

DOI: <https://doi.org/10.53486/cike2022.57>

CZU: [334.722.012.63+334.722.012.64](478)

TRENDS AND CHALLENGES IN THE DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES

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Abstract: *Small and medium-sized enterprises (SMEs) are the main force for economic growth and job creation and one of the most important sectors of the economy in many countries. Like other countries, SMEs represent most businesses in the Republic of Moldova. The SMEs sector in the Republic of Moldova has grown in terms of quality and quantity over the last years. This trend may be the result of the new support programs in the field of entrepreneurship, launched by the Organization for Development of Entrepreneurship, but it may also be a result of a qualitative change of perception on the part of the business world regarding the business environment in the country. Starting from this reality, the primary aim of this research paper is to analyse the trends and challenges in SMEs development in order to provide recommendations for the SMEs' long-run development. In order to meet the aim of this research, an analysis of secondary data resources will be carried out, using scientific methods, in particular logical methods, such as comparative analysis, synthesis, induction and deduction. The research will include a macro analysis of SMEs from Republic of Moldova, based on official data from national and international bodies. The results of this research paper will make it possible to develop recommendations for improving the overall results of SMEs from the Republic of Moldova.*

Keywords: small and medium-sized enterprises; finance; development of the small business.

JEL Classification: G20; M10

1. Introduction

Despite the numerous crises facing the country, important structural changes in the field of entrepreneurship have been observed: while in the period 2017–2020 the number of established businesses was constantly lower than the number of closed ones, in the period 2021–2022 a reversal of the situation is observed, with registered companies beginning to outnumber closed ones (State of the Country Report, 2022).

This trend may be the result of the new support programs in the field of entrepreneurship, launched by the Organization for Development of Entrepreneurship, but it may also be a result of a qualitative change of perception on the part of the business world regarding the business environment in the country (State of the Country Report, 2022).

Still, according to the Technical Assistance report provided by IMF in 2021, Moldova is among the least competitive European countries. In addition, the Republic of Moldova faced a significant labor emigration; the Moldovan population (2.6 million inhabitants on January 1, 2020, according to the official date of the National Bureau of Statistics) has been on a trend decline since the early 1990s. All these realities slowed down the economic development of the Republic of Moldova, particularly of SMEs.

The change of the political vector in recent years in the Republic of Moldova and the efforts undertaken by the EU-Moldova Association Agreement and the Deep and Comprehensive Free Trade Area Agreement were essential documents in shaping policy development in Moldova stimulating the speed and depth of economic and financial reforms.

On March 3, 2022, Moldova officially applied for membership in the European Union. These positive steps are meant to support the economy and SMEs in particular. Accordingly, to the EU4Business Country Report 2021, the most recent Government actions on support for SMEs referred to legislative amendments dealing with the economy's digitalization, adjusting the national legislation to the European one and improving the legal framework in the competition field. SMEs have been identified as innovation-friendly, as they may encourage a corporate culture that allows participation, flexibility, networking, inclusion and experimentation across the organization. Challenges of the external environment faced by SMEs could lead to an innovative response to establish a competitive advantage. Starting from this reality, this paper analyzes the trends in SMEs development in Moldova.

2. Trends in SMEs development in Moldova

According to the National Bureau of Statistics from Moldova, in 2021, SMEs represented about 98.4% of the total number of enterprises; from this number, the largest share of 85.1% were micro-enterprises, 10.9% were small enterprises, and only 2.4% were medium-sized enterprises. From the data presented in table 1, we can see that the most attractive domain in the activity of SMEs in the Republic of Moldova is wholesale and retail trade.

Table 1 Share of SMEs by major types of activity during the years 2017-2021, %

Types of activity	2017	2018	2019	2020	2021
Total	100.00	100.00	100.00	100.00	100.00
agriculture, hunting and forestry	7.09	7.54	7.87	8.22	8.5
processing industry	8.40	8.44	8.41	8.39	8.1
electric energy, gas and water	0.19	0.18	0.18	0.17	0.3
water distribution, sanitation	0.75	0.72	0.89	0.87	0.8
constructions	5.78	5.75	5.90	5.94	6.2
whole sale and retail trade	38.43	37.52	36.31	35.84	35.0
transport and stoking	5.22	5.21	5.37	5.42	5.5
public alimentation	3.54	3.59	3.76	3.67	3.6
communication	4.10	4.13	4.29	4.37	4.8
real estate business	6.34	6.46	6.62	6.64	6.7
scientific and professional activity	8.77	8.80	8.77	8.74	8.9
other types of activity	11.38	11.67	11.63	11.71	11.8

Source: developed by authors based on the data from National Bureau of Statistics from Moldova

These data allow us to conclude that SMEs' innovation capacity in the Republic of Moldova is relatively low, and local SMEs prefer to activate in trade, agriculture or real estate business. These dominant shares in trade and other activities are explained by the flexibility of the SMEs, which fulfil the function of intermediaries in the market.

Of course, to exist and extend their share of the market, SMEs need to be profitable. In this context, we will analyse the profit before taxation obtained by SMEs in the Republic of Moldova from the main types of economic activity during the years 2017-2021, presented in Table 2.

Table 2 Evolution of profit before taxation obtained by SMEs in the Republic of Moldova, by main types of activity during the years 2017-2021, million lei

Types of activity	2017	2018	2019	2020	2021
Total	10 568,9	11 219,4	12 386.0	9 050.9	20 237.4
agriculture, hunting and forestry	1 926,2	1 212,5	1 278.7	(271.9)	5 190.2
processing industry	772,8	704,9	831.1	848.8	1 291.5
electric energy, gas and water	(7,2)	28,0	28.4	29.3	19.3
water distribution, sanitation	5,3	9,7	(3.0)	7.6	5.2
constructions	985,5	1 277,6	1 244.5	1 255.3	1 196.5
whole sale and retail trade	3 252,3	3 439,6	3 664.8	3 403.9	5 523.6
transport and stoking	447,0	553,8	334.7	626.4	830.7
public alimentation	3,3	110,7	276.5	(278.1)	183.7
communication	386,5	569,1	850.5	850.8	1 144.8
real estate business	962,2	1 277,7	1 186.1	840.9	1 595.3
scientific and professional activity	797,3	854,8	884.4	1 014.9	1 410.0
other types of activity	1 037,8	1 181,0	1 809.3	723.1	1 846.3

Source: developed by authors based on the data from National Bureau of Statistics from Moldova

During the period 2021–2022 SMEs recorded a positive evolution of profit before taxation obtained by SMEs in Moldova.

Despite this positive trend, the micro-enterprises still represent the largest share of companies in the SMEs sector (85.1%); however, their contribution to employment and turnover is relatively modest. In addition, the largest share of SMEs from Moldova is still in the wholesale and retail trade. A reduce number of SMEs are involved in innovation activities, as a result, innovation impact on national economy is reduced as well. The following reasons determine us to have a close look at the measures that have been applied during the years in the Republic of Moldova that aimed to foster SMEs' development.

3. Development policies and projects applied in Moldova 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.

The changes in the fiscal system and the economic liberalization reform undertaken in the past years contributed profoundly to the regulation of SME activity (Institute for Development and Social initiatives report, 2019). Government support schemes also include interest rate subsidies and state support programs. Accordingly, to the EU4Business Country Report, Moldova Government resources supporting SMEs in 2021 were 12.04 million euro. 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. Estimated EU support to SMEs in Moldova available at January 2021, was 15.09 million euro. From the best practices of European SMEs, innovative policies may become an effective tool in creating a competitive advantage for SMEs from Moldova.

4. Conclusion

SMEs from Moldova face a large number of challenges, both on a global and local level. Moldova state should promote and implement survival policies to expand dynamic capabilities, establish new partnerships, and develop technological innovation. 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.

Acknowledgment

This research was funded by 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” [Project Number = 22.80013.0807.3TR].

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