

EU4Business: Connecting Companies



SECTORIAL STRATEGIES FOR THE TEXTILES SECTOR

EU4Business: Connecting Companies (EU4BCC)

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Sectorial Strategies for the Textiles Sector

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1. INTRODUCTION

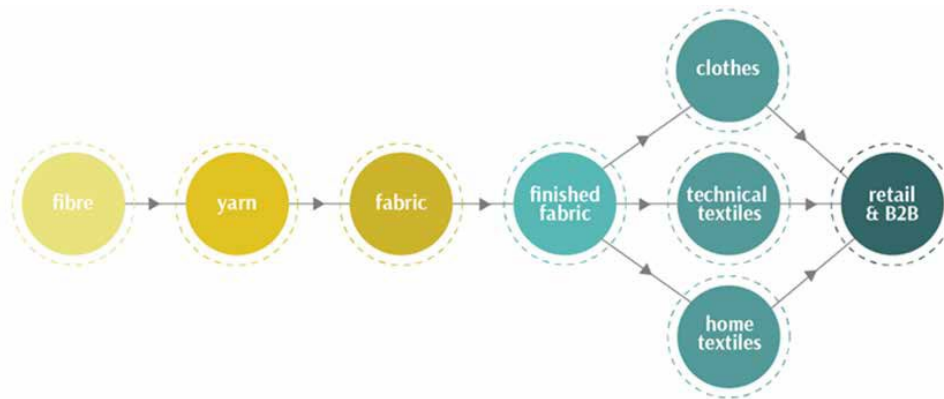
The main aim of this document is to perform an in-depth analysis of the situation of the textile sector in the six Eastern Partnership (EaP) countries involved (Azerbaijan, Georgia, Armenia, Moldova, Ukraine, Belarus¹) including figures and facts and a SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis to understand the real situation of the textile industry in each country providing data to establish operational recommendations that contribute to boost the competitiveness of the sector in the countries involved.

The methodology used to draft this report has started with an in-depth research about the situation of the textile sector in the six EaP countries, followed by interviews with stakeholders related to the textile and clothing companies in each country to verify and complete the data obtained from the desk research. With the information obtained, a report about the situation of each country has been developed that has served as bases to work on the strategic objectives and the diagnosis through a SWOT analysis per country. The SWOT analysis has been the starting point to develop the strategic plan and establish the Key Performance Indicators (KPIs) system.

¹ Since 2021, Belarus unilaterally decided to suspend its participation in the Eastern Partnership. In addition, in line with the Council Conclusions of 12 October 2020 and in light of Belarus's involvement in the Russian military aggression against Ukraine, recognised in the European Council Conclusions of February 2022, Belarus is now under EU sanctions (cf. <https://www.consilium.europa.eu/media/46076/council-conclusions-on-belarus.pdf>; <https://www.consilium.europa.eu/en/press/press-releases/2022/02/24/european-council-conclusions-24-february-2022/>). Activities of the project have been suspended.

1 SECTORS' PURPOSE/MISSION

Textiles are fundamental to the wellbeing of people in Europe and across the world. The textile and clothing industry covers indeed a wide range of activities, from the transformation of natural fibres (cotton, flax, wool, etc.) or man-made fibres (polyester, polyamide, cellulosic etc.) into yarns and fabrics, to the production of a wide variety of products such as hi-tech synthetic yarns, bed-linens, industrial filters, and clothing and fashion.



Whereas the sector was sometimes ignored, the pandemic has confirmed its strategic importance. The safety of healthcare workers and the population at large depend on textiles, but their importance goes far beyond. Without textile materials, no cars, airplanes, or buildings can be built, nor can agri-food workers, defence, and security forces or artisans, do their work in full.

In Europe, the sector includes ca. 143,000 companies (of which 90% are SMEs²), employing 1.3 million people and generating a turnover of nearly €147 billion. The sector generates €58 billion of annual export income.

The system of production and consumption of textiles is highly globalised with millions of producers and billions of consumers spread across the world, in highly linear value chains involving raw material extraction, production, transportation, consumption and after-use disposal.

Most companies therefore operate in complex value chains, making them dependent on external supplies, which can be easily disrupted. During the corona crisis, product shipments have been disrupted by trade stops, national border controls or rolling production shutdowns, thus creating important sourcing problems.

² Small and Medium-size enterprises (SMEs)

Textile and clothing companies are operating in a competitive market, putting pressure on prices and margins. This has an impact on the financial strength of many companies, leaving little buffers for such a crisis, and resulting in low ratings with the financial sector, which in turn complicate access to finance.

The textile sector, including the fashion industry, has significant environmental footprint across its value chain. Natural fibres, such as cotton and wool, are produced using vast areas of agricultural land and large amounts of water, energy, and chemicals, while the manufacture of synthetic fibres is based on fossil fuels.

The use of chemicals and additives in textile production exerts significant impacts on local and regional water bodies. Their global distribution network emits greenhouse gases and generates packaging waste. In the use phase, washing and drying of textiles result in significant water and energy use as well as the release of chemicals and micro-plastics into rivers and the marine environment. The sector is a major contributor to climate change through its energy use and waste management.

Apparel and footwear have been estimated to produce as much as 8% of global greenhouse gas emissions through their life cycles³. In 2015, greenhouse gas emissions from textile production amounted to 1.2 billion tons of carbon dioxide equivalent (CO₂-eq), more than international flights and shipping combined (Ellen MacArthur Foundation, 2017)⁴.

The textile and clothing sector is heavily dominated by small business: nearly 90% of companies employ less than 10 people. Some companies have successfully improved their competitiveness by reducing or ceasing the mass production of simple products and concentrating instead on a wider variety of products with higher value-added.

The textile industry can also have huge social impacts, as we were reminded by the 2013 Rana Plaza incident in Bangladesh when a textile factory collapsed killing more than a thousand workers.

The outbreak of the COVID-19 crisis on public health in the six EaP countries remains limited to date, yet containment and social distancing measures have had a significant economic impact, particularly on SMEs.

While it is difficult to estimate the magnitude of the effect of the crisis on EaP economies and their SMEs, this crisis has caused a sharp contraction in domestic output, household spending and international trade. The textile and confection sector is also affected by the decline in demand,

³ Measuring Fashion. Environmental Impact of the Global Apparel and Footwear Industries Study. Full Report and Methodological considerations. Quanties 2018.

⁴ "Textiles and the environment in a circular economy", Eionet Report, ETC/WMGE 2019/6

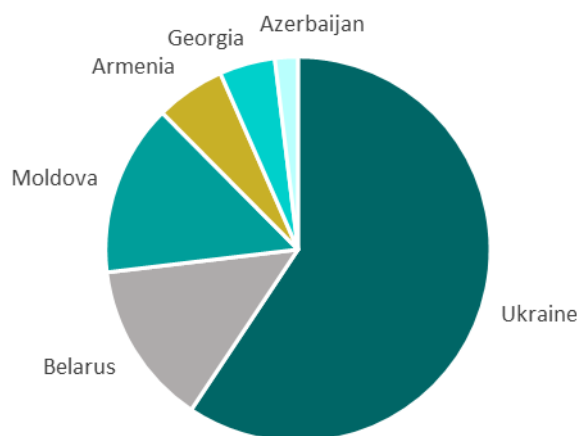
difficulties in the supply of raw material needed for production and the compulsory need to shift the production to produce medical devices.

Independently of the COVID-19 impact on local economies, the contents of the present strategy document targeted to improve some business conditions of the sector can be consider in any case an additional support to overcome the difficulties caused by the pandemic. Textile and clothing is an important sector in most EaP countries, with a long history and different levels of development. The sector has been subject to a series of radical transformations over recent decades, due to a combination of technological changes, the evolution of production costs, the emergence of important international competitors. Most national authorities in the region have identified “textiles” as a strategic sector, partly because it offers job opportunities for lower skilled labour in less developed regions.

What is needed however is a dedicated textiles strategy, which can tangible offer support to companies, and sets a vision for this industry. This requires the existence of strong and independent industry associations, who can dialogue with the government, trade unions, big brands, and NGOs. In most EaP countries this dialogue is under-developed, leading to frustration on the industry side and misconception on the authorities’ side. One notable exception is Moldova, where a strategic roadmap for the sector has been developed, as part of the Moldova Competitiveness Project⁵.

Total trade with the EU amounts to €2.9 billion (2021), and is dominated by Ukraine, followed by Belarus and Moldova.

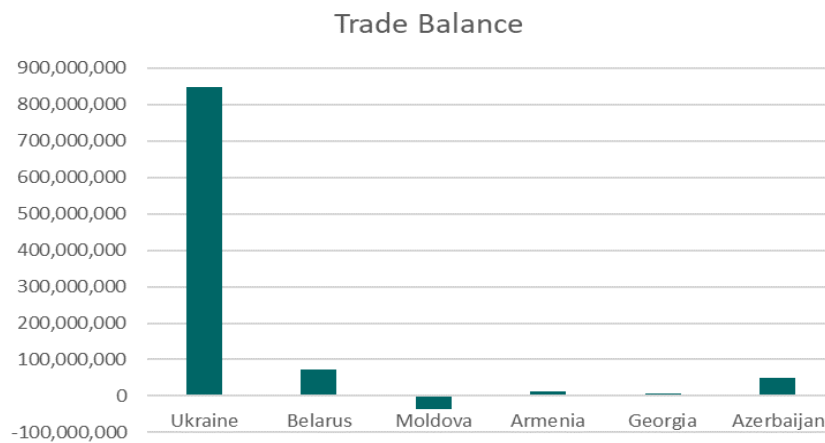
Total Trade in T&C with EU, 2021



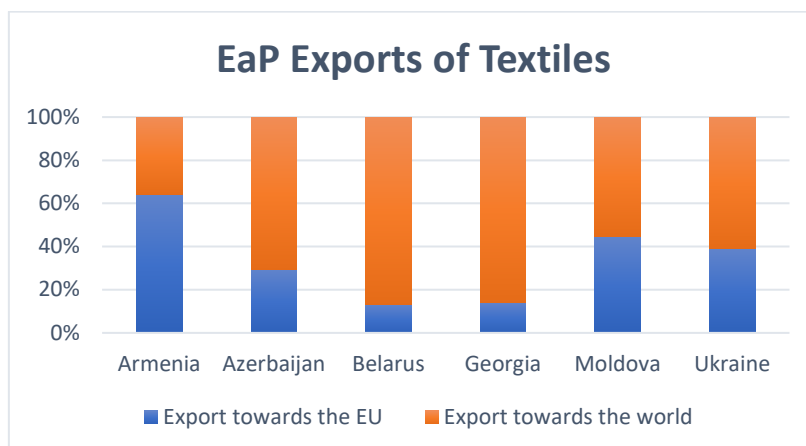
⁵ REBUILDING A SUSTAIBALE FASHION MANUFACTURING INDUSTRY IN MOLDOVA, Strategic Roadmap Medium-Term Recovery Action Plan in the Post-Corona Era, May 2021, funded by USAID.

2021 (€)	Exports	Imports	Trade Balance
Ukraine	1,291,257,309	444,810,797	846,446,512
Belarus	237,549,413	164,290,296	73,259,117
Moldova	193,888,946	228,410,696	-34,521,750
Armenia	92,367,672	78,277,519	14,090,153
Georgia	71,588,867	65,314,142	6,274,725
Azerbaijan	52,853,785	3,684,884	49,168,901

The EU has a significant trade surplus with most EaP countries in the textiles and clothing sector, except for Moldova.



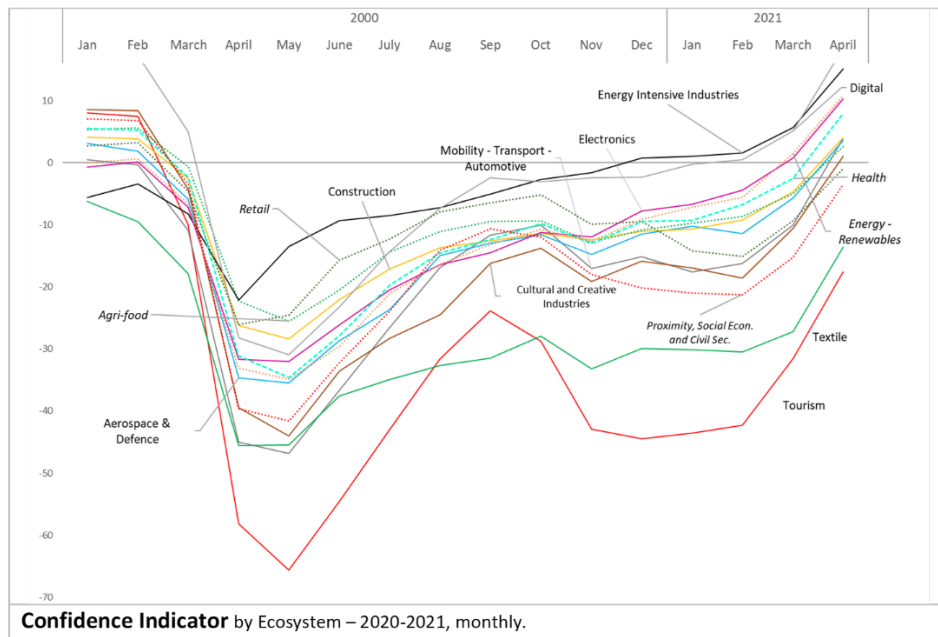
As we can see from the chart below, the percentage of export towards the EU is different in every country. However, there is a trend let by Armenia and followed by Moldova and Ukraine, while the other half of the EaP countries are more oriented towards the export to other destinations.



Impact of COVID-19

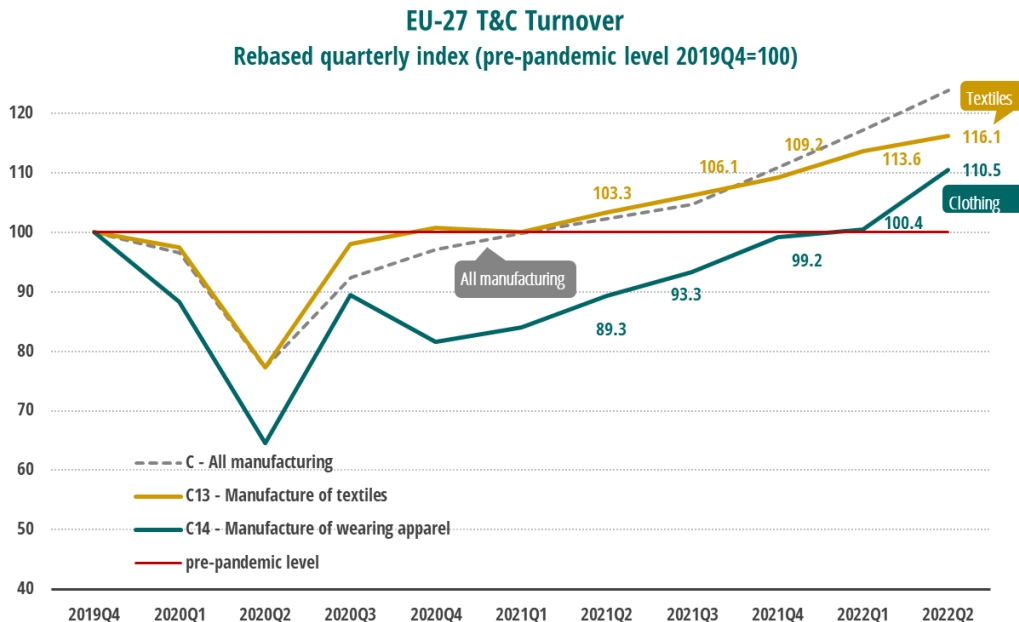
The textiles and clothing industry has been badly hit by the COVID-19-pandemic, even more so than

most other sectors of the economy.



Source: European Commission, DG Grow.

In 2020, turnover plummeted to -35% for the clothing industry and -25% for textiles. In particular, the closing of shops caused major disruption in consumer sales, but also supply chains disruptions caused major problems for the industry. However, from the 2nd half of 2020 and into 2021, business has picked up again. By early 2022, both textiles and apparel industry have exceeded pre-pandemic levels.



The above trends based on EU data, have also been confirmed across the EaP countries, in some cases with even worse situations, as much of their production is dependent on orders from foreign (EU) retailers. The crisis highlighted the dependency of the sector, but also stimulated reflection on the development of a new business model, based on sustainability and increased flexibility.

The textiles sector has also been included in the European Commission updated Industrial Strategy⁶, offering an opportunity to develop a comprehensive new plan that will support the long-term competitiveness of the sector. It is recommended to develop an “EaP extension” of that plan, which will facilitate the integration of these countries into the European textiles’ ecosystem.



COUNTRY OVERVIEW

Armenia

The textile and clothing industry is one of the 11 strategic export-oriented sectors in the Republic of Armenia, who is among the major suppliers of garments and textiles for the region. As one of the most established sectors in the Armenian economy, the textile sector serves as an important source of employment in the country.

However, some of the SMEs in the sector operate far below capacities and their products are uncompetitive in the regional and international markets. Nevertheless, there has been an improvement over the last three years and there is a great potential for rapid development. The Government of Armenia considers the revival of the textile sector as a priority and also a means to create jobs, boost value-added trade and expand exports by exploiting a number of comparative and historical advantages both in the region and internationally.

Attracting young workers and developing modern training programmes are a bottleneck for the industry. This is something that ideally should be developed by the sector, through a strong industry association.

⁶ Updating the 2020 Industrial Strategy: towards a stronger Single Market for Europe's recovery, May 2021, Com (2021) 350 final.

Textile and apparel industry, leather and shoes production are one of the oldest and fastest growing industries of the Armenian economy. Evidence of Armenian garment-making goes back even further in history. A 5,900-year-old skirt fragment found in Armenia is the second oldest garment discovered in the world.

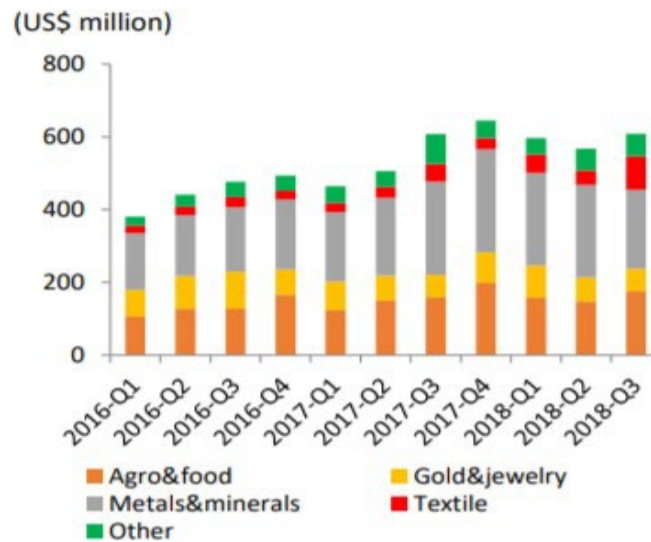
The industry plays an essential role in Armenian economy and represents 6,6% of country's total export. In 2017, 42,5% of Armenian textile and apparel, leather and shoes production were exported to the EU, proving that production corresponds to top international quality standards, has large demand and is highly appreciated in EU markets. Armenian textile companies are also famous for doing subcontracting for world-known companies. People can find a Moncler jacket with a "Made in Armenia" writing in the company's main brand store in Milan, which was tailored by Armenian company called Gloria. The demand for Armenian Textile is growing year by year – the industry recorded 35% - 43% average annual export growth between 2015 and 2017.

Armenian government highly encourages the sector development and introduced incentives in the field: there is an option of VAT payments' postponement for importing equipment and goods within investment programs as well as no VAT at all for more than 230 product groups imported to Armenia. According to Eurasian Economic Union (EAEU) regulations the businesses can import materials and equipment from member countries with no custom duties, and if the materials and equipment cannot be found in EAEU, the Armenian governments provides the benefit of customs duty exemption for importing from non-EAEU country.

Competitive Advantage of the Armenian Textile sector:

- Export of textile and leather grew 2,7 times in 2017 compared with 2014.
- High quality standards: 42,5% of Armenian textile and apparel are exported to the EU.
- Export opportunities: the majority of EAEU countries are textile importers.
- Low electricity prices of 8 US cent/kWh.

Exports by commodity groups are divided as follows:



Source: Armenia Country Economic Update - Winter 2019. Macroeconomics, Trade & Investment Global Practice. A strong mandate for change, World Bank⁷.

Armenia experienced a considerable shift in the structure of its goods exports in 2018. Whereas the share of traditional exports (minerals, particularly copper) diminished as the mining sector contracted, the share of textiles, agriculture, and precious metals (gold and jewellery) increased (figure above). Textile exports were up by 65% year on year at end-2018, albeit from a small base (a bit more than 6% of total exports).

Business Armenia has published a marketing package presenting investment opportunities, production potential and key indicators of Armenian textile industry.

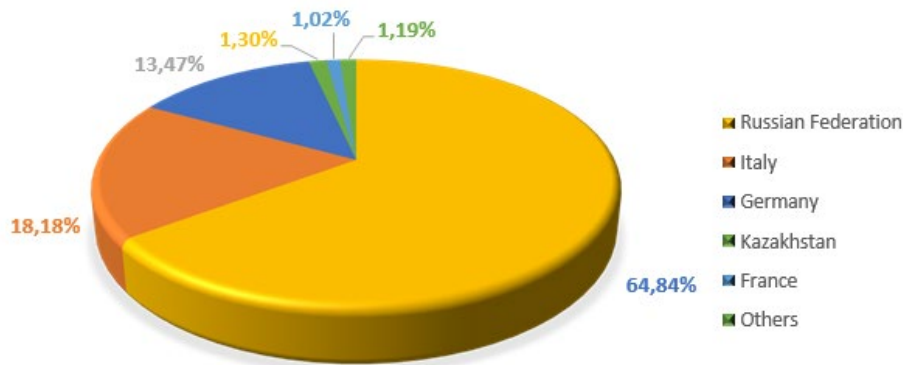
According to the information provided by Business Armenia research team (data from 2018), the annual export growth of Armenian textile, apparel, leather, and shoes products was 35%-43% during the last three years and more than 40% is exported to EU countries.

To stimulate the investments, Armenian government has implemented numerous assistance programmes, which make Armenia an inviting platform for European, Iranian and Asian investors. Due to Armenia’s membership to EAEU, the investors can establish textile manufacturing factories in the country and export to EAEU member countries with overall population of 183 million people with 0% custom duties.

The exports of Armenia into the textile sector (2018 data) are divided as indicated in the chart below:

⁷ <http://documents.worldbank.org/curated/en/270691552624070040/pdf/135313-WP-PUBLIC-14-3-2019-18-42-30-CEUMARARMENGWeb.pdf>

TEXTILE EXPORT



Source: World Bank⁸

The total value of Armenian exports of textile materials and apparel in 2019 accounted for €166 million, 41,91% of which was imported by the EU.

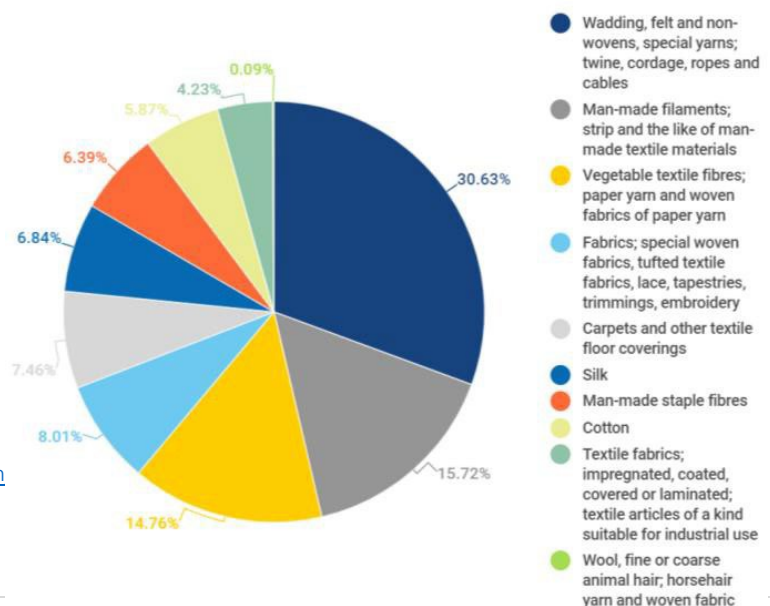
Based on the analysis, exported Armenian textile fabrics into the EU are:

- > Wadding, felt, and nonwovens, special yarns; twine, cordage, ropes and cables and articles thereof accounting for 30.63% of total exports of textile fabrics.
- > Man-made filaments: strip and the like of man-made textile materials, representing 15,72% of total food exports.

Regarding the export to the EU of apparel articles, “apparel and clothing accessories; not knitted or crocheted” accounts for 98,14% of the total Armenian exports of apparel towards the EU.

The exports to EU by type of article

In 2019, main EU importers of Armenian apparel are Spain (€5.37 million) and France (€476 million)



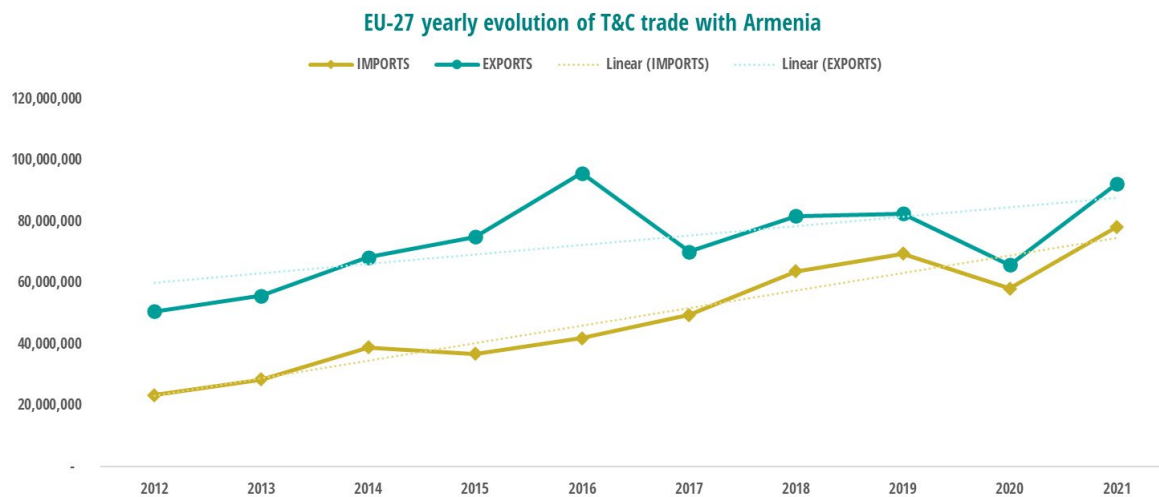
⁸https://wits.worldbank.org/CountryProfile/en/63_TextCloth

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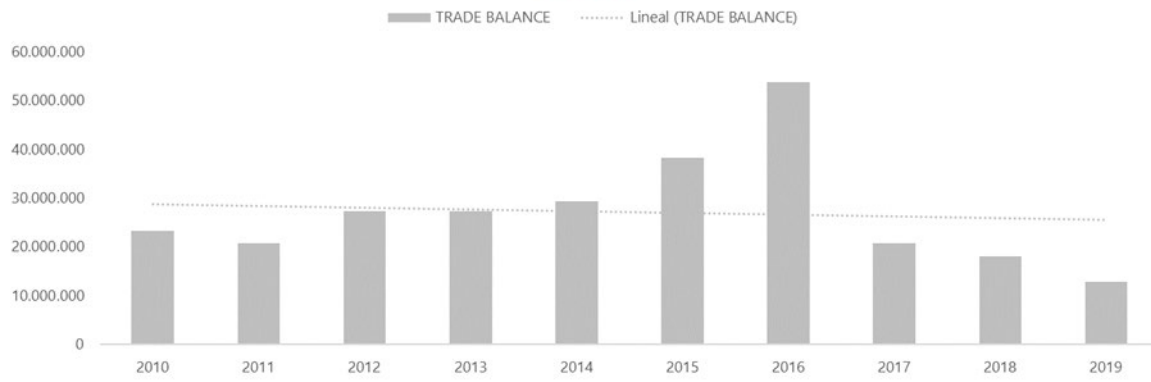
The following graph shows the EU-27 yearly evolution of The textile and clothing trade with Armenia, from 2010 to 2021, taking into account imports and exports⁹.



The extra EU-27 evolution of the textile and clothing trade, from 2010 to 2019, is shown in the graph below:

⁹ Euratex calculations based on Eurostat data.

EXTRA EU-27 Evolution of T&C trade
Armenia



Azerbaijan

At the beginning of the 1980s, cotton cultivation boomed in the country with an annual harvest of more than 1 million tons of raw cotton. The collapse of the Soviet Union, the transformation crisis in the 1990s and general neglect almost brought the industry to a standstill. In 2015, the harvest reached a historic low of 35,000 tons of raw cotton.

Yet, the turnaround has begun. In 2017, 207,000 tons of raw cotton were harvested (forecast for 2018: 250,000 to 260,000 tons). A downer is the low average yield of 1.52 tons per hectare (2017). The government announced increased support for soil irrigation and technical equipment for manufacturers. By 2022, the harvest is expected to rise to 500,000 tons per year.

The "State Program for the Development of Cotton Growing in the period 2017 to 2022" adopted on 13 July 2017, is a guideline for the further development. Projects are planned for the renewal of existing and the construction of new cotton ginning mills and processing of cotton fibres into yarns, fabrics and finished products. By mid-2018 there were eight spinning mills in the country with a total annual capacity of 44,600 tons of yarn. Above all among the yarn producers in Azerbaijan are the companies Mingatschewir Textil, MKT Istehsalat Kommersiya, ASK Textil Sumgait and Azeripek (better known as Ipek Scheki).

Azerkhalcha, the company producing hand-woven carpets, has an ambitious goal: 30 regional carpet weaving mills are to be established by 2020. By the end of 2017, ten branches have already been opened, and further followed in in 2018 and 2019. Azerkhalcha was founded in 2016 on the initiative of the government.

From 2020, approximately 5,000 employees will produce hand-woven carpets under the Azerbaijan Carpet label for domestic and foreign markets. The expansion plans to produce hand-woven carpets result from the in 2018 adopted state program for the development of carpet art in Azerbaijan and the Nakhichevan Autonomous Republic for the years 2018 until 2022.

The silk situation is different. Since 2016 the silk industry, which came almost to a standstill, has now been on the move again. On 27 November 2017 the "State Program for the Development of Silkworm Breeding and Processing of Mulberry Silkworm Cocoons for the period 2017 to 2025" was adopted. The program defines projects to revitalize the sector. The annual production of cocoons is expected to rise to 6,000 tons by 2025, ensuring an annual production of up to 600 tons of raw silk. In 2017, 244 tons of cocoons were produced after 71 tons in 2016 (forecasts for 2018 and 2019: about 500 and 1,000 tons respectively).

The modernisation of the silk combine Azeripek in Scheki is at the top of the project list. The contact organisation is the Azerbaijan State Industrial Association, to which Azeripek and other companies are reporting¹⁰. The construction of a new silk spinning mill with an annual capacity of 3,000 tons of yarn is planned.

Established in 1931 and later expanded the Silk Combine in Scheki was the flagship of the silk industry in the Soviet Union in the 1970s and 1980s with some 7,000 permanent employees. It produced up to 400 tons of raw silk per year and supplied over 100 factories with silk yarn and twist. Inefficient privatization, financial problems, lack of raw materials and sales difficulties repeatedly led to production stoppages.

Today's capacities allow an annual production of up to 135 tons of raw silk only. As a result of technical problems, the factory is unable to produce finished fabrics. However, the country's richness in cotton production is helping the textile industry grow. The total volume of textile production in Azerbaijan in the first 5 months of 2019 was €63.86 million¹¹. The huge 47,7% growth, when compared with the first five months of 2018, is astonishing, but data have been confirmed by the State Statistical Committee.

It is, however, important to note that the apparel production slumped by 0.1%, accounting for €29.3 million during the same period. Even the production of leather goods and footwear fell by 27,7% (touching €4.63 million) in the first 5 months of 2019.

Yarn products, clothes, leather items and shoes (value €29.3 million) were produced during the same period at a year-on-year growth of 56.1%. The retail turnover of yarn items, apparels and footwear touched €1.31 billion (3,2% growth) in the January to May period of 2019. Notably, Baku Textiles, which makes over 5,000 different varieties of textile products, is today one of the biggest names in Azerbaijan's textile industry.

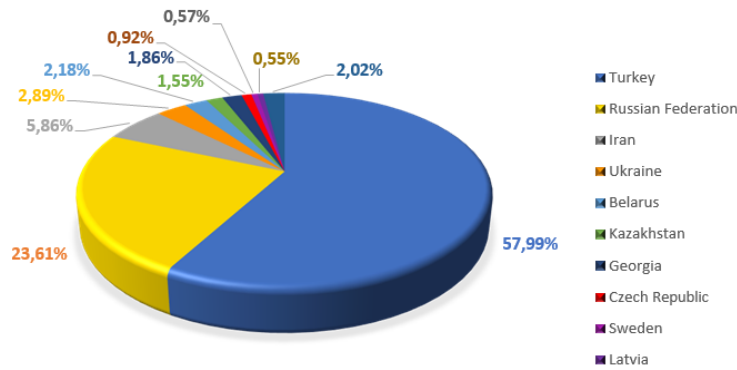
According to the World Bank¹², in 2018 the trade shares of exported textiles was the following:

¹⁰ www.ask.gov.az

¹¹ www.stat.gov.az

¹² <https://data.worldbank.org>

TEXTILE EXPORTS

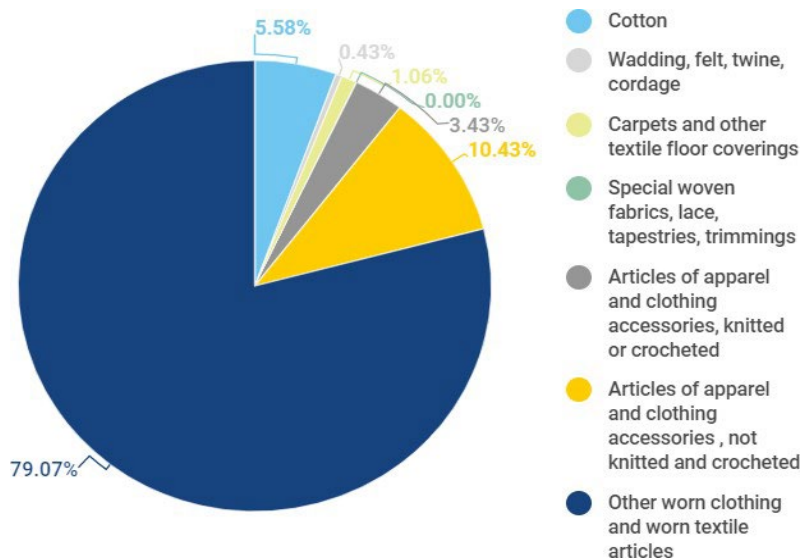


Azerbaijan Exports of Other made textile articles, sets, worn clothing was €22.07 million during 2019, according to the United Nations COMTRADE database on international trade. Azerbaijan Exports of Other made textile articles, sets, worn clothing - data, historical chart and statistics - was last updated in May 2020.

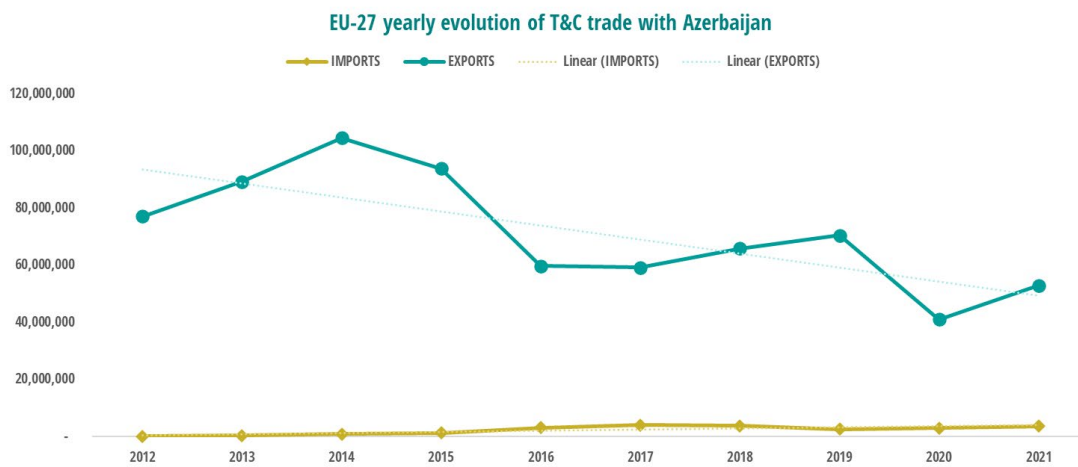
When considering the total value of Azerbaijan exports of textile materials and apparel in 2019, we can see it accounted for approx. €170 million. 1.34% share has been imported by the EU for a total value of €2,21 million. The exported textile fabrics into the EU are the following:

- > Articles of apparel and clothing accessories, not knitted and crocheted, account for 10,43% of total exports of textile fabrics.
- > Worn clothing accounts for 79,07% of Azerbaijan textile export. Main importers: Sweden (€360.714), Finland (€293.750).

EXPORTS TO EU BY TYPE OF ARTICLE

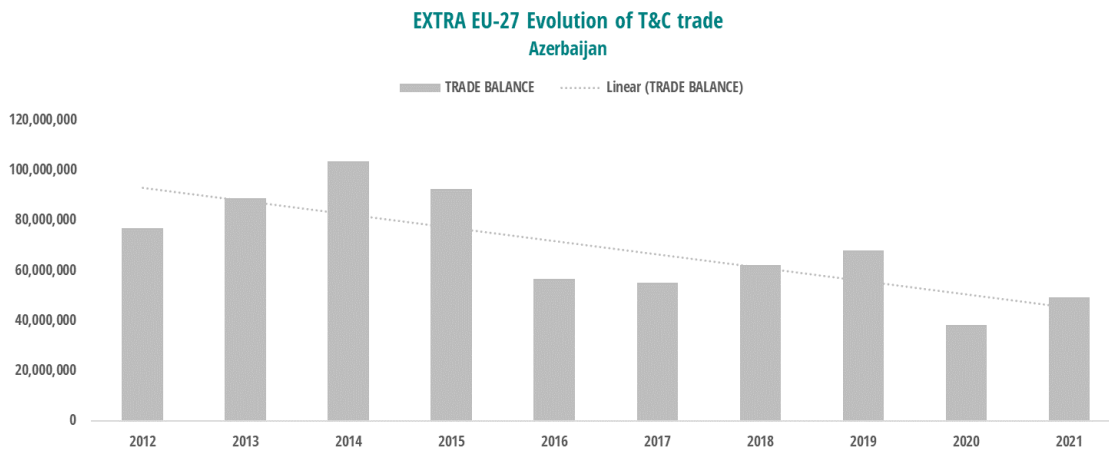


The following graph shows the EU-27 yearly evolution of the textile and clothing trade with Azerbaijan, from 2010 to 2021, considering imports and exports (source Euratex calculations, based on Eurostat



data):

The extra EU-27 evolution of the textile and clothing trade, from 2010 to 2019, is shown in the graph below:



Belarus¹³

The textile and clothing industry has traditionally been one of the most important sectors of the manufacturing industry in the Republic of Belarus. As a result, of the sharp decline of the local purchasing power and of the main export market Russia, the sector has suffered a severe setback in the years 2013 to 2017.

The textile industry is estimated as the largest in terms of output in the light industry. The segment comprises the production of all types of fabrics, knitwear, felting and other products. Knitting industry is focused on the production of knitwear, stockinet, hosiery, and other products. Knitwear of such Belarusian brands as “Polesye”, “Alesya”, “8 Marta”, “Svitanak” is widely known.

The confection industry of light industry includes about 170 manufactures. The main activity of these enterprises is the tailoring of costumes and outerwear, children's clothing items, underwear, hats, and fur products. The largest garment factories in Belarus have a “portfolio” of export brands that are exported within the Commonwealth of Independent States (CIS), as well as to the United Kingdom, Denmark, Poland, United States of America (USA), the Netherlands, and the Czech Republic.

Belarus' textiles and clothing industry has a modest position (4.4%) in the structure of the country's manufacturing industry, and the annual production of most textile items went down. The total turnover of the textiles, apparel, fur, and leather industry was nearly halved, from 7.0 billion roubles in 2010 to 3.7 billion roubles in 2017, the equivalent of €1.48 billion. Employment in the textiles and clothing sector has been dwindling from 104,200 workers in 2010 to 75,500 workers in 2015.

Many of the state-owned companies that still dominate Belarus' synthetic fibre industry as well as its wool and linen spinning & weaving sector, could only survive thanks to generous government subventions. Many firms continue suffering from overstaffing and inefficiency, obsolete equipment and large debts.

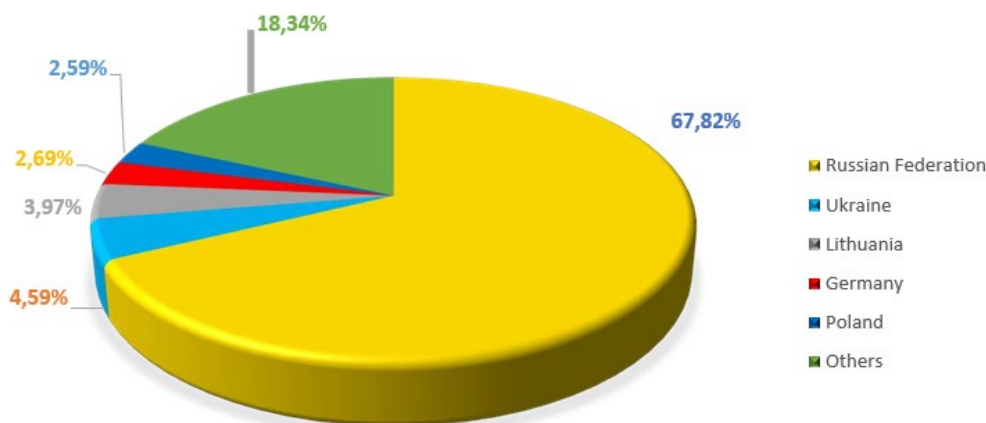
Since the second half of 2016, the sector is on an upswing again. Nevertheless, the textile and clothing industry continues to suffer from a weak capacity utilisation, an inadequate management and marketing as well as from a considerable backlog in the technological renewal of the equipment park. The implementation of an industry support program for the period from 2016 to 2020 should provide for a

¹³ Since 2021, Belarus unilaterally decided to suspend its participation in the Eastern Partnership. In addition, in line with the Council Conclusions of 12 October 2020 and in light of Belarus's involvement in the Russian military aggression against Ukraine, recognised in the European Council Conclusions of February 2022, Belarus is now under EU sanctions (cf. <https://www.consilium.europa.eu/media/46076/council-conclusions-on-belarus.pdf> ; <https://www.consilium.europa.eu/en/press/press-releases/2022/02/24/european-council-conclusions-24-february-2022/>). Activities of the project have been suspended.

remedy. The program comes from the Belarussian State Group for production and sale of goods of the light industry Bellegprom¹⁴.

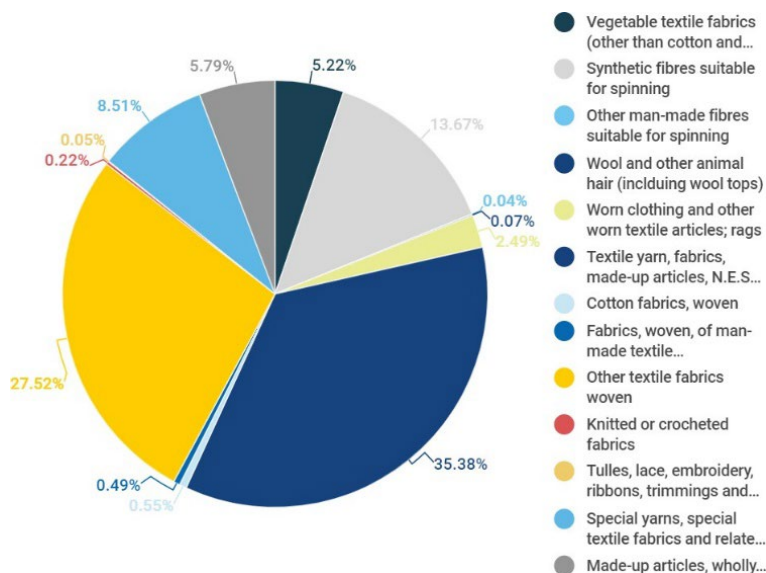
Under the umbrella of the State Group 17 textile, 12 knitting and 21 garment companies are active. The total amount of exports from Belarus in 2018 is €29.6 billion. The textile and clothing industry represents 3,87% of this (€1,14 billion). The main importers from Belarus in the textile industry are the following:

TEXTILES EXPORTS



Source: World Bank¹⁵

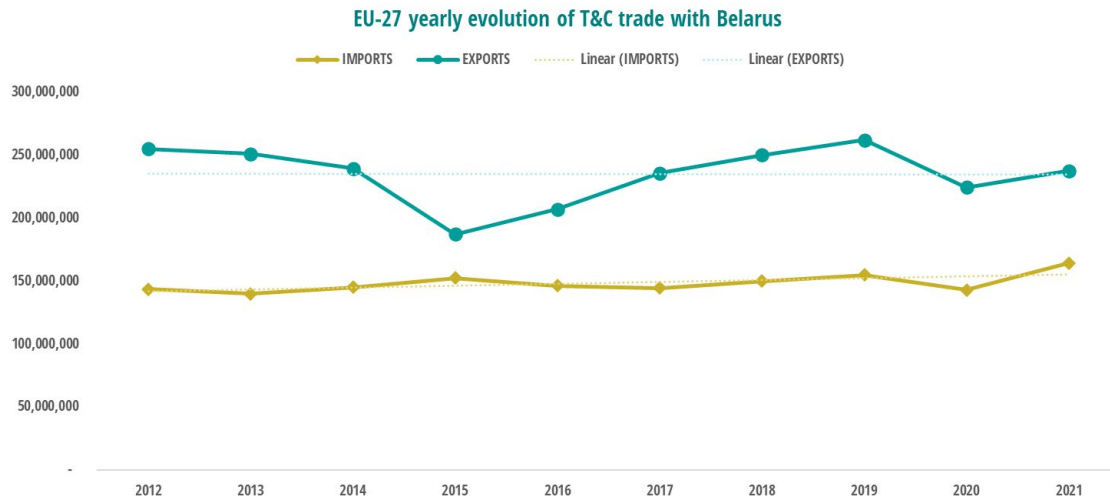
EXPORTS TO EU BY TYPE OF ARTICLE



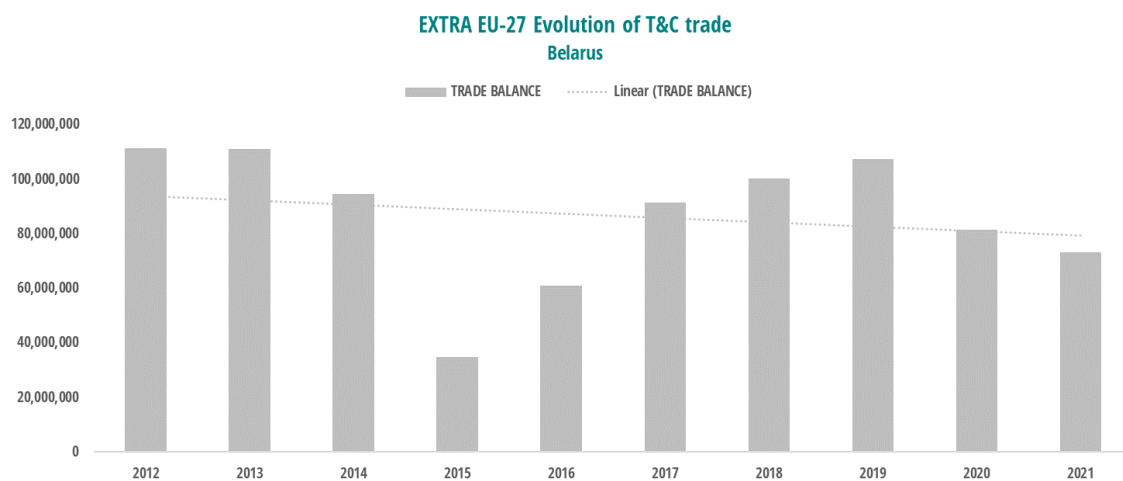
¹⁴ www.bellegprom.by

¹⁵https://wits.worldbank.org/CountryProfile/en/Country/BLR/Year/LTST/TradeFlow/Import/Partner/by-country/Product/50-63_TextCloth, 2018.

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Georgia

Exports from Georgia to the EU increased by 13% in 2019 compared to last year and reached €750.3 million, while imports decreased 7.4% and amounted to €2.03 billion, show preliminary data from the National Statistics Office of Georgia.

Top trading partners

Georgia's top trading partners were Turkey (€1.6 billion), Russia (€1.3 billion) and China (€0.95 billion) in 2019.

Top countries by exports

In 2019, the share of the top ten trading partners in total exports of Georgia amounted to 73.3%.

In 2019, the top export partners were Azerbaijan (€435.4 million), Russia (€434 million), and Armenia (€359.9 million).

Trade with EU countries

External trade turnover with European Union (EU) countries decreased 2.8% year-on-year (y/y) and amounted to €2.8 billion.

The share of exports to EU countries made for 21.9% of total exports, while the share of imports constituted 25.6% of total imports. When looking into the exports, we can see that the entire sector accounts for 3,4% of the total exports of the country in 2019⁷.

The efficiency of labour has a huge impact on overall productivity and profits of any organisation. Countries like Georgia in Europe are among the few places where there is abundance of young labour, and also Georgia has been remarkable with regard to fulfilling the market demand for continuous growth in the highly qualified labour force. Georgia's apparel and textile history dates to its Soviet Republic days and even then, the country was one of the most developed regions in textile and apparel manufacturing in comparison to other nations. More recently, attracting workforce has been more challenging, due to the low margins in the industry and competition with seasonal work in neighbouring countries.

Georgia's local textile and apparel manufactures have orders from renowned international names like Marks & Spencer, Per Una, Puma, Mexx, Zara, Lotto, Lebek, Hawes & Curtis, et al. These achievements have opened new avenues for the country's textile and with this, the Georgian textile and apparel industry has already embarked on a successful itinerary.

Georgia has attracted investments from neighbouring countries including Turkey. As a matter of fact, Turkey is one of the biggest investors in Georgian textile, as Turkish firms consider Georgia as an export base that can provide access to European Union market, market of the CIS and the USA.

The country also offers ample business opportunities in apparel production, brand development and technical textile. There is a wide range of textile products that Georgia is producing, and these include denims, t-shirts, jackets, sweaters, coats, blazers, trousers, sportswear, uniforms for the ministry of defence, finance, environment, and other organisations. The growth in the sector has led to jobs in textile sector as well.

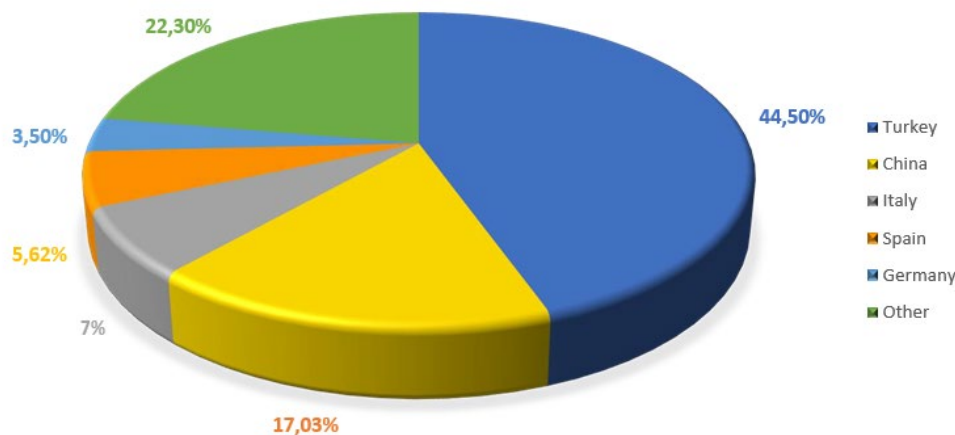
The local manufacturing units have also shown openness to adapt to the changing times. It is the result of this approach that some Georgian enterprises are making textile products like jackets, suits, and upper knitted garments for companies of Italy, Germany, and Korea. The Georgian textile units have shown enthusiasm in establishing contacts with foreign units and investors to start joint venture investments and establish production contracts. Production is gradually shifting from final assembly to more complete production processes.

The fabric produced in Georgia includes natural as well as synthetic fibres. Silk and wool of Georgia are extremely popular worldwide. The strong production of wool and the tradition in silk manufacturing go in favour of the country. Nevertheless, there is still some scope of improving the opportunities for investment in woollen and silk units. The expansion of other sectors like telecommunications by integrating it with international telecommunication community and development of transportation, has also worked in support of the country's textile. The smooth communication and transportation ensure that the textile and apparel investors do not face any hiccups concerning business.¹⁶ Also the positive business climate and low level of corruption is an asset for the country.

Exports towards the EU is €18,576,607.14, out of a total of €118,5 million (15,67%).¹⁷

The main importers from Georgia are the ones indicated in the chart below¹⁸:

TEXTILES EXPORTS

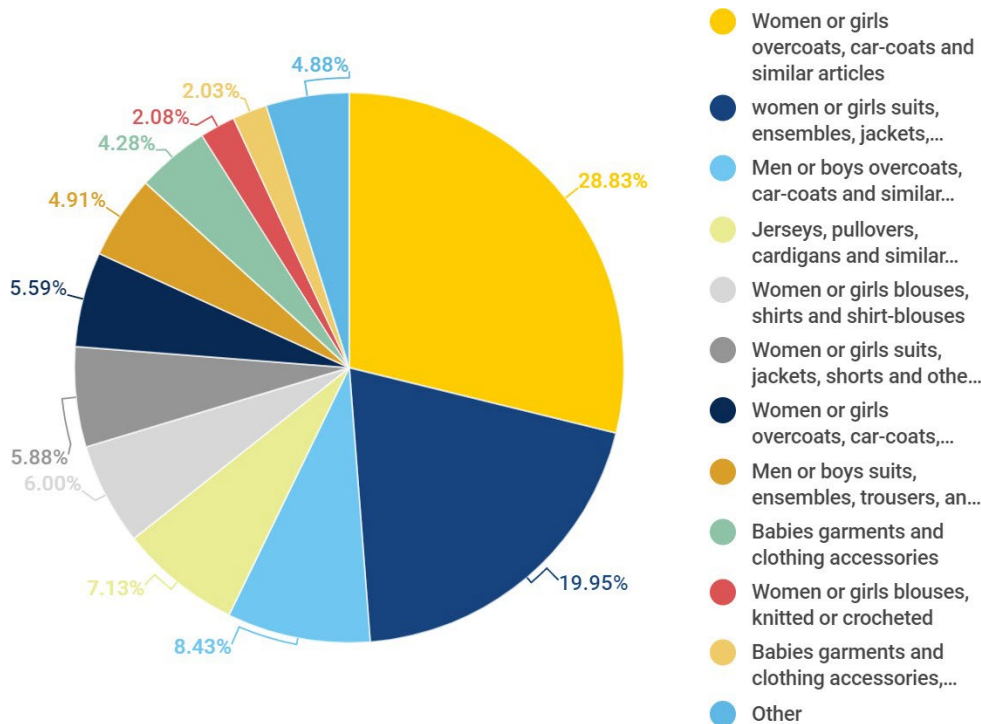


Exports to EU by type of article:

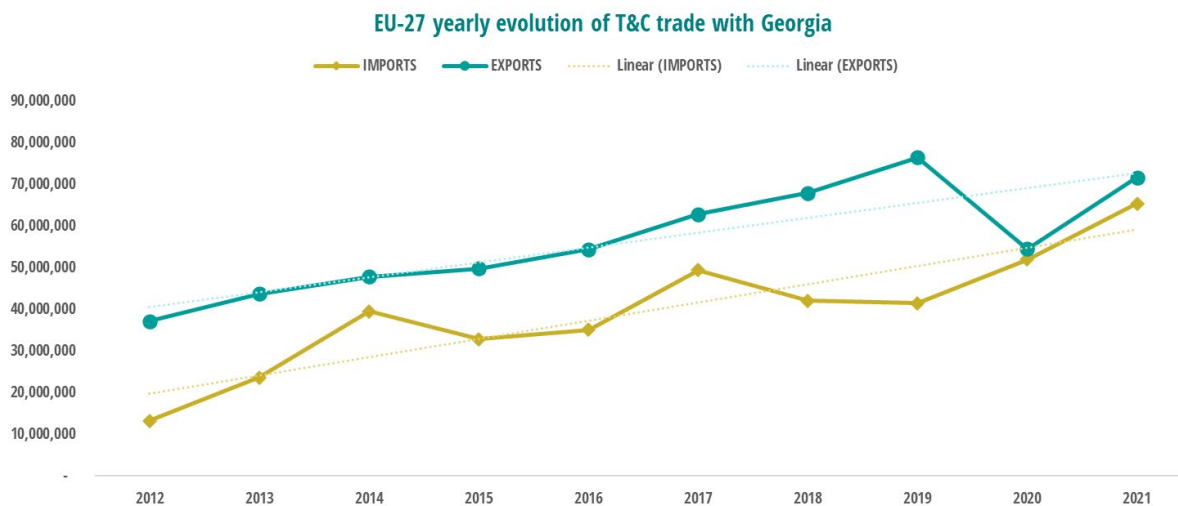
¹⁶ <https://www.fibre2fashion.com/industry- article/7452/georgia-binding-its-way-to-further-develop- its-textile>

¹⁷ <http://ex-trade.geostat.ge/en>

¹⁸ https://wits.worldbank.org/CountryProfile/en/Country/GEO/Year/2018/TradeFlow/Import/Partner/all/Product/50-63_TextCloth_2018

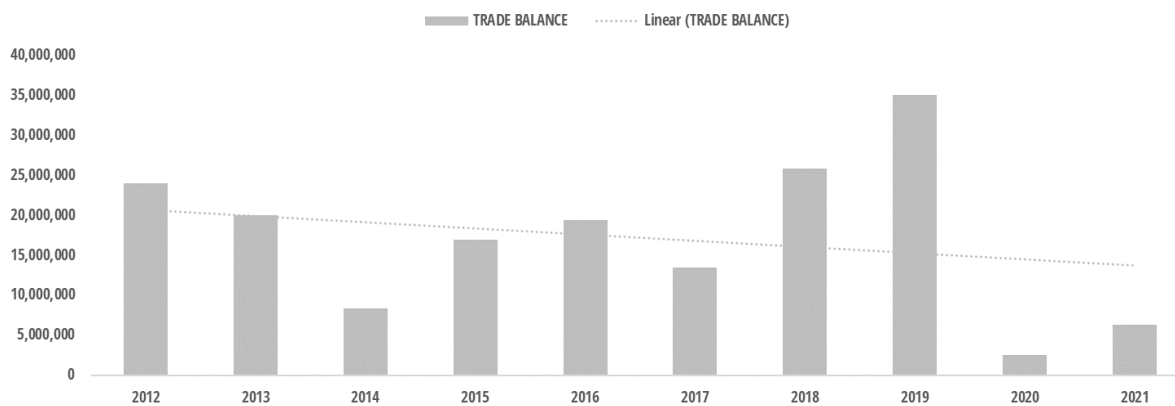


The following graph shows the EU-27 yearly evolution of the textile and clothing trade with Georgia, from 2010 to 2021, considering imports and exports (source Euratex calculations, based on Eurostat data):



The extra EU-27 evolution of T the textile and clothing trade, from 2010 to 2021, is shown in the graph below:

EXTRA EU-27 Evolution of T&C trade
Georgia



Moldova

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

Manufacturing textiles, apparel, leather, leather articles, and footwear (TAFL) represents an 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 comprises approximately 540 enterprises. Micro and small companies with a domestic focus represent the 66% of all companies in the sector, they produce mainly for the domestic market with private labels and local brands, there are also some own-designer brands.

Medium to large companies are large enough to produce for exports, own brands sometimes exported to neighbouring countries such as Romania. They are changing from CMT (Cut-Made and Trim) to FOB (Free-on-Board) export service model.

The Government's Industry Development Strategy lists the TAFL sector as one of the key economic branches, given its significant advantages, such as the possibility to engage many employees into various branch activities, a relatively fast rotation cycle of current assets, moderate investment needs and a professional training system for employees in place.

Presently, the TAFL industry plays an important role in the Moldovan economy, representing nearly 20% of the country's total export volume, 86% of which is exported to the EU countries and the rest is being consumed in the domestic market. The export of TAFL increased by 27% in 2016, mainly due to the threefold increase of three times of knitted garments.

Main export markets are the following: Italy, Germany, Romania, Austria, France, USA, United Kingdom, Belgium, Bulgaria, Netherlands, Poland, Greece, as well as the CIS.

The role of associations such as APIUS (Asociația Patronală) and ZIPhouse, along with programs such as the Moldova Competitiveness Project Funded by USAID (United States Agency for International Development), Sweden and United Kingdom is of critical importance both for the development and implementation of action plans designed to significantly improve the outlook of the Moldovan TAFL industry with respect to EU export growth.

Famous brands like Versace, Armani, Max & Co., NafNaf, Trussardi, Primark, Max Mara, Prada, Nike, Dolce & Gabbana, Moncler, Calvin Klein produce their clothes in Moldova.

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, up graded and re-equipped to meet market economy demands. The TAFL industry has recorded a continuous growth since 2000, significantly outperforming the overall development of Moldova's industry. In 2017, the TAFL sector was an essential part of the economy, especially in regards to external trade (nearly 20% of all exports). It employed 29,000 people, which represents 4% of the whole economy. Most of these jobs are rural-based and occupied by women.

The apparel industry has benefited from the near- shoring of the production of (fashionable) knitted and woven clothing for the EU market. In the past five years, the apparel industry represented more than half of the turnover in the TAFL industry.

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 labour force. It is a sector with longstanding traditions in exporting a wide range of products.

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 one truck day, goods are delivered to Eastern Europe, within two truck days to Western Europe. Moldova perfectly satisfies the ever-growing demand for Sustainable Fashion.

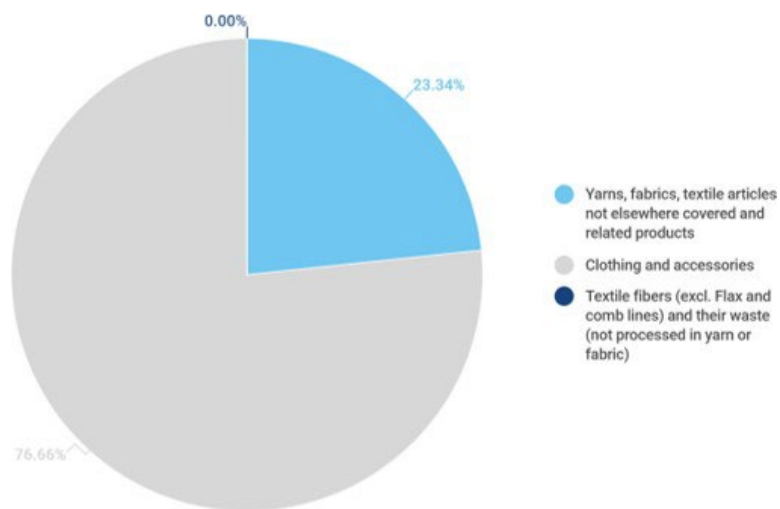
The Moldovan apparel industry is competitive in prices and maintains social and labour security standards at the same time. The proximity to the EU market also gives customers the possibility to outsource large parts of the value chain: Fashion, Taste, Design in Moldova is European, especially among the young generation of designers.

In 2017, around 70% of the Moldovan apparel- producing companies worked on cut and made/cut-made-trim (C&M/CMT) basis for EU export markets, led by Italy, UK, and Germany. The provision of cut and 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 labour 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. Most apparel producers are acting as subcontractors. They receive the raw materials (fabrics) from their foreign customers in Inward Processing/ Toll Manufacturing.

Notwithstanding this, the share of exports of the textile industry had a bit of a declining trend: between 2018 and 2019 the share has been reduced by 13% reaching a total in 2019 of €19,90 million. The share of the EU is very high (80,33% of the total textiles exports). The main importers of Moldovan textiles are indicated in the chart below.

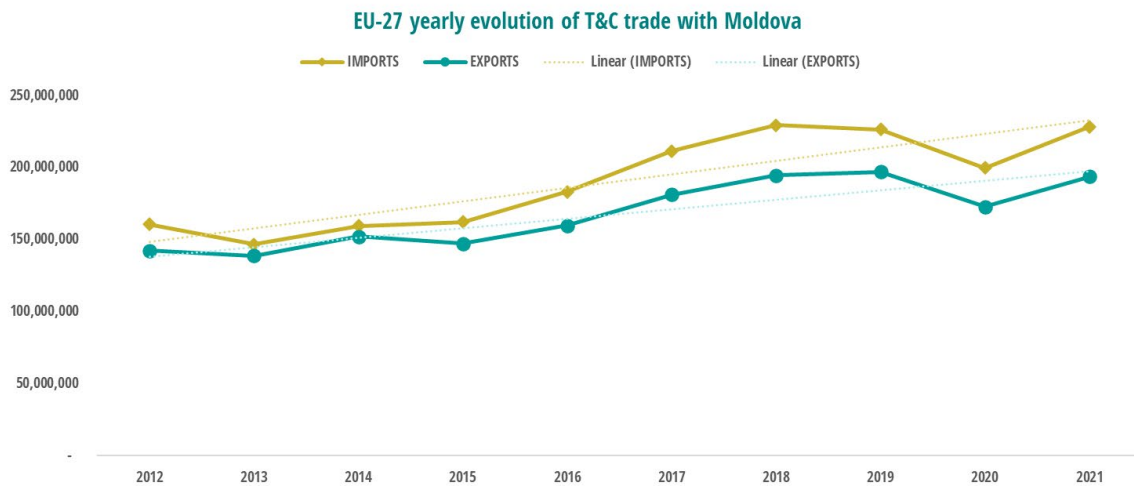


Exports to the EU by article:

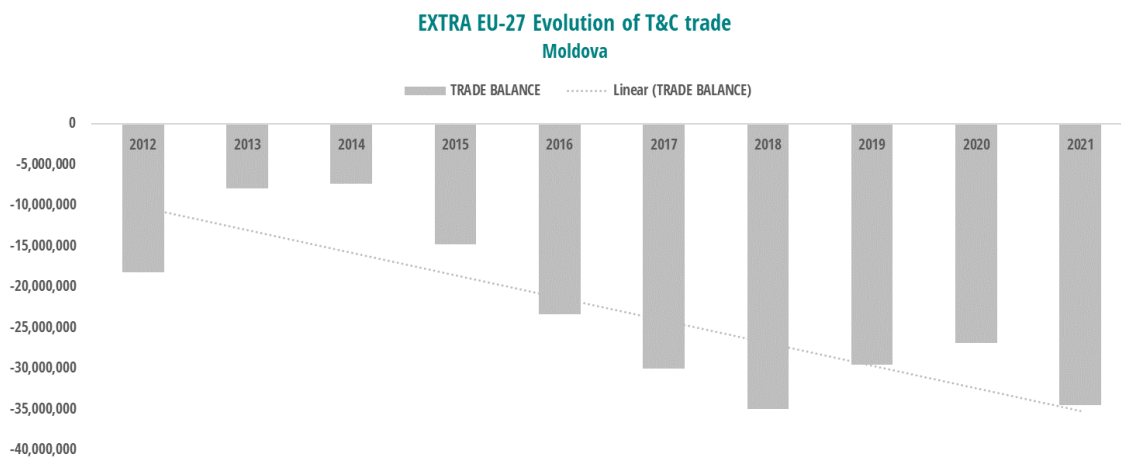


The following graph shows the EU-27 yearly evolution of the textile and clothing trade with Moldova, from 2010 to 2021, taking into account imports and exports¹⁹:

¹⁹ Euratex calculations, based on Eurostat data.



The extra EU-27 evolution of the textile and clothing trade, from 2010 to 2019, is shown in the graph below:



The COVID-19 pandemic has highlighted the structural problems and limitations that exist within the TAFL sector. Companies have been unable to react swiftly to the challenges the pandemic has presented, but as well as the significant opportunities for which the pandemic has acted as catalyst (such as the rise of Ecommerce, near shoring, sustainable sourcing, and new circular business models). The sector suffers from a significant labour shortage, an unstable banking and investment structure as well as a chronic lack of industrial investment.

The sector is largely dependent on contract manufacturing on a CMT basis for the Italian and German markets. However, the European market represents broader opportunities for growth.

A new European policy for the textile and clothing industry, to be published in the third quarter of 2021, will focus on the development of sustainable and circular business models, digitalisation, and supply chain transparency. This will open doors to new business possibilities for companies and countries that

can adapt accordingly. Moldova, as a contracting party to the Pan-Euro-Mediterranean convention, is well positioned to take advantage of these opportunities to strengthen its position as a partner for European industry players. Quick success however is dependent on a willingness amongst Moldovan companies to employ a collective approach to a range of activities including capacity building/upgrading skills, penetrating new markets, promoting capabilities, accessing funding for investment, and negotiating purchasing terms with suppliers.

Ukraine

During the former Soviet Union, Ukraine developed as one of the largest centres of textile industry, representing approximately 50% of the entire SU's textile industry. Even after the Soviet Union fell to pieces, Ukraine remained with its manufacturing power for quite some time. It was not until the mid-1990 that its decline truly started to result in huge unemployment statistics and increasingly decrepit factories.

This all said – the country's textile industry is working its way back to the surface. Not only has its domestic market continuously grown since 2004 (despite Europe's economic vetoes), but also international investment is slowly but surely entering the country and some international (incl. overseas) brands have decided to establish production.

In fact: In 2010, the country ranked 30th in the top exporters of textiles to the EU, and 21st for clothing. Western Ukraine and the Kiev region are the most important textile manufacturing areas. This is due to two main factors:

- Wages: Average monthly salaries in the Ukrainian textile industry are about €260 a month.
- Geography: its location in the West of the country, and hence the Western geographical border, is relevant for transport. Many clients of textile factories of any kind are based in Western Europe, which means that reducing shipping times is of relevance, particularly given the problematic state of Ukrainian road infrastructure. Transport cost and transit time to Europe are optimised and result being relatively low overall.

Kiev, being the country's capital, it has not only a relevant consumer market in its own right – catered to mostly through national brands, but also offers efficient access to an international airport – of relevance for orders to be shipped abroad.

The impact of the corona crisis on the textile industry of Ukraine has been very important. The purchase of clothing decreased by 50-60% in Ukraine according to various estimates in 2020. Orders of foreign companies for the manufacture of clothing in Ukraine fell by 30%. For those people who make their own

brands the situation is even more complicated. Lockdowns have impact business hard “on clothing that need to be fit” in Ukraine. Not everyone was able to finance a dead time in trade, some enterprises lost their teams. Some were out of business and could not reopen. In addition, the consumer demand has changed. The sales slip has decreased, people are saving. This is especially evident after the New Year and the last lockdown. Therefore, manufacturers get into debt to create new collections. Before the pandemic, there were more than 2300 SMEs of light industry in Ukraine according to statistics, which involved about 85000 workers. Annual volumes of their products reached UAH 22 billion (€0,7634 billion)²⁰. The industry lost up to 20.000 placements last year. Brands that have their own retail have been disproportionally affected. According to the information of Association Ukrlegprom the sectoral wages in 2020 were only 57% of the average wage in industry. It should be noted that in 2017 this figure reached 71% - then the largest increase in production, exports and capital investment in light industry was recorded.

Ukraine is considered a good sourcing option for women’s ready-to-wear, high-end outerwear, men’s and women’s suits, shirts, evening gowns and wedding dresses.

Due toto the Soviet heritage, the country has a strong sewing tradition, with highly educated people, well- equipped factories, and several small workshops. The Ukraine is first and foremost a sourcing place for apparel – there exists hardly any other relevant textile activity in the country (i.e., spinning, weaving, dyeing etc.), specifically not at a quality level. Equally, the country does not produce any useful raw fibre material.



Info and images taken from the USAKTSO website.

²⁰ Equivalent rate 2019 UAH-Euro

The Ukrainian economy is facing major challenges. Industry is no exception. The textile and clothing industry is one of the main industrial sectors, employing around 90 000 people (if we include footwear and leather). Ukrainian companies need help in building up and reinforcing the exporting skills.²¹

Ukraine has drawn up plans to attract up €253,65 million of investments in the development of the domestic technical textiles and nonwovens industry in the next several years.

From 2019-2021, up to €253,65 million will be invested in the establishment of at least five to six large- and medium-sized enterprises. To support the investments strategy, the Ukrainian Government has also announced its intention to provide investors with significant stakes in the newly established enterprises.²²

Over the last years, manufacturing has provided a major boost to Ukraine's exports. Some of the fastest rising categories have been textiles and clothing, for which exports have grown by 33 and 38% over the 2015-2018 period, respectively.

Improved connections to Europe, as well as the EU- Ukraine free trade area that entered in force in September 2017, have made Ukraine an increasingly interesting platform for production targeting the European market.

One of the challenges for the sector, however, has been an exodus of workers, primarily to nearby Poland. As a result, salaries have grown, particularly for larger enterprises, with 10 to 20% increases across different industries²³. Also, access to raw materials is considered a burden to the development of the Ukrainian textiles industry. The country is dependent on imported fabrics from Asia.

The total value of Ukrainian exports of textile materials and articles of textile in 2019 accounted for €756.41 million, 63.99% of which was imported by the EU for a total value of €484 million. It is worthwhile mentioning that most Ukrainian companies still do not export ready-made products, but only services: clothing companies are working on the CMT model with their EU partners.

The main importers of Ukrainian textiles²⁴ are indicated in the chart below.

²¹ [industry-employers-group-contribution](#)

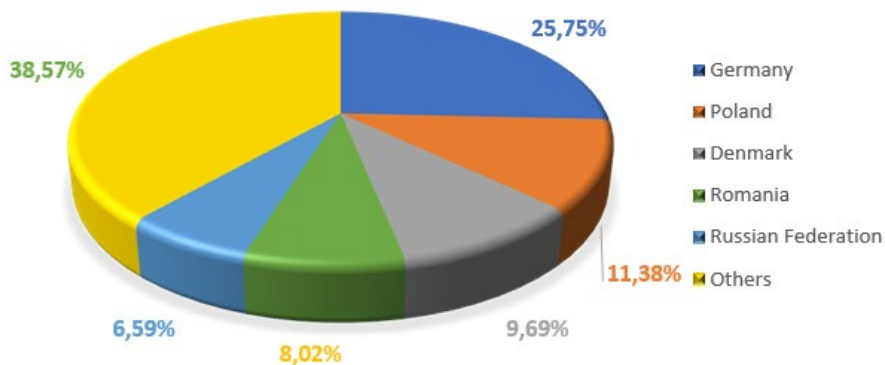
²² <https://apparelresources.com/business-news/trade/ukraine-planning-big-development-technical-textile-sector/>

²³ <https://bk-investment.com/ukraine-invest/>

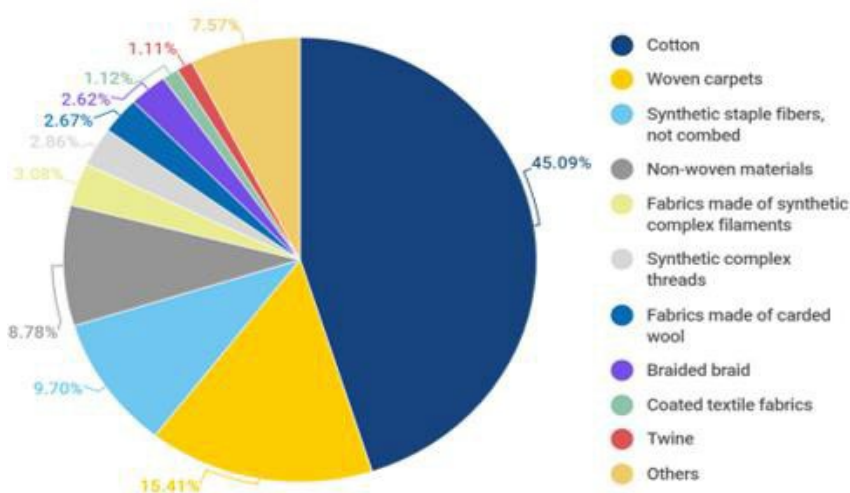
²⁴Data from 2018, footwear and leather included, consulted in 18.05.2020:

https://wits.worldbank.org/CountryProfile/en/Country/UKR/Year/2018/TradeFlow/Export/Partner/all/Product/50-%2063_TextCloth

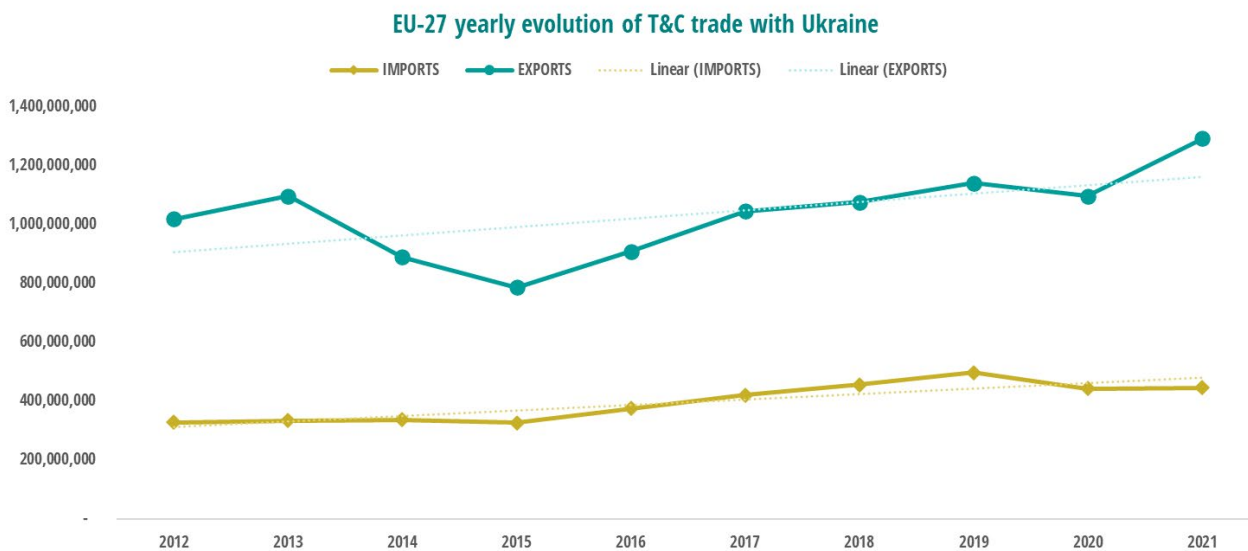
TEXTILES EXPORT



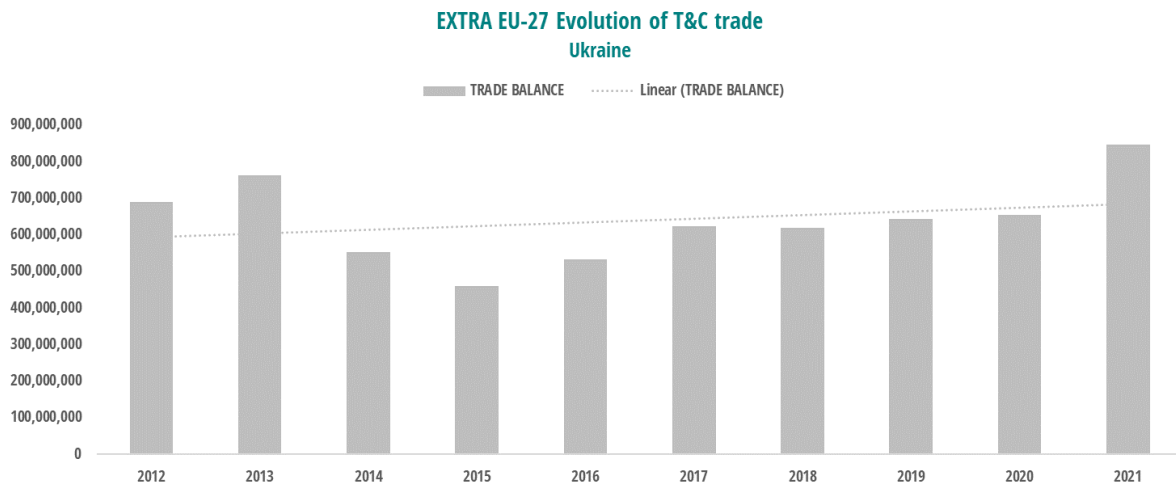
Exports to the EU by article:



The following graph shows the EU-27 yearly evolution of the textile and clothing trade with Ukraine from 2010 to 2021, considering imports and exports (source Euratex calculations, based on Eurostat data):



The extra EU-27 evolution of the textile and clothing trade, from 2010 to 2021, is shown in the graph below:



2 STRATEGIC OBJECTIVES

Adopting the right policy choices will determine whether companies in the textile and clothing sector from any EaP country can successfully emerge from the pandemic, or whether they shall be marginalised. Several priority areas should be investigated to boost the EaP textile and clothing companies and with the aim of overcoming the negative effects of the pandemic.

a. Promote innovation and digitalisation in the textile and clothing industry

Significant advances in productivity, flexibility and sustainability of textile and apparel manufacturing can be realised through technological innovation and digitalisation of production processes and supply chains. Investment in material and product innovation is needed to gain competitiveness for the textile and clothing sector. This requires access to technology and partnerships with EU companies.

b. Turn sustainability and circularity into an opportunity

This is a crucial time for the textile and clothing sectors in Eastern Europe, who are under pressure to become greener and invest in the circular economy while facing tough global competition from countries who do not uphold the same environmental or social standards. EaP companies should be brought into the dynamics established by the EU through its Green Deal and the Circular Economy Action plan. They will need to identify clear roadmaps in reducing their emissions and greening their production, with the relevant support at both national and European level to ensure they can remain competitive on a fierce global market.

c. Upskill & reskill the labour market

Over many years of industry restructuring and downsizing in the EaP countries, the sectoral education and training system across all qualification levels has suffered from underinvestment. For cultural, demographic, and economic reasons, the sector has struggled to attract motivated and qualified young talent. It is modernisation in terms of infrastructure, curricula, methods as well as teaching and training in close collaboration with industry is a necessary pre-requisite to enable the sector to successfully develop and renew its workforce.

d. Privatisation and focus on SME development

Historically, the textile sector in the EaP (esp. Ukraine and Belarus) has been dominated by large state-owned companies who used to operate in a “secured” Soviet Union market. Following the disintegration of the Soviet Union and Russia joining the WTO, the sector went through important difficulties. Even today, some segments of the industry still hope their government to support them by, for instance, regulating imports, introducing tariffs against cheap imports from China. Important efforts are still needed to promote the privatisation and empowerment of SMEs in the sector to emerge and grow.

e. Promote the development of an integrated ecosystem with the EU

Over the past decades, US and European apparel companies have offshored the bulk of their manufacturing to China and other Asian countries to take advantage of the dramatically lower labour costs there. Yet, the offshoring model is hardly compatible with the new need for speed and is not environmentally friendly. This traditional supply chain setup is now being challenged and as labour costs converge, mass-market brands and retailers are starting to rethink their sourcing and production models more broadly.

Moves to increase nearshoring have the potential to further enable sustainability and to support the adaptation of a circular economy in the apparel sector. This offers a wealth of opportunities for the textile and clothing companies in the EaP region. E.g. Ukraine has signed association agreement with EU and is looking forward to increase its textiles and apparel exports to EU in order to reduce the lock-down of the Russian market. What they lack are basic knowledge about the legislation, standards etc. in force in the EU to be better prepared for the EU market requirements.

f. A solid public private dialogue

An important challenge preventing the growth of the textile and clothing industries in Eastern Europe include the absence of a strong sectoral industrial policy with a solid social dialogue in the respective countries. Increased inequality has led to massive levels of emigration from Eastern Europe, particularly of young and better-skilled workers. This jeopardises the development prospects of these countries. Strategic and result-oriented cooperation between the various actors (trade unions, industry/employer associations, governments and public authorities, local and global brands) is critical in the implementation of sectoral industrial development and social progress.

3 DIAGNOSTIC

A country SWOT analysis has been performed to better understand the specific challenges and opportunities the textile sector has in each country.

3.1 Armenia

3.1.1 Present

Strengths

- › Textile is one of the of the 11 strategic export-oriented countries in the country.
- › Well established sector in the country.
- › One of the most important sources of employment in Armenia.
- › Textile and apparel industry, Leather and shoes production are one of the oldest and fastest growing industries of the Armenian economy.
- › Textile industry is growing, as well as textile exports.
- › High quality standards (42,5% of Armenian textile and apparel are exported to the EU).

Weaknesses

- › The SMEs in the textile sector operate far below capacities.
- › Textile products produced are not competitive in the regional and international markets.
- › Lack of tradition in entrepreneurship.
- › The textile product range is composed by commodities, no technical products are envisaged.
- › They produce low added value products such as wadding, felt and nonwovens, twine, cordage and man-made filaments, apparel, and clothing accessories.
- › Fragmented value chain.
- › Complicated bureaucratic procedures and administrative barriers that hamper investments.
- › Property rights are not secure both on a legislative level and in its implementation which is a barrier to attract investment and encourage the technology transfer process.
- › Difficult access to public and private funds.
- › Access to sources of external finance, internationalisation, and regulatory framework.

- › There is a lack of alternative finance sources and instruments. Microfinance institutions are weak.
- › There is no adequate legal framework for innovation.
- › Vocational education is weak. Companies are reluctant on investing in the training of potential employees. There is a strong mismatch between skills and competences needed by SMEs and skills provided by the educational system.
- › Standards and certificates are not mutually recognised in the light of the EU and Eurasian Union Systems.

3.1.2 Future

Opportunities

- › There is a trend of rapid development.
- › Different regional and bilateral Free Trade Agreements, as well as agreements with the EU (CEPA).
- › The Government of Armenia considers the revival of the textile sector as a priority and as means to create Jobs, boost value-added trade, and expand exports by exploiting several comparative and historical advantages.
- › Armenian textile companies act as subcontractors for world-known companies (i.e., Moncler)
- › The demand for Armenian textile is growing every year.
- › Armenia is in a privileged position near the EU which can facilitate the commercial transactions.
- › The Government of Armenia is introducing incentives in the sector (i.e. VAT payments' postponement for importing equipment and goods, investment programmes, no VAT for more than 230 product groups imported to Armenia).
- › The businesses can import materials and equipment from member countries with no custom duties if the materials and equipment cannot be found in EAEU.
- › Customs duty exemption for importing from non-EAEU country.
- › Export opportunities: the majority of EAEU countries are textile importers.
- › Low-electricity prices (€0.77/KWh).
- › Armenian government has implemented numerous assistance programmes.
- › Armenia an attractive platform for European, Iranian, and Asian investors.

- › Investors coming from the Economic Euroasiatic Union (EAEU) can establish textile manufacturing factories in the country and export to other EAEU member countries with 0% custom duties.

Threats

- › Unpredictable business environment with frequent changes in government and legislation, volatile Exchange rates, conflicts in the region that hinders economic development.
- › International trade is often dominated by large conglomerates, operating with state support.
- › No so much internal consumption. Armenia commercial flow depends on other countries trade flow.
- › The subcontracting model to other firms could be dangerous for the textile industry.
- › Company can move to other countries offering them better options (taxes benefits, job skills, better prices, better quality, better due dates, complementary services...).
- › As the range of products produced in Armenia have no special technical component, there is a high risk of concurrence from third countries like Turkey that can offer the same products with more powerful commercial networks and compete in quality and costs.
- › Unequal playing field between state owned or large companies and SMEs. State owned companies receive subsidies while some fees must be paid only by SMEs.
- › The government has the monopoly to provide certain services to enterprises.

3.2 Azerbaijan

3.2.1 Present

Strengths

- › The Doing Business Indicator of the World Bank shows that Azerbaijan, as well as the rest of the Eastern Partner countries, have been making steady progress in improving their business environment. Azerbaijan has been a steady performer through the years, starting off at more than 60% with a more recent spike that brought it to the current almost 80% (EU4Business Investing in SMEs in the Eastern Partnership, Azerbaijan Country Report, June 2019).
- › Azerbaijan has made major progress in putting in place the main building blocks of a proactive SME policy and in mobilizing the necessary human and financial resources to support it.

- › A dedicated Small and Medium-Sized Business Development Agency was established in 2017 representing a major milestone in shaping the SME support infrastructure. The agency has a mandate to provide its services along five strategic directions:

 - Promoting entrepreneurship
 - Protecting entrepreneurs
 - Facilitating SME financing
 - Providing training and consultancy services
 - Serving as a one-stop shop
- › Azerbaijan increased the support to the internationalisation of SMEs in the following directions:

 - Modest increase of non-oil exports from 2014 to 2017
 - SME Houses, operating under the SME Development Agency will provide training and consultancy services in order to increase export readiness of SMEs
 - Internationalisation of Azerbaijan’s agribusiness and light manufacturing
- › Azerbaijan improved the institutional, regulatory and operational framework, implementing the following initiatives:

 - Establishment of the SME Development Agency in December 2017
 - Implementation of reforms to improve access to finance for SMEs
 - Drafting of a new law on leasing services
 - Establishment of an online trading portal
 - Establishment of 15 export associations to increase production and export for the agriculture, textile, and tourism sectors
- › Azerbaijan’s Gross Domestic Product (GDP) grew a 2.3% in 2019, what implies its best performance since 2014.
- › The loan portfolio stopped contracting in 2018 and started to gradually increase in nominal terms at the end of the year amid overall macroeconomic stabilization and resumption of economic growth.

Weaknesses

- › Azerbaijan SMEs generated 13.4% of value added and 42.9% of total employment in 2018, compared to 60% of value added and 60-70% of employment in Organization for Economic Cooperation and Development (OECD) countries.

- In 2019, the growth in exports of goods towards the EU decreased of 6% going from €11,273 million to €10,597 million.
- Difficulty when accessing international markets.
- Insufficient SME standardisation.
- Workforce in SMEs not educated enough in financial matters.
- Doing business in Azerbaijan often remains a challenge, particularly for SMEs. Although they account for over 80% of all registered companies, SMEs only contribute around 3% to the country's economy.
- International trade is dominated by large companies.
- Difficult access to finance for SMEs.
- The export of Azerbaijan's goods decreased in 2019, compared to results obtained in 2018.

3.2.2 Future

Opportunities

- The EU supports the Government of Azerbaijan in the development of a more coherent policy towards SMEs, allowing the country to unleash the potential of SMEs for long-term socio-economic development.
- A special Coronavirus Support Fund was established with the 19 March 2020 Presidential Decree and the Government of Azerbaijan prepared 9 programs worth 2,5 billion manats, what implies a 3% of the GDP to support the economy and extend social benefits, with the idea of putting the economy back on track as soon as possible and weather the COVID-19 storm with the minimum losses. Azerbaijan's strong standing before the outbreak as an energy and reformer state and swift measures to contain the virus as well as operationalisation of state support mechanisms can offer the cause for optimism that the country could quickly return to normal and continue the interrupted works with even a greater rigor.
- A modest economic recovery is expected to continue. Azerbaijan's GDP is expected to increase to 0.71% in 2021, supported by the stabilization of the external conditions and a resumption of delayed activities, after the COVID-19 crisis.
- The Central Bank of the Republic of Azerbaijan undertook several measures to assist the financial sector.

Threats

- The outbreak of the COVID-19 could have a significant economic impact, particularly on SMEs. Currently, it is difficult to estimate the magnitude of the effect of the crisis on Azerbaijan and their SMEs, but this crisis has caused a contraction in domestic output, household spending and international trade. The global economic slowdown caused by the COVID-19 crisis could reduce the demand for Azerbaijan's exports of commodities and investment goods to the European Union, Russia, and other countries. Due to the COVID-19 outbreak, Azerbaijan's GDP is expected to fall to -2.2% in 2020.

3.3 Belarus

3.3.1 Present

Strengths

- The Doing Business indicator of the World Bank shows that Belarus, as well as the rest of the Eastern Partner countries, have been making steady progress in improving their business environment. Belarus has improved over the years, gradually closing the wide gap with the best performing countries of the region and the world ("distance to frontier"). Belarus started off at 50% of that distance to frontier but stands now at 75% (Investing in SMEs in the Eastern Partnership, Country Report, June 2019, Belarus)
- Clear priorities have been set in the SME strategy to 2030: level the playing field for business, develop the SME support infrastructure, and increase access to finance. The SME strategy to 2030 also includes provisions for new institutional arrangements and for building effective monitoring and evaluation systems. An Action Plan is currently being developed, as well as a concept note for the development of a future SME agency.
- Public-private dialogue has been strengthened by expanding the mandate of the Council for Entrepreneurship Development of Belarus bringing together high-level government officials and representatives of the private sector and has a mandate to review and propose amendments to existing and draft legislation, and to government support programmes for entrepreneurs.
- The mandate of the Development Bank of Belarus is being expanded to provide preferential SME loans through partner banks. The Belarussian Fund for Financial Support of Entrepreneurs is being substantially reconfigured and has started functioning as a Credit Guarantee Fund as of March 2019, providing an additional financing mechanism for SME and guaranteeing up to 60% of the credit extended to borrowers.

Weaknesses

- Belarus has one of the lowest number of SMEs per capita across the EaP and lags in the share of employment generated by the SME sector. SMEs' share of GDP comes to less than a third of national economic output. SMEs' contribution to value added and employment in the business sector remains limited and state-owned enterprises continue to play a disproportionate role in the economy. Thus, the Belarussian economy is founded on large state-owned enterprises. SMEs account for around a fifth of GDP, below the EU average, and it has been a challenge for small-privatised companies to flourish.
- In 2019, exports of goods towards the EU decreased 4.8%, from €4,368 million to €4,147 million.
- High tax rates for SMEs.
- Difficult access to finance for SMEs.
- Inadequately educated workforce in SMEs.
- Informal practices in SMEs.
- The Belarussian economy is founded on large state-owned enterprises. SMEs account for around a fifth of GDP, below the EU average, and it has been a challenge for small-privatised companies to flourish.
- Difficulty when accessing new markets.

3.3.2 Future

Opportunities

- The business environment is improving lately.
- Household consumption recorded robust growth of 8.3%, benefiting from a strong increase in disposable incomes.
- Investments in fixed assets increased by 4.9% because of growing external and internal demand.
- Value added increased in all large sectors, except agriculture.
- In recent years, the Government of Belarus has been increasing its efforts to promote private-sector development, strengthen the position of SMEs and sustain growth, employment, and resilience.
- Building on the findings and recommendations of the SME Policy Index 2016, the Government has taken important steps to improve the policy environment for SMEs. A major development is the Presidential Decree no.7 "On the development of entrepreneurship", adopted in late

2017, which substantially simplifies regulations for doing business in Belarus, including provisions minimizing state interference in business operations and a ban on the introduction of new taxes until the end of 2019.

Threats

- Economic growth decelerated to 0.9% year-on-year in the first half of 2019.
- Inflation rose to 5.9% in January to August 2019 year-on-year on the back of increases in regulated prices and tariffs.
- Political instability.
- The outbreak of the COVID-19 has had a significant economic impact, particularly on SMEs. Currently, it is difficult to estimate the magnitude of the effect of the crisis on Belarus and their SMEs, but this crisis has caused a contraction in domestic output, household spending and international trade. The global economic slowdown caused by the COVID-19 crisis could reduce the demand for Belarus's exports of commodities and investment goods to the EU, Russia, and other countries.

3.4 Georgia

3.4.1 Present

Strengths

- Georgia has succeeded in fulfilling the market demand for continuous growth in the highly qualified labour force.
- Georgia's textile industry is capable to deliver high-quality products to renowned brands.
- Georgia has become an export base for neighbouring countries to access the markets of the EU, CIS and USA.
- The country offers a broad range of production possibilities, brand development and technical textile.
- Strong production of wool and silk.
- Quality transport and telecommunication infrastructures.

Weaknesses

- Apparel production with limited value added.

- › Most of the exports traded to the EU are clothing items resulting from a CM/CMT manufacturing configuration.
- › Low innovation potential.
- › Lack of standardisation.
- › Limited diversification of the textile and apparel offer.

3.4.2 Future

Opportunities

- › Georgia's textile industry can shift from CM/CMT manufacturing towards the development of a higher value-added production.
- › Implementation of clusters covering the end-to-end value chain, from spinning, weaving/knitting, dyeing/finishing to confection fully established in Georgia to deliver under a full package²⁵ sourcing.
- › Georgia's textile industry to shift from subcontract model to the production of own brands.

Threats

- › Substantial slowdown in 2020 due to the COVID-19 pandemic.
- › Difficulties to promote Georgian products in EU.

3.5 Moldova

3.5.1 Present

Strengths

- › A relatively fast rotation cycle of current assets.
- › The labour costs are among the lowest in Europe (€330 net).
- › Moderate investment needs.
- › Professional training system for employees in place.
- › High-end brands manufacture their garments in Moldova.

²⁵ *Full package* model refers to the production of garments beyond CMT sourcing, being the fabric produced and converted locally from spinning, weaving/knitting to dyeing and finishing.

- › A sector with strong and competent labour force capable to work with new technologies.
- › The sector can offer fast deliveries to neighbouring countries.
- › Moldovan textile sector has a longstanding tradition in exporting a wide range of products.
- › The industry is competitive in prices and maintains social and labour security standards.
- › Moldovan production meets high-quality standards.
- › Moldova has signed a DCFTA with the EU.
- › Moldova offers commercial and fiscal incentives.
- › Software design and development represent a competitive advantage to boost a design-driven added value in the Moldovan textile offer as software design and development become the major contribution under the GDP generated by the activities related to creative industries.
- › Moldova has advanced in putting in place policies and programmes to streamline the institutional and operational environment for SMEs and strengthen the delivery of SME support programmes.

Weaknesses

- › Most of Moldovan apparel producing companies worked on CM/CMT manufacturing.
- › Most apparel producers act as subcontractors only, without generating high value added.
- › Most of the exports traded to the EU are clothing items resulting from a CM/CMT manufacturing configuration.
- › Low innovation potential.
- › Lack of standardisation.
- › Limited diversification of the textile and apparel offer.
- › Lack of available work force.
- › Economy suffers from many structural problems.
- › Young people leave manufacturing activities to work in services.
- › Emigration continues to have negative impact on the economy.

3.5.2 Future

Opportunities

- Moldovan textile industry can shift from CM/CMT manufacturing towards the development of a higher value-added production.
- Implementation of clusters covering the end-to-end value chain, from spinning, weaving/knitting, dyeing/finishing to confection fully established in Moldova to deliver under a full package²⁶ sourcing.
- Moldovan textile industry to shift from subcontract model to the development and production of own brands.
- A new European policy for the textile and clothing industry, published in 2021, focuses on the development of sustainable and circular business models, digitalisation, and supply chain transparency. This opens doors to new business possibilities for companies and countries that can adapt accordingly. Moldova, as a contracting party to the Pan-Euro-Mediterranean convention, is well positioned to take advantage of these opportunities to strengthen its position as a partner for European industry players. Quick success however is dependent on a willingness amongst Moldovan companies to employ a collective approach to a range of activities including capacity building/upgrading skills, penetrating new markets, promoting capabilities, accessing funding for investment, and negotiating.

Threats

- Share of exports of Moldovan textile industry faces a declining trend over the last years.
- Potential commodity and raw materials shortages may occur due to the constraint competition driven by the lockdown.
- Annual inflation accelerated to 6.3% in September 2019, driven by rising regulated prices.

3.6 Ukraine

3.6.1 Present

Strengths

- Top 10-world exporter of plain-woven fabrics, wall coverings, flax, wool, and true hemp.
- Well-developed chemical industry that produces chemical products. There are also some

²⁶ Full package model refers to the production of garments beyond CMT sourcing, being the fabric produced and converted locally from spinning, weaving/knitting to dyeing and finishing.

chemical fibres industries.

- > Suitable climate for production of cheap and high-quality linseed and hemp fibres.
- > Abundancy of technologies for cultivating, harvesting, and processing fibre crops.
- > Availability of institutions for sheep breeding (wool fibres).
- > Ukraine used to be one of the largest centres of textile industry in the former Soviet Union, so the textile industry has a latent potential coming from its tradition as textile producer. The country has a strong sewing tradition.
- > Very highly educated population.
- > Domestic market is experimenting a continuously grown.
- > International investment is slowly but surely entering the country.
- > Some International brands have established their production in the country.
- > Competitive wages.
- > The main textile areas are in Western Ukraine and Kiev region, so their location facilitates the transport of goods reducing shipping times.
- > Transport costs and transit time to Europe have been optimised resulting in a relatively low overall.
- > Efficient Access to an International airport, which is of the utmost relevance for orders to be shipped abroad.
- > There is an increase in the creation of local fashion brands that are producing in the country fostered by the thriving fashion industry and the flourishing Ukrainian Fashion Week and due to the fact that some Young Ukrainian designers have emerged with success in the last times.
- > Textile and clothing industry is one of the main industrial sectors, with a high employment rate.
- > Lack of workers trained in soft and exporting skills.
- > There is a textile and Leather enterprises association: Ukrlegprom²⁷.

Weaknesses

- > Textile facilities need modernisation. Old facilities, old equipment.

²⁷ <https://ukrlegprom.org/en/>

- Fragmented value chain. The textile sector has one of the longest and most complicated supply chain among the productive sectors. It is a very fragmented and heterogeneous sector with several sub-sectors, including raw materials (natural and synthetic fibres) and the products developed (yarns, fabrics for garments, home textiles and technical textiles), whose demand is originated by the final use: clothing, home textiles and technical/industrial applications.
- Ukrainian roads infrastructure needs revamping to reducing more shipping times.
- The industry is composed by several small workshops, difficult to cluster.
- The textile industry is focused on apparel, there is hardly any other relevant spinning, weaving and dyeing and specifically not at a quality level. Ukraine does not produce any useful raw fibre material.
- Complicated bureaucratic procedures and administrative barriers that hamper investments.
- There is limited foreign investment and lack of policies to ease the entry of investment flows in the clothing and textile sector.
- Property rights are not secure both on a legislative level and in its implementation which is a barrier to attract investment and encourage the technology transfer process.
- Difficult Access to public and private funds.
- There is a lack of alternative finance resources and instruments. Microfinance institutions are weak.
- SMEs have difficulties to compete on international markets due to problems with cost, quality, stocks available and in guaranteeing an uninterrupted supply which hampers the participation in international supply chains.
- Labelling, packaging, and logistic costs are overly expensive.
- There is no adequate legal framework for innovation.
- Vocational education is weak. Companies are reluctant on investing in the training of potential employees. There is a strong mismatch between skills and competences needed by SMEs and skills provided by the educational system.
- Standards and certificates are not mutually recognised in the light of the EU and Eurasian Union Systems.

3.6.2 Future

Opportunities

- EU-Ukraine Deep and Comprehensive Free Trade Agreement (DCFTA) signed in 2017 and different regional and bilateral agreements.
- Ukraine's location facilitates delivery of goods to the EU and other markets.
- Some International brands have established their production in the country, which could imply a call effect for the establishment of other brands.
- Well prepared for sourcing women's ready-to-wear, high-end outwear, men's and women's suits, shirts, evening gowns and wedding dresses.
- Knowledge about the production process to produce their own collections with own design and labelling.
- Ukrainian Government has taken up plans for attracting investments focused on the development of the domestic technical textiles and nonwovens industry in the next year.
- Ukrainian exports are growing.

Threats

- Unpredictable business environment with frequent changes in legislation, volatile exchange rates, conflicts in the region that hinders economic development.
- Corruption and other malpractices.
- The textile industry is focused on apparel, there is hardly any other relevant spinning, weaving, and dyeing and specifically not at a quality level. Ukraine does not produce any useful raw fibre material. This fact makes the country vulnerable and dependent from other countries for its outsourcing, therefore their final prices can fluctuate, reducing the competitiveness of the country.
- Specialised workers are moving to other countries like Poland, which could imply an increase in Ukrainian wages that reduce the competitiveness of the sector.
- Ukrainian companies still do not export ready-made products, only services working on the cut-make-trim model without own products. This is a vulnerable model that jeopardise textile industry as customers could find more interesting countries that offer them different advantages, causing a fall in the Ukrainian textile industry.
- Unequal playing field between state owned or large companies and SMEs. State owned companies receive subsidies while some fees must be paid only by SMEs.
- The government has the monopoly to provide certain services to enterprises.

- > The monopolistic business model hinders SMEs in their Access to the markets. SMEs have limited Access to the public procurement market.

4 RELEVANT ACTORS

Some relevant actors, mainly Business Support Organisations (BSOs), have been contacted for the provision of insights to draft this report. The actors that should be involved are, among others:

Chambers of Commerce. They represent the interest of the SMEs in the different sectors including the textile and clothing sector. They can gather the interest, needs and gaps of the industry and have also direct relationship with the Ministries of Industry in each EaP country, in this way they are the link between the industry and the government to ask for changes in policies:

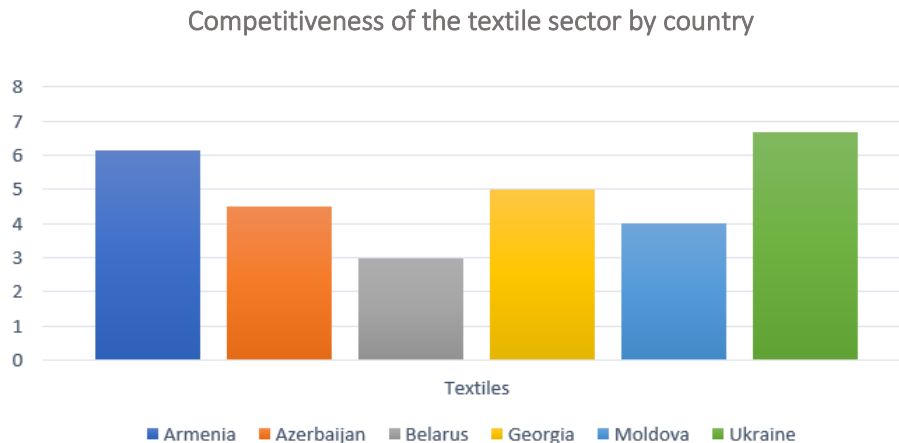
- Chamber of Commerce of Armenia
- Chamber of Commerce of Azerbaijan
- Chamber of Commerce of Moldova
- Chamber of Commerce of Georgia
- Chamber of Commerce of Ukraine

VET institutions. They could provide training to workers in order to increase the skills of the labour force and to create campaigns to make the textile and clothing sector more attractive for young people.

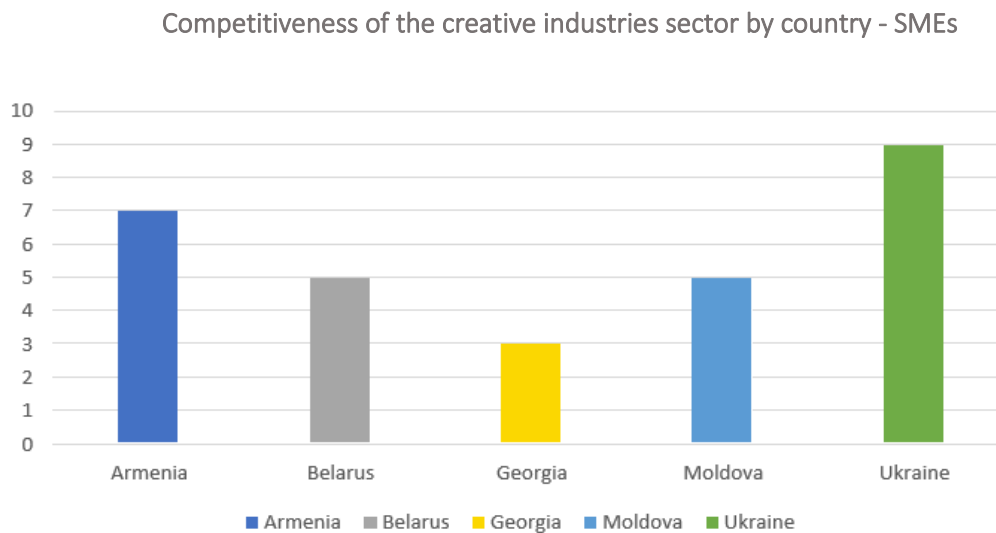
Textile industry associations. In some way, they perform the same role as the Chambers of Commerce, gathering the needs of the Textile industry, but they are more specifically addressed to the textile industries, so they are able to organize joint activities, organize specific training, workshops for internationalisation, they can also provide support to textile industries in terms of foreign trade, international exhibitions. In most EaP countries, the textile associations are weak; they lack resources and impact on government policies. It is recommended to develop some capacity building initiative, to ensure the sector is well represented.

Governments in the EaP countries. Governments are responsible of developing the country policies and therefore they should be fully involved in the actions taken to increase the competitiveness of the textile and clothing industries in each country.

Perception of BSOs on the competitiveness of the sector:



Perception of sectoral SMEs on the competitiveness of the sector:



As we can see, sectoral SMEs in general have a better perception on the competitiveness of the sector in five countries where we can make a comparison. This is due to various aspects, including the intrinsic risk assessment and risk adversity of the entrepreneurs (if compared to the one of persons who are looking at the sector from an “outsider” perspective).

In Georgia, however, the SMEs in the sector think their competitiveness is a bit lower than the BSOs evaluate it. The reason could be a different perspective, as well as information asymmetry.

We acknowledge that competitiveness is a broad and complex concept, embracing many issues (availability, quality and use of) resources endowment which can also be heavily affected by the legal infrastructure and regulatory measures, governance, etc. There is, moreover, no general agreement on how to measure competitiveness.

5 IDENTIFICATION AND EVALUATION OF ALTERNATIVE STRATEGIES

This section aims at providing a set of recommendations whereby SMEs of the six EaP countries can enhance their operational skills, to improve their performance, while at the same time to support and stimulate the local economic development and job creation within the scope of the textile sector in these countries.

These alternative strategies or operational recommendations have been classified into six different areas:

- Industry transformation.
- Technical training.
- Business training.
- Internationalisation and export stimulation.
- Branding.
- Networking.



5.1 Industry Transformation

- Implementation of clusters covering the end-to-end value chain, from spinning, weaving/knitting, dyeing/finishing to confection fully established in Georgia to deliver under a *full package*²⁸ sourcing.
- To facilitate the access of EaP SMEs to services offered by textile technology centres to trigger the shift towards a higher value-added production (from CM/CMT o full package model and from subcontract model to the production of own brands). The services should include specialised training and advisory, product compliance/certification and research.
- Competition has become global and so is innovation. To compete effectively in new and emerging markets Eastern Countries SMEs need to develop partnerships with strategic counterparts from EU and outside countries to undertake co-creation of RTDI projects and further join business development (new product-market combination). These partnerships can be very challenging for SMEs in terms of technological and financial risks and market barriers.
- Promote Reverse innovation.
- Establish framework and conditions for Frugal innovation (Process of innovating in conditions of constraint, to produce solutions that are substantially more affordable than alternatives and accessible to a broader range of people, while also meeting user needs as or even more effectively (Fraunhofer and Nesta 2017).
- A collective sourcing strategy focused on the development of sustainable proposals.
- A shift from CMT to FOB business model based on capabilities of design and sustainability.

5.2 Technical Training

Deep knowledge of textile technical issues is of utmost importance to become competitive in this sector.

Some recommendations to acquire the necessary know-how are described in the list below:

- To promote dual learning schemes and technical exchange programmes with EU textile specialised universities and other educational centres.
- To create vocational training programmes based on textile techniques and soft skills.
- To support the participation of SMEs in workshops, courses, and programmes related to the textile sector, organized by EU educational institutions.

²⁸ *Full package* model refers to the production of garments beyond CMT sourcing, being the fabric produced and converted locally from spinning, weaving/knitting to dyeing and finishing.

- To establish Business Prospection trips to specialised textile technology fairs, such as ITMA or Techtextile.
- To establish a support and incubation programme covering the technology transfer, mentoring and funding aspects.
- To develop a pilot programme consisting of a voucher-based professional and specialised mentoring intended for SMEs. The programme will include a pool of mentors with recognised skills in topics of interest and the SMEs will receive a voucher to access to the services of the professionals needed.
- Invest in human resources marketing activities in order to attract new young talent.
- To establish an exchange programme with EU textile research centres where SMEs can make co-creation stages learning from EU technicians and using their pilot plants.
- To establish technology partnership between EaP SMEs and EU technology providers, whereby the SMEs acquire equipment, spare parts, perishable material, etc, and the technology supplier provides in return training to learn how to efficiently operate the equipment and make the most out of its use, coaching in new technology trends associated with the textile sector, etc.

5.3 Business Training

Business skills are essential for the success of SMEs, and for the continuity and progress of their activity. As a consequence, it is important to promote the acquisition of knowledge in this field, objective that could be achieved through the implementation of the following initiatives:

- Design and implementation of coaching programmes to provide SMEs with training and advisory services on matters such as business administration, sales, traditional and digital marketing, finance, accounting, communication, logistics, compliance, etc.
- Organisation of professional visits to leading EU companies that have successfully implemented circular and digitisation models to learn from them the implementation and technology.
- Development of a programme to provide training to companies in commercial affairs, business development and management issues, creating a board of experts consisting of financial advisors, consultants, lawyers and advisors in EU standards and compliance.
- To establish specific programmes fostering topics of utmost importance, such as circular economy and digitisation to increase the competitiveness of the textile industry and improving the country image.

- Training in sales and marketing strategy as well as skills development to enable industry to actively and effectively attract new markets.

5.4 Internationalisation and export stimulation

A key topic in the performance and commercial success of the EaP SMEs is related to their capacity to access new markets, mainly in new geographical areas, implementing internationalisation strategies. The export knowledge can be enhanced by implementing the following recommendations:

- Development of coaching and training programmes to provide SMEs with training and advisory services on internationalisation and trade matters including FTAs.
- To make contact with relevant stakeholders from EU, in order to develop a dual system approach (educational centres and in-plant training).
- To establish a framework for the EaP SMEs to team up with a partner to commercialise in other countries, including information about available technologies, potential partners, skills to adopt technology/know-how and searching tools to identify potential partners (based on business or patent information).
- To develop thematic marketplace schemes between EU and EaP SMEs through the strong collaboration with EEN Agencies and other local organisations.
- To organise visit programmes to specialised textile technology fairs (e.g. ITMA or Techtexile).
- To organise training actions and workshops for EaP SMES on how they could benefit from the different regional and bilateral Free Trade Agreements, as well as agreements with the EU (e.g. AA/DCFTA in Moldova, Georgia and Ukraine, CEPA in Armenia...).
- To organise a national programme to improve social and environmental compliance to EU legal and non-legal requirements.

5.5 Branding

The creation of a recognisable brand associated with the history, culture, heritage and traditions related to Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine, can be an excellent way to promote the textile products of this region, providing these articles with a visual and emotive identity, and thus establishing a connection between these local products and the foreign potential clients, some of which do not have references or archetypes associated with these countries.

This connection between products and foreign prospect clients can be achieved by the implementation of a branding strategy, following these initiatives:

- To develop a branding strategy. A proposal of the implementation of a branding campaign is described below:
 - o Firstly, identifying those positive aspects that better define these countries, and make them unique and different, related to their history, culture, heritage and traditions.
 - o Afterwards, establishing a connection or link between the textile products and the aspects previously identified, making use of strategies such as the marketing associated with the product, with the ultimate objective of making the most out of the cultural richness associated to the local textile products.
 - o Finally, a communication campaign should be launched, preferably with a multi-channel format, in order to maximise the impact in different media.
- To develop actions to promote national products, by showcasing the products developed in the main EU exhibitions, promoting the idea of tradition, heritage and technology.
- Invest in online promotion and sales and opportunities for private brands both domestically and regionally

5.6 Networking

The development of a wide net of professional contacts will be an essential tool to enhance the business activity of the SMEs. In order to achieve this objective, the following actions and strategies can be implemented:

- To establish links between universities, trade schools and firms in the EaP and EU countries.
- Creation of clusters including BSOs, Universities, Design schools and companies that could benefit from the synergies established and could cooperate with the other EU textile clusters, exchanging experiences and knowledge.
- Organisation of professional visits to successful EU companies, with the objective of carrying out a benchmarking initiative, whereby comparison may occur in terms of business processes, performance metrics, learning of best practices related to the implementation of new technologies.
- Organisation of networking activities in the framework of specialised textile technology fairs (e.g., ITMA or Techtexile).
- To create an online platform to connect EaP countries' SMEs in order to easily access relevant information to operate internationally and to share resources, transport, suppliers, information, experiences and best practices.

- To bolster the implementation of the concept of EU Electronic Trading Platform, a private sector driven and multi-stakeholder initiative for public and private dialogue to provide incubation in e-trade rules and foster more effective and efficient policy and business environment for cross-border and electronic trade development.
- To bolster the creation of clusters and joint branding to help SMEs in their access to the market and into value chains to increase the opportunities for exporting.
- To establish some workshops with successful EU clusters to raise awareness among EaP Countries SMEs about the potential of cooperation.
- To establish testing and certification partnerships with EU textile centres to test and certify the products produced with recognised certifications (i.e., ÖKO-TEX...).
- To establish technology partnership programmes between EaP SMEs and EU tech providers and owners, to develop and implement technology textile projects together.

6 SELECTION OF A SINGLE STRATEGY

In this chapter, concrete specific actions will be presented that help to achieve the alternative strategies presented in the section. These actions are further developed in the Guidelines document and separated into different topics:

Investment and Business climate

Challenge: Unpredictable business environment

Recommendations:

- Develop a long-term strategy and a roadmap of economic development with European sector for the Eastern Partnership region, fully following the recommendations of the EU Small Business Act.
- Ensure that any new legislation that affects SMEs should be SME friendly by applying the “think small first principle”.

Challenge: Corruption and other malpractices, complicated bureaucratic procedures.

Recommendations: Simplify administrative procedures for businesses, as well as facilitate regulatory and controlling systems in the direction of self- regulation of economy.

Challenge: Courts are very slow and unreliable.

Recommendations: Establish specialised business-courts or other institutions that deal with solving economic disputes and protection of enterprises and investors rights. A Business Ombudsman for SME issues could be an option.

Challenge: Property rights are not secure both on a legislative level and in its implementation.

Recommendations: Ensure the protection of property rights and eliminate opportunities for corruption by providing accountability of decision-making officials.

Challenge: Public-private dialogue in the region is deficient.

Recommendations: Enhance and ensure public-private dialogue for the equal participation of all relevant stakeholders, including the private sector organisations in the policy making process.

Challenge: The awareness of business associations and government officials of public-private dialogue's benefits for economic development is low. Both the culture of dialogue and the culture of associations is weak.

Recommendations: Reinforce the capacity building of both private and public sectors through training, exchange of experience and implementation of best European practices. E-learning could be a cost-effective variant.

Challenge: The infrastructure is poor in most EaP countries.

Recommendations: Develop a strategy to quickly improve infrastructure and transport connections within the EaP countries and with its neighbours following EU connectivity guidelines.

Challenge: There is an unequal playing field between state owned or large companies and SMEs.

Recommendations: Ensure an even playing field for all companies and introduce legislation ensuring fair competition following EU competition and state aid guidelines and principles.

Access to finance

Challenge: A lack of financial literacy in an environment with complicated application procedures for bank loans and high financing costs creates a strong disadvantage for SMEs.

Recommendations: Create advisory services for SMEs to enhance financial literacy, business planning capacity and improve management practices through separate specialized platform for SMEs.

Challenge: There is a lack of alternative finance sources and instruments, especially for the non-banking sector. Microfinance institutions are weak.

Recommendations: Stimulate the creation and development of non-bank institutions and alternative financial instruments.

Challenge: Lack of payment certainty and enforcement mechanisms create uncertainty for SMEs.

Recommendations: Adopt the EU Payment Directive and ensure debt collection via courts and private bailiffs is working systematically.

Challenge: Lack of collateral; guarantee funds do not exist.

Recommendations: Establish a functioning market for land as well as guarantee funds based on European Guidelines for Spatial Information (INSPIRE). Implement appropriate valuation methods for collaterals as based on the TEGOVA guidelines.

Access to market

Challenge: A lack of fair competition caused by an oligarchic/monopolistic business model alongside weaknesses in public procurement hinders SMEs in their access to local, regional, and international markets. SMEs have only limited access to the public procurement market.

Recommendations: Create efficient competition legislation and establish institutional mechanisms dealing with competitiveness for SMEs. Improve the public procurement systems, including using e-public procurement tools to better involve SMEs in the procurement chain. Ensure SME thresholds and smaller lot sizes that allow SMEs to participate in public procurement.

Challenge: SMEs are not competitive on international markets due to problems with cost, quality, and available quantities. They can hardly guarantee an uninterrupted supply, which is especially important when working in international value chains.

Recommendations:

- Install an online platform that will allow SMEs across the EaP countries to connect among each other, to easily access relevant information, to operate internationally, and to share their experiences, innovations, and best practice.
- Increase and support participation of EaP countries' SMEs in EU trade fairs, aiming at business-to-business matching.

Challenge: SMEs do not have access to affordable local but internationally recognized quality infrastructure services for tests, certification, metrology, accreditation, and conformity assessment.

Recommendations: Establish internationally recognised quality infrastructure services locally, and encourage regional cooperation in the field.

Challenge: SMEs do not recognise the value of clustering and/or joint branding, which could help their access to market and into value-chains, and so increase their opportunity to export.

Recommendations: Enhance incentives that would help SMEs reach global markets especially for innovative products. Help them to access foreign sources of advanced technologies and knowledge.

Challenge: EU companies are not aware of the EaP countries, their potential, and the benefits of increased economic cooperation.

Recommendations: Raise awareness with EU companies about SMEs in EaP Countries and the potential for cooperation.

Innovation & Skills

Challenge: There is no adequate legal framework for innovation. Adopted laws and policies are not fully implemented. Policy documents do not include qualitative and quantitative targets.

Recommendations: Establish a State Innovation Council in each country that will implement a systematic and continuous, high-level inter-sectoral coordination mechanism to better develop and coordinate strategic approaches and law enforcement mechanisms.

Challenge: National education/trainings, especially in professions strongly depending on innovation, is weak. Companies do not want to invest in the training of potential employees. There is a strong mismatch between skills and competences needed by SMEs and skills provided by the educational system. There is no forecast of the labour market. The quality education enabling innovation is low.

Recommendations:

- Reform the educational system and involve the business community in the design of curricula.
- Work with relevant stakeholders from the EU to develop a 'dual system' approach to class and work-based Vocational Education & Training (VET).

Challenge: There are inadequate institutional mechanisms to commercialize innovation.

Recommendations: Support and foster innovation substructures.

Challenge: The innovation culture is poor, and the existing innovation management capacity is not assessed.

Recommendations:

- Raise awareness on EU tools designed to measure the capacity of innovation management.
- Start with campaigns to increase awareness for the importance of innovation for the economy.

Challenge: SMEs lack the necessary business education, skills, and knowledge, especially in regard to innovative technologies.

Recommendations: Organise trainings to share and deliver managerial and business skills especially through e-learning.

Tax & Customs

Challenge: State owned enterprises, large enterprises and SMEs are taxed and treated differently, resulting in disadvantage for SMEs.

Recommendations: Introduce and maintain equal treatment of all enterprises with a simplified tax system for micro- and small businesses.

Challenge: Frequent changes in taxation.

Recommendations: Ensure a stable taxation system, allow consultative engagement of the stakeholders, develop common approaches to tax disputes, and ensure in-time tax returns.

Challenge: Standards and certificates are not mutually recognised in the light of EU and Eurasian Union systems.

Recommendations: Facilitate SME access to the services for standardization and certification and follow CEN guidelines as closely as possible.

7 METRICS AND TARGETS

METRIC	TARGET	Contribution of the EU4BCC ²⁹ programme
Industry Transformation		
Jobs creation in the textile and clothing sector.		
Number of clusters implemented.	At least 1 per country.	The programme will facilitate the knowledge of the different actors and can influence in the creation of clusters.
Number of companies changing from CM/CMTs models to own brands.		EU4BCC will encourage the knowledge of EU companies models that can foster the EaP SMEs to think about the advantages of commercialising through own brands.
Number of partnerships established with strategic counterparts from the EU.	At least 1 per country.	EU4BCC will involve activities that could foster the partnerships between EaP companies and EU actors.
Technical Training		
Dual learning schemes implemented.	At least 1 per country.	

Technical Exchange programmes with EU institutions.	At least 1 per country.	EU4BCC will involve activities that could foster the technical exchange between EaP companies and EU actors.
Vocational training programmes implemented.	At least 1 per country.	
Business prospection trips organised to textile technology fairs.	At least 1 per country.	EU4BCC will involve activities that could foster the participation of SMEs in textile technology fairs.
Number of support and innovation programmes established.	At least 1 per country.	
Number of mentoring programmes implemented.	At least 1 per country.	EU4BCC will involve activities that could foster the implementation of mentoring programmes.
Number of partnerships established between EaP SMEs and EU tech providers.	At least 1 per country.	EU4BCC will involve activities that could foster the establishment of partnerships between EaP SMEs and EU tech providers.

²⁹ EU4BUSINESS: Connecting Companies (EU4BCC) project.

Business training		
Number of professional visits to EU leading companies that have implemented circular and digitisation programmes.	At least 1 per country.	EU4CBB will involve activities that could foster the organisation of professional visits to EU leading companies in the implementation of circularity and digitization.
Training programmes in commercial affairs, business development...organised.	At least 1 per country.	
Training programmes in circular economy and digitisation organised.	At least 1 per country.	
Internationalisation and export stimulation		
Number of dual programmes with the EU organised.	At least 1 per country.	
Number of twinnings organised.	At least 3 per country.	EU4BCC will involve activities that could foster the organisation of twinnings.
Number of marketplaces organised.	At least 1 per country.	

Branding		
Number of branding campaigns organised.	At least 1 per country.	
Number of promotional actions developed.	At least 1 per country.	
Networking		
Number of partnerships with universities and firms in the EU established.	At least 1 per country.	EU4BCC will involve activities that could foster the partnerships with EU stakeholders.
Number of partnerships with EU textile centres to test and certify products.	At least 1 per country.	EU4BCC will involve activities that could foster the partnerships with EU textile centres.
Number of partnerships between E&P SMEs and EU tech providers established.	At least 1 per country.	EU4BCC will involve activities that could foster the partnerships with EU tech providers.

8 CONCLUSIONS

The textile and clothing sector faces different challenges affecting the competitiveness of the SMEs operating in the sector. These challenges are mainly related to the industry transformation and the change of paradigm in the business model changing from the subcontracting model to the own brand production, including aspects such as the circular economy and digitalisation that could help the textile and clothing companies to increase their competitiveness in the global market.

On the other side, the sector needs to leverage its strengths and opportunities to increase its position in the global market and at the same time contribute to the development of the EaP countries.

The project EU4BCC offers a unique opportunity for the textile and clothing sector in the EaP countries to establish fruitful cooperation with EU companies and institutions establishing the framework for increasing the knowledge, training, networking, partnerships with EU companies and stakeholders that could bolster it in a short, medium and long term.

9 DISCLAIMER

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Its contents are the sole responsibility of the authors and do not necessarily reflect the views of the European Union.

ANNEX I - SUMMARY OF THE INTERVIEWS WITH PARTNERS

Armenia

Vladimir Amiryany, Director of Operations, Armenia Chamber of commerce.

- With the new government, some promotion agencies have been established but there is no specific export promotion agency that helps SMEs with their internationalisation.
- There is a VAT reduction when they import machinery.
- There is not so much institutional support. Things happen at company level and have no repercussions in the sector as a whole.
- Big companies are located in big cities such as Yerevan.
- The government has banned importing Turkish products (ready-made) in order to protect the T&C sector.
- There are now some organisations moving to the model of making the whole process, from raw material to final products.
- The situation in the country is very changing due to the political situation.
- Local brands are not successful although it is expected this trend changes in the near future, normally local brands work as subcontractors of EU labels.
- There are no textile associations to make lobby. It would be very beneficial for the textile sector to have these institutions to provide specific support to textile companies.
- The institution Enterprise Armenia is the responsible for the investment promotion.
- Also, there is no organisation responsible for expert promotion.
- The public-private dialogue between government and companies could be fluid as the companies have direct access and can talk directly without any formal structure.
- The BSO has underline the need to organise a sustainable support to textile associations to promote the export as nowadays the export is exclusively to EU and Russia.

Azerbaijan

Vasila Almammadova and Elnaz Gahramanova Head of Department, Azerbaijan Chamber of Commerce.

- The textile industry has very low level in Azerbaijan suffering strong competence from third countries also in the Easter region.

- The COVID-19 has not affected too much to the workers because the government has paid the salaries during the lockdown. But the companies have experimented a strong decrease in sales during the pandemic and they are now beginning to recovery.
- The specific textile associations are not big.
- The most important industry is hand-made carpets, the industry has a long tradition with big demand. Also, the silk production has a long tradition as Azerbaijan is located in the ancient Silk Road.
- Cotton production receives a specific governmental support.

Georgia

Aleksandre Papiashvili, Chamber of Commerce and Industry.

- Confirmed the importance of the textiles industry, esp. in less developed regions (Western Georgia), as a source of employment for less developed/skilled workers. However not considered a sector with big growth potential.
- Workforce is big problem: low margins/salaries and competition with seasonal work in Cyprus, Greece, Turkey.
- Moreover, lack of technical skills; no well-functioning VET scheme.
- Sector has developed from final assembly to more integrated supply chain production.
- Weak textiles association => need for capacity building and support.
- COVID-19 resulted in strict lockdown and therefore big impact on the sector.
- Favourable investment climate (location, tax burden, corruption, ...).

Moldova

Mihai Bilba Vice-President, Chamber of Commerce of Moldova.

- The sector faces a lack of human resources, the Chamber of Commerce is responsible of the dual education system. Textile companies are always looking for students willing to work, but young people do not see the sector as an attractive opportunity. Some companies work with the dual system, but the pandemic situation has paralysed the dual programmes.
- Textile companies have been forced to stop their normal production and start producing masks and medical devices during the pandemic. The government has prohibited the export of medical devices so the textile companies have not had the opportunity to do business with the situation.

- Also, during the pandemic the sector has suffer a lot the lack of raw materials as they are fully dependent of the supply from third countries. Local production of raw materials is almost no existent.
- The procurement system during the pandemic was corrupted and they bought everything from China.
- There is a lot of movement of workers between companies.
- The government is working in simplifying the customs procedures. Products such as smart textiles have problems with the commercialization due to the custom procedures.
- There is a current trend to start working with own brands. The Chamber of Commerce offers support to national brands to showcase in international exhibitions.
- The country is very attractive for investors, mainly due to the low labour costs, although now this situation is little by little changing.
- The country has a huge dependency of EU exports, they are now start exporting to Russia.
- The textile supply chain is almost limited to the confection, no spinning, weaving and finishing. All the fabrics are imported which is a problem for the high level of dependency.
- The rules of origin in Europe prejudice Moldova and it is no in the UK agenda.

Ukraine

Larysa Tsygan, Natalia Shereneta and Tatiana Selezen. Chernihiv Regional Chamber of Commerce and Industry.

- The COVID-19 has had a big impact in the companies, the orders have decrease in a 20%. Also, the internal market has constrained due to the loss of purchasing power of the consumers.
- There is a strong need of skilled workforce in companies. Lot of Ukrainian people have emigrated, and textile is not an attractive sector for young people. The Chamber of Commerce promotes training in companies for students who learn very quickly and start working in textile companies.
- Salary has decrease in a 3% in the textile sector.
- Ukraine has almost no raw material production, everything must be imported from China, Poland, Pakistan...There is a strong need of creating the path to establish companies producing raw materials.
- Equipment needs modernisation, there is no governmental programme for encouraging the modernization of equipment.
- The country imports a lot of second-hand garments instead of producing new ones. Although this is a sustainable trend, it prejudices the local textile sector. They suggest including a tax to

these second-hand products. With the new law, member states are obliged to manage their own wastes not exporting them.

- The majority of the companies are private local companies. Very few state-owned factories.
- There is a strong textile association Ukrainian Textile Association involving a lot of companies.
- Design industry begins to flourish, although the good designers normally emigrate. They suggest to establish programmes to facilitate the collaboration between designers and companies for a mutual benefit.
- The country exports mainly to EU.
- They are very active in the Enterprise Europe Network, encouraging Ukrainian companies to participate in the B2Match events.
- As policy recommendations, they suggest working on the labour costs, stimulate the raw material production and the investment, attraction of investment and stimulate on-line commerce, harmonise standards to the European ones, although Ukrainian companies that export to EU are used to use these EU standards.

