INTEGRATIONAL PROCESSES AND GLOBAL ECONOMY

IMPORTANCE AND ROLE OF SMALL AND MEDIUM ENTERPRISES IN THE CURRENT CONDITIONS OF THE REPUBLIC OF MOLDOVA’S DEVELOPMENT

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Abstract
The article analyzes the problems of existence of small and medium-sized enterprises (SMEs) in the Republic of Moldova. In the current environment, the SME sector allows only to maintain the Moldovan economy afloat and thereby make it more stable. However, despite the revival of SMEs business activity, too many negative factors hamper their development. The situation develops so that the interest of investors towards Moldova in the sphere of SMEs decreases. The main indicators showing the effectiveness of SMEs fall, and those that grow reflect the growth of corruption, instability, and the inadequacy of the business climate. Despite serious problems faced by entrepreneurs in Moldova, they still have the opportunity to successfully develop...
in some areas. The importance and role of small and medium-sized enterprises in the Republic of Moldova can significantly increase in the near future, provided that the reforms are actually implemented, in consequence of which the business infrastructure will change, which will promote the development of competitive companies.

Keywords: small and medium enterprises, business activity, business climate, business infrastructure, business environment

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According to the Law no. 07/21/2016 “About small and medium enterprises” in Moldova, 179 SMEs are defined as enterprises that together meet the following conditions: have an average of 250 people a year; reach annual turnover (sales revenues) up to 50 million lei or own total assets (fixed assets and current assets) up to 50 million lei. The total number of SMEs in Moldova is 52.3 thousand enterprises, or 97.4% of all registered enterprises. They comprise 56.9% of employees. The share of SMEs in the country’s GDP is 33%, which is much lower than the average for Europe. Therefore, Moldovan SMEs require constant support from the state. At the same time, Moldovan SMEs are a key sector of the economy, which began to develop 25 years ago, recording trends to grow and fall, under the influence of various factors.

The average portrait of the company in Moldova is characterized by the following:

1) The main features of the enterprise:
   - Legal form of management - limited liability companies (54% of all enterprises);
   - Ownership - private (89.47%);
   - Main activity - wholesale or retail trade (39.06%);
   - Size of the enterprise - microenterprise (75.58%);
   - Business location - Chisinau.

2) Business potential and results:
   - The average number of employees employed in medium-sized enterprises is 9.7 people.
   - Incomes from sales of medium-sized enterprises - 4.9 million lei.
   - Profit / loss of an average enterprise before taxes - 68100 lei.
   - Gross investment in tangible assets of an average enterprise - 744 thousand lei.
The total number of active SMEs in the Republic of Moldova is about 35,000 enterprises, or 99.2% of the total number. The average for large enterprises is less than 300. The vast majority of enterprises (about 80%) is classified in micro-sections. The SME sector is still developing not so much through public policy, but contrary to it. Many statements about its support remain only on paper, but in fact entrepreneurship barely survives. At the moment, the situation in the development of small and medium business and the country’s economy as a whole is very complex. Although the signing of the Association Agreement and the ACFTA (Advanced and Comprehensive Free Trade Area) provides the business environment with many opportunities to improve product quality and penetrate the European Union market, SMEs are not very well prepared for this. Now in the country more than 52 thousand small and medium enterprises are registered. However, for years, one third of small businesses are only featured in statistical reports, not actually existing. But statistics, not always faithfully reflects the reality. The only thing that is real and tangible for SMEs: fines and taxes inexorably grow. Taxes increased by several percent, and fines increased by more than 360 times compared to 1995. And these payments are made just at the moment when SMEs have not received significant profits for a long time, but survive (since 2013, investments have been declining). The emerging situation reduces investor interest in Moldova. The main indicators are falling, but those that grow reflect the growth of corruption and instability, the inadequacy of the business climate.

According to official data, almost a third of Moldova’s economy is in the informal sector (28%). There is a great deal of pressure on business from controlling bodies. The need for reform in this regard is obvious.

Modern Moldovan entrepreneurship is as follows:

- In the business environment, men are 2.6 times more than women. The proportion of women employed in the business sector is less than the number of economically active women (49.4%). While the total number of women in Moldova is 51.9%.
- 68% of Moldovan businessmen have full / incomplete higher education, 20% - secondary education, 12% have no education.
- the average age of the entrepreneur is 45.
- 23% of entrepreneurs are young people under the age of 35.
- 63 out of 100 entrepreneurs at the beginning of their work are employed as employees.
about 8% of entrepreneurs came into business without prior experience, including former students (4.4%), unemployed (2.4%).

In reality, crisis does not have a negative impact on all small businesses. There is a small business for which the damage can be minimal, or even there is room for growth. According to a study conducted in 2015 by experts from the World Bank (WB) “Segmentation of SMEs”, Moldova has industries with the potential for growth and the opportunity to enter new markets. Among them we can distinguish:

- food and beverages;
- light industry, clothing and leather goods;
- rubber and plastic;
- mineral products;
- chemical and pharmaceutical products;
- computers;
- electronic and electrical products;
- computer programming services.

As for the distribution of jobs, about two-thirds of the workforce in Moldova is involved in SMEs. Micro and small enterprises account for about 1/5 of all jobs, for medium-sized enterprises - about 1/4 of the jobs. With regard to value added, the contribution of SMEs is much lower, namely, only 61% of the total value added. More precisely, SMEs produced 15.6% of the value added.

In the future, the service sector will account for approximately 26,900 small and medium-sized enterprises (77% of all enterprises), in which about 200,000 people will be employed, and which will generate an added value of about 11.5 trillion lei. The production sector, but with significant differences, is less than 3500 SMEs (10% of all enterprises), but with a higher supply of jobs (62,300 jobs or 18%) and value added (3.35 trillion lei or 17%). The construction and agriculture sector comprised 2,000 SMEs. The creation of SMEs in this sector contributes to less employment and added value.

Characteristics of enterprises with various activities shows that the largest number of companies are in the trade. This sector includes 39.06% of all economic agents, 21.89% of employees and 47.48% of sales revenue. In addition to trade, a significant percentage of the total number of companies have such sectors as: real estate, rent and services for businesses (18.16%); production (9.32%); transport and communications (6.62%); agriculture, hunting and forestry (5.50%) and construction (5.44%); sec-
tors as electricity and heat, gas and water; fishing and fish farming - finished the year with losses. In 2016, the share of Moldovan SMEs in GDP was 33%. In all countries, the contribution to GDP is relatively lower than the share of the SME sector in employment. This indicates a lower productivity of the SME sector compared to large companies.

The crisis has affected other indicators, which reflect the country’s socio-economic development and have a negative impact on the business environment. SMEs in the Republic of Moldova are quite actively engaged in the production of goods and services to meet demand, especially in the domestic market. Moldova is characterized by a lack of cooperation between large enterprises and SMEs, so SMEs primarily contribute to saturation of the consumer market. Taking into account the importance of increasing employment in the modern economy, understanding the problems of entrepreneurs associated with staff is important for policy development. According to a study conducted by the EBRD and the World Bank, the lack of qualifications is one of the main obstacles for Moldovan SMEs; and the most important was access to finance. These barriers remain: they are indicated by entrepreneurs - owners and hired managers. The main problem of Moldovan SMEs related to resources is a high and unmet need for financing. In all the studies conducted over the past 15 years, this problem consistently ranks first. In a survey conducted in 2015, its importance was noted by 86.1% of entrepreneurs. The staff problem is second in importance, as its relevance was revealed by 45.9% of respondents.

In recent years, the problem of finding and hiring qualified personnel has worsened. At present, it is difficult not only to hire people with certain skills, but it is also difficult to find people with certain professions. However, while retraining of workers can be provided at the expense of the company’s own funds, professional education is beyond the scope of SMEs. SMEs also face other difficulties in Moldova: corruption and bureaucracy; access to cheap financial resources; complex tax administration; competitiveness. These difficulties are affected by the quality of laws and mechanisms for their application, political factors and the relatively low level of entrepreneurial culture. All this is directly dependent on the level of economic and political development of the country.

SMEs’ export. The average cost of Moldovan exports was about 1.9 billion US dollars per year. Exports are mainly concentrated in the agricultural sector and a small number of manufacturing industries. Agricul-
tural, agro-food products (food and beverages), textiles, clothing, leather, and electrical equipment accounted for an average of 70% of total exports. The image of the competitiveness of Moldovan exports is not accurate, since the data refer to goods that are partly produced in the country. The added value of national exports should exclude the cost of (i) goods coming in and out of the country without processing-re-exporting and (ii) the receipt of imports used in the subsequent production process (which together represent the total value of external exports). A number of reasons can explain the above situation. And one of them is access to financing. As mentioned above, this is one of the main problems faced by SMEs in the Republic of Moldova. In the Republic, obtaining a loan is a long and complicated thing, as banks do not have a clear strategy for financing SMEs. For this reason, the cost of loans is several times higher than the average European cost, and also the required guarantees are very complex. Moreover, banks in Moldova do not have such personnel who would understand the specific problems of SMEs and could subsequently develop products in which SMEs need to be in line with their field of activity and individual requirements. At present, the relationship between bank proposals and the requirements of SMEs is rather weak. Financiers usually have a common universal approach to Moldovan enterprises. They do not want or do not know how to solve the financing issue, taking into account the individual requirements of SMEs interested in obtaining loans, offering standardized approaches that deter SMEs from banks. Domestic banks do not seek to help and revitalize the SME sector.

At the same time, Moldovan SMEs do not always have a clear specialization, which prevents them from elaborating a development strategy or a long-term business plan. Since SMEs often change their main lines of business, and sometimes a new area of activity of enterprises that have requested loans, which is not related to the previous one, this leads to a decrease in financial reliability and, obviously, certain risks for banks. Despite the revival of business activity of SMEs, too many negative factors hamper their development. The situation in the sphere of small and medium business in Moldova is not ambiguous. Steady growth was observed in the period from 2000 to 2008. Then, there was a decrease in the activity of SMEs due to the global economic crisis. In Moldova, there are 52,300 small and medium-sized enterprises, which is more than 97% of all economic entities of the country. In the sphere of small and medium-sized businesses, 291.7 thou-
sand people work, or 56% of employees are employed at enterprises of the republic. Revenues from sales of their products for this period amounted to 86,824.6 million lei, or 30.8% of total sales in the country. At present, the model of economic development becomes particularly relevant, where the main role in the formation of GDP is played not by industrial giants, but by small and medium-sized enterprises.

Figure 1.
Enterprises registered in 2000-2017 (thousands of units)


The directions of their activities are as follows:

Figure 2.
Types of activity declared at the time of registration before 01/01/2017, %

Reforms are measured by the level of businessmen’s trust to them. When investing in various projects, a businessman first of all assesses the risks associated with this. Reduction of investment activity can be considered as an indicator of a decrease in the level of confidence in the reforms and policies carried out by the authorities in the business sphere.

**Figure 3.**
Evolution of registration of enterprises with foreign investments in social capital in the period from 01.01.2007 to 01.04.2017
(units, million MDL)


By the number of employees in the firm, the majority work in agriculture, an average of 12 people, in the second place in production - 9 people, in the third - in construction - 8 people. In general, the situation in the sphere of small and medium business cannot be called favorable. More likely, it is depressing. Statistics show an annual decrease in the number of jobs in the SME sector. If in 2007 the average number of employees of the company was 9 people, then by 2015 it decreased to 6 people. For 9 years, since 2007, 52 thousand SME workers have been reduced.

This is facilitated by a number of factors:
- low level of entrepreneurial culture;
- difficult access to financing;
- poorly developed infrastructure for business support;
- lack of development and innovation in enterprises;
- inefficient cooperation between entrepreneurs and government bodies;
- monopolization and unfair competition in the sectors of the national economy;
- poor market knowledge and export opportunities;
- income from fines in some communities is higher than taxes in their budgets.

The current situation in the sphere of SMEs reduces investors’ interest in Moldova. The main indicators are falling, but those that are growing reflect the growth of corruption and instability, the inadequacy of the business climate.

The importance and role of small and medium-sized enterprises in the Republic of Moldova can significantly increase in the near future, if the reforms are actually implemented, which will allow changing the business infrastructure conducive to the development of competitive companies. One cannot say that the executive and legislative authorities do nothing. In Moldova, both state and international institutions support the development of the private sector in various programs and projects. All these programs represent a serious impetus for the development of competitive enterprises, supporting entrepreneurs to modernize production equipment, encouraging the introduction of innovative technologies for the continuous improvement of processes and finished products in the enterprise. The Government of Moldova has developed a Strategy for the Development of Small and Medium-sized Enterprises, which defined the following objectives:

- adjustment of the legal framework for the needs of small business development;
- improving access to finance;
- development of human capital by encouraging the acquisition of new skills and improving entrepreneurial culture;
- increasing the competitiveness of SMEs and encouraging innovative aspirations;
- development of business partnership.

In addition to the above, the improvement of the business climate in Moldova was also suggested. First, the so-called “smart regulation”, was designed to improve legislation depending on the characteristics of SMEs. There is implementation of the “one-stop shop” principle to facilitate administrative procedures. Secondly, improving access to
finance by providing credit guarantees for SMEs, including access to capital markets; giving all banks, regardless of size, the opportunity to easily provide development loans within the Association with the European Union. The third measure is the full-scale use of the European Union’s single market opportunities through cross-border cooperation; revision of standards for exported products, taking into account the rules for marking the origin of raw materials and goods. There is a strategy, an action plan for the development of SMEs and many other documents. There is even a new draft law on small business. But for some reason, officials do not carry out the necessary reforms and do not fulfill their obligations, even in accordance with the Association Agreements and the DCFTA with the EU, which stress the need for the development of small and micro businesses.

For the Republic of Moldova, SMEs are a key sector of the economy, which is vulnerable to various factors. Due to its peculiarities, the SME sector has a number of advantages, such as: it is a decisive quantitative force in the economy of the country; it has great opportunities for the integration of a wide range of products and services; it is very flexible and it easily adapts to changes in the market situation; it is a generator of innovation and technology transfer; it significantly contributes to the formation and growth of GDP; it is able to develop and cover a large proportion of the workforce. Therefore, the development of the SME sector is one of the main priorities of the country’s economic growth included in the most important strategic policy documents. In the National Development Strategy “Moldova 2020”, one of the seven development priorities directly relates to improving the business climate, which involves the development of several measurable levels: stimulating the opening of new enterprises and simplifying business registration; optimization of policy; diversification of auxiliary tools; an increase in the share of skilled labor in this sector, and so on. The forecast of the successful implementation of the “Moldova 2020” strategy in the field of business development in the country will allow achieving such results as: removal or reduction of administrative barriers, increasing domestic and foreign investments, increasing the number of reliable enterprises, creating attractive jobs, ensuring high levels of productivity and competitive export-oriented production. Financial support to SMEs in the early years of development, based on optimally agreed directions for
financing government programs, will give new impetus to the multilateral development of the sector, and by 2020 it will be able to increase the number of SMEs per 1000 inhabitants to 25 units, the number of SME employees - up to 65% and in GDP - up to 38%.

The market is constantly changing, which, therefore, forces entrepreneurship to coordinate environmental changes, both economic and social, as well as technical ones. Each company also contributes to the development of business, which requires an appropriate balance between the pace of changes in the external environment and internal efforts. A specific approach to business is to focus on efforts aimed at technological changes that have a significant impact on productivity. This intention is certainly correct, but it requires significant investments that can be made by high-performing economic enterprises. Practice and research show that the size and complexity of firms include specific forms for continuous improvement activities, especially those that operate in production. For the manager, general skills in the field of production, quality and high level of service, as well as competence in the management of logistics, are absolutely necessary. For those involved in production, skills are required in the fields of operation, production, control and quality assurance, as well as skills in managing production flows.

From the point of view of national policy, the following measures are recommended: it is necessary to improve the infrastructure in rural areas. In the current situation, it is necessary to develop strategies and policies at the national level to know exactly the timetable for the restoration of a certain rural area in the geographic region under study. Creation of a single information center for the business community, with branches in district centers providing information and assistance on the following issues is also needed: EU rules and legislation; export procedures; standards; market information; offers of business; business opportunities; investment and lending, and so on. Current trends in the world economy and financial markets have a significant impact on SMEs; they oblige the government of the Republic of Moldova, in the context of accession to the EU, to promote the most appropriate measures for their short and medium-term support by adapting to European policy “The Small Business Law”, adopted by the European Commission, whose goal is to consolidate the principle “Think first of all about the small” in the national general strategies and provisions aimed at
supporting the SME sector. The Ministry of Economy, as an integrator of SME policy and support measures, has taken on a role in implementing the provisions of the Small Business Law in Moldova, by applying the most appropriate support measures to the SME sector. In this context, the strategy for the development of the small and medium-sized business sector for 2012-2020 identified a number of issues related to access to finance: high interest rates on loans and their volatility, lack of appropriate banking technologies for SME lending, quality of projects offered for financing, underdeveloped infrastructure business, lack of a financial market for venture capital firms. Taking into account the identified problems and to improve SMEs’ access to financing, the SME Development Strategy is aimed at achieving specific objectives as follows:

- Develop innovative financing schemes for SMEs.
- Ensure efficient transfer of remittances.
- Attract long-term credit lines of international financial institutions.
- Develop a credit guarantee system for SMEs.
- Facilitate SMEs’ access to public procurement.

Thus, by achieving the set goals, the Strategy will help improve the access of SMEs to financial resources, which will ensure a ratio of capital investments of fixed capital and GDP of at least 38%.

The implementation of the Strategy will contribute to strengthening the capacity of SMEs and their role in the economy, identifying clear priorities, increasing trust between the business environment and the authorities, and creating a more favorable business climate.

**Conclusion**

In the current situation, the sector of small and medium-sized enterprises makes it possible to maintain the Moldovan economy afloat and make it more stable. SMEs are still developing not so much because of public policy, but, despite this. Many statements about its support remain only on paper; in fact, entrepreneurship barely survives. Despite serious problems faced by entrepreneurs in Moldova, they still have the opportunity to successfully develop in some areas. Among them: food and beverages; goods of light industry, clothes and leather goods; rubber and plastic; mineral products; chemical and pharmaceutical products; computers; electronic and electrical goods; computer programming services.

The reduction in investment activity can be seen as an indicator of the mistrust level of reforms and policies carried out by the authorities
in the business sphere. Despite the revival of business activity of SMEs, too many negative factors hamper their development. The current situation in the sphere of SMEs reduces investors’ interest in Moldova. The main indicators are falling, but those that are growing reflect the growth of corruption and instability, the inadequacy of the business climate.

The importance and role of small and medium-sized enterprises in the Republic of Moldova can significantly increase in the near future if reforms are actually introduced, which will allow changing the business infrastructure by creating a model that will promote the development of competitive companies. There is a strategy, an action plan for the development of SMEs and many other documents. There is even a new draft law on small business. The implementation of the Strategy will contribute to strengthening the capacity of SMEs and their role in the economy, identifying clear priorities, increasing trust between the business environment and the authorities, and creating a more favorable business climate.

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