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THE IMPACT OF THE ECONOMIC CRISIS ON SMES

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Abstract. The economic crises from the last years has made the Moldovan economy oscillate at extreme values. After the effects of the Covid-19 pandemic and severe drought from 2020, the year 2022 brought a mix of energy crisis, trade disruptions and persistent inflation. These crises have put pressure on the costs and competitiveness of SMEs and revealed that support resources and intervention tools from the Government are limited.

On the other hand, the last two years have also brought a positive change in the trend with a positive increase between the number of new businesses registered and the number of businesses closed. In this regard, this work analyzes the effects of the most recent economic crises on SMEs within the Republic of Moldova.

Methodologically, this study uses secondary data analysis provided by: the National Bureau of Statistics, national and international reports, as well as the most recent references in this field of research. In addition to the approach based on statistical data, this research also includes the latest data from business surveys to assess the impact of crises through the perception of entrepreneurs.

Keywords: SMEs; economic crisis; small business development.

JEL Classification: G01; M10.

Introduction

As in many countries, SMEs represent the majority of businesses in Moldova. In 2022, Moldovan SMEs represented 99,2% of the total number of enterprises, generated 44,9% of sales revenue and employed 65,6% of private sector employees. Still, SMEs from Moldova face a large number of challenges, both on a global and local level in the past years. Domestic and international health measures introduced in 2020 meant to reduce the Covid-19 pandemic, have disrupted the functioning of key sectors of the economy such as wholesale and retail trade, construction and the agricultural sector.

Moldovan SMEs, poorly prepared for such a crisis (little digitized and diversified in terms of suppliers) have been hit hard. This led to the fact that in the period 2019–2020, the rate of small and medium business in the country decreased with 3.4%. The Covid-19 pandemic has led to a slowdown of Moldova’s economy and a decrease in GDP. According to the National Bureau of Statistics, the share of SMEs to GDP formation decreased from 50.9% in 2019 to 48% in 2020. The negative effects of Covid-19 pandemic also led to a significant decrease of people employed in SMEs of 316.8 thousand in 2020, which is 19 thousand employees or 5.7% less than in 2019.

After a slow recovery in 2021, Moldovan SMEs were threatened again by the increase in inflation and energy costs as a consequence of Russia’s war in Ukraine. The Russian aggression against Ukraine presented a new set of challenges for Moldovan SMEs. Moldova’s economy is particularly vulnerable to the war’s economic impact due to relatively small size of the country and dependence on imports. All these factors put additional pressure on the SMEs growth.

Research results

Methodologically, this study uses secondary data analysis provided by: the National Bureau of Statistics, national and international reports, as well as the most recent references in this field of research. In addition to the approach based on statistical data, this research also includes the latest data from business surveys to assess the impact of crises through the perception of entrepreneurs.

The most recent survey carried by the authors of this paper, within the bilateral project “Measuring the performance of SMEs active in the agricultural sector and/or the food industry during the health crisis Covid-19: a study in the Gaziantep and Chisinau region”, shows that one of the most affected activity is agriculture, because of two overlapping crises: Covid-19 pandemic and drought. From the total number of 120 SMEs included in the survey, 64% of managers said that the Covid-19 was the main cause of the drop in their activity. Production costs, payroll and prevention costs are the main factors responsible for the decline in economic performance during the Covid-19. The pandemic has reduced the turnover of all SMEs, regardless of size. Every enterprise from the SMEs group has been affected, but deeper effects are observed in micro enterprises. The situation was more severe for micro enterprises, as they traditionally have limited financial resources to withstand a long-lasting crisis. SMEs from Moldova also had a lower capacity to shift to digital work processes. This crisis underlined the need to accelerate the digital transformation of local SMEs.

During 2020, SMEs from public alimentation recorded the highest losses, 278.1 million lei. In addition, SMEs in the agriculture, hunting and forestry sector recorded a considerable loss of 271.9 million lei. Although the SMEs from some economic sectors had a profitable activity during 2020, the size of the profit before taxation registered by the SMEs decreased by 3335.1 million lei or 26.93% compared with the year 2019. The results show that in 2020 SMEs from Chişinău were strongly affected by Covid-19 pandemic, operating with reduced turnover, jobs lost and reduce financial resources.

To support these businesses, the policymakers adopted a series of supporting measures. Still, the majority of respondents from Chisinau region, did not benefit from these supporting measures, or got the support for a very short period. This way with limited self-financing resources and difficulties in accessing traditional bank finance, SMEs were particularly hard hit by another crisis - the war's inflation shock. The war's economic impact on rising gas prices, increasing transportation costs and losing markets and suppliers poses a particular risk for SMEs from Moldova. Therefore, affordable access to finance and support is a crucial factor for SMEs development in the future.

Conclusion

SMEs from Moldova face a large number of challenges, both on a global and local level. Still, in the context of health, economic, inflationary and energy crises from the last years, SMEs from Moldova remained resilient. Such a structural change means an improvement of the business environment and creates a solid basis for economic recovery.

This trend may also be the result of the new support programs financed or co-financed by the European Union. In this regard, a series of new projects for supporting SMEs were launched. At the moment, there are about 30 SMEs-focused programs financed or co-financed by the European Union, providing financial support (loans, grants and guarantee schemes) and business advice (training, coaching, and international partner-matching schemes) or a combination of both.

With the support of European Union partners, the business environment from Moldova remained resilient against the backdrop of the current crises. According to the State of the Country Report, in the period 2021–2022 the number of newly created enterprises exceeded the number of closed ones. A developed SMEs sector can reconfigure the economy of the Republic of Moldova, both through massive employment opportunities and through competitiveness and dynamism.

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