Capitolul 22. ROLUL SPRIJINULUI STATULUI ÎN DEZVOLTAREA COMPETITIVITĂȚII IMM-URILOR ÎN MOLDOVA

Chapter 22. ROLE OF STATE SUPPORT IN DEVELOPING SME COMPETITIVENESS IN MOLDOVA

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Abstract

Moldova, in its development, faces an insufficient volume of domestic capital and foreign investment, a shortage of skilled labor due to the emigration of its workforce, and a lack of stable economic growth. To address these problems and promote sustainable economic growth, Government support is needed, which should be designed not only to attract national and foreign investment and create jobs, but also to strengthen the business sector. Considering that the majority of enterprises in Moldova are Small and Medium Enterprises (SMEs), the importance of increasing their competitiveness is undeniable. This study investigates the role of the state in supporting SMEs in Moldova. The study's results showed that the contribution of SMEs to GDP is low, compared to the level that could be achieved given the level of employment. The reason for this disproportion is related to low productivity. The analysis of some programs (such as PARE 1+2, EU4Moldova) revealed both significant successes and significant shortcomings. In conclusion, strategic recommendations are offered to improve the effectiveness of SME support.

Keywords: *small and medium-sized enterprises (SMEs), entrepreneurship, state-promoted policies, competitiveness, business development.*

JEL: *L26, L53, L25.*

Introduction

The choice of Small and Medium-sized Enterprises (SMEs) as the subject of this study is particularly relevant in the case of Moldova, as they constitute 99.2% of the total number of enterprises in 2024. SMEs employ 65.5% of the total enterprise workforce. This level indicates that the role of SMEs in stimulating economic growth, creating jobs, diversifying the production of goods and services, reducing poverty, and promoting social development is significant (Balan 2023). Although SMEs account for two-thirds of employment in the entrepreneurship sector, their sales revenue accounts for 46.1% of total sales revenue in the economy. This study aims to identify the reasons for this gap, as well as the barriers to entrepreneurship development.

State support for SMEs is practiced in many countries. It aims to remove barriers, such as limited access to loans on preferential terms and other financial resources (Gutium and Speian 2022). These kinds of barriers hinder innovation and the technological modernization of production processes. Without these improvements, it is impossible to enhance the competitiveness of SMEs. The importance of government support in enhancing the competitiveness of SMEs is undeniable; therefore, the *primary objective of this study* is to examine the role of the government in supporting SMEs in Moldova and the effectiveness of state programs for SME development. The study concludes with recommendations for improving the effectiveness of these policies.

Literature review and research methods

In studying the impact of government support on SME development, the primary focus is on access to finance and innovation. Harry Jeong et al. (2021) believe that the main obstacle for SMEs

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to improve their competitiveness is the lack of capital and capacity. Innovation can provide SMEs with a competitive advantage. To achieve sustainable competitiveness, SMEs must enhance their productivity and efficiency. Yang Songling et al. (2018) demonstrated that government financial and non-financial support is necessary to improve SME productivity.

Researchers' opinions on the effectiveness of government support differ. Harry Jeong et al. have written that "government support for certification is effective in increasing SME innovation performance" (Jeong et al. 2021). Olakunle Jayeola et al. (2022) have demonstrated that financial support is not directly related to financial performance. Vanitha Prasannath et al. (2024) believe that the effect of government support depends on the SME sector and the type of government policy. A combination of qualitative and mixed methods approaches was used in this study, including case studies, indicator-based evaluations, and program evaluations. The analysis period is 2021–2024, as other criteria for classifying enterprises into large, medium, small, and micro enterprises have been in effect since 2021, and data from previous years is not comparable with current data.

SME development in Moldova

The number of SMEs has been growing steadily in recent years, and the proportion of SMEs in the total number of enterprises has grown accordingly, currently exceeding 99 percent (Figure 1). Given that enterprise size depends on the number of employees, and that any SME has a smaller number of employees than a large enterprise, it is logical that the proportion of SME employees in the total enterprise workforce is lower than the proportion of SMEs in the total number of enterprises (Ganciucov and Gutium, 2021), ranging from 64.2% to 65.6%.

The share of SME revenues in total economic output is less than the share of employees in SMEs in the total workforce of enterprises. This ratio is called the Paradox of SMEs in the Republic of Moldova. The difference between these two indicators is approximately 20 percentage points. We assume that this gap is caused by lower labor productivity in SMEs compared to large enterprises. To test this hypothesis, labor productivity was calculated and presented in Figure 2.The ratio between annual labor productivity in SMEs and that in large enterprises is 1:2. This gap increased in 2022, amounting to 2.34 times. Both indicators increased significantly this year: labour productivity in SMEs increased by 20.3%, while that of large enterprises increased by 34.1%. Since the indicator is calculated in monetary terms, and prices increased by 28.74% in 2022, it could be concluded that, in real terms, the labor productivity of SMEs fell, while that of large enterprises increased.

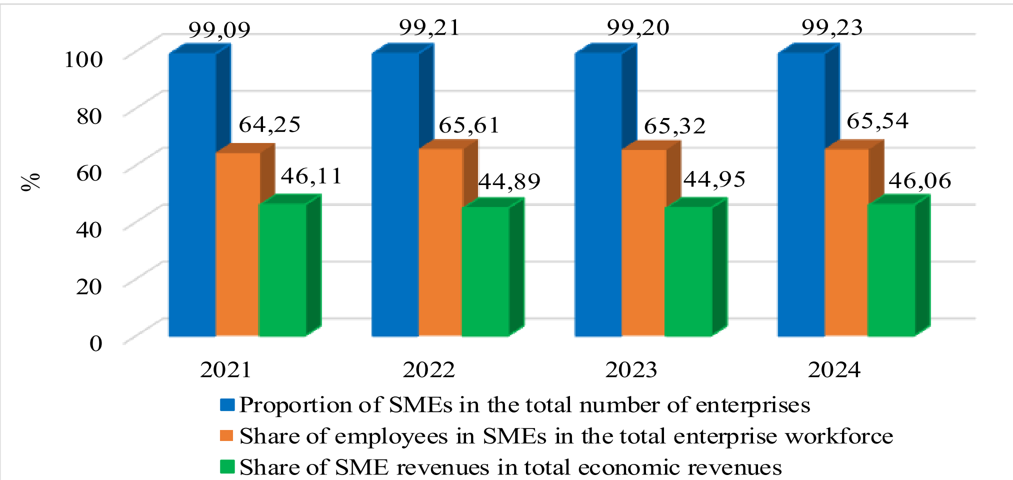

Figure 1. Proportions of SMEs in enterprises, employment, and revenues

Source: *Author's calculations using data from NBS (2025)*

One of the causes is the lower level of technological endowment of SMEs, and another cause is the difference in financial capabilities. SMEs are limited in their ability to implement innovations and purchase modern, expensive equipment.

To assess how much sales SMEs and large enterprises have generated per leu invested in financial assets, the "Sales-to-financial investment ratio" was calculated.

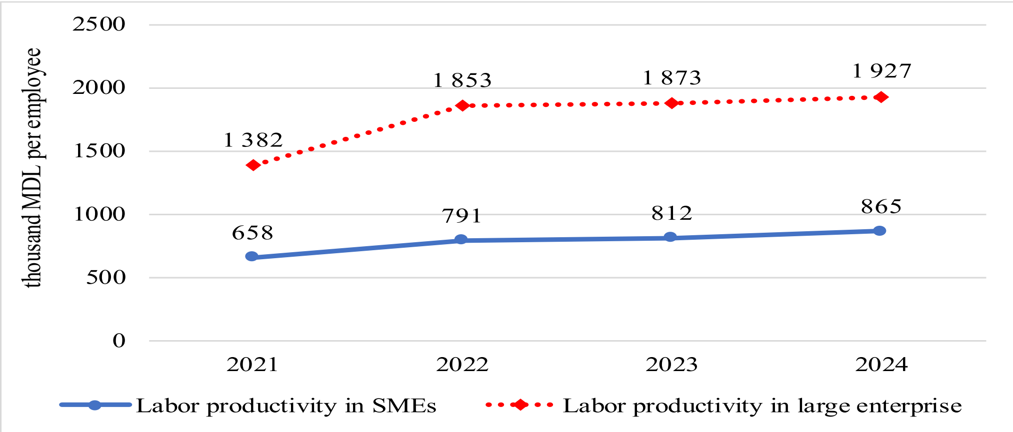

Figure 2. Evolution of annual labor productivity in SMEs and in large enterprises

Source: *Author's calculations using data from NBS (2025)*

The ratio of sales revenues to financial investments for large enterprises is, on average, 1.8 times higher than that of SMEs (Figure 3). This result indicates that SMEs experience weaker sales growth compared to financial investments. Thus, in Moldova, the increase in the number of SMEs contributed to the diversification of goods and services; however, it did not ensure economic growth. Firstly, the real level of SME labor productivity fell in 2022 and 2023. Secondly, SME sales are low relative to their financial investments.

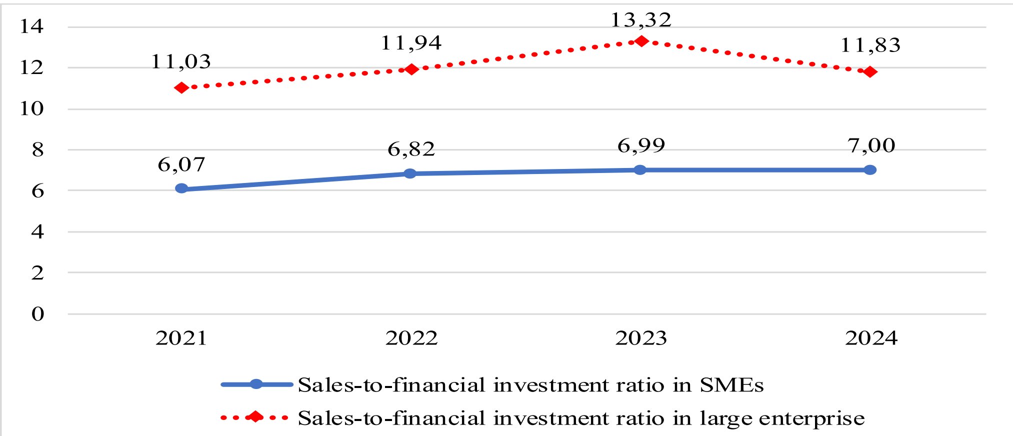

Figure 3. Evolution of the sales-to-financial investment ratio in SMEs and in large enterprises

Source*: Author's calculations using data from NBS (2025)*

Analysis of the impact of the tax system and comparative analysis of the tax pressure on SMEs and large enterprises revealed that it is approximately the same. For SMEs, the tax pressure is 13.1% in 2021, 14.8% in 2022, 14.4% in 2023, and 14.7% in 2024. For large enterprises, the tax pressure was 13.6%, 14.1%, 15.2% and 13.6% respectively. The tax-to-sales ratio for SMEs is approximately twice that of larger enterprises (Figure 4). This ratio demonstrates that SMEs have lower sales profitability. As a result, the tax burden per unit of sales is higher for SMEs, which limits their development and investment and reduces their competitiveness.

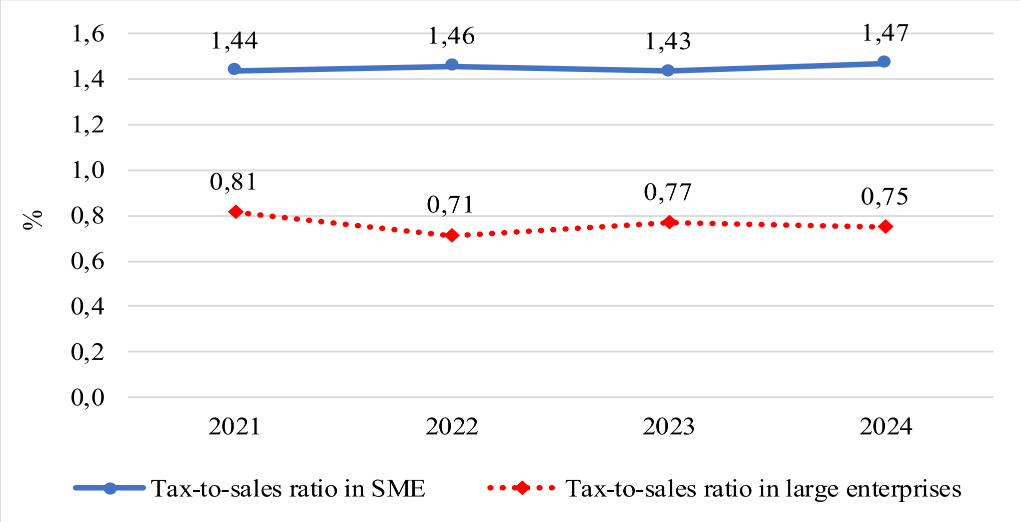

Figure 4. Tax-to-sales ratio in SMEs and in large enterprises

Source: *Author's calculations using data from NBS (2025)*

One of the barriers facing the Moldovan economy is the regional disparity in the localization of enterprises, both large and small. Approximately 60% of SMEs are concentrated in the capital, Chişinău (Figure 5). Moldova is divided into three regions, with the most significant number of SMEs located in the central region. It can be assumed that SME concentration is related to population size. To test this hypothesis, SME density was calculated.

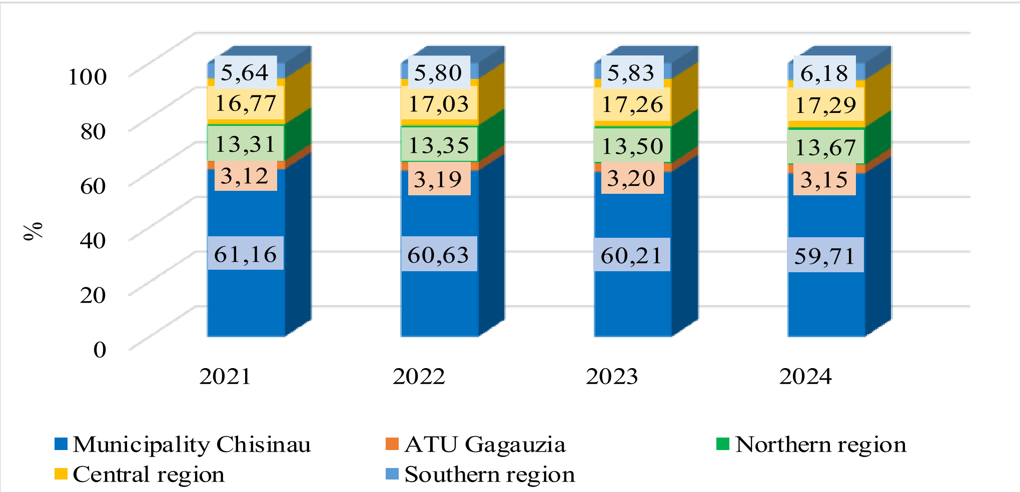

Figure 5. Regional structure of SMEs (by number)

Source: *Author's calculations using data from NBS (2025)*

The results obtained (Table 1) did not confirm this hypothesis. The share of the population in the Chişinău municipality was 27.6% in 2024, not 59.7%. Chişinău has the highest SME density because, in addition to the fact that every fourth Moldovan citizen lives in Chişinău, these citizens have the highest purchasing power. Monthly gross average earnings in Chişinău are the highest regionally, approximately 1.7 times higher than in the ATU Gagauzia. A second reason for Chişinău's superior SME density is its more developed infrastructure. The most favorable business environment is found in areas with well-developed transportation infrastructure, effective communication, and robust retail networks. The third reason is that, as the country's capital, Chișinău is the administrative and financial center. SMEs in Chișinău have greater access to government agencies, banks, and finance.

Table 1. SME density (number of SMEs per 1000 inhabitants)

	2021	2022	2023	2024
Municipality Chișinău	54.5	56.1	57.0	61.4
ATU Gagauzia	15.4	16.7	17.4	18.8
Northern region	11.1	12.1	13.0	14.7
Central region	13.7	14.9	15.9	17.6
Southern region	9.5	10.5	11.2	13.2

Source: *Author's calculations using data from NBS (2025)*

The lowest SME density is in the southern region. It is due to the low purchasing power of residents in this region and demographic decline. The southern region's population is half that of Chișinău, and its monthly gross average earnings are 36.2% lower than those of residents of the capital. Other reasons are the outflow of the working-age population to higher-income regions, as well as inadequate transportation and market infrastructure. The EU4Moldova program aims to support SMEs and develop focal regions, one of which is Cahul. This town is located in the southern region. The following section describes the SME support programs and the results achieved from their implementation.

Key government and donor programs to support SMEs

SMEs in Moldova receive support from both the government and donors (international partners). The Ministry of Economic Development and Digitalization (MEDD) defines the main areas of support for SMEs, and the Organization for Entrepreneurship Development (OED), established in 2022, is responsible for implementing SME support programs. Table 2 presents the main results of implementing state programs to support SMEs.

Table 2. Progress in implementing three non-reimbursable financial support programs for SMEs

	Program to attract remittances into the economy PARE 1+2 (16.09.2022 – 16.09.2025)	**"Start for youth: a business at home" program (10.06.2022 – 10.06.2025)**	**Women's entrepreneurship support program (16.11.2023 – 16.11.2026)**
Number of people ***in*** *the target group who benefit from financial support for starting a business*	151	305	98
Number of new businesses created by people ***in*** *the target group*	109	604	70
Number of jobs created/maintained by people ***in*** *the target group*	1670	1917	n/d
Number of people ***in*** *the target group who improved their entrepreneurial skills*	598	1933	817

Note: n/d – no data available

Source: *Systematized by the author based on the OED reports (ODA 2025)*

The implementation of financial support programs for SMEs led to an increase in the sales-to-financial investment ratio in SMEs (Figure 3), but not as significantly as expected. The main obstacles faced by people in the target group were limited access to finance for further SME economic activity due to high interest rates. One of the objectives of the EU4Moldova program is regional development. The program's implementation has provided indirect support to SMEs, namely, by helping to partially overcome the geographic concentration of SMEs described in the previous section. The business environment was improved, infrastructure investments were made, road infrastructure was rehabilitated, and water supply and sewerage networks were built in Cahul and Ungheni, which helped increase SME density in the southern region from 9.5 in 2021 to 13.2 in 2024, and in the central region from 13.7 in 2021 to 17.6 in 2024 (Figure 5).

Conclusion

An analysis of programs implementation showed that both direct and indirect support for SMEs was achieved. Tangible results were achieved in capital mobilization through the PARE 1+2 and "Start for Youth" programs, as well as in regional development through the EU4Moldova program. Based on the shortcomings identified during the program implementation analysis, the following recommendations were developed. The primary shortcoming of the "Women's Entrepreneurship" program is its low approval rate for applications. Therefore, a new program for this target group needs to include more intensive mentoring, especially during the application phase. Given the positive results (but insignificant) achieved by the EU4Moldova programme in combating regional disparities, it is necessary to expand it to other localities.

Acknowledgments

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