

## FEATURES OF REGIONAL DEVELOPMENT OF SMALL AND MEDIUM-SIZED ENTERPRISES IN MOLDOVA

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**Abstract:** *Small and medium-sized enterprises have a more prominent role in the economy, acting as a tool for regulating economic relations between sectors of the economy and the population. The relevance of the topic of the work lies in the fact that small business plays a significant role in the development of national economy of the country, as well as a single region. The subject of the study is the regional features of the development of small entrepreneurship in the Republic of Moldova. The analysis of the structure of small and medium-sized enterprises by main types of activity showed that the largest share belongs to “wholesale and retail trade; repair of motor vehicles and motorcycles.” The purpose of this research is to analyse the current state of small business development in Moldova, and develop recommendations for improving the development of regions and state support for small and medium-sized enterprises.*

**Keywords:** *small and medium-sized enterprises, entrepreneurship, business development, financial position.*

**JEL Classification:** *L20, M20.*

### 1. Introduction

The research object is the particularities of Small and Medium Enterprises (SMEs) activity in Moldova. This study is relevant because the expansion of small and medium enterprises provides stability in the labor market, as it creates new jobs. In addition, the development of this kind of business has a positive effect on the population's well-being because it remunerates the work of employees and pays taxes, part of which is used in the social field. SMEs play a primary role in the economy, acting as an instrument for regulating economic relations between sectors of the national economy (Al Buraiki and Khan, 2018). The well-being of society and the growth of national wealth depend to a large extent on how efficiently each enterprise carries out its economic activities (Ganciuov and Gutium, 2021). State support of SMEs is an effective method of improving the population's well-being.

The study of the economic development of SMEs in Moldova is relevant, since the share of the number of SMEs in the total number of enterprises was 98.4%, and the ratio of employees in SMEs to the total employees in Moldova was 59.1% in 2021. Over the past seven years, there has been an annual increase in the number of SMEs, on average by 2.7%. This study applicative has practical application and consists in developing recommendations for improving regional development and state support for SMEs.

### 2. Literature review

In scientific articles, we can find different opinions on the influencing factors on the regional development of SMEs. Researchers Nithya Ramachandran, Hanan Mohammed Ali AL Yahmadi, Tatiana Gutium, and Olesia Speian indicate that the performance of SMEs directly depends on the availability of financial resources (Ramachandran and Yahmadi, 2019) (Gutium and Speian, 2022). Stefan Cristian Gherghina and the co-authors applying econometric methods demonstrated that investments and innovations have a positive impact on the turnover of SMEs. In addition, scholars have shown that the number of microenterprises has a positive effect on regional economic growth (Gherghina et al., 2020). In addition to factors with a positive impact, scientists also researched the factors with a negative effect: the energy crisis (Gutium, 2021) and the non-observed economy (Stratan and Gutium, 2022).

Most experts believe that the state must support SMEs because these enterprises play a significant role in creating GDP by increasing the rate of the employed population (Vermeulen et al., 2018). However, some experts argue that supporting SMEs is an inefficient use of budget funds since labor productivity in SMEs is considerably lower than in large enterprises. SMEs create an insignificant volume of added value and, as a result, pay small amounts of taxes. So the allocations in the state budget are small. New jobs created by SMEs are of low quality (Al-Tit et al., 2019) (Verkhovskaya, 2017).

### 3. Regional development of Moldovan SMEs

In 2015-2021, the number of SME enterprises increased, but the share of these enterprises evolved unevenly. The principal causes were the devastating drought of 2015 and 2020 and the COVID-19 pandemic of 2020. This year the number of medium-sized enterprises in the southern region decreased by 9.3%, including in Leova district – by 40.0%, Cimislia – by 25.0%, and Causeni – by 16.7%. The number of small businesses in the northern region (which suffered the most from natural disasters in 2015) decreased by 6.6% in 2016, including in Floresti district – by 16.1%, Donduseni – by 15.4%, Sinderei – at 13.4%, Soroca – by 13.1%.

The share of SMEs in total enterprises decreased in all three regions in 2021 (Fig. no. 1). However, compared to 2015, this index reduced in the center region – by 0.3 percentage points and in the south region – by 0.2 percentage points.

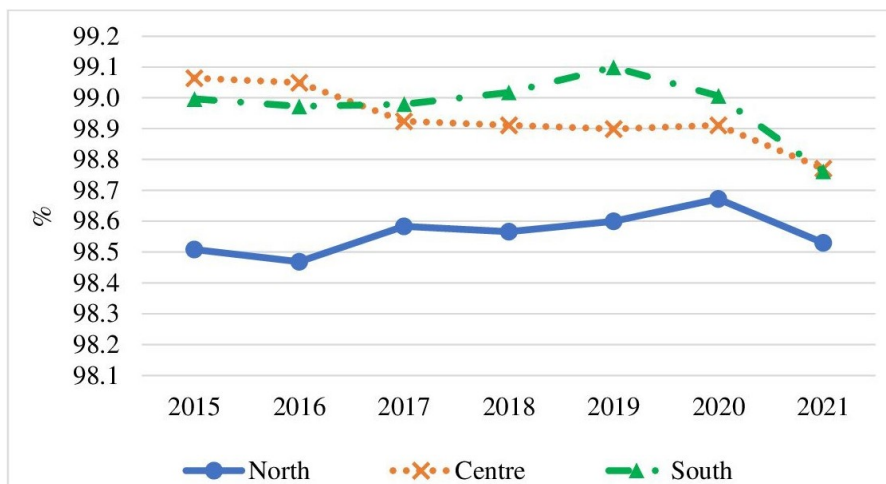
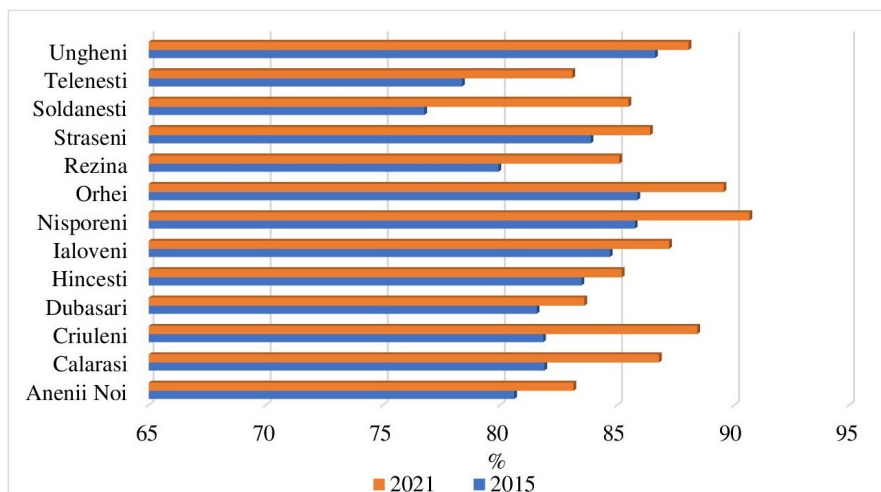


Figure no. 1. Share of SMEs in total number of enterprises by region

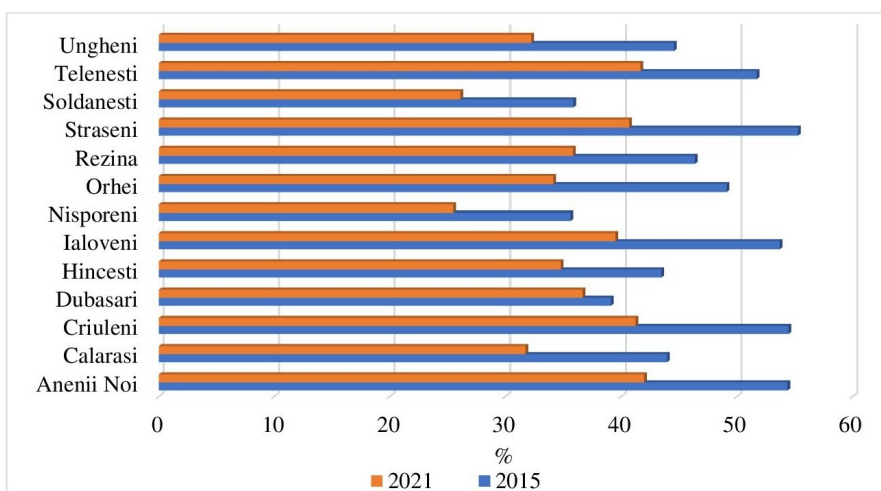
Share of wholesale and retail trade; repair of motor vehicles and motorcycles (35.0%), professional, scientific and technical activities (8.9%), agriculture, forestry and fishing (8.5%), manufacturing industry (8.1%) were the largest in the structure of SMEs activity in 2021. Therefore, the share of SMEs that provide services (82.2%) is considerably higher than those that produce goods (17.8%).

A large segment of the SME sector in Moldova consists of micro-enterprises (86.5% in 2021). The central region recorded the highest share (86.8%), and the southern region – the lowest (81.9%). Nisporeni district registered the highest share of micro-enterprises in 2021 (90.7%) (Fig. no. 2). In 2015-2021, the following district recorded the highest increase of this indicator: Soldanesti (by 8.7 percentage points), Criuleni (6.6 p.p.), Rezina (by 5.2 p.p.).



**Figure no. 2. Share of micro-enterprises in SMEs by district in the center region**

The smaller the enterprise, the more flexible it is. The share of SMEs with losses decreased in 2021. The lowest level was recorded in the southern region (34.0%), and the highest – in the central region (36.3%). The districts with the highest share of SMEs with losses in the central region are: Anenii Noi (42.0%), Telenesti (41.7%), Criuleni (41.3%), Straseni (40.7%) ( Fig. no. 3).



**Figure no. 3. Share of SMEs with losses in total number of SMEs by district in the center region**

In the last two years of the analyzed period (2020-2021), the average number of employees of SMEs decreased both in every region and whole country. The ratio of employees in SMEs to total employees decreased in the center region in 2017-2021, in the south region – in 2020-2021 (Table no. 1).

**Table no. 1. Ratio of employees in SMEs to the total employees in Moldova by region, %**

Region	2015	2016	2017	2018	2019	2020	2021
North	63.09	61.76	63.26	61.25	61.49	62.47	61.68
Centre	78.20	79.04	76.35	74.00	71.78	71.70	71.16
South	80.54	78.59	80.22	78.64	80.34	78.32	75.36

On the one hand, the sustainability of SMEs compared to big enterprises is lower. SMEs are exposed to the risk of bankruptcy in times of crisis. On the other hand, SMEs can reduce their expenses by transferring employees to envelope wages. Big companies find it more troublesome to implement such tax avoidance schemes. In the Republic of Moldova, the part of the SME's employees are informally employed and do not pay taxes.

#### 4. Support for small and medium-sized enterprises in the Republic of Moldova

In 2022, the Government of the Republic of Moldova supported the SME sector by applying Financial Support Programs. This year, the government approved four new programs (Table no. 2) and one new regulation (Regulation for the organization, operation and use of the Credit Guarantee Fund for SMEs), updated two programs (Greening program for SMEs, Program for supporting businesses with high potential for growth and internationalization), and adopted 14 normative acts. The principal purpose of this support was the development of the business environment. Based on Government decision no. 487 of 13-07-2022, the Organization for the Development of the Small and Medium Enterprises Sector was reorganized to streamline the implementation of public policies regarding the support of SME development.

**Table no. 2. New programs to support SMEs in the Republic of Moldova, 2022**

<b>Name of the program</b>	<b>Program's goal</b>	<b>Program's objective</b>
Program for the digital transformation of SMEs (Government Decision No 129/2022)	to restore and increase the economic potential of SMEs by integrating digital technologies, creating new business models based on expanding connectivity, and harnessing innovative potential	to provide non-refundable financial support for the digitization of SMEs and facilitate their access to internal and external markets
Program for retechnology and energy efficiency of SMEs (Government Decision No 515/2022)	to increase the performance of SMEs, replace inefficient technical equipment with modern technological solutions, and optimize production costs by implementing energy efficiency measures	to change the basic production model, adapt to new technologies and switch to alternative energy sources, giving SMEs a competitive advantage in the market, resilience, and access to investments that can bring immediate economic effects.
Program for attracting remittances in the economy PARE 1+2 (Government Decision No 622/2022)	to strengthen economic opportunities for capitalizing on remittances, as well as facilitating the inclusion of migrants in the socioeconomic development of the Republic of Moldova	to facilitate reintegration and increase economic opportunities for people returning from abroad, to stimulate the investment of remittances in the creation and development of business
“START for YOUNG PEOPLE: a sustainable business at your home” Program (Government Decision No 348/2022)	to develop entrepreneurial skills among young people and increase the potential to access funding sources	to promote entrepreneurship among the young generation to support the socio-economic integration of young people

The horizontal framework for the foundation of the Fund for Entrepreneurship and Economic Growth of Moldova (FEEGM) was approved in 2022. This Fund represents a low-cost financing tool for investment and development projects initiated by SMEs. The results of the impact of the support carried out by the state in 2022 will be able to be evaluated in the following years.

### 5. Conclusions and recommendations

The Moldovan state pays attention and resources to the development of SMEs. However, the measures taken are not sufficient to provide regular and systematic support to SMEs. Economic instability, inflation processes, energy, and economic crises cause changes in the criteria for assessing the SME sector, which makes it troublesome to evaluate the effectiveness of public policy measures. SMEs are more vulnerable than big enterprises to external shocks, reduced demand, and financial, economic, and energy crises.

The author developed the following recommendations to ensure the sustainable development of SMEs:

- Digitalization of public services for SMEs;
- Improving integrated IT systems;
- Tax incentives for SMEs, especially in the central region;
- Targeting of special tax regimes;
- Selection and support of SMEs with high growth potential.

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