

OPPORTUNITIES AND CHALLENGES OF THE DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES IN THE AGRICULTURAL SECTOR FROM THE REPUBLIC OF MOLDOVA

Olga SÂRBU, Boris COREȚCHI

Agrarian State University of Moldova, Chisinau, 42 Mircesti, sector Rascani, MD-4224, Chisinau, Republic of Moldova, Phone: +373 22 432387, E-mail: osarbu@mail.ru, E-mail: coretchi_boris@mail.ru

Corresponding author: osarbu@mail.ru

Abstract

It is currently widely known that small and medium enterprises are a major force for ensuring the stability of economic development, increasing the mobility and adaptability of the national economy to internally and externally changing conditions, also are a factor for diversification of the economy. Small business is oriented to satisfy the local market needs and it uses the local workforce and resources, having a substantial contribution also in solving the problem of unemployment. Therefore, further diversification and expansion of the SMEs sector is seen as a sign of healthy economy.

Key words: business, economic agents, small and medium enterprises

INTRODUCTION

The SME sector plays a significant role in the economy of the European countries in the last decade. It generates new jobs, produces goods and creates added value, contributes to the economic structure improvement, develops and implements innovations, is involved in the export of goods, etc. However, the contribution, made by the Moldavian SMEs to the economic development of the country is lower than in the most EU countries. For example, the indicator that characterizes the "density" of SMEs – the number of SMEs per 1,000 inhabitants – is on average 41.4 units in the EU and 12.8 units in the Republic of Moldova [1]. Targeted measures, realized by the state and the business community are necessary to develop the SME sector in the Republic of Moldova. The rationale of these measures requires the understanding of SMEs qualitative and quantitative features as well as the identification of the specific character of some SMEs groups and entrepreneurs operating in the Republic of Moldova.

The SME sector plays an important role in ensuring the stability of economic development, increased mobility and adaptability of the national economy to the changing conditions of both internal and

external character; it is also a diversification factor of the economy. The presence of a well developed SMEs sector in the economy is particularly important in terms of the structural reform of the economy and the increased structural unemployment which accompany this process.

The SME sector is being increasingly developed in economically developed countries, especially in the sphere of services and production of consumer goods. Small enterprises are less flexible and react quicker to the changing business and market requirements. Therefore, small business investments bring higher incomes than investments in large companies. Moreover, the latter benefit from the services provided by small enterprises and are somehow dependent on them. Small business is oriented to the satisfaction of local market needs and uses local resources and labour, with a substantial contribution in solving the unemployment problem. The small business sector has created 40,000 jobs or 70% of the total 59,000 jobs in the Moldavian economy during the past two years. However, small business offers real opportunities to implement the entrepreneur's creative skills, as well as inventiveness and leadership ability which are very necessary and useful qualities.

The SME sector is called the "backbone of the economy" in the world due to its largest contributions to the creation of new jobs, stimulation of competitiveness, promotion of innovations and technologies. However, we cannot talk about an exhaustive definition of small business. One may say that small business comprises micro-enterprises and small enterprises.

Despite the significant role of SMEs and the attention, paid to it nowadays, many basic theoretical concepts necessary for their research, are insufficiently developed and do not still have a univocal determination. Only a few characteristics of small enterprises, SMEs and small entrepreneurs are usually analyzed in scientific publications. Almost every author uses his own definition of SMEs [6]. Today, "there is no single reliable source" to identify the key categories that are important for the SME research [7]. This is largely due to the predominantly applied orientation of SMEs research, which are primarily addressed to the politicians trained to regulate the entrepreneurial activity, business community representatives who participate in the SME strengthening and implementation of their lobby and the institutions that provide business services to entrepreneurs. As a result, theoretical problems of SMEs are often addressed only to the extent that helps to solve practical needs.

MATERIALS AND METHODS

Works from journals and articles from both national and international conferences were used as the theoretical support. The examined data were selected from the papers of the National Bureau of Statistics. Methods of abstraction, induction and deduction, synthesis, quantitative and qualitative analysis and comparison were used to study this problem.

RESULTS AND DISCUSSIONS

The modern economy development is based on the activity of enterprises of different sizes - large, medium and small – whose role has radically changed in recent decades. Until the 60 - 70s of the last century small enterprises

were considered as a temporary phenomenon caused by the insufficient level of economic development. The strengthening of big companies in the economic life was considered as an indicator of growth: statistics data reflected the increasing pace of industrial concentration in almost all industrialized countries. Eminent scientists have shared the opinion of the transitional character of small enterprises over many years. Thus, J. Schumpeter, a famous economist and sociologist, wrote at the beginning of the 20th century that large monopolistic companies with the scientific, manufacturing and financial potential will eventually absorb small enterprises [11]. In the second half of the 20th century one of the leading economists, J. Galbraith, noted the advantages of big enterprises over small ones regarding the higher capacity of financial resources, price control and the appropriate awareness about the enterprise in society [10]. The majority considered that only a large enterprise can be efficient because of the lower conventionally permanent costs and so-called "economy of production capacities" [9]. The SME sector is of particular importance for the development of the Republic of Moldova. During the period of market relations establishment the role of SMEs was determined not only by the created economic structure, where types of activities preferred by small enterprises had the biggest share, but also by the existence of human resources that remained unemployed, unused machinery that could be best used by small enterprises.

The increased role of small business enterprises in society also had psychological causes, based on the growing needs of citizens, the educated and materially assured in self - realization. When there is a favourable business environment, entrepreneurship is seen as a possibility to achieve professional and life plans, not just as a required source of income [6; 8]. The SME development has led to the fact that now it is an indispensable part of the economy, playing an important role and having a positive impact on many aspects of the economic, social, scientific and technical, innovation and regional development.

The economic analysis and the support of the SME sector development need a clear definition of its boundaries. Therefore, governing bodies of every country approve qualitative and quantitative criteria concerning enterprises in the SME sector. All criteria have both advantages and restrictions [3; 6]. The volume of annual sales and the number of employees are the most common criteria to assess the enterprise size in the world. Besides these indicators, according to the law of the Republic of Moldova, the value of assets is also taken into consideration.

Table 1. Quantitative criteria of SMEs in the Republic of Moldova

The SME size	The number of employees, people	The sales volume, lei	The assets, lei
Micro	1-9	up to 3 million lei	up to 3 million lei
Small	10-49	up to 25 million lei	up to 25 million lei
Medium	50-249	up to 50 million lei	up to 50 million lei

Source: The Law of the Republic of Moldova on the support of small and medium enterprises sector [4]

Thus, the firms with a number of employees of 1-9 people, the annual sales volume up to 3 million lei and the value of assets up to 3 million lei are qualified as micro-enterprises according to the Moldavian legislation; the enterprises with 10-49 employees and the value of assets and the annual sales volume of up to 25 million lei are called small enterprises and the enterprises with 50-249 employees, the value of assets and the annual sales volume of up to 50 million are classified as medium-size enterprises. The mentioned limits differ from one country to another.

The quantitative impact of SMEs on the economic growth is assessed by the share of SMEs in GDP. The share indicator of SMEs in GDP significantly varies in different countries. The SME sector generates 58.4% of GDP in the EU and 43.4 % in the USA (2010). The share of SMEs in GDP is less than 50% in 10 of 12 countries-members of the Organization of the Black Sea Economic Cooperation (BSEC), in 5 countries – less than 30%. In 2012 the share of Moldavian SMEs in GDP was 28.3%. The share of SMEs

in GDP is relatively lower than the sector share in employment in all countries. This reflects a lower level of labour productivity in the SME sector compared to big companies. During the last 20 years the SME sector of the Republic of Moldova has grown both in a quantitative and qualitative ways. The global economic and financial crisis has had a negative impact on SMEs. The study of the crisis impact on this sector results and some SME groups allows to more precisely consider their possibilities and restrictions under unfavourable external environment and to argue their regulatory policy improvement. Moldavian SMEs constitute a significant part of the total number of enterprises, provide work places and a modest level of income, ensure the market saturation with goods, participate in GDP formation.

In 2012 the number of SMEs in the Republic of Moldova was 49.4 thousand enterprises or by 2.1 thousand enterprises (4.4%) more than in 2011. The SME sector occupies about 97.5% of the total number of enterprises. Thus, the dynamics of the SME number in 2008-2012 can be presented in the following way:

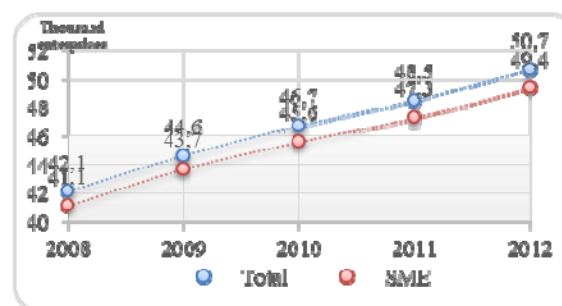


Fig. 1 The dynamics of small and medium-sized enterprises in the Republic of Moldova

The source: Developed by the author based on the National Labour Union Block, the Statistical Yearbook of the Republic of Moldova in 2013 [2].

The development of SMEs in the Republic of Moldova is an increasing trend from 41.1 thousand enterprises in 2008 to 49.4 thousand enterprises in 2012, or by 32.8%. However, the percentage of small and medium-sized enterprises in the total number varied within 97-98% in the analyzed dynamics.

A more detailed analysis of the SME sector activity in our country can be carried out,

being based on the study of the sector by the number of employees and sales revenues according to the table given below.

Table 2. The dynamics of small and medium enterprises share in the total number of all enterprises in the Republic of Moldova

Years	The number of enterprises, thousand			The number of employees, thousand people			Sales revenue, thousand lei		
	Total	SME	The share of SME, %	Total	SME	The share of SME, %	Total	SME	The share of SME, %
2008	42.1	41.1	97.6	572.1	328.1	57.3	175058.4	64984.1	37.1
2009	44.6	43.7	97.8	539.2	316.2	58.7	146447.0	57480.0	39.2
2010	46.7	45.6	97.7	526.2	309.4	58.8	177503.2	65263.2	36.8
2011	48.5	47.3	97.5	510.2	294.2	57.7	207676.8	71887.6	34.6
2012	50.7	49.4	97.5	519.9	300.2	57.7	211759.3	73057.0	34.5

The source: Developed by the author based on the National Labour Union Block, the Statistical Yearbook of the Republic of Moldova in 2013 [2].

The analysis of the SMEs development shows the reduced average size of the companies in this sector. In 2012 the average sales revenues per enterprise were 1,478 thousand lei or by 41 thousand lei (2.7%) less than in 2011. The average sales revenue per employee was 243,300 lei or by 1 thousand lei (0.4%) less than in 2011. In 2012 the average number of employees per enterprise amounted to 6 people, i.e. as many as in 2011. The number of people who worked at small and medium enterprises in the reference period was 300,200 people, or 57.7 % of the total number of employees. In this period the sales revenues of small and medium enterprises amounted to 73057.0 million lei or 34.5 % of the total sales revenue in the economy.

The analysis of SMEs classification by types of activity is also interesting. This classification primarily depends on the classifier officially used in the country or region. The EU adopted the Statistical classification of economic activities in the European Community, common to all member states. At present the same classifier is used in the Republic of Moldova. To more generally analyze SMEs by sectors, types of SMEs activities are classified in European studies and Eurostat as follows: industry, agriculture, construction, trade, services, etc. The dynamics of the SMEs number by the main types of activity is presented in the Republic of Moldova as follows:

Table 3. The dynamics analysis of SMEs by the main types of activity in the Republic of Moldova

Name	2011			2012			2012 in % compared to 2011
	SMEs (thousand)	The share of SMEs in:		SMEs (thousand)	The share of SMEs in:		
		The total number of enterprises, %	The total number of SMEs, %		The total number of enterprises, %	The total number of SMEs, %	
Total	47.3	97.5	100	49.4	97.5	100	104.4
Including the main types of enterprise activity:							
Agriculture, economy, hunting and forestry	2.4	97.4	5.1	2.5	97.6	5.0	104.2
Processing industry	4.8	95.9	10.2	4.9	95.8	9.8	102.1
Electricity, gas and water	0.2	84.4	0.4	0.2	86.8	0.5	100.0
Construction	2.6	97.0	5.5	2.7	96.9	5.5	103.8
Wholesale and retail trade	19.4	97.7	41.0	20.0	97.8	40.5	103.1
Hotels and restaurants	1.5	99.2	3.2	1.7	99.4	3.4	113.3
Transport and communication	3.2	98.0	6.8	3.3	98.1	6.7	103.1
Real estate transactions, rent and services provided by enterprises	7.9	98.4	16.6	8.5	98.4	17.2	107.6
Other activities	5.4	97.1	11.3	5.7	97.1	11.5	105.6

The source: Developed by the author based on the National Labour Union Block, the Statistical Yearbook of the Republic of Moldova in 2013 [2].

The majority of SMEs in Moldova are involved in trade, amounting about 20 thousand enterprises in 2012, or 40.5% of all SMEs. 4,900 enterprises or 9.8 % of all SMEs worked in manufacturing industry.

There has increased the number of SMEs that are involved in real estate, renting and service rendering (from 16.6 % in 2011 to 17.2% in

2012). The share of SMEs which operate in agriculture, hunting and forestry remained at the level of 5% in the analyzed period.

Another criterion for SME classification is by the SMEs sales revenue related to the main types of activity. The SMEs sales revenues related to the main types of activity are presented as follows:

Table 4. The dynamics of sales revenues of small and medium enterprises by the main types of activity in the Republic of Moldova

Name	Year 2011				Year 2012			
	Total, million lei	SMEs, million lei	The share of sales revenues of SMEs in:		Total, million lei	SMEs, million lei	The share of sales revenues of SMEs in:	
			The total number of enterprises, %	The total number of SMEs,%			The total number of enterprises, %	The total number of SMEs,%
Total	207676.8	71887.6	34.6	100.0	211759.3	73057.0	34.5	100.0
Including by the main types of enterprise activity:								
Agriculture, hunting and forestry	8307.8	5613.5	67.6	7.8	7257.6	4930.3	67.9	6.7
Processing industry	31203.6	9316.4	29.9	13.0	33265.7	9522.8	28.6	13.0
Electricity, gas and water	19995.8	258.7	1.3	0.4	22355.2	261.8	1.2	0.4
Construction	9144.7	5555.2	60.7	7.7	8439.8	5349.9	63.4	7.3
Wholesale and retail trade	97530.5	35319.2	36.2	49.1	98590.9	36299.0	36.8	49.7
Hotels and restaurants	1602.8	1115.6	69.6	1.6	1830.5	1365.8	74.6	1.9
Transport and communication	19881.6	6464.9	32.5	9.0	19423.7	6885.1	35.4	9.4
Real estate transactions, rent and services provided by enterprises	8434.4	5100.7	60.5	7.1	8021.7	5177.2	64.5	7.1
Other activities	11575.8	3143.4	27.2	4.4	12574.2	3265.0	26.0	4.5

The source: Developed by the author based on

If we compare the share of SMEs with the share of sales revenues in this sector, we can mention that despite the share of more than 97 % of all enterprises in the country, the share of sales revenues of SMEs is only 34.5%. This demonstrates a low level of this sector development. The highest sales revenues are noticed by the SMEs that operate in wholesale and retail trade (49%), manufacturing (13%), transport and communication (9%), construction (7.5%), real estate transactions,

rent and services provided by enterprises (7.1%), agriculture, hunting and forestry (6.7%).

We can also classify SMEs by the sum of profits/losses before taxation, received by this sector. The analysis of the profits/losses amount before taxation earned by small and medium enterprises in the Republic of Moldova is presented in the table given below.

Table 5. The dynamics of the profit/loss amount before taxation of small and medium enterprises by the main types of activity in the Republic of Moldova

Name	Profits (+), losses (-) before taxation, million lei							
	year 2011				year 2012			
	SMEs – the total	including			SMEs – the total	including		
medium		small	micro	medium		small	micro	
Total	5180.2	1972.1	2697.7	510.4	1084.6	393.6	715.9	-24.8
Including by the main types of enterprise activity:								
Agriculture, hunting and forestry	951.8	382.7	498.7	70.4	-53.5	29.1	-41.6	-40.9
Processing industry	503.7	277.2	233.3	-6.8	9.8	32.0	-2.9	-19.3
Electricity, gas and water	-23.8	-21.5	5.6	-7.9	-42.4	-22.9	-17.1	-2.3
Construction	517.1	193.9	290.4	32.9	97.0	-4.2	84.9	16.3
Wholesale and retail trade	1751.6	646.2	1011.6	93.8	695.4	271.6	540.5	-116.6
Hotels and restaurants	-47.6	21.4	-53.2	-15.9	-119.9	-14.4	-57.7	-47.7
Transport and communication	299.2	78.0	189.8	31.4	-37.1	-6.8	-48.6	18.3
Real estate transactions, rent and services provided by enterprises	975.7	284.6	421.2	269.9	469.1	72.1	251.2	145.8
Other activities	252.6	109.6	100.2	42.7	66.2	37.2	7.3	21.7

The source: Developed by the author based on the National Labour Union Block, the Statistical Yearbook of the Republic of Moldova in 2013 [2].

The sum of profits/losses before taxation received by small and medium enterprises in 2012 amounted to 1084.6 million lei, or by 4095.6 million lei less than in 2011.

Substantial profits before taxation were obtained by the SMEs which operate in wholesale and retail trade (695.4 million lei), real estate transactions, rent and services provided by enterprises (469.1 million lei), construction (97.0 million lei), processing industry (9.8 million lei). Losses were born by the SMEs which operated in areas such as hotels and restaurants (119.9 million lei), agriculture, hunting and forestry (53.5 million lei), electricity, gas and water (42.4 million lei), transport and communication (37.1 million lei).

The competitiveness of the SME sector depends to a large extent on the implementation of innovative and creative activities. The innovation policy is currently implemented with a minimal impact on the SME sector development due to the weak cooperation contacts between public authorities that are responsible for the innovation policy, the private sector, universities as well as other factors in the Republic of Moldova. SMEs need to cover 50% of the costs associated with the innovation development. Their support

structures in the innovation implementation are insufficient. The Republic of Moldova continues to face a number of issues related to the intellectual property. Intellectual protection costs and SMEs managers' insufficient awareness of the way the intellectual property system functions are the main factors that hinder its capitalization. The ongoing free supply of the pre-diagnosis service type, which is an intellectual property audit, will enable SME managers to optimize the use of the available intellectual potential. However, the ability of SMEs to cope with the competitiveness at the European level is still limited. According to the Global Competitiveness Report 2012-2013, Moldova is at the first stage of development (there exist three of them). According to the Global Competitiveness Index 2012-2013, Moldova took place 87 (out of 144 countries), having improved its position by five points compared with the Global Competitiveness Index 2011-2012. The main barriers for SMEs in standardization are the following: difficulties in accessing relevant information, problems with standards understanding and application, high costs of the standardization process and, as a result, limited participation in standardization activities. The available certification capacity is insufficient, which

provides exporting companies with little choice and external certification services are very expensive.

To assess the SME sector one uses the SWOT analysis too, which is one of the most common forms of business analysis. The impact of internal strengths and weaknesses,

opportunities and threats coming from the external environment are analyzed by means of SWOT. Listing and assessment of these strengths and weaknesses are the main part of this analysis. The analysis of strengths and weaknesses, opportunities and threats of the SME sector are presented in the table below.

Table 6. The SWOT Analysis of the SME sector in the Republic of Moldova

Strengths	Weaknesses
<ul style="list-style-type: none"> • The legal framework for the SMEs development that is created and continuously improved; • Simple procedures for SME registration; • - The implementation of state strategies, programs and mechanisms to support SMEs; • - The favourable geographical position of the country, situated between the EU and CIS countries; • The positive attitude of the population towards SMEs and the desire to have their own business; • The labour force with foreign language skills; • New skills acquired and transferable thanks to the emigrants that return home; • International cooperation in the field (the Advisory Council to support and develop SMEs from the CIS and the Working Group on SMEs BSEC); • A well-developed telecommunication system, including internet access; • Highly qualified personnel in the ICT sector; • Favourable trade regimes (CIS, CEFTA, EU Turkey). 	<ul style="list-style-type: none"> • The reduced efficiency of the legal framework implementation; • The unbalanced development of the SME sector; • The inefficient dialogue and cooperation between entrepreneurs and public authorities; • The limited financial capacity of the state to support SMEs; • The lack of financial support instruments for innovation projects; • A low level of innovation development and absorption; • The monopolization of the national economy sectors and unfair competitiveness; • The infrastructure of business support and the under-developed capital market; • A low level of entrepreneurial culture and professional training; • Poor knowledge of export/access techniques to enter foreign markets and the reduced rate of SMEs export; • A low level of SMEs competitiveness.
Opportunities	Threats
<ul style="list-style-type: none"> • The increased state attention to the problems and needs of the SME sector; • The establishment of the Advisory Council for SMEs; • The investment development of the public-private partnership; • The pro-European vector in national development; • The extension of the international cooperation, cross-border cooperation for SMEs and regional infrastructure with the consolidation of contact points; • The continued development of the SME sector internationalization; • The continued development of technologies and innovations and their absorption capacity; • The continued reform of the educational system in the field of entrepreneurship and professional training; • The development and continuous improvement of intellectual property rights; • The development of the consulting services market; • Supporting the development of credit history bureaus; • The ongoing simplification of the process of SMEs activity registration and regulatory. 	<ul style="list-style-type: none"> • The existence of the territorial conflict; • The significant migration of young people and the lack of young professionals specialized in entrepreneurial activities; • The increased shadow economy; • The international competitive pressure; • The energy dependence of the country; • The slow adaptation of the education system to the labour market demand; • The poor participation of entrepreneurs in entrepreneurship education programs; • A tend to increase the tax burden; • The instability of the legal framework.

The SWOT analysis indicates the existence of advantages and opportunities for SME development, but weaknesses and threats in relation to SMEs remain substantial. Therefore, there is a need to support the SME sector by creating stable legal and economic conditions, favourable for the development of entrepreneurial activity.

CONCLUSIONS

The role of SMEs has significantly increased in contemporary conditions as a result of the increased need for services, demand diversification, production and implementation of new technologies, the increased share of the unemployed,

implementation of specific public policies to support SME development, etc.

SMEs are qualitatively different phenomena, which differ not only by the small business size, but also by the uniqueness of ownership and management, personalized relationships between the owner/manager and employees, which caused the initiation of a business activity, the limited access to all types of resources, the high level of risk, etc.

The economic analysis and state support of the SME sector requires a clear definition of its quantitative criteria. The criteria selection for SMEs in each country primarily depends on the existing possibilities of the state to support it, the sector structure of the economy, the leaders' intention to integrate the country into the regional association of states, which allows to apply various standards, norms and other indicators used in the association.

The SME sector brings together a large number of business activities and entrepreneurs that significantly differ according to various classifications. The most common are the SMEs categories, which differ by the size of the business activity, by its type and form of ownership, by the region and business location, etc. The classification of SMEs is very important both theoretically – for a more detailed study of SMEs and for development policies of this sector.

In order to increase the competitiveness of SMEs one needs to improve and develop technical and innovative capabilities of SMEs, to facilitate the development of SME grouping in business incubators, to promote intellectual property for SMEs, to facilitate SMEs access to both national and foreign markets, to implement management systems based on international and European standards.

REFERENCES

- [1] Aculai, E., 2012, Contribuția sectorului întreprinderilor mici și mijlocii la dezvoltarea economică regională. În: Dezvoltarea întreprinderilor mici și mijlocii: contribuție, provocări și direcții de perspectivă / Aculai E., Vinogradova N., Percinschi N., Novac A., Clipa V. – Chișinău, IEFS, 2012.
- [2] Biroul Național de Statistică al Republicii Moldova. Anuarul Statistic al Republicii Moldova. Chișinău, 2013, 556 p.
- [3] Grigore Ana-Maria. 2011, Managementul micilor afaceri. Universitatea "Hyperion" din București. Ministerul Educației, Cercetării, Tineretului și Sportului. 2011.
- [4] Legea privind susținerea sectorului întreprinderilor mici și mijlocii: nr. 206 din 07.07.2006. În: Monitorul Oficial al Republicii Moldova. 2006, nr. 126-130.
- [5] Nicolescu O., Nicolescu, C., 2008, Antreprenorialul și Managementul întreprinderilor mici și mijlocii, Editura Economică, București, 2008, p.23.
- [6] Nielsen, S. L., Klyver, K., Evald, M. R., Bager, T., 2013, Entrepreneurship in Theory and Practice. - Edward Elgar Publishing Inc., UK-USA
- [7] Storey, D.J., 1982, Entrepreneurship and the new firm. – L., Croom Helm, 1982.
- [8] Блинов, А., 1998, Малое предпринимательство. Организационные и правовые основы деятельности. – Москва
- [9] Браун, Г., 1997, Малые и средние предприятия в странах с переходной экономикой. – В кн.: Малый бизнес в СНГ и Восточной Европе: трудности роста (середина - вторая половина 90-х гг.) - Москва
- [10] Гэлбрэйт, Дж., 1976, Экономическая теория и цели общества. М. Прогресс- 390с.
- [11] Шумпетер, Й., 1982, Теория экономического развития. (Исследование предпринимательской прибыли, капитала, кредита, процента и цикла конъюнктуры). М.: Прогресс, 455 с.