

THE DEVELOPMENT INTENSITY OF SME IN THE REPUBLIC OF MOLDOVA THROUGH THE COMPARATIVE STATISTICAL ANALYSIS WITH THE EUROPEAN UNION COUNTRIES

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Abstract:

Nowadays, in most countries in the world, a growing emphasis is placed on supporting entrepreneurial development, because the development and economic growth of the country depends largely of the entrepreneurship development, which is predominantly focused on SMEs. The aim of this paper is to argue the difference in the development of SMEs between the European Union and the Republic of Moldova, based on the statistical data attesting the intensity of the development of SMEs and their shares according to their fields of activity. Often, the contribution of SMEs to non-financial business sectors and the importance of the sectors for SMEs determines the development of the economy. In this aspect, there is felt the negative impact of the overweight of the wholesale and retail trade in the turnover structure of SMEs in the Republic of Moldova. On the other hand, the distribution of SMEs in sectors where the manufacturing share is extremely low is largely due to business finance problems. At the same time, the article examines the results of the youth respondents survey conducted within the HEIFYE project in the Republic of Moldova, which highlights in particular the financial problems of entrepreneurship in our country.

Key words: Entrepreneurship, SMEs, national economy, turnover, employee, manufacturing, financial problems.

JEL classification: L26, M21

1. INTRODUCTION

Worldwide, the economy is held by the small and medium-sized enterprises sector that have the largest share in the total number of enterprises.

SMEs are important business organs which form a strong constituent of the global economy (AL-Mubarak, 2013).

Governmental and non-governmental organisations have put many efforts on the developments of small and medium enterprises (SMEs) to diversify away the economy from mining, to create jobs, generate income and alleviate poverty (Temtime and Pansiri, 2004).

A review of historical experience of economic growth and development in various countries is replete with success stories of the salutary effect and positive impact and contributions of SMEs in industrial developments, technological innovations and export promotion (Ogbo, 2012).

The paper is based on the structural analysis of SMEs reasoning from two variables: SME share of value added (or employment) generated in the sector and share of SME sectoral value added (or employment) in total SME value added (employment) in the non-financial business sector for the countries of the European Union and for the Republic of Moldova.

Therefore, the main purpose of this article is to argue the difference in the development of SMEs between the European Union and the Republic of Moldova, based on the statistical data attesting the intensity of the development of SMEs and their shares according to their fields of activity.

2. METHODOLOGY

The approach applied in the paper is based on the main purpose of the present paper and aims at the comparative economic analysis of small business development in the Republic of Moldova compared to the situation existing in the countries of the European Union and the justification of the causes that hinder the development of SMEs.

Taking into account that both the EU countries and the adjacent countries increasingly pay attention to small business development strategies and policies, it is of interest to examine the intensive development level of SMEs by aligning them to 1000 inhabitants.

It is obvious that the structure of economic activities, in turn, is influenced and influences the level of the country's development. The studies of the various scholars in this field show that the economies of the poorer countries rely mainly on activities that do not add solid value, which are associated with a lower level of risk and whose importance for the development and economic growth of the country is very low. At the same time, the developed countries' economy focuses mainly on innovative areas, which create many jobs and bring a high added value.

The many problems that exist at the start and development of business at the forefront are the business financing problems, which are confirmed by the evaluation of financial factors in terms of the impact on youth entrepreneurship in the Republic of Moldova based on the results of the survey conducted within the HEIFYE project.

In the context of the arguments presented in the paper, there are used the tools of structure and dynamics analysis, as well as the correlation of the statistical indicators supporting the development of the entrepreneurship at the macroeconomic level. At the same time, there is applied the causation-effect method which argues the tendencies and structure of the SME sector, which allowed the formulation of objective conclusions.

3. LITERATURE REVIEW

In the European Union countries the size-class definition follows the standards of the Eurostat SBS database and is based on the number of persons employed only (SME Performance Review, 2018).

- Micro enterprises (0 to 9 persons employed);
- Small enterprises (10 to 49 persons employed);
- Medium enterprises (50 to 249 persons employed);
- Large enterprises (250 and more persons employed).

According to the legislation of the Republic of Moldova, the classification of enterprises by size, based on the number of employees is the same.

SMEs have been fully recognized by governments and development experts as the main engine of economic growth and a major factor in promoting private sector development and partnership (Ogbo, 2012).

At the same time, the study of various bibliographic sources confirms that the problems faced by SMEs in different countries of the world are very similar.

SMEs frequently have difficulties in obtaining capital or credit, particularly in the early start-up phase, on the other hand their restricted resources may also reduce access to new technologies or innovation (Ivanova, 2017).

The scientific literature summarises and synthesises the evidence on SME innovation, exporting and growth, paying particular attention to internal and external (eco-system) enablers, and for the interplay between innovation and exporting in SME growth (Love and Roper, 2015).

4. RESEARCH RESULTS AND ANALYSIS

Although the policy of stimulating the development of small business is promoted in all EU countries, the intensity of small business development differs from one country to another. Figure

no. 1 reflects the number of SMEs per 1000 inhabitants in the non-financial business sector in the EU-28 and Member States and in all sectors of the economy in the Republic of Moldova in 2017.

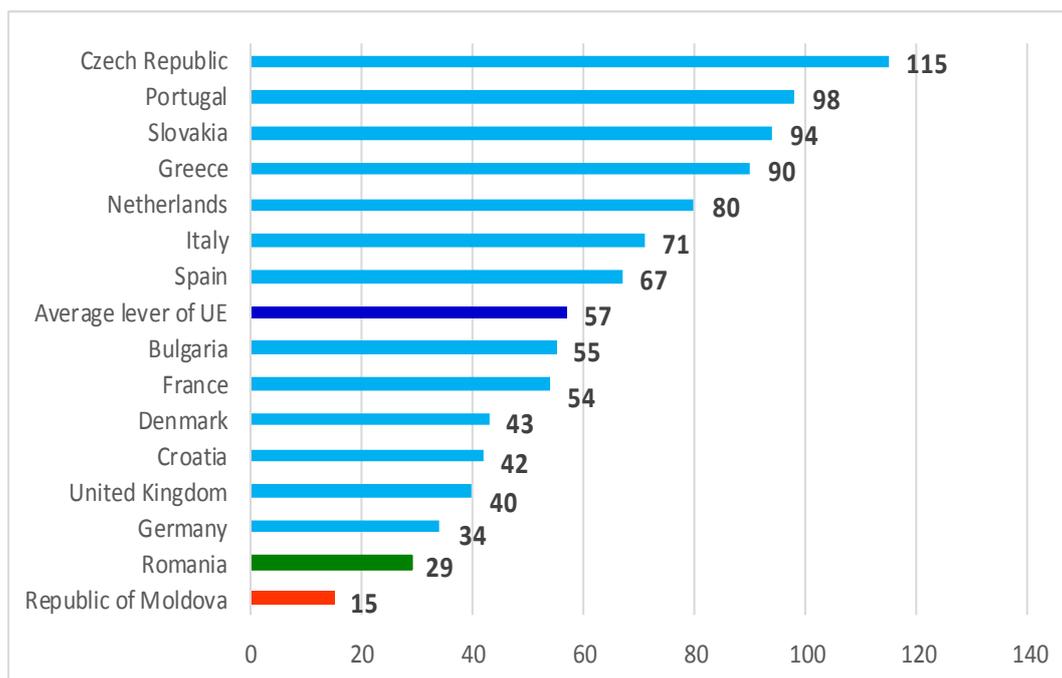


Figure no. 1. Number of SMEs per 1000 inhabitants in the non-financial business sector in the EU- 28 and Member States and in all sectors of economy in Republic of Moldova in 2017

Source: Elaborated by author on base of Annual Report on European SMEs 2017/2018, p.15 and www.statistica.md

The prevalence of SMEs varies greatly across the EU-28 (Muller, 2018).

The average number of SMEs per 1000 inhabitants in the non-financial business sector in the EU-28 and the Member States in 2017 is 57 enterprises. At the same time, there is a pronounced variation of the number of SMEs per 1000 inhabitants in the non-financial business sector among the member countries of the European Union.

There are countries with a high number of SMEs per 1000 inhabitants, such as Czech Republic – 115 SMEs, Portugal – 98 SMEs, Slovakia – 94 SMEs and Greece – 90 SMEs per 1000 inhabitants. In contrast, there are countries with a low number of SMEs per 1000 inhabitants, such as: Romania – 29 SMEs, Germany – 34 SMEs, United Kingdom – 40 SMEs per 1000 inhabitants. In the same time there are countries with the number of SMEs per 1000 inhabitants around the average lever of the European Union, for example: Bulgaria – 55 SMEs, France – 54 SMEs, Spain – 67 SMEs per 1000 inhabitants in the non-financial business sector.

In addition to the countries of the European Union, Figure no. 1 represents the Republic of Moldova in which 15 SMEs are per 1000 inhabitants in 2017. The level found in the Republic of Moldova is considerably lower in relation to the countries of the European Union. Thus, the number of SMEs per 1000 inhabitants in Republic of Moldova is about 2 times lower than Romania, 3.8 times lower than the average lever of the European Union and 7.7 times less compared to the Czech Republic, which is in the top of the EU-28 countries.

The statistical indicator, such as the number of SMEs per 1000 inhabitants, cannot be taken as an indicator that directly characterizes the results and efficiency of state policies in the field of entrepreneurship.

As confirmed by the country's distribution number of SMEs per 1000 inhabitants, there is no close dependence on the level of country development, population level of living, economic growth, etc. with the intensity of SME distribution in the non-financial business sector in the EU-28, but this can be taken as the basis for the next research.

In each country, multiple specific factors stimulate or stagnate the development of the entrepreneurship. In the Republic of Moldova, the most important factors that stagnate the development of entrepreneurial activity and prevents the start of new business are the next factors:

- Insufficiency of the financial sources and multiples financing problems;
- The low level of knowledge in the field chosen for the business;
- The long time and the high responsibility in business development;
- The high risk of business failure;
- Insufficiency of the financial sources;
- The impossibility of obtaining high incomes in short time etc.

The many problems that exist in the starting and development of the business at the forefront are the business financing problems, which is confirmed both by the existing business environment and by the potential entrepreneurs.

In order to improve the youth entrepreneurship environment in the framework of the HEIFYE project in the Republic of Moldova, 422 youth respondents filled out a youth entrepreneurship survey. One of the survey directions was to evaluate the above factors in terms of their importance in order to encourage young people to start a business or help develop an existing business.

Table no. 1. Evaluation of financial factors in terms of the impact on youth entrepreneurship in the Republic of Moldova

Nr	Factors	Points
1.	Accessibility of financing in general for starting a business	3,44
2.	Personal savings	3,21
3.	Financial assistance from friends and family	2,89
4.	Attraction and use of collective financing	2,96
5.	Investor Finance (Business Angels)	3,22
6.	Financing Venture Funds	2,68
7.	Bank financing	3,05
8.	Accessibility of state and regional funding programs	3,21
9.	Accessibility of financing of European and other funds	3,31
10.	Tax rebates	3,16

Source: Presentation of research results "Youth Survey" - Higher educational institutions for youth entrepreneurship, HEIFYE Project, Co-funded by the Erasmus+ Programme of the European Union, 2018

Based on the assessment of financial factors in terms of their impact on youth entrepreneurship in the Republic of Moldova, the most important factor is "Accessibility of funding in general for starting a business", which scored 3.44 points. An analysis of the sources of business financing in the Republic confirmed that for micro enterprises only 15.34% of assets are financed from equity. Thus, almost 85% of assets are financed by liabilities. In the case of tight financing policies, small businesses do not actually have the opportunity to develop.

Another important argument in support of the importance of funding is the response of young respondents to the question "What prevents to start entrepreneurship?" to which respondents from

all countries surveyed (Armenia, Belarus, Georgia, Latvia, Moldova, Ukraine) allocated finance to the first place, thus stressing that young entrepreneurs do not have enough of their own reserves to finance business and they count on various support and financing programs business.

Problems related to business financing in the Republic of Moldova in turn have directly affected the distribution of SMEs according to their fields of activity. Highlighting the importance of SMEs in the economy is quite successful on the basis of two variables: SME share of value added (or employment) generated in the sector and share of SME sectoral value added (or employment) in total SME value added (or employment) in the non-financial business sector which is represented in Figure no. 2.

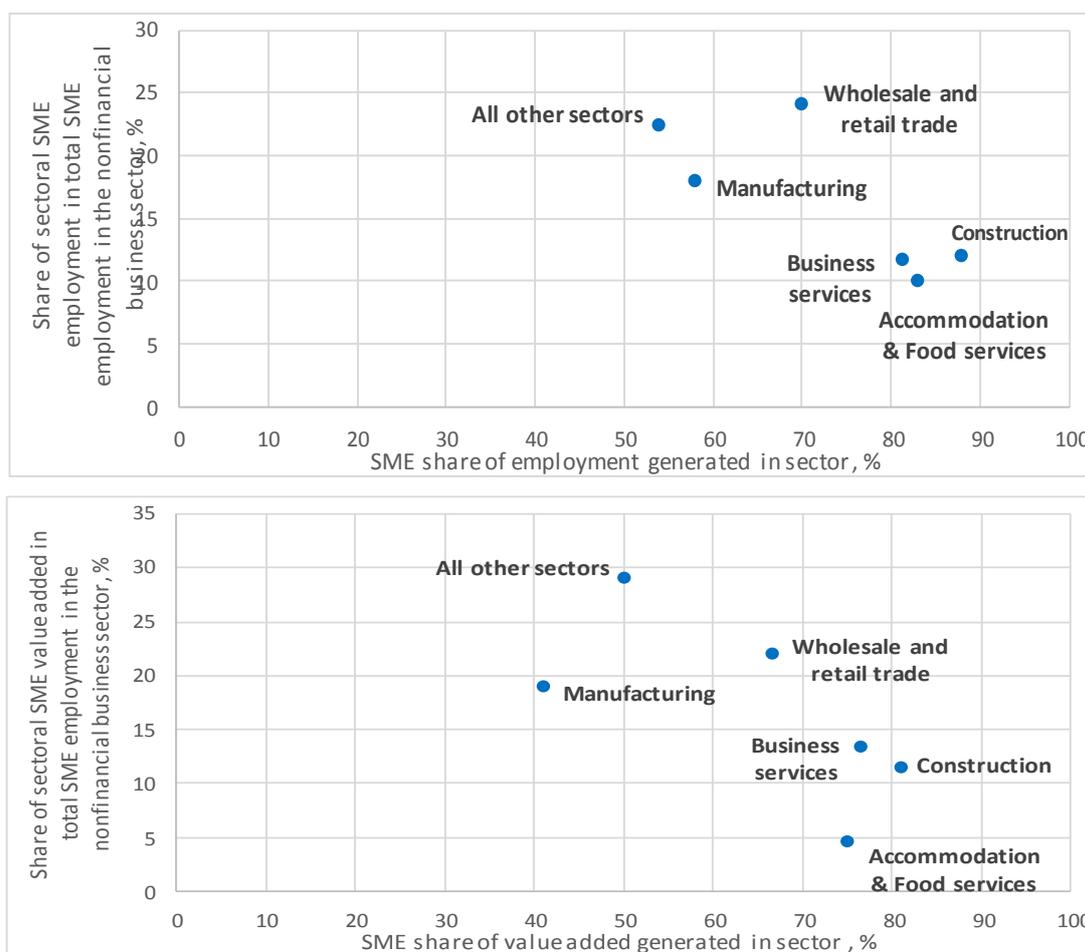


Figure no. 2. Contribution of SMEs in various EU-28 non-financial business sectors and importance of the sectors for SMEs in 2017

Source: Annual Report on European SMEs 2017/2018, p.18

There is great policy interest in encouraging SMEs to become more innovative and to export, since many SMEs are currently operating in sectors which are characterised by either low knowledge or technology intensities or low export intensities: about $\frac{2}{3}$ of SMEs (in terms of the number of SME enterprises in the EU-28 non-financial business sector) were active in either low knowledge intensive service industries or low-tech manufacturing industries (Muller, 2018).

The largest SME share of employment and value added generated in the sector is owned by the construction sector, which shows that the role of large enterprises in this sector is very modest. In turn, the construction industry has a fairly modest share in the structure of total SME employment and value added in non-financial business in EU-28 country.

Taking into consideration the fact that lately more and more attention is paid to the promotion of exports, and given the fact that traditionally in the old European manufacturing countries it has been the most development industry, it is of particular interest to examine its position. In

manufacturing, the SME position is weaker as they provide only 58% of the employment generated in a sector and 41% of the value added generated in a sector. At the same time, manufacturing holds below 20% in the structure of employment and of value added generated in the non-financial business sector in EU-28.

In the European Union countries in wholesale and retail trade, SMEs hold about 70% of employment and of value added, while the share of this sector in the structure of employment and value added generated in the non-financial business sector is below 25%. All other sectors of the European economy account for about 50% of SMEs, and its share of sectorial SME value added and employment in total SME value added in the non-financial business sector is below 30%.

The structure, level of development and economic policies of the European Union are well developed and correlated in the view of ensuring economic growth, which is confirmed by the high level of economic development and the high standard of population living.

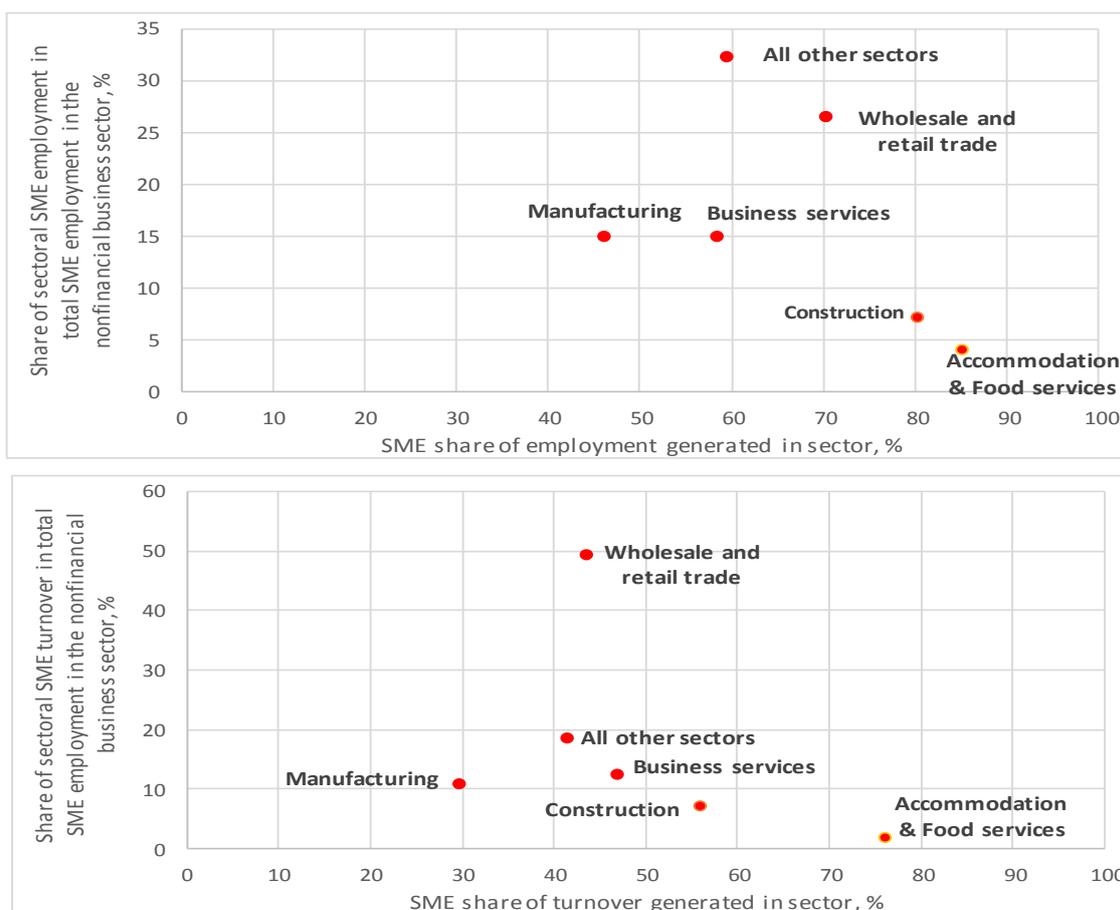


Figure no. 3. Contribution of SMEs in Republic of Moldova non-financial business sectors and importance of the sectors for SMEs in 2017

Sources: Elaborated by the author based on the statistical data presented on www.statistica.md

In order to determine the main problems specific to the Republic of Moldova economy, there is used an analogous criterion for the presentation of SMEs to highlighting their position in the branch and the share of the main economic branches in the national economy (Figure no. 3).

The distribution of the variables: the SME share of the turnover (or employment) generated in the sector and the share of SME sectoral turnover (or employment) in the total SME turnover (or employment) in the non-financial business sector specific to the economy of the Republic of Moldova differs considerably from the situation found in the countries of the European Union.

The strongest position of the SME share of the turnover (or employment) generated in the sector is observed in Accommodation & Food services. About 76% of all enterprises in the Accommodation & Food services sector are SMEs, but the share of this sector in total SME

turnover is about 2% and the share of this sector in total SME employment is about 4% respectively.

Traditionally in the economy of the developed European countries, a decisive role of development is occupied by manufacturing. In the Republic of Moldova, about 45% of manufacturing employees work within SMEs, generating about 30% of turnover in the sector. However, the basic difference between the manufacturing position in the Republic of Moldova and the EU countries is the very low share of manufacturing in the structure of the national economy, which provides about 15% of the employment and about 11% of the turnover achieved by the SMEs.

Another important difference between the structure and position of the European and Moldavian economy is the position of the construction sector, which represents an important sector for development and growth. In the Republic of Moldova, about 80% of construction employees work within SMEs, generating about 55% of the turnover in the sector. The contribution of construction to the results of SME activity is expressed by a contribution of 7% of employees and 7% of the turnover provided by SMEs.

Though it is difficult to obtain exact and comparable figures on SMEs for developing countries, it is obvious that the role of SMEs is equally important in the economies of developing and developed countries alike (Ogbo, 2012).

The main weakness of the Republic of Moldova economy's structure is the overweight of the wholesale and retail trade, in which about 70% of employees work in SMEs, generating 43% of this branch revenue. The basic problem is the overweight of wholesale and retail trade in the turnover structure of SMEs which is about 50%.

The main differences observed among the SME share of the value added and employment generated in the sector and between the share of the sectorial SME value added in the total SME value added in the non-financial business sector explain the multiple problems specific to the Moldovan economy, hindering its development.

5. CONCLUSIONS AND SUGGESTIONS FOR FUTURE RESEARCH

Although in most of the world's countries, it is trying to promote policies and strategies to develop entrepreneurship, especially to support SMEs, their level of development, results and impact on economic growth vary from one country to another.

The contribution of SMEs and the importance of the sectors for SMEs also varies considerably between EU-28 countries and between developing countries, these structures influencing economic outcomes at the country level.

Effective studies have shown that the number of SMEs per 1000 inhabitants in the non-financial business sector in the EU-28 is very varied from one country to another. At first glance, there is no link between the intensity of SMEs per 1000 inhabitants and the level of economic development of the countries, although it is interesting to correlate the indicators attesting the country's economic development and the intensity of SMEs, which is of interest for future research.

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