
- Investment projects can create valuable highly-skilled jobs
  - Opening up new perspectives for pharmaceutical and medical professionals in Moldova
  - Helping mitigate the brain drain

Degree of internationalisation of selected industries (Gross exports as share of output)



Sources: UNCTAD 2021

### 3. Development impact of pharma investments

---

**In addition, pharma investments can exert substantial linkage and image effects. However, it takes time for the impact to unfold**

- Due to significant spill-over and linkage effects, further industries are likely to benefit from pharma investment projects
  - A promising synergy potential exists at the interface between life sciences and IT industries
  - Digital competencies and solutions play an increasing role in the pharma industry amongst others in the area of precision medicine, which entails tailoring disease prevention and treatment to the specific characteristics of individuals
  - Furthermore, linkages can be developed with industries such as horticulture
- Successfully attracted pharma projects can also improve Moldova's image and raise awareness of its value proposition as an innovation- and technology-oriented investment location
- However, considering the small size of Moldova's pharma industry and the time frame of investment decisions and projects, the anticipated development impact will only fully unfold in the medium and long term

## 4. Competitive position of Moldova

---

**In principle, Moldova offers favourable conditions for investment projects in the pharma industry – in particular with respect to the availability of graduates and specialists, competitive cost structures and access to important markets**

Key arguments from the perspective of pharma investors include:

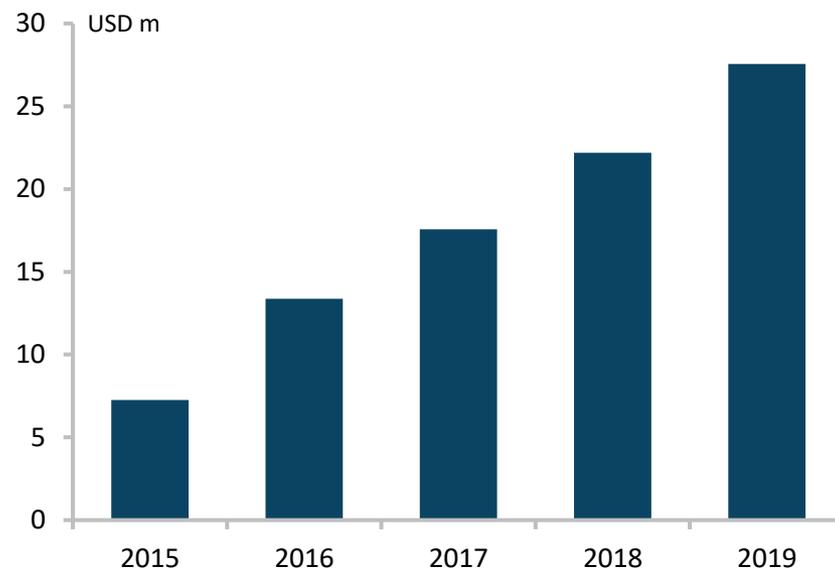
- Specialised academic and research institutions with close international ties offering a promising recruitment and cooperation potential (e.g. State University of Medicine and Pharmacy "Nicolae Testemitanu" and Center of Excellence in Medicine and Pharmacy)
- Longstanding industrial and academic tradition in the life science sector
- Further competencies and skills base in related areas, e.g. IT
- Competitive operational costs (in particular labour costs)
- FEZ with a range of relevant incentives for production-oriented projects (additional benefits of "IT Park" scheme for certain research-oriented projects)
- Proximity and preferential access to the EU and CIS markets
- Life sciences and health as a priority in the innovation policy package (e.g. in Programme for Research and Innovation, Smart Specialisation Platform)

## 4. Competitive position of Moldova

**Recent FDI projects and enquiries also indicate that Moldova's value proposition generally allows to generate interest and investments from the pharma industry**

- Moldova was able to significantly increase FDI inflows from the pharma industry in the second half of the past decade, although from a low base
- In 2019, pharmaceuticals accounted for 5% of the manufacturing FDI stock
- The investment by the Swiss Tauralp Group in the generics and nutritional supplements producer Farmaco SA constitutes a major recent FDI project
- Further pharma companies with FDI in Moldova include Eurofarmaco SA and BIOTEHNOS

**FDI stock (equity) of pharmaceutical industry in Moldova**



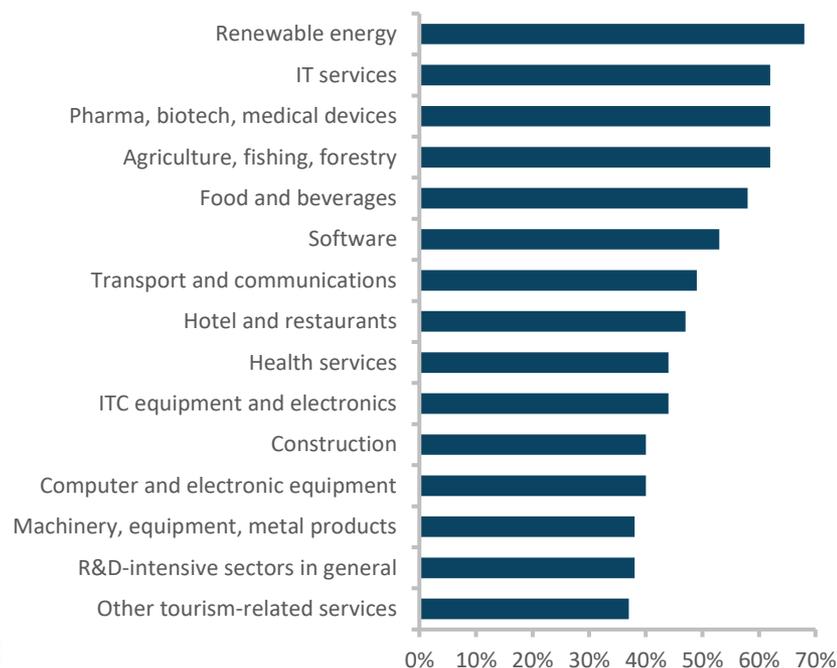
Source: National Bank of Moldova 2021

## 4. Competitive position of Moldova

**However, competition is intensifying at the international level and there is still a low awareness of Moldova as an investment location for the pharma industry**

- More and more countries target the industry including transition countries
- Moldova also has to position itself among locations with a focus on:
  - Mass production with highly competitive cost-structures and supply chains (e.g. India, China)
  - Complex products with established cluster structures (e.g. CEE)
- So far, Moldova has no distinct profile or developed ecosystem. The industry is still comparatively small (about 15 producers)
- According to the interviews, there is also a need to improve the regulatory framework (e.g. certification)

**Top 15 target groups as designated by IPAs around the globe**



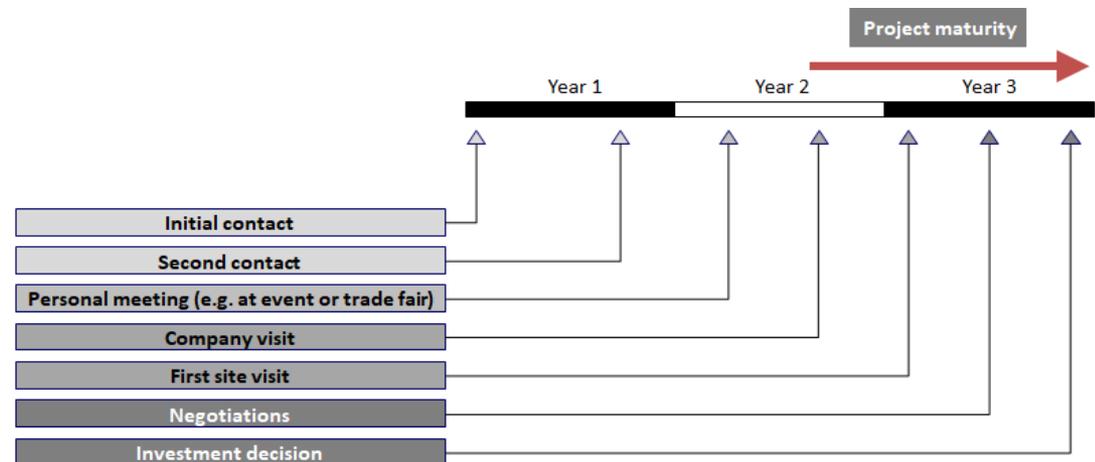
Sources: World Association of Investment Promotion Agencies (WAIPA), World Bank Group, 2020

# 5. Conclusions and recommendations

The pharma industry offers a promising potential as a strategic target group considering FDI trends and the development impact of investment projects. Tapping the potential requires a targeted, coherent and long-term approach

- While competition is intensifying, Moldova does not yet have a distinct profile as an investment location for the pharma industry
- Investment attraction takes time and relies upon customer relations, which require continuity and a systematic approach, in particular when there is:
  - a low level of awareness of the location within the investor community
  - no existing pipeline of investment leads
- On average, it takes three years between the first contact to an interested investor and the actual investment decision

Typical time frame and interactions in the course of investment selection processes



## 5. Conclusions and recommendations

---

**As a first step, a test campaign is recommended focusing particularly on generics companies with a strong presence in the region**

- To verify the potential and refine the value proposition and segmentation, a test campaign should be carried out before a roll-out of further measures
- This approach is common practice in the area of investment attraction and helps to avoid extensive and time-consuming analyses
- Main emphasis should be on generics companies – in light of their more decentralised, globally-dispersed production networks and efficiency-orientation with a stronger focus on costs in investment decisions
- As part of the test campaign, generics producers with a strong presence in the region should be approached, e.g. Stada, Zentiva, Teva, Gedeon Richter
- Furthermore, small scale lead generation and fact-finding activities should be carried out in the context of leading trade fairs such as CPhI (pharmaceuticals / generics) and Medica (medical products / devices)
- In this context, it should be considered to integrate further segments within the life sciences sector (beyond pharma) including medical products / devices, diagnostics, digital healthcare and processing of natural ingredients

## 5. Conclusions and recommendations

---

**Depending on the results of the test campaign, a comprehensive road map should be developed in close consultations with the main stakeholders**

- Efforts need to be intensified to strengthen Moldova's competitive position as an investment location for the pharma industry
- A convincing value proposition requires the effective interaction of several policy tools and areas
- Based on the feedback from investors and stakeholder consultations involving the newly established pharma producer association, a comprehensive road map for the development of the pharma industry should be developed
- Particular emphasis should be on the following areas:
  - Regulatory framework (e.g. certification, export and import processes)
  - Training and education
  - Investment sites for the pharma industry
  - Linkages between investors, local companies and research institutions
- In this context, synergies between the investment and innovation policy package, which also has a main focus on life sciences, should be explored

# About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Energy, the German Economic Team (GET) advises the governments of Ukraine, Belarus, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

## CONTACT

**Carolin Busch**, Project Manager Moldova  
[busch@berlin-economics.com](mailto:busch@berlin-economics.com)

German Economic Team  
c/o BE Berlin Economics GmbH  
Schillerstraße 59  
10627 Berlin

Tel: +49 30 / 20 61 34 64 0  
[info@german-economic-team.com](mailto:info@german-economic-team.com)  
[www.german-economic-team.com](http://www.german-economic-team.com)

Implemented by

