

## DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISE SECTOR IN THE REPUBLIC OF MOLDOVA

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### *Abstract*

*This research focuses on the topic of evolutionary development of small and medium-sized enterprises (SME<sub>s</sub>) sector in the Republic of Moldova. The current study is based on official data offered by the National Bureau of Statistics (NBS), the Organization for Small and Medium-Sized Enterprises Sector Development (ODIMM), the Ministry of Economy and own reflections of the authors.*

*To achieve the goal of this research we started with an analysis of the current situation of SME<sub>s</sub> from the Republic of Moldova in order to identify the most acute problems of this sector and suggest solutions and recommendations that would help overcome the highlighted problems.*

**Keywords:** *small and medium-sized enterprises, sector analysis, finance, educational support, problems and recommendations.*

**JEL classification:** O12, O50

### 1. Introduction

Small and medium enterprise (SME<sub>s</sub>) sector in the Republic of Moldova developed qualitatively and quantitatively during the last 22 years of independence. In 2012 SME<sub>s</sub>:

- constituted about 98% of the total number of enterprises;
- employed about 59% of all employees;
- provided 39% of total sales;
- assured 61% of total profit per economy.

Since 2006, based on the European Commission recommendations and on the existing Moldovan legislation, criteria used in the classification of SME<sub>s</sub> (Table 1) were adjusted.

Table 1: Criteria used in the Republic of Moldova to define SME<sub>s</sub> sector

Firm size	Headcount (persons)	Turnover and balance sheet, total (million lei)
Micro	1-9	≤ 3
Small	10-49	≤ 25
Medium-sized	50 - 249	≤ 50

Source: [4, Article 605(1)]

We should mention that an enterprise must meet all these three criteria at the same time in order to be considered SME.

## 2. Legislative framework

During the last years the Republic of Moldova has made considerable efforts to renew the legislative framework for the activity of SMEs.

Among the most important legislative framework supporting the activity of SMEs we can mention the following:

- Small and Medium Enterprise Sector Development Strategy for 2012-2020 no. 685 of 13.09.2012;
- Law on supporting SMEs sector no. 206-XVI of 07.07.2006;
- Law on microfinance organizations no. 280-XV of 22.06.2004;
- Government Resolution on the establishment of the Organization for Small and Medium-size Enterprises Development no.538 of 17.05.2007.

Among other legislative framework documents supporting the activity of SMEs, we can mention the following:

- National Development Strategy of the Republic of Moldova for 2012-2020;
- Government activity program: „European Integration, Liberty, Democracy, Welfare” 2011-2014;
- Law on industrial parks no. 182 of 15.07.2010;
- Law on Credit History Bureau no. 122-XVI of 29.05.2008;
- Law on Savings and Loans Associations no. 139 of 21.06.2007;
- Law on leasing no. 59-XVI of 28.04.2005;
- Law on investment within entrepreneurial activity no. 81-XV of 18.03.2004;
- Law on patent holders’ no. 93-XVI of 15.07.1998.

In conclusion, we can mention that the legislative framework necessary for the development of small and medium enterprises sector has been created in the Republic of Moldova, which, however, does not solve totally all difficulties of its activity.

## 3. Evolution of small and medium enterprise sector

Data offered by the National Bureau of Statistics (NBS) of the Republic of Moldova for 2008-2012 reflect a considerable growth in the dynamics of SMEs number (Figure 1).

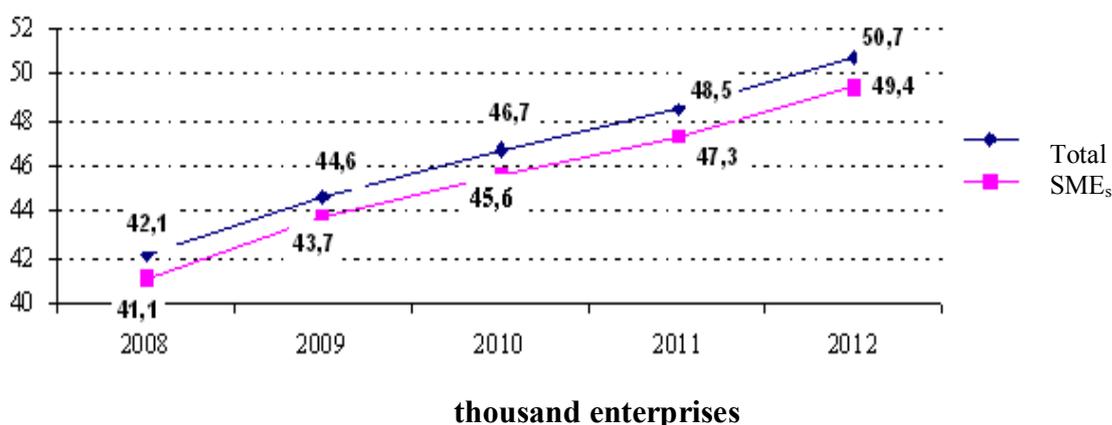


Figure 1: Evolution of the SMEs number over the 2008-2012 period

Source: [5]

*Note*\*: - These data do not consider enterprises from the left bank of Nistru River and Bender city.  
- NBS determines the number of SMEs only according to data from financial reports submitted annually by economic agents (individual enterprises and patent holders are not obligated to present their Financial Reports to NBS).

The positive evolution of national SMEs in the analyzed period is related to the growth of support programs and consistently updated legislative framework.

At present, the principal programs for financial support of the SMEs include:

- *National Program for Economic Empowerment of Youth (PNAET)*, offering a credit of 300 000 lei for a five-year period, with a 40% portion of grant;
- *Pilot-Project for Attracting Remittances into the Economy (PARE 1+1)*, based on the principle „each MDL from remittances invested in Moldovan economy will be supplemented by another MDL in the form of grant offered by this Program”;
- *Guarantee Fund for Loans Managed by the Organization for Small and Medium-Sized Enterprises*, a totally new product on the financial market of the Republic of Moldova, expected by SMEs and banking sector.

The SMEs in the Republic of Moldova are also supported by the international partners: USAID, GTZ, TACIS, World Bank, BERD, Government of Japan and the Netherlands. In 2012, SMEs indicated:

- Micro enterprises have the largest share of companies in the SMEs sector – 77.53%
- Small enterprises – 19.43%
- Medium enterprises – 3.04 %

Data presented in Table 2 illustrate that this sector is dominated by private property companies.

Table 2: Number of small and medium enterprises by type of property in 2012

Type of property	Thousand enterprises	%	Including:		
			Micro enterpr.	Small enterpr.	Medium enterpr.
Total:	49.4	100.0	38.3	9.6	1.5
Public property	0.7	1.4	0.2	0.3	0.2
Private property	44.6	90.3	35.3	8.2	1.1
Mixed property (public and private) without participation of foreign capital	0.2	0.4	0.1	0.1	0.0
Foreign property	2.0	4.0	1.4	0.5	0.1
Mixed property with participation of foreign capital	1.9	3.9	1.3	0.5	0.1

Source: Developed by authors based on [5].

Distribution of Moldovan SMEs by regions in 2012:

- Chisinau Municipality– 32.7 thousand enterprises or 66.2%,
- North – 5.8 thousand enterprises or 11.7%,
- Center – 7.0 thousand enterprises or 14.2%,
- South – 2.5 thousand enterprises or 5.1%,
- ATU Gagauzia – 1.4 thousand enterprises or 2.8%.

Based on regional distribution of Moldovan SMEs we can mention obvious differences between the capital city and the rest of the country. The most attractive areas in the activity of SMEs are wholesale and retail trade, real estate business and processing industry (Table 3).

These activities produced the largest part of revenues from sales for the national SMEs during 2008-2012. In 2012, SMEs revenues from sales were 73 057.0 million lei, or 34.5% per economy (Table 4).

Table 3: Share of SME<sub>s</sub> by major types of activity in 2008-2012

%

Types of activity	2008	2009	2010	2011	2012
Total	100.00	100.00	100.00	100.00	100.00
agriculture, hunting and forestry	5.11	5.26	5.04	5.07	5.06
processing industry	12.17	11.67	10.97	10.15	9.92
electric energy, gas and water	0.24	0.46	0.44	0.42	0.40
constructions	6.08	5.72	5.48	5.50	5.47
wholesale and retail trade	41.12	41.19	41.01	41.01	40.49
transport and communications	7.05	6.87	6.80	6.77	6.68
real estate business	14.60	15.10	16.01	16.70	17.21
other types of activity	13.63	13.73	14.25	19.59	14.77

Source: Developed by authors based on [5].

Table 4: Evolution of SME<sub>s</sub> revenues from sales dynamics per sector over the years 2008-2012

million lei

Types of activity	2008	2009	2010	2011	2012
Total	64 984.1	57 480.1	65 263.2	71 887.6	73057.0
agriculture, hunting and forestry	3 680.2	3 161.6	4 588.9	5 613.5	4 930.3
processing industry	9 377.4	8 098.7	8 975.4	9 316.4	9 522.8
electric energy, gas and water	243.5	199.8	246.5	258.7	261.8
constructions	5 655.8	3 992.4	5 038.3	5 555.2	5 349.9
wholesale and retail trade	33 400.0	30 109.0	32 723.7	35 319.2	36 299.0
transport and communications	5 578.5	4 915.2	5 946.5	6 464.9	6 885.1
real estate business	3 948.5	3 866.2	4 197.4	5 100.7	5 177.2
other types of activity	3 100.2	3 137.2	3 546.5	4 259.0	4 630.9

Source: Developed by authors based on [5].

Taking into consideration the social function of SME<sub>s</sub> expressed through creating places of work we can mention that the number of persons engaged in small and medium enterprises was 300.2 thousand persons in 2012, or 57.7% from the total number of employees (Table 5).

Table 5: Share of the number of employees occupied in SME<sub>s</sub> over the years 2008-2012

%

Company size	2008	2009	2010	2011	2012
Total	328.1	316.2	309.4	294.2	300.2
Medium-sized	125.5	115.1	108.8	91.1	90.4
Small	120.2	117.1	121.0	116.2	122.2
Micro	82.4	84.0	79.6	86.9	87.6

Source: Developed by authors based on references [5].

As a result, based on the carried out analyses we state that SME<sub>s</sub> sector as a social economic phenomenon has not become yet a key link in the development of national economy. This conclusion is based on the following:

- modest contribution of the SME<sub>s</sub> sector in GDP – about 30%;
- micro enterprises represent the largest share of companies in the SMEs sector (77.53%), however, their contribution to both employment and turnover is quite modest;
- most of SME<sub>s</sub> are concentrated in the urban zone;
- the largest share of SME<sub>s</sub> sector is in the wholesale and retail trade;
- data related to SME<sub>s</sub> sector are not complete due to the fact that individual enterprises and patent holders do not submit their financial reports to NBS.

#### 4. The role of educational system in supporting SMEs

Development of human capital through promotion of competences and entrepreneurial culture is realized through the following programs:

1. Initial professional education (coordinated at national level by the Ministry of Education, Table 6);
2. Continuing professional education (coordinated at national level by the Ministry of Education and the Ministry of Labor, Family and Social Protection).

Table 6: Initial professional education is realized through programs and courses offered by educational institutions

Level of Study	Programs/Courses	Status
<i>Secondary School</i>	Subject „Economics”	Optional
<i>Vocational education:</i>		
▪ secondary professional education (vocational school)	Subject „Fundamentals of business” (120 hours, of which 90 classroom hours)	Compulsory (from 2013)
▪ intermediate vocational education (college)	Subject “Fundamentals of business” (90 hours)	Compulsory (in eight agricultural colleges of the Republic of Moldova)
<i>Higher education:</i>		
First cycle - License		
▪ Economic profile	<ul style="list-style-type: none"> <li>▪ Specialty – Business and Administration</li> <li>▪ Course: „Fundamentals of business”</li> <li>▪ Specialized courses for developing and promoting entrepreneurial culture and competences</li> </ul>	<ul style="list-style-type: none"> <li>▪ Program of studies</li> <li>▪ Compulsory</li> <li>▪ By educational institution decision</li> </ul>
▪ Non-economic profile	Course „Fundamentals of business”	Optional
Second Cycle - Master degree	Programs based on the development and promotion of entrepreneurial culture and competences Specialization in the professional and research field	Approved by educational institutions
Third Cycle - Doctorate	Research in the field of SMEs sector support and development.	Approved by educational institutions

Source: Developed by authors.

National educational system includes 1 612 educational institutions of which:

- vocational institutions - 68 (19.6 thousand students);
- colleges – 47 ( 30.7 thousand students);
- universities – 34 (102.5 thousand students).

In order to develop practical abilities of students and pupils some institutions offer additional programs and courses mentioned above and also give the possibility to attend educational economic programs and entrepreneurial courses „learning by doing” as well as exercise certain activities based on virtual enterprises. In this context the following are implemented:

- *Business incubators* – opened in higher educational institutions,
- Subject „*Firm in action*” – within secondary and vocation schools. At present, this program is taught in 40 colleges and 5 vocation schools,
- Program „*Young enterprise*” – within high schools. The program includes theoretical modules during which pupils learn to start and develop a business.

**Continuing professional education is carried out by:** higher educational institutions, commercial societies, governmental and non-governmental organizations, Chamber of Commerce and Industry, professional associations as well as through partnership programs including those financed from abroad.

Despite of all the positive moments described above it is necessary to mention the following:

- According to BERD and World Bank reports about 15% from the total number of enterprises indicated lack of qualified workers as one of most important drawbacks, 36% of the employees are 25-35 years old and do not have professional education.
- Only 33% of companies offer official training to their workers.
- The Labor Code of the Republic of Moldova stipulates the allocation of at least 2% from the salary fund for professional education, but very few enterprises use these sources for this purpose.

## **5. Problems of the SME<sub>s</sub> sector**

Among the problems of the SME<sub>s</sub> sector in the Republic of Moldova, we can mention the following:

### **Low efficiency of legislative framework implementation:**

- numerous administrative-bureaucratic barriers;
- frequent inspections and controls of business sector and high level of taxes;
- lack of a consolidated register that would make possible the analysis of SME<sub>s</sub> activity as well as of patent holders working in the country;
- lack of tax facilities exclusively for SME<sub>s</sub>;
- limited financial access;
- only 31% of all credits offered by the bank sector belong to SMEs sector;
- about 85% of the total number of financial applications rejected by the bank due to lack of guarantees;
- lack of innovative instruments of finance, such as: venture capital or business angels.

### **Low-developed competitiveness of SME<sub>s</sub>:**

- low level of SME<sub>s</sub> adaption to European standards of quality;
- low level of elaboration and absorption of innovation;
- under-developed infrastructure for supporting business.

### **Lack of informative-consulting assistance and development of the potential activity of entrepreneurs:**

- insufficient qualification of personnel, low level of skills and SME<sub>s</sub> entrepreneurial culture;
- lack of a well-defined national concept in the area of formation and development of entrepreneurial competitiveness;
- lack of an informational system on continuing education programs;
- lack of an efficient consulting system in the area of education and business development within SME<sub>s</sub> sector;
- lack of a program regarding competitive evaluation in the area of entrepreneurial activity.

### **Need to develop business partnership**

- The development of business partnership is at a starting stage and is focused on „public-private” partnership and „business to business” partnership.

## **6. Recommendations**

### **In order to create a favorable business environment we recommend:**

- adjustment of normative and regulatory frameworks to meet SME<sub>s</sub> needs;
- reduction of the number of mandatory documents for starting and closing business;
- setup tax-control complexity and tax facilities in legislative framework;
- reduction of informational barriers and regulation costs for SME<sub>s</sub>;
- development of on-line services.

### **In order to improve SME<sub>s</sub> access to finance we recommend:**

- support of national network of guaranteed funds for SME<sub>s</sub>;
- financing start-up in priority sectors;
- development of innovative financial schemes for SME<sub>s</sub>;
- extension and support of Loan Bureaus activity.

### **In order to develop competitiveness of SMEs we recommend:**

- innovation support and improvement of SME<sub>s</sub> access to new technologies;
- support to the introduction of quality standards and quality management systems;
- increased access to service support and information;
- extension and development of business incubators and industrial parks.

### **For SME<sub>s</sub> development in regions we suggest:**

- reduction of regional differences through assistance offered to SME<sub>s</sub>;
- development of regional business partnerships;
- support for SME<sub>s</sub> participation in international events and market.

### **In order to promote entrepreneurial culture and consolidate managerial performance:**

- elaboration of a national strategy/plan in the area of economic education;
- formation and development of infrastructure for educational support;
- harmonization of educational programs in the area of entrepreneurship at different levels of education (high schools, vocation schools, colleges, universities);
- revision of the national curriculum for secondary schools and of programs for professional education in order to improve and develop entrepreneurial competitiveness;
- extension of economical educational programs „learning by doing” in educational institutions;
- development and consolidation of partnership between educational institutions and business sector;
- implementation of modern methods of education, especially of e-learning in order to promote additional education in this domain.

### **Development of partnership in business can be achieved through:**

- creation and regulation of business associations activity;
- informing the government about the most important problems and needs of the SME<sub>s</sub> sector (organizing round tables, seminars, workshops, conferences);
- creation of a Consulting Bureau for the SME<sub>s</sub> sector;
- creation and development of clusters as basis for entrepreneurial partnership.

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