

FOSTERING SMALL BUSINESS DEVELOPMENT IN MOLDOVA THROUGH INNOVATIVE POLICIES

DOI: <https://doi.org/10.53486/dri2025.67>

UDC: 334.012.64:001.895(478)

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Abstract: *This work considers the role of small and medium-sized enterprises (SMEs) within an economy and their capacity for innovation. In particular, attention is focused on the case of the Republic of Moldova, first providing an analysis of the market shares and the profits achieved by SMEs. Subsequently, based on the analyses carried out, it is possible to observe that although in recent years there have been variations in economic indicators, favourable for the increase in the innovation capacity of SMEs, at the same time, there are some conditions that act as a brake on an increase in innovation capabilities. Among these conditions, we can consider the reduced cooperation between the enterprises that form the SMEs, the intense concentration of the SMEs in a single specific space in the territory and the difficult mobilisation of tangible and intangible capital from one place to another. A reduce number of SMEs are involved in innovation activities; as a result, innovation impact on national economy is reduced as well. The overlapping crises from the last years, also hit hard the SMEs slowing down their potential to develop and innovate. Still, it is necessary to consider that Republic of Moldova was officially granted candidate status by the European Union in 2022, setting a target date of 2030 for EU membership. The European path of the country increased considerable developmental policies stimulating the speed and depth of economic and financial reforms. Moreover, some developmental policies concerning the support for SMEs referred to legislative amendments dealing with the economy's digitalisation. Other policies concern the improvement of the legal framework in the competition field. The materialization of these opportunities can create an enormous synergy effect for attracting funds for SMEs development and innovation.*

Key words: *small business; innovation; development; EU accession.*

JEL: G00; G30.

1. Introduction

This work analyses the active role in the economy played by the group of small and medium-sized enterprises (hereafter, SMEs). In particular, attention will mainly focus on the progress of the development of SMEs within the Republic of Moldova. In this regard, we provide a brief descriptive analysis relating to the development of the main activities of SMEs in the Republic of Moldova during the years. Subsequently, a brief discussion of the obtained results is provided, together with some possible recommendations to be adopted to ensure further development of SMEs.

First, it is necessary to consider that across the world, entrepreneurial small and medium sized enterprises contribute greatly to national economies (Khan, 2022). In this regard, the contribution of SMEs to a country's economy would allow not only to create jobs but also create innovation. Although SMEs represent one of the largest groups of companies in several countries capable of contributing to the growth and development of economic activities, some factors may limit the growth of SMEs. Among these factors, the author considers market (e.g., inflation) and regulatory variables (e.g., tax system). Although it is possible to consider the potential presence of such possible limiting factors, SMEs represent most businesses in the Republic of Moldova.

Specifically, the number of SMEs in the Republic of Moldova has grown in quality and quantity over the last 33 years of independence. However, according to the Technical Assistance Report provided by the International Monetary Fund the Republic of Moldova is one of the least competitive European countries. In addition, the Republic of Moldova faces a significant migration of its workforce every year. Therefore, the total number of migrations could justify a reduction in the Moldovan population

in the last decades. Specifically, there has been a reduction in the number of people who make up the Moldovan population starting from the early 1990s. In this regard, Moldova's massive labour migration has pushed more than 30 percent of the labour force into working abroad.

According, to the State of the Country Report (2022), Moldova's economy has been repeatedly impacted by a range of negative shocks, which have fundamentally undermined the dynamics of economic development and the transition to a functioning market economy, based on a sustainable model of economic growth.

However, at the same time, Moldova was officially granted candidate status by the European Union in 2022, setting a target date of 2030 for EU membership. The European path of the country increased considerable developmental policies stimulating the speed and depth of economic and financial reforms. The materialization of these opportunities can create an enormous synergy effect for attracting funds for SMEs development and innovation.

2. Trends in SMEs development in Moldova

This section provides a brief analysis of the development over time of SMEs in the Republic of Moldova, particularly in the last years. First, based on the data of the National Bureau of Statistics from Moldova, in 2023, SMEs represented about 99.2% of the total number of enterprises operating in the Republic of Moldova. Specifically, of the 99.2% the largest share of 87.7% were microenterprises, 9.6% were small enterprises, and only 1.9% were medium-sized enterprises.

In particular, it is necessary to consider that the type of activity characterised by a higher percentage share relates to the wholesale and retail trade. Although a reduction in the time of quotas is observed, the wholesale and retail trade activities quotas are the highest compared to other activities. On the other hand, the type of activity characterised by a lower percentage share is those relating to raw materials (electricity, gas and water). However, SMEs represent the majority of the industries of the Republic of Moldova. Therefore, the data previously analysed allows us to consider that the innovation capacity of SMEs in the Republic of Moldova is relatively low.

Furthermore, these higher observed market shares regarding trade and other activities could be explained by the flexibility that distinguishes SMEs from other types of firms. Specifically, SMEs would perform the function of intermediaries in the market. In addition, SMEs should be profitable to gain and maintain their market share over time.

In order to analyse the profitability of some types of activities carried out by SMEs in the Republic of Moldova, based on the data obtained by the National Bureau of Statistics, we have considered the profits earned before taxation (expressed in million lei) by SMEs in the Republic of Moldova and their trend over time (2016-2023).

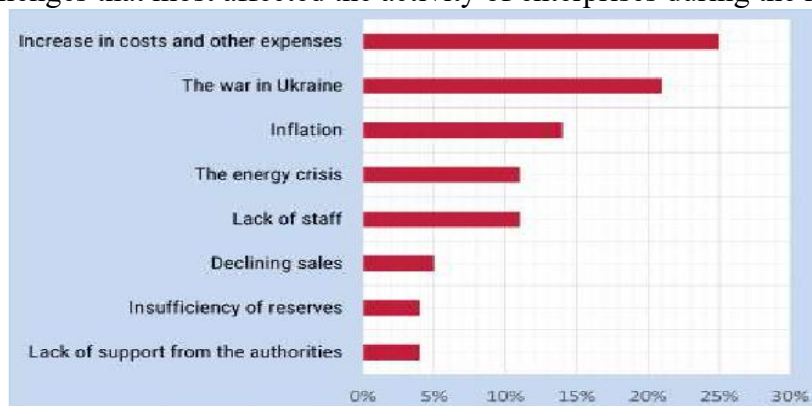
In particular, the activity characterised by a higher profit relates to the wholesale and retail trade activities. Moreover, types of activities relating to agriculture, construction and real estate are also characterised by higher profits than other activities. In this regard, in 2020 the profits from activities relating to the processing industry (+28.94 %), raw materials such as electricity, gas and water (+7225 %), construction (+131.48 %), activities related to the wholesale and retail trade (+114.12 %), transport and storage (+83.21 %), public feeding programs (+537.84 %), communications (+370.58 %), real estate (+24.76 %), scientific and professional activities (+51.27 %) and other types of activities (+53.97 %) have increased compared to 2016.

Furthermore, the types of activities characterised by a lower profit are those relating to raw materials (electricity, gas and water) and the distribution and sanitation of water.

In addition, the reduction of the amount in 2020 (from 12386 million lei to 9050.9 million lei) could be motivated by issues related to the spread of the pandemic and the relative downsizing of the performance of economic activities at a local and global level.

The Covid-19 crisis, followed by Russian war in Ukraine has triggered a major economic and social crisis, which has affected the vast majority of the SMEs from Moldova. Moldovan economy faced an

unprecedented influx of refugees, trade disruptions, major energetic and security crisis (Erhan et al., 2023). One of recent survey applied on a number of 330 SMEs from Moldova, shows that the most significant impact on business activity over the overlapping crises from recent years has been the increase in costs and other expenses (25%) the war in Ukraine (21%) inflation (14%), the energy crisis (11%) and the lack of staff (11%) have also had a strong negative impact on business activity. Figure 1. The challenges that most affected the activity of enterprises during the recent crises, %



Source: Magenta Consulting, Survey of business representatives.

On the other hand, in general, between 2016 and 2023, there was a positive difference in profits between all types of activities considered. Therefore, it is generally possible to consider that an increase in the time of the profits achieved by SMEs is observed in their profitability. In particular, the increase over time in the profits achieved by SMEs operating in primary to tertiary sectors would allow companies to invest their resources in innovation, research and development.

Furthermore, the fact that Moldova was officially granted candidate status by the European Union in 2022 triggered the launch of several supporting and development programmes and increase considerable the inflows of cash in the country for supporting the business environment.

In this regard, we propose, in the next section, a brief discussion on some possible programs that SMEs could implement to increase their innovation capacity, using as a mirror the innovative policies applied in European SMEs.

3. Innovation policies applied in Moldovan SMEs vs Innovative policies applied in European SMEs

In the last years, public-private projects and international financing have been launched in the Republic of Moldova, meant to contribute to increasing SMEs' innovation and competitiveness capacities. Several business incubators have been opened, and the process has been extended to creating a network of business incubators. Industrial parks were opened, and feasibility studies were carried out for their regional expansion. This support infrastructure is extremely important for SMEs as it contributes to their efficient activity, offering those opportunities to launch and expand their business. In addition, one of the main objectives of the SMEs Development Strategy 2030 is to have productive, innovative and competitive enterprises in Moldova. One of the main targets of the Strategy is to intensify foreign direct investments attracted in the free economic zones, the IT Park, the multifunctional industrial platforms.

Still, the current legal framework of Moldova does not stimulate enough innovation activity. There is not any well-established system of direct and indirect financial incentives (for instance tax incentives) aiming to encourage research and development activities of firms and state's low financial capacity to support SMEs. The legal framework does not require more responsibility from enterprises and costs within the enterprise for achieving the objectives in terms of innovative activities. Thus, the introduction in the legislative acts or regulations of product safety, operational and work safety,

environmental protection, and intellectual property right enforcement, provisions on taxes, employment or social affairs led to effects such as stimulating innovation. Most of the supporting measures and policies from Moldova are addressed to the small business sector without pointing out the massive potential of the small business companies that apply innovation.

The development of innovative small business companies involves comprehensive solutions. Small businesses from Moldova also miss new business practices for organizing procedures (supply chain management, business re-engineering, knowledge management, quality management), thus limiting the development of innovative organization enterprises.

A major help for SMEs from Moldova is provided by the European Union through EU4Business programme. The EU is supporting SMEs through more than 30 projects in Moldova. From the best practices of European SMEs, innovative policies may become an effective tool in creating a competitive advantage for SMEs from Moldova.

Within the necessary innovation of European Union policies aimed at Small and Medium-sized Enterprises, it is essential to highlight the obstacles that European SMEs face (Hervás-Oliver et al., 2021) and which are mainly competitiveness and internationalisation due to the small size of SMEs with the consequent lack of financial and human resources which configures a solid barrier to access new markets (Szczepanski, 2017); research and development capacity due to the limited innovation of many companies especially in more traditional sectors such as manufacturing, making the products of SMEs less competitive in foreign markets and the performance of the company compared to large companies obtaining worse results in terms of turnover and added value (Alessandrini, 2019).

Therefore, the external factors most relevant to EU policy are the availability of skilled labour and the difficulty accessing finance and regulations within the administration.

In general, programmes and initiatives to implement EU SME support strategies are channelled through shared management programmes (ESIG), direct management programmes and the European Investment Bank (EIB). In addition, SMEs can benefit from the European Fund for Strategic Investment and Investment (EFSI), a joint initiative of the EIB and the European Commission.

EU support can be financial and non-financial. Financial aid can be grants, loans, guarantees and direct equity investments. Non-financial support consists of improving general business conditions for SMEs. An example would be the Enterprise Europe Network, which offers services to help SMEs find international business, technology or research partners, innovation support services and internationalisation support services.

Therefore, the European Commission's support is provided through direct mechanisms such as the renewed Horizon development support programme, the COSME programme, or thematic programmes such as EaSI. The new Horizon programme should be highlighted as the most ambitious concerning support for innovation, specifically support for SMEs to transfer Research and Development to Innovation. In addition, it is worth highlighting the existence of the ESI Funds, which are implemented through "shared management", whereby the European Commission and the Member States jointly implement the funds in a decentralised manner.

The ESIF comprise five funds that account for more than half of EU funding and channel EU cohesion policy: the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF). The ESI Funds focus on R&D, digital technologies, the low-carbon economy, sustainable management of natural resources and support for small businesses. The thematic objective is the one that directly targets the competitiveness of SMEs.

The European Regional Development Funds (ERDF) work on this objective, in addition to the programmes they can access, such as the aforementioned Horizon, access to finance (COSME), environment and energy (LIFE) and support for the European culture sector (Creative Europe).

4. Conclusions

Based on the analyses proposed in the first part of this work, it is possible to observe that the SMEs' activities with a relatively high market share are concentrated in the wholesale and retail trade sectors. Furthermore, these SMEs would not involve real innovation professionals at the management level. However, to increase their competitiveness locally and globally, SMEs and other economic actors should understand the rationale behind innovation and allocate resources for its implementation.

In particular, the concentration of SMEs in the Republic of Moldova is relatively higher near the capital, Chisinau. In this regard, to increase their innovation capacities, SMEs should intensify the collaboration network within the entire territory of the Republic. However, there could be quite a few difficulties in coordinating and mobilising material resources and not, since the activities of SMEs would strongly depend on the resources available locally.

Moreover, it is not that simple to innovate in the Republic of Moldova as most SMEs were hit hard by the overlapping crises from the recent years. Despite this, the various local actors should understand why it is necessary to innovate and increase one's competitive advantage through emerging and implementing new innovative ideas and technologies. Furthermore, it is necessary to involve universities and local economic actors capable of increasing innovation in the entire Republic. In this regard, cooperation between companies and researchers necessary (Stratan et al., 2020).

In recent years, the percentages of cooperation for innovation between SMEs and other actors have been relatively low. Furthermore, SMEs would opt more to innovate independently than by cooperating with other companies. In general, based on the analyses previously reported in the first part of this work the activities carried out by SMEs operating within the Republic of Moldova are not strictly focused on innovation but the production of goods and services following a standard technical approach. In addition, these SMEs would not involve real innovation professionals at the management level. However, to increase their competitiveness locally and globally, SMEs and other economic actors should understand the rationale behind innovation and allocate resources for its implementation.

SMEs from Moldova face a large number of challenges, both on a global and local level. Considerable work remains to be done to promote entrepreneurial learning, including meeting the specific skills requirements of SMEs. A developed SMEs sector can reconfigure the economy of the Republic of Moldova, both through massive employment opportunities and through competitiveness and dynamism. The prospects for encouraging SMEs in Moldova with the best European practices are as follows: development of innovation infrastructure; supporting public-private partnerships in research; adopting the framework on innovation and venture funds. The development of the SMEs in the Republic of Moldova in terms of innovations will increase the competitiveness of the small business and, consequently, will promote the intensification of growth rates, market expansion, export development, increasing sales and thus profit.

Acknowledgments: *The article was developed within the framework of Subprogram 030101 „Strengthening the resilience, competitiveness, and sustainability of the economy of the Republic of Moldova in the context of the accession process to the European Union”, institutional funding.*

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