

Capitolul 40 – LANSAREA BUSINESSULUI MIC ÎN MOLDOVA: BARIERE ȘI OPORTUNITĂȚI DE DEPĂȘIRE

Chapter 40 – STARTING A SMALL BUSINESS IN MOLDOVA: BARRIERS AND OPPORTUNITIES TO OVERCOME THEM

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Abstract

In Moldova, business registration procedures are comparatively more uncomplicated. During the business launches, entrepreneurs are enthusiastic. But, then, some are forced to close their business under the influence of external and internal factors. The object of research is the barriers to business development, and the goal is to find solutions to overcome the identified barriers. This study analyzes the legislative arrangements and the fiscal system related to the entrepreneurship sector. Significant attention is devoted to the impact of inflation on the development of the entrepreneurship sector. Another subject of study is the evaluation of the job training capacity of the researched sector. At the end of the article, recommendations are presented to allow entrepreneurs to solve problems and overcome obstacles.

Key words: entrepreneurship development, small and micro-enterprises, barriers to launching a business, mitigation solutions, state-promoted policies

JEL: M21, M29

Introduction

The ability of small businesses (SBs) to provide employment opportunities and stimulate innovation is indisputable. However, starting and growing a small business can be challenging, and entrepreneurs often face many obstacles (Chatzistamoulou & Tyllianakis, 2022). Despite these challenges, small businesses have both advantages and disadvantages compared to large companies (Balan, 2023). The main advantages are the promotion of innovations, production in small series that allow the diversification of goods and services offered on the market, and equity turnover (Ganciuov et al., 2021). SBs, with their inherent flexibility, are reassuringly able to respond more quickly to new challenges and changes in the market situation. One of the biggest disadvantages is affecting the cash flow, so liquidity problems arise.

The research object is small and micro-enterprises. The study is dedicated to identifying barriers and solutions to overcome them, a goal that we believe is of utmost importance and interest to economists. The following facts can substantiate the relevance of this study for Moldova. Firstly, the share of small businesses in the total number of enterprises was 97.3% in 2023. Secondly, the number of people employed in small and micro enterprises reached 45.2% of the total number of people employed. In 2023, the share of income taxes paid by small businesses amounted to 45.0% of the tax paid by all enterprises from Moldova.

Literature review and research methods

Small businesses contribute to the country's sustainable economic development. I. Ozturk, O. Alqassimi, and S. Ullah applied the ARDL model to prove this statement. Empirical

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analysis showed that both short-term and long-term estimates are significant and positive (Ozturk et al., 2024). Similar results were obtained by L. Westman, E. Moores, S. Burch (Westman et al., 2021), and H. Smith et al., who noted that both small and medium businesses promote innovation and new technologies (Smith et al., 2022). Young people have a significant impact on the development of SMEs (Gutium, 2024). The results of a study by Chinese scientists prove that the sustainable development of enterprises can be ensured by providing them with venture capital (Liu et al., 2023).

Few scientific articles systematize the factors that contribute to or hinder the sustainable development of small businesses. S. Basit et al. have focused on digitalization when defining these factors. According to researchers, the main barriers are ineffective data storage security, data leakage, lack of qualified workers, and weak network security. A factor that contributes to sustainable development is cloud enterprise resource planning (Basit et al., 2024) (Govindan & Bouzon, 2018).

This study is based on the Moldovan Entrepreneurship Database for 2021-2023. The SME data series was interrupted in 2021 due to a change in the classification criteria for enterprises into large and small (Legea, 2016). The main research methods used are statistical analysis and comparative analysis of small business development in Moldova and the European Union. The data source on small businesses in the EU is the Annual Reports on European SMEs.

Evolution of small business in EU-27 and Moldova

World experience shows that most enterprises are small businesses. In the European Union, small and micro-enterprises comprised 99.0% of all enterprises in 2023; in Moldova, it was 97.3% (Table 1). Although the structure of enterprises per size in Moldova is close to that of the European Union, the number of small enterprises in Moldova decreased in 2023 compared to 2021 (by 7.2%), while in the European Union, it increased (by 3.6%).

Table 1. Number of enterprises in Moldova and EU-27

	2021		2022		2023	
	Number, thousands	Share in total, %	Number, thousands	Share in total, %	Number, thousands	Share in total, %
Republic of Moldova						
<i>Micro-enterprises</i>	51.854	85.99	54.925	87.73	55.912	87.67
<i>Small enterprises</i>	6.611	10.96	5.994	9.57	6.132	9.61
EU-27						
<i>Micro-enterprises</i>	21 264	93.0	22 744	93.5	24 209	93.6
<i>Small enterprises</i>	1 340	5.9	1 332	5.5	1 388	5.4

Source: Authors' calculations using data from (NBS, 2024) and (Katsinis et al., 2024)

In Moldova, 62 thousand small and micro enterprises in 2023 provide employment for the population. The share of persons employed in small businesses is 45.2% in Moldova and 49.7% in the European Union (Table 2). The share of persons employed in European micro-enterprises was 30% in 2023 and 22.5% in Moldova. Thus, the small business sector in the European Union is comparatively more significant than in Moldova.

Table 2. Number of persons employed in Moldova and EU-27

	2021		2022		2023	
	Number, million	Share in total, %	Number, million	Share in total, %	Number, million	Share in total, %
Republic of Moldova						
<i>Micro-enterprises</i>	0.1075	20.19	0.1202	22.72	0.1212	22.49
<i>Small enterprises</i>	0.1237	23.23	0.1200	22.68	0.1223	22.70
EU-27						
<i>Micro-enterprises</i>	36.9	28.8	38.8	29.4	40.8	30.0
<i>Small enterprises</i>	25.8	20.2	25.6	19.4	26.8	19.7

Source: Authors' calculations using data from (NBS, 2024) and (Katsinis et al., 2024)

Although the number of people employed in small enterprises in Moldova in 2023 is only 0.9% higher than the number of employees in micro-enterprises, the turnover is still 23.4% higher. In the European Union, the situation is different; the number of people employed in micro-enterprises is much higher than in small enterprises (1.5 times higher). The added value obtained in micro-enterprises is also higher than in small enterprises (by 17.8%) (Table 3).

Table 3. Turnover in Moldova and value-added in EU-27, 2023

	Republic of Moldova		EU-27	
	Turnover, billion lei	Share in total, %	Value-added, billion (EUR)	Share in total, %
<i>Micro-enterprises</i>	91.08	14.3	1799	19.8
<i>Small enterprises</i>	112.35	17.7	1527	16.8

Source: Authors' calculations using data from (NBS, 2024) and (Katsinis et al., 2024)

In Small Businesses' turnover structure, the largest share belongs to trading enterprises (47.0% in 2023). In second place are agricultural enterprises, although it should be noted that in 2023, their turnover fell by 8.15% compared to 2022 (Table 4). In 2021-2023, the share of small business turnover from the following sectors increased: construction, electricity and gas supply, information and communication.

Table 4. Structure of turnover of Small Businesses by activities in Moldova, %

	2021	2022	2023
<i>Total by all activities</i>	100.00	100.00	100.00
<i>Agriculture, forestry, and fishing</i>	10.58	9.51	8.52
<i>Mining and quarrying</i>	0.39	0.33	0.36
<i>Manufacturing</i>	8.13	8.27	8.04
<i>Electricity, gas, steam, and air conditioning supply</i>	0.17	0.20	1.30
<i>Water supply; sewerage, waste management, and remediation activities</i>	0.49	0.30	0.30
<i>Construction</i>	6.94	6.87	7.42
<i>Wholesale and retail trade; repair of vehicles and motorcycles</i>	49.31	48.53	47.00
<i>Transportation and storage</i>	6.85	8.37	7.54
<i>Accommodation and food service activities</i>	1.77	2.33	2.78
<i>Information and communication</i>	3.28	3.72	4.21
<i>Financial and insurance activities</i>	1.26	1.24	1.25
<i>Real estate activities</i>	2.94	2.64	3.03
<i>Professional, scientific, and technical activities</i>	3.06	2.70	3.07
<i>Administrative and support service activities</i>	2.50	2.69	2.29
<i>Public administration; compulsory social security</i>	0.01	0.02	0.02
<i>Education</i>	0.30	0.30	0.37
<i>Human health and social work activities</i>	1.40	1.34	1.66

	2021	2022	2023
<i>Arts, entertainment, and recreation</i>	0.20	0.26	0.38
<i>Other service activities</i>	0.42	0.38	0.46

Source: Authors' calculations using data from (NBS, 2024)

The main reason for the growth in turnover of enterprises in the electricity and gas supply sector is the significant increase in tariffs for gas and electricity.

Barriers in small business activity and solutions to overcome them

The economic and political disturbances of recent years and the inflationary process had a negative impact on the sustainable development of small businesses. In 2022, the price index increased by 28.7%; in 2023, it increased by 13.4%. These processes do not encourage entrepreneurs to launch new businesses, but vice versa. The inability of the state to maintain the inflationary process within the range of 5%, frequent changes in the fiscal system, and changes in taxes paid to customs for export-import operations reduce the level of confidence of entrepreneurs in the government, create incentives for enterprises to move into the informal sector.

Launching a small business in the Republic of Moldova involves a series of barriers listed in Table 5. This table also describes solutions to overcome these barriers.

Table 5. Barriers to launching a small business and solutions to overcome them

Barriers to launching a small business	Solutions to overcome the barriers
Limited access to financing (lack of initial capital and access to favorable loans)	Promotion of support programs for small businesses. In addition, crowdfunding can offer alternative financing solutions.
Shortage of qualified human resources due to the exodus of skilled labor	The government must develop and implement state programs and strategies to attract young people by creating flexible working conditions and providing attractive benefits.
Small domestic market and high competition (Moldova has a relatively small domestic market, which limits opportunities for start-up and business expansion)	Digitization, use of e-commerce, expansion into foreign markets
Fiscal pressure (In Moldova, the income tax for small businesses is 12%. For comparison, in Romania in 2023, micro-enterprises paid an income tax of 1%)	Revision of the tax code, promotion of small business facilities
Bureaucracy (Administrative processes such as business registration and obtaining licenses and permits are time-consuming)	It is necessary to continue the digitization of business registration, obtaining licenses and authorizations, and to simplify the listed procedures

Source: Elaborated by authors

Conclusion

In the current period, the government must be concerned with solving the problems encountered by small businesses and revive interest in entrepreneurial activity. The main barriers faced by small businesses are limited access to financing, shortage of qualified human resources, small domestic market and high competition, fiscal pressure, and bureaucracy.

Opportunities are created for small businesses in Moldova:

–The “PARE 1+2” economy remittance attraction program was launched. This program provides additional financial support for the growth of businesses created by migrants.

–Digitization and e-commerce. Internet access is increasing in Moldova. Therefore, small businesses can take advantage of digital channels to expand their visibility.

–Development of ecological agriculture. Moldova is an agrarian country. There are many picturesque places in Moldova. Today, consumers prefer green products, which opens up opportunities for agribusiness.

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