Fundația Soros Moldova

AIM

EVOLUTION OF SMES IN A PANDEMIC CONTEXT AND PERSPECTIVES

In-depth study of small producer sector and actions to be applied by the Government in order support the development of SME sector

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Methodological approach

In-depth study of small producer sector and actions to be applied by the Government in order support the development of SME sector.

This study was conducted under the auspices of the Alliance of Small and Medium-sized Enterprises from Moldova. It makes a complex analysis of the SME situation and the impact of COVID pandemic on the sector, with an increased focus on the situation of small producers.

The primary **objective** of the study is to reveal the key trends in SME dynamics in the context of the pandemic and to identify the most important barriers/constraints in the entrepreneurial activity and in terms of generating certain short and medium term solutions in support of SMEs.

The study is based mainly on desk research and the instruments and analysis sources used are based on the following benchmarks:

• Detailed analysis of entrepreneurship statistics for 2016-2020 through structural analysis by turnover and area of activity. The main indicators analysed include the number of enterprises, number of employees or sales revenues

• Mapping other studies with the same topic or surveys carried out over the last period in the Republic of Moldova

• International trends as regards the mix of policies used by different countries to support SMEs during the pandemic by consulting the researches made by relevant international organisations (OECD, World Bank, IMF)

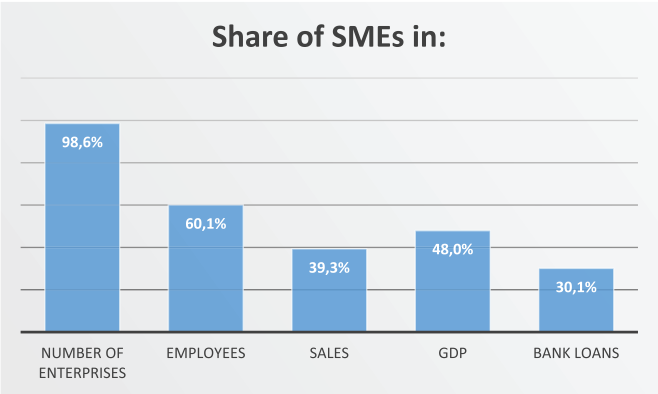
• Interviews with representatives of small producers (25-30 enterprises), on the basis of a questionnaire, to identify support measures for SMEs in post-pandemic context. The phrase 'small producer' means a company in manufacturing industry, from the category Micro or Small Enterprise (with up to 50 employees). The discussions with small producers cover the following activity dimensions: i) General information, ii) Sales, markets, iii) Finances, access to finances, iv) Labour force, v) State-entrepreneur relationship during the pandemic, vi) Business environment: evolution

1 SMEs – share in the economy and impact of the pandemic

1.1 Role of SMEs in macroeconomic context

The sector of Small and Medium-sized Enterprises (SMEs) continues to have an essential role for the national economy. These enterprises account for 98.6% of the total number of enterprises in the economy and generate 60.1% of the total number of jobs and 39.3% of turnover obtained by enterprises. As a result, they account for about half (48%) of Gross Domestic Product. At the same time, about 30.1% of the bank loans are contracted by SMEs from the country, and if we take into account legal entities only, the share of SMEs reaches 46.8%.

Figure 1. Importance of SMEs in the economy of the Republic of Moldova, 2020



Source: NBS, NBM

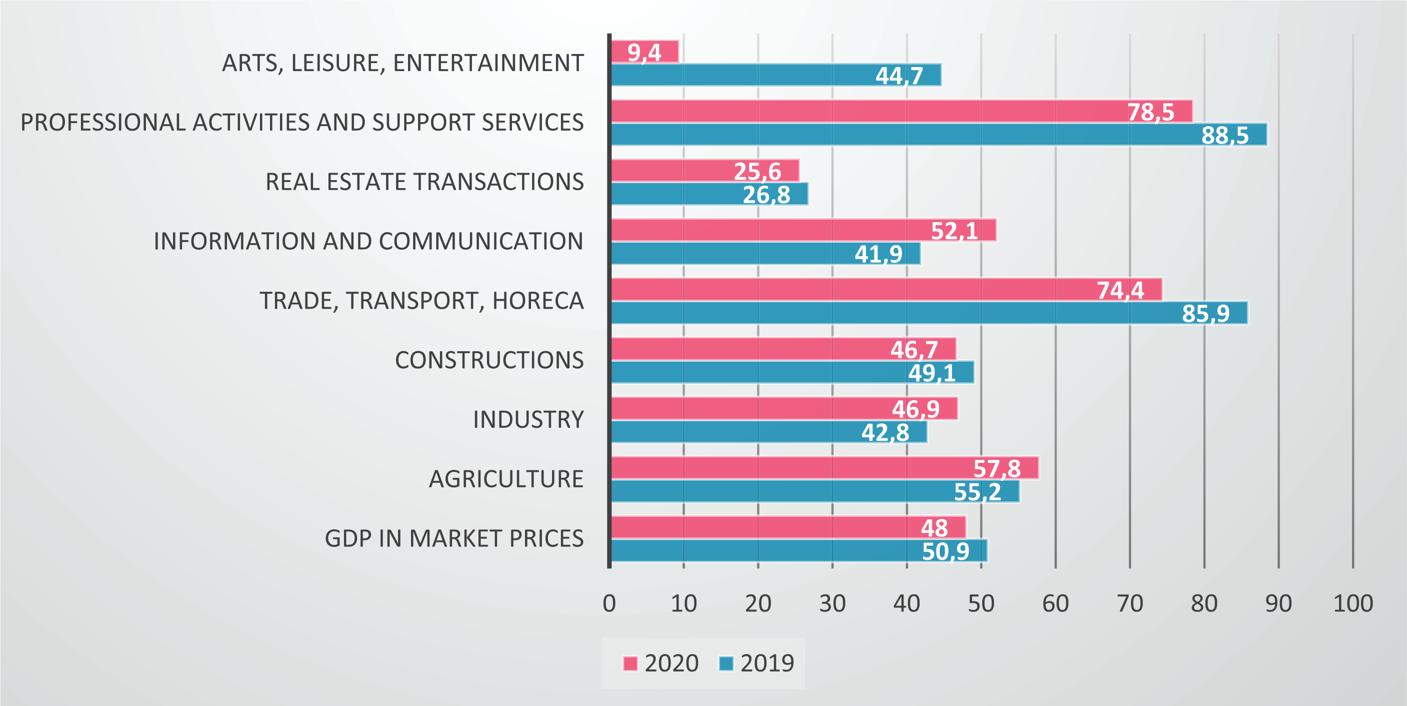
The structure by economic activities reveals that SMEs are more exposed in the sectors that were affected the most by the pandemic.

Beyond the level of preparedness and resilience to crises, SMEs were the most affected due to the structure of national economy itself, as most of them operate in sectors like trade, transport and HoReCa, which are affected the most by the pandemic. Thus, according to NBS publication on National Accounts, in 2020, the contribution of SMEs to GDP decreased by 2.9 percentage points down to 48%. Note that before the pandemic, SMEs lagged behind in terms of rate of creating value added in economy. For example, SME sector generated 52.1% of GDP in 2017. The implications of the pandemic by economic sectors are the following:

- In trade, transport and HoReCa, the share of SMEs dropped from 85.9% in 2019 to 74.4% in 2020, these enterprises being most affected in comparison with big enterprises due to distortions in supply chains or shortage of liquidities. In the trade sector, the share of retail networks grew at the expense of small shops and outdoor markets. An even more dramatic situation was registered for SMEs from arts, recreation and leisure sectors, the share of which dropped from 44.7% in 2019 to under 10% in 2020. A relatively difficult situation was registered among SMEs that provide professional, scientific or technical, administrative and support services, which lost 10 percentage points in the value added from these activities and registered a level of 78.5%.

• On the other side, in 2020, the performance of SMEs was above the average in the ICT sector, growing 41.9% to 52.1%, and the value added in industry and agriculture decreased at lower rates compared to large enterprises and they were able to raise their presence in these sectors.

Figure 2. The contribution of SMEs in forming economic activities, %



Source: NBS, developed on the basis of 2021 National Accounts report

1.2 Major trends in SMEs activity and implications of the coronavirus crisis

Being the main form of business and employment, small and medium enterprises (SMEs) are the main factors of productivity and key actors in building a more inclusive and sustainable growth.
This chapter analyses the activity of SMEs over the past 5 years, with focus on the impact of the 2020 pandemic.

1.2.1 Number of small and medium-sized enterprises (SMEs)

In 2020, there were 57.2 thousand small and medium-sized enterprises (SMEs), accounting for about 98.6% of the total number of reporting enterprises.
During 2016-2020, their number grew at a compound annual growth rate (CAGR) of 2.6%, below the one registered by large companies (4.1%), with a quite low basis of comparison. This growth was supported by the increase in the number of micro and small enterprises (2.7% and 2.3%, respectively) as the segment of medium-sized enterprises is more rigid and registered a growth of only 1.2%. The trends reveal that only a small share of them manage to mature and make it to the next step – large company, while a large number downgrade to small enterprise status, a phenomenon that was particularly visible in crisis situations, such as COVID-19 pandemic.

Table 1. Evolution of the number of enterprises during 2016-2020, depending on their size

	2016	2017	2018	2019	2020	CAGR 2016-2020	Share in total, 2020	Modification, 2020/2019, %
SMEs, including:	**51 626**	**53 573**	**55 705**	**55 918**	**57 247**	**+2,6%**	**98,6%**	**+2,4**
Medium	1 299	1 328	1 299	1 375	1 363	+1,2%	2,3%	-0,9
Small	5 780	6 061	6 374	6 487	6 322	+2,3%	10,9%	-2,5
Micro	44 547	46 184	48 032	48 056	49 562	+2,7%	85,4%	+3,1
Large	694	740	758	796	816	+4,1%	1,4%	+2,5
Total	**52 320**	**54 313**	**56 463**	**56 714**	**58 063**	**+2,6%**	**100,0%**	**+2,4**

Source: NBS and author's calculations

The pandemic crisis particularly affected the small and medium-sized enterprises, the stock of which reduced by 0.9% and 2.5%, respectively.

The increase in the number of SMEs in 2020 (by 3.1%) was possible exclusively due to micro enterprises, given that their stock in 2019 is basically the same as in 2018.
Nonetheless, this growth should be regarded and analysed with attention and it can be explained through various structural phenomena that took place among entrepreneurial population. Thus, there are several explanations:

- An obvious conclusion is that the stock of companies grew in 2020 due to the downgrade of small companies, which reduced their number of employees and the turnover.
- The pandemic 'forced' many of them to migrate from informal environment into formal one, from the status of non-reporting company into a reporting one. A simple example is the temporary closure of open air farmers markets.
- Some individual entrepreneurs are part of this segment, and their number grew significantly over the last years.

• In addition, the number of patent holders decreased in the past years, who took a legal form.

• A share of entrepreneurs operationalised their business only now. During the crisis, many people start a micro business, with the idea to be prepared to grow immediately when the crises slow down or disappear.

• Last, but not least, traditionally, micro companies are the most vibrant, with highest establishment and closing rates and the crises that occur periodically are for many people an opportunity to start a new business as the costs for starting and closing the activity for micro-companies are smaller. For them, the migration from the status of active enterprise to inactive enterprise and vice-versa, is not a major problem.

The analysis of sectors of interest reveal that in 2020 the number of enterprises in agriculture (+5.9%), transport and storage (+3.9%), constructions (+3.9%) and real estate transactions (3.7%) has the highest relative growth.

Table 2. Change in the number of enterprises and stocks of enterprises at the end of 2020

Activities	SMEs	Medium	Small	Micro	No of enterprises as of 31 Dec.
Agriculture, forestry and fishing	5,9%	-10,0%	2,4%	7,4%	4 656
Manufacturing	2,6%	3,0%	2,5%	2,6%	4 840
Production and delivery of electricity, heat, gas, hot water and air conditioning	37,5%	0,0%	-9,1%	45,3%	121
Distribution of water; sanitation, waste management, decontamination activities	2,7%	0,0%	9,5%	1,4%	463
Transport and storage	3,9%	-8,5%	-2,3%	5,9%	3 092
Accommodation and public catering	1,8%	-21,1%	-15,9%	6,1%	2 090
Information and communication	2,7%	2,2%	-1,5%	3,3%	2 508
Financial and insurance activities	-1,6%	37,5%	16,4%	-2,9%	1 095
Real estate transactions	3,7%	-3,1%	-3,6%	4,4%	3 811
Professional, scientific and technical activities	2,4%	7,4%	-18,8%	3,5%	4 981
Administrative and support service activities	1,7%	-13,0%	3,0%	2,0%	1 833
Other services	4,1%	-40,0%	-14,5%	5,3%	1 367
Construction	3,9%	15,1%	-7,6%	5,9%	3 443
Wholesale and retail trade; maintenance and repair of motor vehicles and motorcycles	0,8%	0,9%	-1,0%	1,0%	20 455
TOTAL	**2,3%**	**-1,2%**	**-2,4%**	**3,1%**	**54 755**

Source: NBS and author's calculations

[1] The sectoral analysis did not cover the activities related to: B00 Mining industry; O00 Public administration and defence; compulsory social insurance; P00 Education; Q00 Health and social support; R00 Art, recreation and leisure activities; S00 Other services.

Over the last 5 years, the stock of enterprises from agriculture, strongly influenced by micro businesses grew at a CAGR of 8.2%. As a result, the share of agricultural enterprises in total number of SMEs increased from 6.9% in 2016 to 8.5% in 2020.

The number of enterprises from services and constructions grew on average by 3.7% and 3.5% annually, the main catalysts being both micro and small enterprises. The stock of enterprises from services and constructions grew by 3.7% and 3.5%, respectively, and those from industry – by 2.7%.

By contrast, the stock of enterprises from trade sector grew marginally, by only 0.2% on average, over the last 5 years and as a result, their share in the demography of enterprises reduced from 41% in 2016 to 37.4% in 2020.

Figure 3. Evolution of the number of SMEs during 2016-2020, by sectors (2016 = 100%)

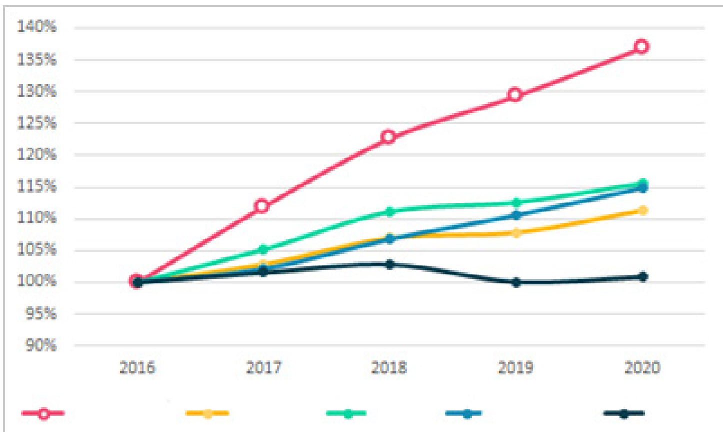
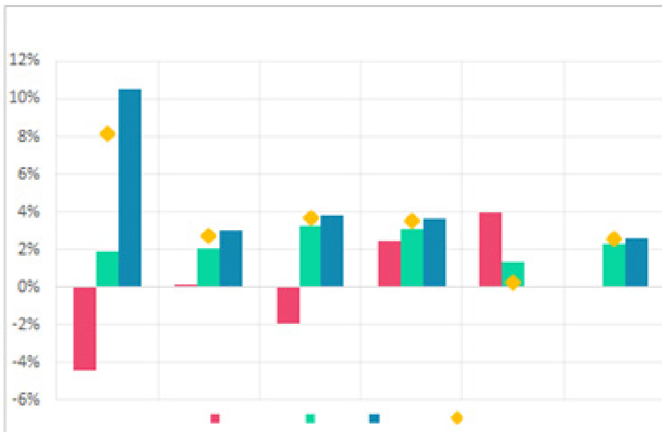


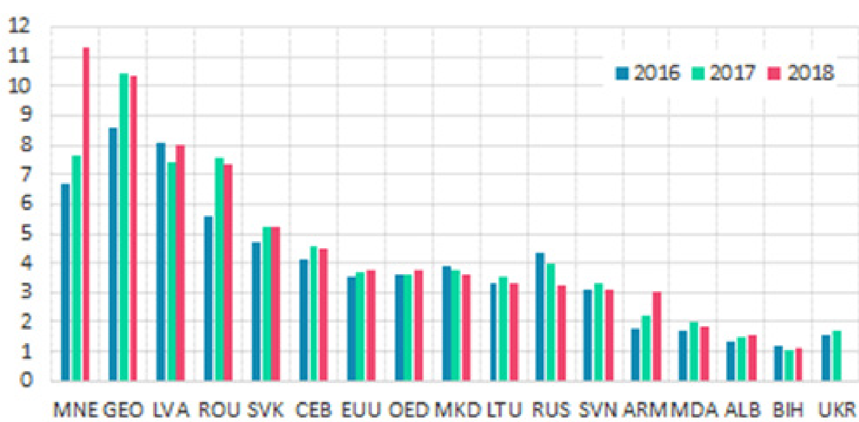
Figure 4. Change in the number of enterprises by size and sector
Average annual percentage change between 2016 and 2020



Source: NBS and author's calculations

Despite the increase in the number of enterprises over the past 5 years, which apparently is something optimistic, the international comparisons show that the number of newly created enterprises in the Republic of Moldova is still very small.

Figure 5. Newly created enterprises / 1000 persons among the population aged 15-64, %



Source: World Development Indicators database

The density of newly created enterprises per 1000 inhabitants aged 15-64 is significantly lower (1.9 units), compared with Georgia (10.3) and with the average of countries from Central Europe and Baltic countries (4.5 units), including Romania (7.3), Latvia (8).

Moreover, during 2020-2030, the stock of newly created micro and small-sized enterprises could stagnate or even to drop due to structural causes. First, this risk is fuelled by the decrease in the number of population, which is to be followed by the compression of the primary 'source', which delivers entrepreneurs. Second, the number of young entrepreneurs that drop the entrepreneurial activity over the last years has been higher than the number of those who enter this activity and their share in entrepreneurial population dropped dramatically. Unlike them, senior entrepreneurs show a higher resilience. If in 2009 about 23% of the entrepreneurs were aged 15-34, then in 2019 they account only for 14.4%[2]. **In the absence of new young entrepreneurs, the average age of the group of existing entrepreneurs will grow and their number will decrease inevitably.**

Female entrepreneurship is another untapped reserve, although the educational profile of women clearly shows that their human capital is by no means lower than the human capital of men. In the Republic of Moldova, in 2017, about 33.9% of the enterprises were owned or managed by women. The participation of women in entrepreneurial activities improved during 2010-2017, their participation grew by about 6.4 p.p. Although important results were achieved, female entrepreneurship needs to be further stimulated. Women are still a minority in the business community and an underused growth potential given that they account for 52% of the total resident population of the country.

Besides the low rates of business start-ups, the survival rates of small enterprises is low. According to statistics, less than half of newly established enterprises manage to survive two years after the establishment. The survival rate after 1 year is 44.2%, and the survival rate after 2 years – about 40.9%, while in industry the chances are lower – about 1/3 of the enterprises survive the second year of activity. For comparison, in EU, the survival rate in the next year after the establishment is 80%, and on average, half of the enterprises manage to survive after 5 years.

[2] Rodica Nicoara, 'Analytical report on the participation of women and men in entrepreneurial activity', National Bureau of Statistics of the Republic of Moldova, SIDA, UN Women and UNDP, Chisinau, 2020.

Table 3. Average survival rate if enterprises after 1 and 2 years after the establishment for 2018-2020, by activity sectors, %

Sectors	Survival rate 1 year, %			Survival rate 2 years, %		
	2018	2019	2020	2018	2019	2020
Transport & storage	53,5	51,8	62,8	50	52,7	50,2
Information & communication	55,5	55,2	62,1	55,5	51,4	55,2
Support & admin. services	53,3	49	57,1	48,8	46,3	45,8
Constructions	41,7	53,6	53,3	31,7	44,6	53,3
Wholesale and retail trade; maintenance and repair of motor vehicles and motorcycles	45,3	49,7	47,9	41,8	41,3	46,2
Professional, scientific and technical activities	48,5	51,2	47	41,4	43,6	48,9
Total	44,2	46,8	45,9	40,9	40,5	44,3

Sectors	Survival rate 1 year, %			Survival rate 2 years, %		
	2018	2019	2020	2018	2019	2020
Accommodation and public catering	43,3	45,6	39,9	28,9	34,4	37,8
Manufacturing	31,7	38,7	35,4	29,8	33,2	36,5
Real estate transactions	31,9	26,7	32,9	46,6	22,8	26
Distribution of water; sanitation, waste management, decontamination activities	44,2	29,6	24,5	43,2	53,5	37
Production and delivery of electricity, heat, gas, hot water and air conditioning	11,1	11,1	16,7	10	11,1	11,1
Total	**44,2**	**46,8**	**45,9**	**40,9**	**40,5**	**44,3**

Source: NBS

For comparison, in EU, the survival rate in the next year after the establishment is 80%, and on average, half of the enterprises manage to survive after 5 years.

A record rate of closing businesses of 28.7%[3] was registered in 2020. The economic crisis determined by COVID-19 was a truly shock wave for the companies from the Republic of Moldova. According to the most recent World Bank survey on the impact of COVID-19 on enterprises[4], 3.4% of enterprises definitely closed.

A larger definition of closed firms, that takes into account the firms closed when the reference survey began, plus those that couldn't be contacted during the field work and hence were assumed to be closed, estimates that the number of closed firms could reach 15.2%.

Nonetheless, once the restrictions were relaxed and the economy started to recover, we can note that a share of enterprises that closed temporary during the first months of the pandemic, reactivated and resumed their activity.

1.2.2 Average number of staff

In 2019, SMEs hired about 336 thousand employees or 61.6% of the total employees in the economy. On the account of micro & small businesses, their number grew by an annual average of 2.3% during 2016-2019.

The pandemic crisis and the measures taken only hit the most vulnerable segments – micro & small. In total, the number of employees from SMEs dropped by 5.7% compared to 2019, or 19236 employees, and 81.3% of employees were from micro and small enterprises.

[3] NBS: Demography of enterprises in Republic of Moldova in 2020.
https://statistica.gov.md/newsview.php?l=ro&idc=168&id=7230

[4] https://www.enterprisesurveys.org/content/dam/enterprisesurveys/documents/covid/country-profile-Moldova-Round-3_English.pdf

In order to understand the impact of the crisis on enterprises, and then on firms' bouncing back, adaptation and recovery as the global health situation improves, the World Bank carried out three surveys after the standard Enterprise Survey (ES). Business owners and top managers of 360 firms were interviewed in April 2019 and in November 2019, as part of standard ES. The same firms were contacted repeatedly in June 2020, in October/November 2020 and again in May/June 2021 for three rounds of surveys.

Table 4. Average number of staff, evolution during 2016-2020

	Average number of staff					Average number of staff per 1 enterprise				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
SME	313 533	323 277	328 018	336 059	316 823	6.1	6.0	5.9	6.0	5.5
Medium	101 529	103 460	99 311	102 984	99 379	78.2	77.9	76.5	74.9	72.9
Small	107 156	112 028	117 030	118 662	113 983	18.5	18.5	18.4	18.3	18.0
Micro	104 848	107 789	111 677	114 413	103 461	2.4	2.3	2.3	2.4	2.1
Large	198 941	205 330	212 259	216 054	209 915	286.7	277.5	280.0	271.4	257.2
Totals:	512 474	528 607	540 277	552 113	526 738	9.8	9.7	9.6	9.7	9.1

Source: NBS and author's calculations

The sectors analysed in the table below had by 18,308 employees less than in 2020. The number of jobs reduced most of all in sectors such as trade, constructions, accommodation and public catering and agriculture. **The total number of employees from the manufacturing industry remained the same as in 2019, given that in 2019 the sector already reduced the number of total employees by about 2,200 compared with 2018.**

Table 5. Evolution of the number of employees in SMEs during 2016-2020, by sectors

	2016	2017	2018	2019	2020	RCAC '19/'16	Modification 2020 / 2019, ±			
							SME	Medium	Small	Micro
A00 Agriculture, forestry & fishing	38 198	39 192	38 723	38 736	36 922	36 922	-1 814	-926	-305	-583
C00 Manufacturing industry	46 166	47 630	47 511	45 308	45 351	45 351	+43	+942	+12	-911
D00 Production and delivery of electricity, heat, gas, hot water and air conditioning	740	933	508	519	464	464	-55	-16	-36	-3
E00 Distribution of water; sanitation, waste management, decontamination activities	5 776	5 735	5 633	5 562	5 904	5 904	+342	+189	+143	+10
H00 Transport and storage	22 225	22 890	23 438	23 969	22 903	22 903	-1 066	-808	-304	+46
I00 Accommodation and public catering	12 437	12 985	13 731	14 502	12 224	12 224	-2 278	-574	-1 258	-446
J00 Information and communication	10 385	11 005	11 973	13 957	13 355	13 355	-602	-213	+125	-514
K00 Financial and insurance activities	3 059	3 481	3 556	3 480	3 283	3 283	-197	+83	+137	-417
L00 Real estate transactions	14 200	14 134	14 079	13 431	13 144	13 144	-287	+390	+70	-747
M00 Professional, scientific and technical activities	14 596	15 536	15 349	15 018	12 752	12 752	-2 266	-218	-767	-1 281
N00 Support & admin. services	8 804	8 855	9 782	10 735	9 311	9 311	-1 424	-579	-147	-698
S00 Other services	3 758	3 912	4 414	4 636	4 095	4 095	-541	-227	-132	-182
F00 Constructions	22 119	22 854	22 674	24 426	22 070	22 070	-2 356	-701	-1 071	-584
G00 Wholesale and retail trade; maintenance and repair of motor vehicles and motorcycles	82 127	84 845	85 435	85 067	79 260	79 260	-5 807	-882	-667	-4 258
TOTAL by activities	**284 590**	**293 987**	**296 806**	**299 346**	**281 038**	**281 038**	**-18 308**	**-3 540**	**-4 200**	**-10 568**

Source: NBS and author's calculations

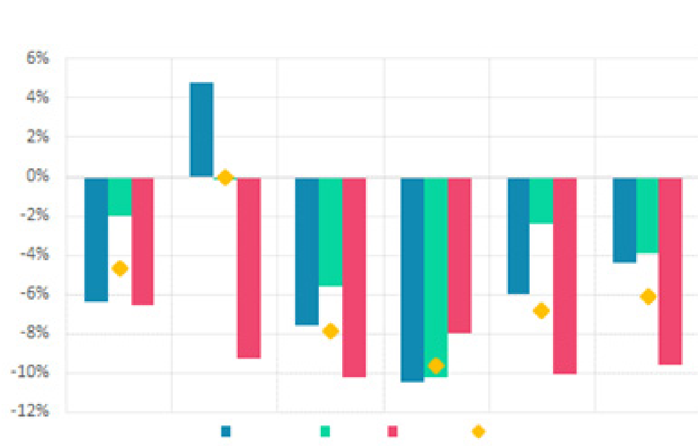
During 2016-2019 the number of employees in the analysed sectors grew on average by 1.7% annually.

Except the trade sector, this raise was possible due to the decrease in the number of employees from medium-sized enterprises in favour of small (in services and constructions) or micro ones (agriculture).

The figure in the right side reveals the severe impact of the pandemic on the labour market and the micro segment was hit the hardest, registering the largest staff cutbacks.

Figure 6. Change in the number of employees by size and sector
Average annual percentage change between 2016 and 2019

Figure 7. Change in the number of employees by size and sector
Percentage change in 2020 vs 2019: Impact of the pandemic



Source: NBS and author's calculations

According to the results of the third round of the World Bank survey on the impact of COVID-19 on the activity of enterprises, carried out during April-May 2021, the levels of permanent employment, for a medium firm, compared with December 2019, reduced by 28%, and in the case of SMEs – by 35%. Enterprises providing services have been hit particularly hard, with an average decrease in the number of staff by about 31%.

The number of employees by enterprise reduced at a moderate pace during the pre-pandemic period and the pandemic accelerated these evolutions. Thus, the average number of employees per one SME reduced from 5.6 persons in 2019 to 5.1 in 2020.

Table 6. Average number of staff by enterprise, 2016-2020

	Average number of staff per 1 enterprise				
	2016	2017	2018	2019	2020
SME, total	**5.7**	**5.7**	**5.6**	**5.6**	**5.1**
Agriculture	11.2	10.3	9.3	8.8	7.9
Manufacturing industry	10.5	10.6	10.1	9.5	9.2
Service	5.2	5.1	5.0	5.1	4.6
Constructions	7.4	7.5	7.1	7.4	6.4
Trade	4.0	4.1	4.1	4.2	3.9

	Average number of staff per 1 enterprise				
	2016	2017	2018	2019	2020
Medium	**73.9**	**73.4**	**71.0**	**68.7**	**66.5**
Agriculture	87.6	87.0	83.2	80.9	84.1
Manufacturing industry	90.9	91.0	88.4	81.0	82.5
Service	79.4	80.0	81.0	78.8	77.3
Constructions	78.9	78.9	67.5	77.7	60.4
Trade	43.8	44.4	42.8	42.4	39.5
Small	**18.3**	**18.3**	**18.1**	**18.1**	**17.8**
Agriculture	20.7	20.8	20.4	20.3	19.5
Manufacturing industry	20.1	20.4	20.4	20.3	19.8
Service	18.8	18.8	18.7	18.7	18.7
Constructions	18.3	18.7	18.2	18.6	18.1
Trade	15.9	15.6	15.6	15.3	15.1
Micro	**2.3**	**2.3**	**2.3**	**2.4**	**2.1**
Agriculture	2.6	2.5	2.5	2.6	2.2
Manufacturing industry	2.7	2.6	2.6	2.6	2.3
Service	2.3	2.2	2.2	2.3	2.0
Constructions	2.7	2.6	2.6	2.7	2.4
Trade	2.3	2.3	2.3	2.3	2.1

Source: NBS and author's calculations

1.2.3 Sales revenues of SMEs during 2016-2020

The sales revenues of SMEs in 2020 totalled at MDL 150.1 billion or 39.3% of the total sales revenues per economy. They decreased during the pandemic by 4.6% compared with 2019.

During the pre-pandemic years, micro firms registered the highest average annual growth (8.9%). Instead, they were also mostly hit by the crisis, with an average decrease in the turnover by 6.3% in 2020.

The pandemic reduced the turnover of all the enterprises, regardless their size.

Table 7. The sales revenues of SMEs related to the main types of activity during 2016-2020

	2016	2017	2018	2019	2020	RCAC 2016-2019	Δ%, 2020/2019
SME	124.954	137.506	144.161	157.347	150.112	8.0%	-4.6%
Medium	41.304	45.237	44.739	50.433	48.305	6.9%	-4.2%
Small	50.079	56.090	60.532	63.516	61.125	8.2%	-3.8%
Micro	33.571	36.179	38.890	43.398	40.683	8.9%	-6.3%
Large	175.779	193.458	212.503	240.564	231.784	11.0%	-3.6%
Totals:	300.733	330.964	356.663	397.911	381.896	9.8%	-4.0%

Sursa: BNS și calculele autorului

During 2016-2019, the turnover of SMEs grew by an annual average of 7.7%. Micro and average-sized firms were the main catalysts of this growth in all the sectors, except the trade sector.

Sustainable growths were registered in constructions (+11.2%), agriculture (10.4%) and services (9.2%), while the growth rates in trade (6.6%) and industry (+5.3%) were more moderate.

The share of trade in the turnover of SMEs decreased from 51% to 49%, and those 2 percentage points were equally represented by services (by 23%) and constructions (8%). The pandemic crisis cut a bit over 9% of the turnover in services and agriculture, which was also affected by the drought and a bad agricultural year. The industry and constructions sectors (on the account of medium enterprises) stayed afloat, registering marginal growths in 2020.

Given the decrease in the stocks of small and medium-sized enterprises, the average turnover per enterprise decreased at a slower pace (-3.4% in the case of medium enterprises and -1.3% in the case of small enterprises). Instead, the increasing stock of micro firms, combined with the 6.3% decrease in turnover resulted in sales revenues per enterprise decreasing by 9.1% in 2020. Agriculture and services were affected the most, with average sales per enterprise by about 14.2% lower and 11.7%, respectively in 2020.

Figure 8. Change in turnover by size of enterprises and sector
Average annual percentage change between 2016 and 2019

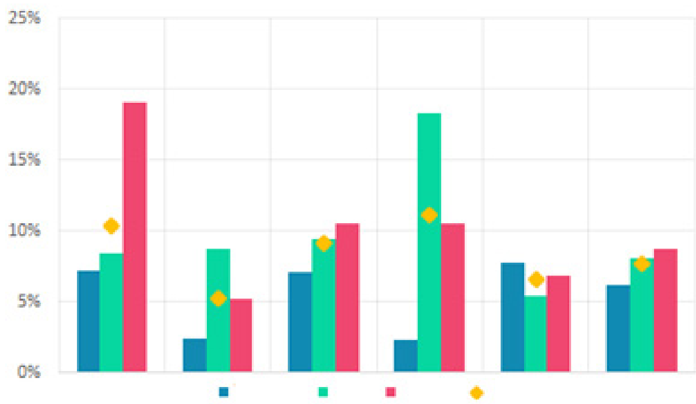


Figure 9. Change in turnover by size of enterprises and sector
Percentage change in 2020 vs 2019: Impact of the pandemic

Source: NBS and author's calculations

The intensive margin of the pandemic effects can be measured through the changes in the monthly sales of the companies compared to the same month of the previous year. According to the most recent World Bank survey on the impact of COVID-19 on the activity of enterprises, the average sales of small enterprises were most affected, being on average by 15% lower in 2021 compared with 2020.

The reshuffles and the stuff cutbacks forced by the pandemic crisis increased the average turnover per employee in SME by 1.2% in 2020 (from MDL 468.2 thousand to

MDL 473.8 thousand). Nonetheless, this increase was made on the account of micro firms on the background of an increasing stock of firms and a record cut of staff – by 9.6%, or 10.6 thousand employees.

Figure 10. Sales revenues per employee, by size (MDL thousand)

Source: NBS and author's calculations

In 2016-2019, the average turnover per employee grew in all the sectors, with the highest rate in agriculture (+9.9%), which was triggered by decreasing the gap between agriculture and other sectors.

Figure 11. Change in turnover per employee by size and sector
Average annual percentage change between 2016 and 2019

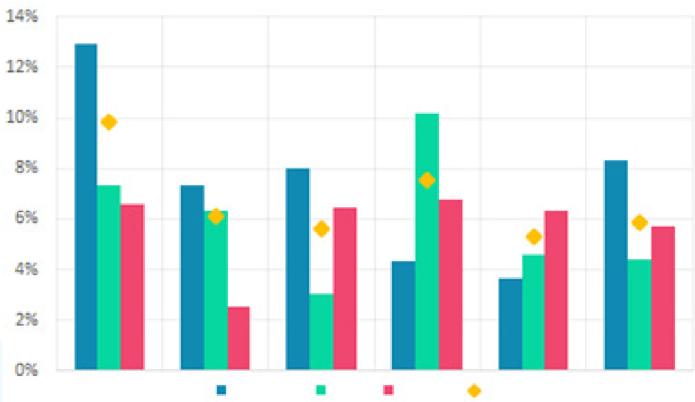
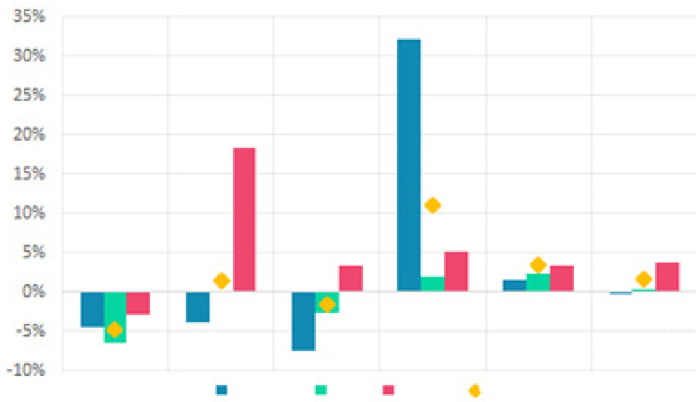


Figure 12. Change in turnover per employee by size and sector
Percentage change in 2020 vs 2019: Impact of the pandemic



Source: NBS and author's calculations

In 2020, the turnover per employee in constructions grew by 11%, mostly due to small-sized firms. Slight growths were registered in trade and industry, while the negative impact of the pandemic was particularly felt in agriculture (doubled by the drought) and in services (particularly in HoReCa, transport and administrative and support services sectors).

The outbreak of COVID-19 forced the companies to adopt to changing circumstances. Thus, according to World Bank survey, one third of the companies started to increased their activity online and a quarter started or registered an increase in deliveries of goods and services. **About 19% of the enterprises introduced and adjusted their products or services due to the outbreak of the pandemic; large companies reacted more quickly than small ones.**

Regretfully, the largest share of local companies were not sufficiently prepared to minimise the risks and the devastating impact of the pandemic.

The factors that ensure an increased resilience to the shocks of the pandemic include, inter alia:

Innovation. Firms with experience of implementing innovations were (and are) better positioned to face the pandemic. The innovative capacity was transposed into a higher resilience and the results of the World Bank survey prove that namely these businesses had relatively better results in terms of sales and employment.

According to NBS[5], during 2019-2020, there were 448 innovative enterprises, which account for 12.6% of the total number of enterprises included in the research (by 26% less than during 2017-2018). Of the total number of innovative enterprises, 50% implemented several innovations at the same time (products, processes, organisation and marketing methods), 17% implemented innovations in products and/or processes, 34% – innovated their organisation and/or marketing methods.

At the same time, it is revealing the fact that around 90% of Moldovan firms do not implement any innovative activity and this attitude is present regardless the size of the enterprise, geographic region or economic sector. This could be a natural feature of enterprises that operate in an economy where the competitiveness is based on low-cost inputs.

The lack of interest in the innovative process could reflect a mix of structural and institutional factors, employees not motivated to become more innovative, too small enterprises and ecosystems the firms are part of (with a small number of suppliers and clients), instability of cash flows, reduced access to working and investment capital, eventually, fears of enterprises related to protection of investments made in innovative elements and to the unfair competition from enterprises that do not implement innovations, but have the advantage of operating in the gray zone.

[5] Results of innovation activities in enterprises from the Republic of Moldova during 2019-2020. https://statistica.gov.md/newsview.php?l=ro&idc=168&id=7222

Half of the firms are oriented towards a single type of innovation. They clearly prefer to adopt innovative organisation and marketing methods. At the same time, while management and marketing innovations are important, it is also clear that their contribution to the competitiveness of enterprises can decrease over the time and that firms will have to be more daring in approaching the product and process innovation.

Digitalisation. Digitalisation and online sales were like a panacea for a series of SMEs, but again, there are challenges, particularly for smaller firms, where the internal capacities to adapt and embrace digital tools are more limited than for larger firms.

Given that less than half of enterprises from Moldova had in 2019 their own site (for comparison – 64% in Ukraine, 69% – in Romania, 73.5% – in Belarus), it is clear that for many Moldovan enterprises, the development of website and starting a more intense online communication is still a relevant form of innovation in marketing.

Digitalisation, in its broadest sense, is little understood and applied by many enterprises. It represents access to a large database of suppliers of inputs and services (national and international), innovative financial services, qualified labour force through recruitment sites, outsourcing and online services and last, but not least, a precious sources of networks with different knowledge dissemination partners.

Digitalisation ensures the assess of SMEs to high quality public services and more efficient networking opportunities with public administrations. E-Government and online platforms facilitate the access to consultancy services and to other categories of support services. Digitalisation creates efficient mechanisms for reducing the disadvantages of small companies in international trade by reducing the costs of doing business.

The reality reveals important resources in the digitalisation process, and the smaller are the companies, the smaller is the probability they will adopt these solutions. The internal capacities of SMEs to adapt and embrace digital tools are more limited compared with larger firms and very few of them organise trainings to their employees in this field. Engaging in educational programs in the area of digitalisation and reducing the gap between them and large companies should be a priority in order to reduce the knowledge and skills gap.

2 Policy interventions for SMEs – inside look

2.1 Higher impact of the pandemic on SMEs

The records from all international specialised researches suggest with no doubt that SMEs were usually the most affected than large firms by COVID-19 crisis, which exposed their biggest vulnerability. According to international studies that summarise the experience of different states, the disproportionate impact of the pandemic on these enterprises is caused by several key reasons:

- First, SMEs are underrepresented in the sectors that are most affected by the crisis, particularly in retail and wholesale trade, air transport, accommodation and catering services, real estate, professional services and other personal services. In these sectors, the share of SMEs in employment is 75% on average in OECD countries, compared with the share of SMEs in employment of about 60% for the economy as a whole.

- Second, small firms are usually more fragile financially and have smaller cash reserves than bigger firms. Due to this, they are less resistant to crises. Moreover, it is more difficult to smaller firms to access different financing sources, including on the market. Instead, smaller firms usually depend more on the reported profits and on traditional bank debt.

- Third, small companies have weaker supply chain capacities than large ones. SMEs integrated on global value chains, directly or indirectly, were affected faster or slower by the disruptions in the supply chain than large firms. SMEs have in general, smaller stocks and reduced networks of suppliers, which makes them more vulnerable to the disruption of supply chain and to price escalation. Similarly, they have a smaller negotiation power to impose attractive payment conditions.

- Fourth, smaller companies lag behind in terms of adopting digital tools and technologies than can help them to increase the resilience to current pandemic crisis. According to the data from Germany before the crisis, there is a big gap in the prevalence of teleworking agreements depending on the size of the enterprise. Larger enterprises use confidence based working arrangements (a necessary condition for good functioning of remote work) more often than smaller ones. Surveys show that the pandemic increased the use of digital technologies by SMEs, but substantial differences exist between countries. At the same time, the difference between SMEs – particularly between small and large firms, continues to be significant as SMEs adopt only half of digital technologies implemented by large firms.

- Finally, small firms usually struggle to adapt their business operations to the current situation, compared with large ones, and face much more constraints in terms of operational skills. For example, it is less likely that SMEs have the managerial capacity to comply with the new regulatory frameworks in order to guarantee the safety of clients and employees. Similarly, SMEs are less susceptible to implement innovations at the level of processes, goods and services, compared with larger companies and start-ups.

2.2 Lessons learned from international experience

According to an Expert-Grup research,[6] the comparison with CEE countries reveals that our country provided the lowest level of support in the context of the pandemic. The volume of support planned by the Republic of Moldova following the budget revisions for 2020 accounted for 2.3% of the GDP. This aggregated figure, which comprises the measures adapted to the pandemic, the direct support to fight the pandemic effects and the drought, is close to the total figure estimated form Moldova, according to the methodology applied by IMF[7] – about 2.6% of the GDP. **In another train of thoughts, the direct support for business community aimed to mitigate the effects of corona crisis of only 0.12% of the GDP was extremely modest. There was also the indirect planned support (guarantees, loans) of 0.33% of the GDP.** Moreover, the measures that targeted the businesses implied many administrative prohibitive requirements, and as a result, many companies were not eligible for support and the planned money were not fully capitalised. It is also important to note that almost the entire support provided to companies during the pandemic was intended for all the enterprises, with no delimitations for SMEs.

Beyond the multiple policy interventions operated worldwide during the first year of the pandemic in order to save businesses and secure the jobs, the business community from the Republic of Moldova believes the lessons learned are even more important. These elements are essential for the appropriate adjustment of recovery and policies that target SMEs. In this regard, an ample study developed by OECD[8] and dedicated to the measures taken by different countries in the context of pandemic in order to help SMEs, presents various benchmarks to take into account when developing the new policies to support recovery and growth. Some of guidelines the

[6] https://www.expert-grup.org/ro/biblioteca/item/2104-cum-putem-asigura-relansarea-economica-in-2021&category=208

[7] https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19

[8] https://www.oecd.org/coronavirus/policy-responses/one-year-of-sme-and-entrepreneurship-policy-responses-to-covid-19-lessons-learned-to-build-back-better-9a230220/

Republic of Moldova could use to learn are presented as follows.

1. Ensure rapid delivery of SME and entrepreneurship policy measures through simplified access to support and effective digital delivery systems, while safeguarding accountability and effectiveness – Policy makers across countries in charge of SMEs responded with unprecedented speed to the pandemic and containment measures, and the impact this had on SMEs. In fact, the months of March and April 2020 will probably enter in history books as the period when the highest number of SMEs policy initiatives were launched. In ensuring rapid delivery, two factors appear to have been particularly important: **low administrative thresholds for accessing government support and digital delivery systems.**

First, given the risk of liquidity shortages for the vast majority of SMEs, public support measures were generally open to all SMEs with limited checks and broad eligibility criteria to facilitate fast delivery. Various countries further simplified access to support measures over the course of the first wave of the pandemic for the sake of speed. A second factor for rapid delivery of support was well-developed digital infrastructures. For instance, in Switzerland and Korea simplified and easily accessible digital portals to access support that combined information from various sources and minimised administrative burdens for entrepreneurs, allowed for rapid responses to aid requests. The application process for the Swiss 'bridging credit facilities' (a direct loan scheme introduced as a response to the crisis) is fully online and as user-friendly as possible. As a result, loans can be provided in 30 minutes, and this contributed to a very strong growth in uptake in the first weeks after the programme was introduced.

Both aspects provide lessons learned and help explain the differences between countries in how rapidly support was provided. The experience with these rapid handling of procedures may benefit the delivery of SME and entrepreneurship support in the future. Similarly, the broad eligibility and **limited ex ante eligibility checks can provide lessons learned for a riskbased delivery of SME policy support.** However, such rapid and easy access could also have had side effects, in affecting the accountability and effectiveness of support and raising questions in some countries, whether the support measures reached the intended beneficiaries or whether they were used by others that were not SMEs or otherwise did not need (or were not entitled to) the support.

2. Policy interventions should strive to target viable enterprises that need them the most – At international level, the policy support at the start of the pandemic was open to all SMEs in need and with few strings attached. As a result, the take-up was generally high. For example, 70% of small businesses in the United States were supported by public emergency relief measures in the first half of 2020. In Ireland, around 6 out of 10 firms availed of government support between 4 and 31 May 2020. In many respects, this high take-up can be seen as a success, which helped avoid a massive rise in bankruptcies during 2020. However, the wide and relatively easy access to credit and the changes in insolvency and bankruptcy procedures in some jurisdictions may also have unintended consequences. First, it may have led to the situation where support went to firms that did not need it, resulting in a less efficient and more costly provision of aid. Second, support measures may have kept unproductive and loss-making firms afloat and hampered processes of creative destruction, with negative effects on economic dynamism and competition in the medium to long run. During the post-pandemic recovery, **the support measures for SMEs should be more selective and better target** the companies who need support the most.

3. Boost start-up rates, especially for innovative new ventures – start-ups were among the most affected and vulnerable SMEs at the beginning of the pandemic. Various surveys confirm the fact that young firms created right before the crisis were affected the most by the pandemic. Moreover, newly-created enterprises often faced difficulties in accessing the government support immediately after the crisis because it was necessary to prove the existence and submit the proof of revenue in preceding years. Immediately after the crisis, the public response measures did not specifically target the newly-created enterprises and many measures aimed to mitigate the liquidity were hard to access by the new enterprises due to eligibility criteria. However, as part of the shift from emergency support to recovery support governments need to consider putting more emphasis on policies to boost (innovative) entrepreneurship beyond start-up finance. **Long-term changes provoked by COVID-19 can provide opportunities for innovative start-ups**, which are capable of redirecting their knowledge, skills and networks to new opportunities on emerging markets that can be supported by governments. The importance to stimulate new innovative start-ups can be regarded as one more lesson learned during the pandemic.

4. Ensure that support is inclusive and reaches vulnerable segments of SMEs – The COVID-19 pandemic hit minority and women business owners disproportionately. Reasons include that these businesses tend to be concentrated in the industries most affected by the pandemic, have relatively small financial buffers and limited access to different financial sources. Women-owned businesses are on average smaller and younger compared to male-owned businesses. They are more likely to be self-funded, or funded by friends and family, and have fewer financial assets. The data collected by Facebook, OECD and World Bank in May 2020 reveal that SMEs led by women had by 7 percentage points more chances to close compared with SMEs led by men.

In their continued support efforts, policymakers should take the diversity of SMEs and the specific circumstances of vulnerable groups of SMEs into account, in order to avoid the risk of some segments of the SME population not being able to benefit from the policy response. Specific schemes with a view to gender and racial disparities are key to ensure equal opportunities to recover. Policy makers have learned that it is not only necessary to understand the differential impact of the COVID-19 pandemic on minority and women-owned businesses but also to design inclusive schemes that allow them to have adequate access to support. However, examples of such schemes are so far limited.

5. **Rethink institutional arrangements regarding the self-employed** – self-employed were strongly affected since the beginning of the pandemic. The data from a survey emphasized that in the European Union, most independent employees are alone (that is, they do not have employees), and they are more likely to become unemployed during the COVID-19 crisis (13%) compared with those who carry out independent activities with employees (2.3%). The self-employed lack a strong relationship with public bodies and often find it hard to access government support. There is a large diversity within the self-employment segment which proves challenging for policy makers to design access criteria to deploy support and cover all the segments. Self-employed workers not only span a wide range of sectors, they are also distributed from the bottom to the top of the income distribution

Discussions on the incorporation of the self-employed in social security, taxation and health insurance policy frameworks started before the pandemic and were in many countries linked to the rise of the gig economy[9] and the role of self-employment therein. The COVID-19 crisis, which highlighted the vulnerabilities of the self-employed, is likely to put that discussion on the agenda for the coming period and may offer the opportunity to adapt existing arrangements to the new reality of these entrepreneurs and workers.

6. Avoid SMEs over-indebtedness and an SMEs solvency crisis by exploiting the equity, quasi-equity and other non-debt support – From the start of the pandemic, governments deployed large scale support mainly in the form of debt finance to ease SMEs liquidity constraints. While this support was necessary in tackling the liquidity crisis of SMEs, a large number of firms will likely struggle to repay their debts, especially those that continue to take on debt to survive the reintroduction of confinement measures.

[9] Economia gig arată un sistem de piață liberă în care organizațiile și lucrătorii independenți se angajează în aranjamente de muncă pe termen scurt. Definiția cuprinde aranjamentele de lucru, precum: liber profesioniști, consultanți, antreprenori independenți și profesioniști, Temps (lucrători cu contract temporar).

Research indicates that the use of equity or quasi-equity instruments over debt instruments to SMEs facing cash flow problems has several advantages, and offers better prospects for its beneficiaries to invest and grow once the recovery sets in. The key policy take-away is to explore measures to address liquidity shortages, while at the same time, not increasing the leverage ratio of the beneficiaries. A range of potential measures, including equity and quasi-equity measures, include:

- **Support through grants:** An essential advantage of the support through grants is that a large spectrum of firms can benefit from it, including micro enterprises and SMEs with limited growth potential, without rising their debt. The grants were increasingly used for various goals, starting wage subsidies and ending with the compensation of foregone revenues of fixed costs and digital support tickets, aimed to improve or restart the economic activities in countries like Chile, Ireland and Sweden.

- **Convertible loans:** a convertible loan allows a loan to be converted to equity if a borrower is unable to repay it This type of instrument is beneficial for borrower SMEs as well as for lending banks. SMEs are able to have liquidity at zero interest, companies' growth potential is not impacted, and banks have the opportunity to recoup the capital in the medium and long term.

- **Loans eligible for forgiveness:** Some lending facilities convert loans to grants (i.e. the loan does not have to be repaid) under certain conditions. In the United States, the Paycheck Protection Programme is a loan aiming to incentivise small businesses to retain personnel. If certain employee retention criteria are met, the loan is forgiven. As another example, Russia launched specific loans for SMEs that eliminate the interest rate and loan repayment if the company retains 90% of its employees.

- S**ubordinated loans:** Subordinated loans are already in use in countries like Austria, Belgium, France, Germany and Italy. Such loans bring debt that – in case of liquidation – only needs to be paid back after other primary debts.

- **Equity funds/convertible bonds:** While participation in firms' capital is usually reserved for somewhat larger firms and/or for innovative start-ups, some new schemes have been launched for SMEs, or existing schemes expanded.

- **Equity crowdfunding:** crowdfunding instruments could potentially address finance needs of a slightly larger segment of the SME population compared to capital market instruments, allowing them to raise capital by selling securities in the form of equity, revenue share, or convertible notes. In response to the need or raise capital and not debt, some governments have put in place new regulations to facilitate SMEs to tap into funds from retail investors

• **Tax policies to strengthen SME equity:** Governments can also incentivise private investment to SMEs through tax policies. In Belgium, tax incentives have been implemented to attract private investment for start-ups and SMEs affected by the COVID-19 pandemic. For instance, individuals can obtain a tax reduction in personal income tax of 20% if they acquire directly new shares of small companies, whose turnover has decreased by at least 30% from March to April 2020. They may also benefit from an income tax reduction of 30% to 45% if they acquire new shares directly from a start-up or via crowdfunding.

Finally, addressing the impact of rising SME indebtedness may require further reform of insolvency regimes to allow for successful restructuring of insolvent firms. This may require establishing specific procedures for SMEs, including promoting informal debt restructuring and out of court settlements as SMEs run a higher risk of being liquidated in formal insolvency processes.

7. Allow processes of creative destruction to take their course again while ensuring a just transition and possibilities for second chance entrepreneurship - The pandemic and containment measures led to the temporary or permanent closure of many SMEs. In many cases this was the result of containment measures, where non-essential businesses were forced to close their doors during lockdowns. However, in other cases it was the challenges in supply chains and sales that led SMEs to close their business, at least temporarily.

However, while the pandemic caused many SMEs to stop their operations, in most cases this did not translate into a rise in insolvencies in 2020. However, although some countries witnessed a significant rise in bankruptcies (Israel, Japan, the United States), one year into the pandemic, for most countries this was not the case.

The reason for this difference in bankruptcy rates is twofold. First, the differences illustrate that the so called insolvency elasticity (the percent responsiveness of insolvencies to a one percent GDP change) varies across countries. Second, and possibly most importantly, the decline in bankruptcy rates reflects the government policy responses to COVID-19, particularly different forms of support for liquidities and the implementation of temporary changes in insolvency and bankruptcy regimes.

It is unlikely that these deviations from bankruptcy laws and the provision of liquidity support will continue indefinitely. While such policies have been effective in avoiding a massive surge in SMEs insolvencies, they may also have kept firms that would otherwise have gone bankrupt alive. I becomes increasingly important for processes of creative destruction, which provide important drivers of productivity growth, to take their course again. This includes the regeneration of start-up policies and the better targeting of support to viable firms. Governments should take into account the consequences of policies on economic dynamism more as time goes by and policies may become entrenched. Measures that make it difficult to lay off personnel in firms and sectors under duress should be carefully reviewed. In a similar spirit, moratoria or restrictions on bankruptcies will need to be gradually lifted.

It is likely that as a result, insolvency among SMEs will increase in the following period. The expected wave in insolvencies will bring up the demand for measures that support training and (re)skilling to allow SMEs owners and employees opportunities in other economic activities. Given the expected number of insolvencies in many countries, it would require the support for 'second chance' entrepreneurship, allowing bona fide entrepreneurs a restart. Renewed creative destruction could be accompanied by policies that ensure a just transition for entrepreneurs and their workers.

8. Ensure that recovery programmes to 'build back better' take the circumstances and perspectives of SMEs and entrepreneurs well into account in order to support their recovery - In the spirit 'not to let a good crisis go to waste', governments are increasingly taking measures to 'build back better' and are implementing broad recovery packages (e.g. Germany, Austria, Korea, Colombia, Spain, France, Canada, Italy, Australia, Ireland, Japan, Slovenia, the United States and the United Kingdom). Sustainability is often at the core of these packages, having a strong emphasis on the transition to clean energy, resource efficiency, and greener consumption. In addition, the packages put strong effort on digitalisation, innovation and skills.

Whereas the emergency liquidity measures at the start of the pandemic had a strong SMEs orientation, given their vulnerabilities, this is less clearly the case for the wider recovery packages which focus more on the business community at large and on public investment in infrastructure. This transformation into a less SMEs specific policy support under the 'build back better' flag is a logical reflection that strengthening the growth potential for recovery affects firms of all sizes. In addition, more generic support can benefit SMEs as well.

In drafting further 'build back better' recovery plans, the circumstances and needs of SMEs and entrepreneurs should be further taken into account. SME organisations should be consulted to ensure that their views are sufficiently heard. Impact assessments of recovery plans should include a credible SMEs test.

9. Include a more strong focus o the digitalisation of SMEs and of new firms as a cornerstone of recovery – Support for SME digitalisation should be a central element of both emergency support and policies to strengthen recovery and resilience. An increasing number of countries have included efforts to support SME digitalisation in their policy response, in light of the persistent 'digitalisation gaps' between small firms and larger ones. Measures in this area broadly come in three areas: **teleworking, e-commerce and digital infrastructure and skills.**

The government of Chile, for instance, addressed regulatory barriers to encourage teleworking facilities for SMEs, by introducing changes to the Labour Code regulating teleworking. The new regulation, approved in March 2020, gives flexibility to both employers and employees to adopt or stop teleworking, and although it stipulates a maximum of hours that can be worked, it gives flexibility on how these hours can be distributed. The new law also gives the right to employees of 'total disconnection' of 12 hours within a 24-hour window. The adoption of digital sales channels is supported by severalcountries as a key method to increase digitalisation of SMEs. In Canada, for example, the Go

Digital Canada Initiative in co-operation with Shopify is helping small business sales grow online, by providing free training courses and use of digital marketing channels. In Malaysia, the Digital Economy Corporation, set-up by the government as part of the country's digital strategy, offers the E-commerce Campaign jointly funded by the government and 20 e-commerce platforms will provide e-commerce on-boarding training facilities, as well as sales support services to SMEs.

As part of recovery support, these support measures should be intensified and be inclusive, taking into account the capacities and requirements of different types of SMEs.

10. Take measures to improve the resilience of SMEs, of start-ups and of enterprises that expand at large scale – The crisis has shown the vulnerability of SMEs to the pandemic and containment measures. To move forward, it is important not only to shift from emergency to recovery support, but also to enhance SME resilience. Resilience stands for the capacity to respond better to shocks and policies that help prevent the negative impact of future shocks on SMEs. SME resilience can refer to internal factors (such as their cash reserves or their digital connectivity) and to external factors (for instance, their incorporation in global supply chains).

Objectives of SME and entrepreneurship policy frameworks vary, but most often focus on objectives such as competitiveness and productivity growth, while few countries include resilience as an objective of their SME policies. An exception is the German SMEs Strategy, which explicitly ranks fostering resilience as an objective. However, in the various 'build back better' recovery packages that have been launched since June 2020, strengthening resilience has become a key objective.

Of course, aspects of resilience have played a role in SMEs and entrepreneurship policies for a long time. Such policies in most countries include measures to improve framework conditions and the functioning of markets, thereby strengthening incentives and capacities to respond to shocks. Policies supporting SMEs innovation and digitalisation aim to strengthen their capacities to improve business models, products and work processes, and hence be more agile. Measures that support innovative start-ups and help foster processes of creative destruction can also contribute to more resilient entrepreneurial ecosystems.

However, as a continuation of the policy response to COVID-19, governments need to further consider how they can contribute to enhancing the SME resilience. Some aspects of SME vulnerability are not likely to change easily, such as their prevalence in sectors at risk or their dependence on a limited number of suppliers and customers. Their vulnerability was also related to low cash reserves, limited use of digital tools, their unfamiliarity with public policy support systems and failure to include in the existing contingency plans measure to address pandemics. Assessing these factors and how policies can enhance them will help strengthen the SME resilience to new shocks.

3 Small producers - data, perceptions and need to intervene

Proposed support measures for SMEs in post-pandemic context were identified including by conducting some interviews with representatives of small producers.

The discussions with small producers addressed the following activity dimensions: i) General information, ii) Sales, markets, iii) Finances, access to finances, iv) Labour force, v) Relationship state-entrepreneur during the pandemic, vi) Business environment: evolution

The primary objective of the discussions is to identify the most important barriers/constraints in the entrepreneurial activity and in terms of generating certain short and medium term solutions in support of SMEs. The interview outcomes are presented below.

3.1 General information & profile of the interviewed companies

The survey covered 28 companies. Most of them operate in light/manufacturing industry (28.6% or 8) and food and beverage industry (25% or 7 companies). The sample also included other sectors from the processing industry, such as construction, trade and agriculture.

Chisinau municipality is represented the best, with 64% (or 18 companies) from the interviewed sample. Six companies operate in the Center of Moldova, 3 - in the South, and one - in the North.

By the average number of employees, all of the interviewed companies are SMEs. Most of them (about 70%) are micro firms, followed by small firms (26%) and one small-sized firm.

Figure 13. Region where enterprises operate

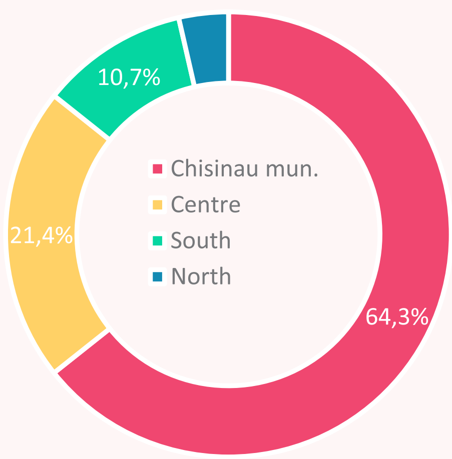
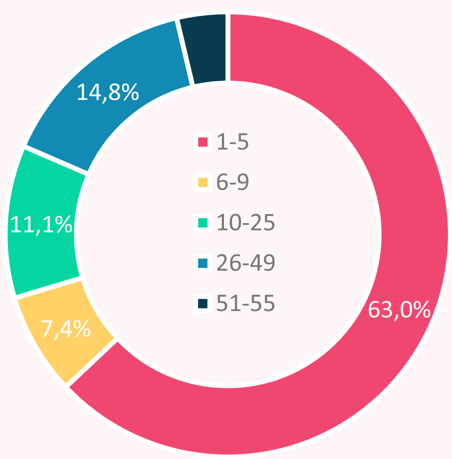


Figure 14. Number of employees at present



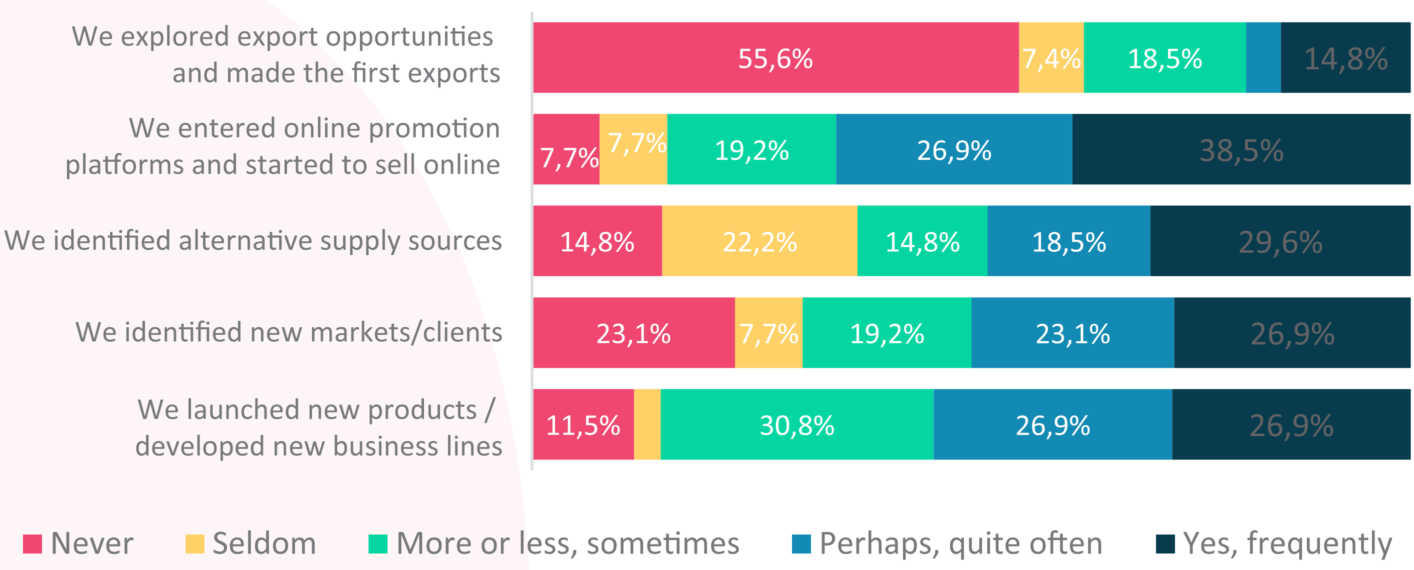
3.2 Sales, markets

The pandemic-related challenges forced companies to take measures in order to adjust to the new realities. Thus, 2 of 3 companies decided to join online marketing and sales platforms, about 54% of the interviewed companies launched new products/developed new business lines, and 50% identified new markets/clients.

Due to the disruptions in supply chains, 48% of companies had to identify new alternative sources of supply.

At the same time, only 18.5% of respondents explored export opportunities and made their first exports. This low percentage can be understood easily, given that the absolute majority of enterprises are micro firms, focused exclusively on the local market. In addition, during the pandemic period, their priority was tu survive the crisis.

Figure 15. Measures taken by firms to adapt the business to the new pandemic realities



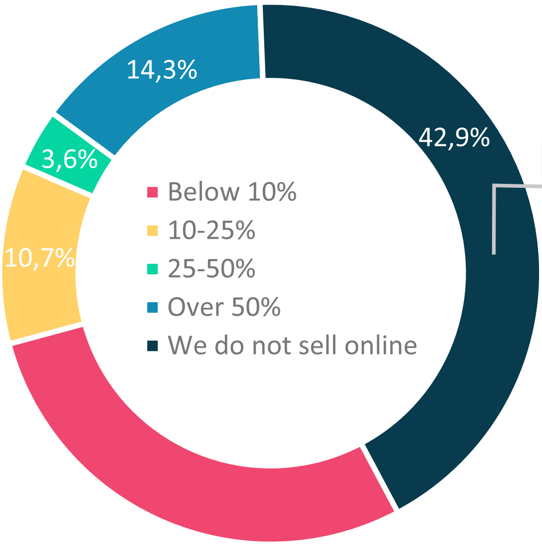
During the pandemic, online sales were a solution to maintain or even increase the sales. Nonetheless, companies applied non-uniformly this solution due to different reasons.

Thus, though 57% of companies declare that they sell online, in the case of 28.6% their share does not exceed 10%. In the case of 10.7% of firms, online sales account for 10-25%, and for 3.6% of firms the share is 25-50%.

Four companies from the sample (or 14.3%) reported that their online sales exceed 50%.

On the other hand, about 42.9% of the interviewed firms declared not to sell online. Half of them would like to enter the online market, but say that they lack the needed skills and competences, and cannot afford the needed large investments. Another half claim that they do not sell online as there is no need for that.

Figure 16. The share of online sales in the interviewed companies



10.7% We do not sell online because we don't have the needed skills and competences.

10.7% We do not sell online, because we cannot afford the costs (investments).

21.4% We do not sell online as there is no need for that.

For most of the interviewed companies (79%), the local market is the main sales market. Moreover, half of the companies (14) sell all their products exclusively on the local market, and 8 companies (29%) sell at least 80% on the local market.

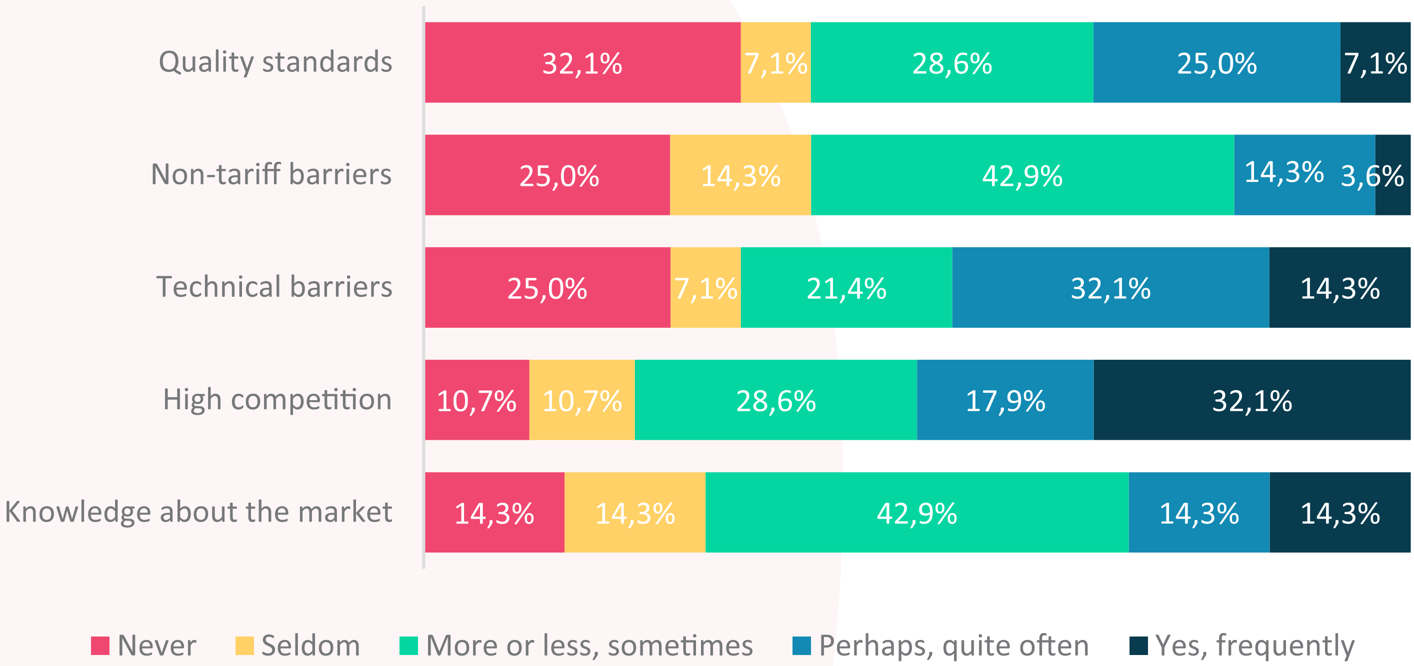
Six of the 28 interviewed firms are export-oriented, 4 companies sell more than 90% of their total sells on foreign markets, the other 2 companies export about 60-70% of their products/services.

Half of the interviewed companies believe that the high competition on foreign markets is currently a barrier to starting exports or to exporting larger quantities.

The technical barriers are another impediment, broadly recognised by companies (46.4%).

Though only 28.6% of companies regard their insufficient knowledge about the market as a barrier, the fact that 43% are in doubt (answering 'more or less, sometimes'), which proves that they are not sure if their knowledge and skills are enough to enter successfully the more competitive foreign markets.

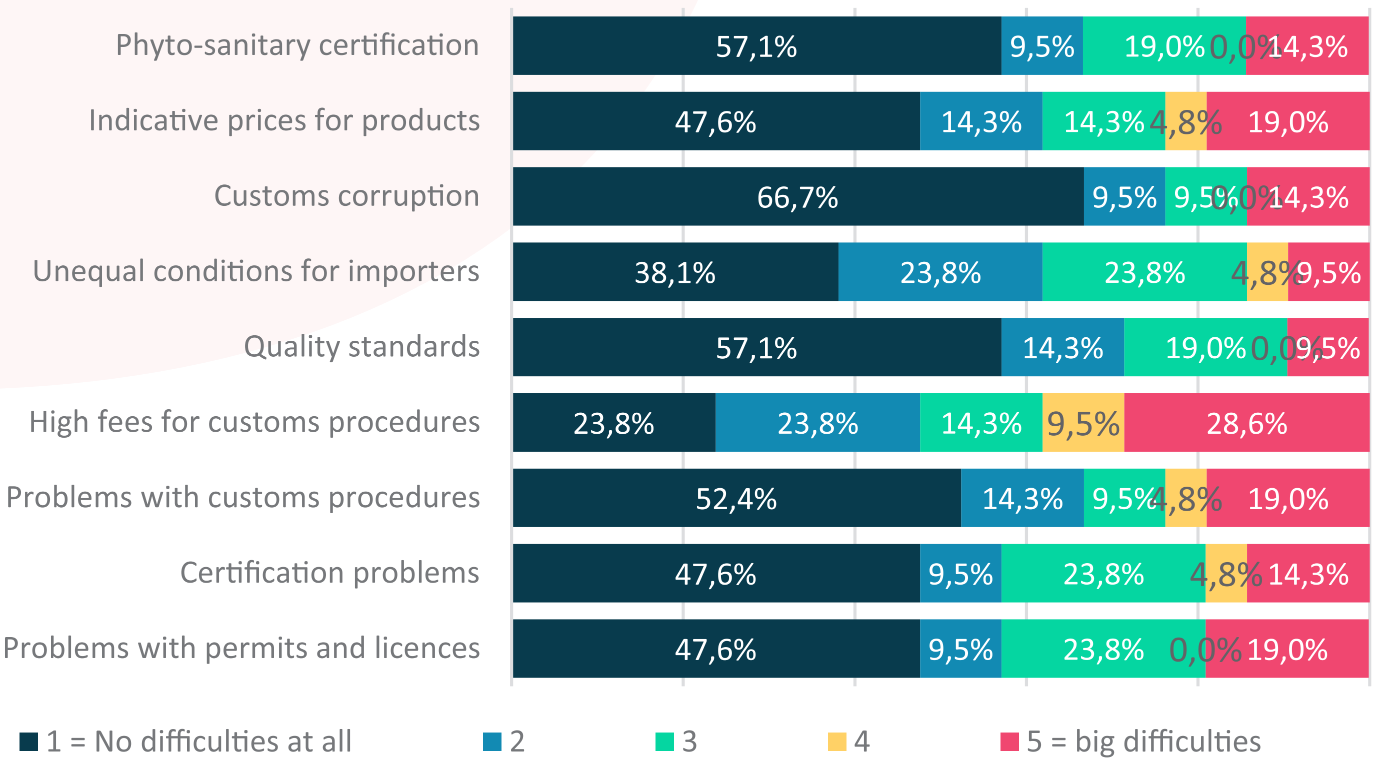
Figure 17. The most significant barriers hindering companies' exports (starting or increasing their exports)



A bit over half of the interviewed companies declared import transaction in the past 3 years.

According to companies, the biggest difficulties or obstacles related to import procedures and transactions include the high fees for customs procedures (38.1% of companies), problems with customs procedures (23.8%) and indicative prices for products (23.8).

Figure 18. The biggest difficulties related to import procedures and transactions



3.3 Finance. Access to funding

During the pandemic companies had different financial challenges.

The pandemic put on hold their investment plans, with 3 out of 4 companies declaring shortage or lack of investment resources. The top three challenges include the need for additional working resources (64.3%) and insufficient resources to pay salaries and related taxes (57.1%).

The fact that most response options had a high score proves that companies had to address a mix of problems that affected severely their activity.

Three of four companies contacted a financial institution for financial resources in the past 2 years, including during the pandemic, and about 71% of them (or 53.6% of the sample) obtained the needed resources.

Figure 19. What was your biggest challenge during the pandemic

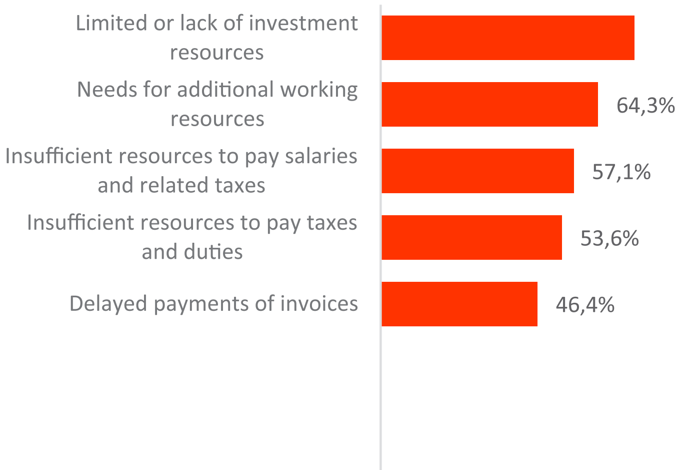
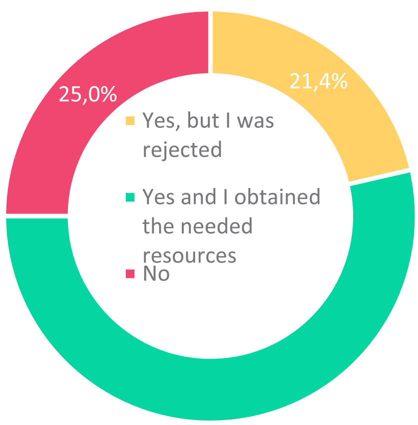


Figure 20. Have you contacted a financial institution for financial resources in the past 2 years, including during the pandemic?



The attempts to renegotiate the lending conditions in the pandemic context produced different results. In the case of 6 companies, the financial institutions refused to renegotiate the lending conditions. However, the other 10 companies managed to renegotiate the conditions, obtaining: i) break (postponement) for the interest rate payment (5 firms); ii) break (postponement) of interest rate payment, and iii) a lower interest rate (2) or obtained a lower interest rate (3).

According to the received answers, 11 companies or 39.3% of the sample benefited of preferential loans, loan guarantee schemes, or grants provided by the Government/donors via support programs to overcome the pandemic-generated challenges.

3.4 Labour force

The pandemic restrictions, coupled with the worsening health condition of the population, affected the labour productivity.

Thus, according to the survey, 32.1% of companies declared that the employees' productivity was affected significantly, while 39.3% declared that it was affected to a certain extent.

The companies that knew how to implement digital solutions and had the possibility to work remotely were affected the least.

The acute deficit of labour force, especially qualified, emerged during the pandemic, is still as critical. Thus, about 68% companies have fewer employees than needed.

About 21% of firms declared that they have exactly the needed number of employees, and 10.7% of companies say they have more employees than needed.

Figure 21. How the employees' productivity was affected by the pandemic

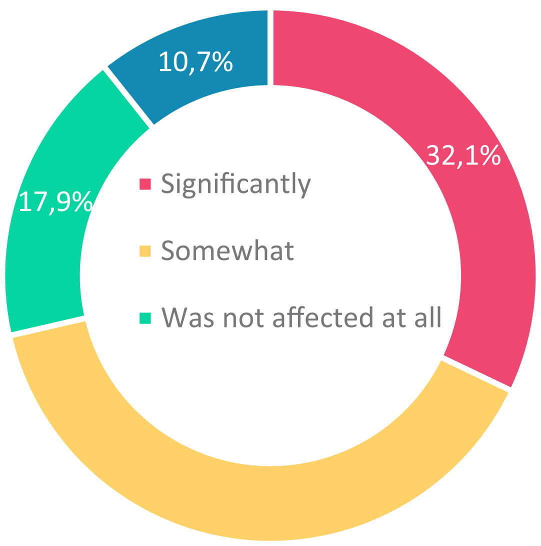
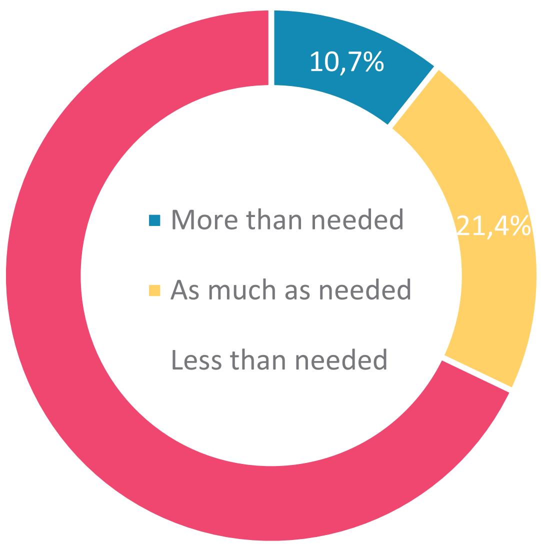


Figure 22. The number of employees in the existing conditions (equipment, sales) is:



When asked 'What support measures you would recommend as expected and appropriate to maintain the labour force?', the interviewed companies came up with a series of recommendations. They are listed below:

- *Decrease the employees' salary taxes, decrease/compensate the social insurance contributions*
- *Decrease the salary taxes paid by the employee*
- *Tax exemption, Increase the salaries / More efficient payroll system*
- *Higher salaries and free training, Professional development*
- *We try to offer lunch to our employees.*
- *Minimize the VAT and income tax, or decrease the cost of fuel*
- *Compensation for employees during the lockdown period*
- *Open export opportunities*
- *organise study visits, exchange of experience - in order to develop partnerships between Moldovan and foreign enterprises*

- *Remove the participation fee or provide vouchers in order to facilitate the participation of enterprises in events, exhibitions, presentations*
- *Facilitate the import of raw materials*
- *I would increase the productivity by procuring new equipment to start exporting and create new jobs. Unfortunately, other enterprises than start-ups, firms located in rural area or those set up by young people are not supported and funded for development.*

- *subsidies, business vouchers*
- *to have fewer pandemic-related restrictions, subsidies, tax relief, social insurance, sickness leave paid by the employer*
- *Financial support upon employment on a newly created job. Training, uniform, hygienic products, medical commission. A small processing enterprise has a seasonal work program. Diversify the activity during the winter period.*
- *a series of mentoring session and a consulting with a specialist*
- *In our situation, we did not have any difficulties with the payment of salaries during the pandemic period. There is however a strong labour force migration. Only by increasing continuously the salaries and improving the quality of jobs we will be able to fight migration.*
- *train the unemployed, taxes to be paid by the employees, regulate the seasonal workers, amend the law, people do not want to work officially*
- *employees only want higher salaries, hence we want smaller taxes (but the Government will never accept it!!!), VAT reimbursement*
- *Young labour force is massively leaving the country, because the crediting conditions for an employee are literally impossible. It would be good for employees to receive travel vouchers for themselves and their family, in addition to legally paid salaries.*
- *It would be great if employers had a salary tax holiday. In our case, some debtors do not pay their invoice even after 70-80 days, which is a huge burden on the enterprise's cash flow.*
- *Clear tax exemption for young employees who have a real estate loan.*
- *More benefits for births. We have young mothers who cannot cope with the expenditures.*
- *Consider decreasing the social and health insurance contributions. There is a too large discrepancy between the remuneration of programmers and a carer.*
- *Offer loans to employers to pay the employees' salary taxes.*
- *Correlate legally paid salaries with funding the loan interests.*
- *Exclude state monopoly on health insurance contributions.*
- *Many employees would like to receive quality health services for themselves and their families. I never go to the sector clinic, the mechanism is cumbersome, time-consuming and impossible to use. For the past 20 years I go to private clinics only and I pay for all procedures out of my pocket. I am hence wondering, why do I pay health insurance contributions? My brother-in-law in Paris deducts the cost for dental services on the basis of health insurance. Why cannot I do the same?*
- *Favouring local producers in trade with goods*

3.5 Government-entrepreneur relationship during the pandemic

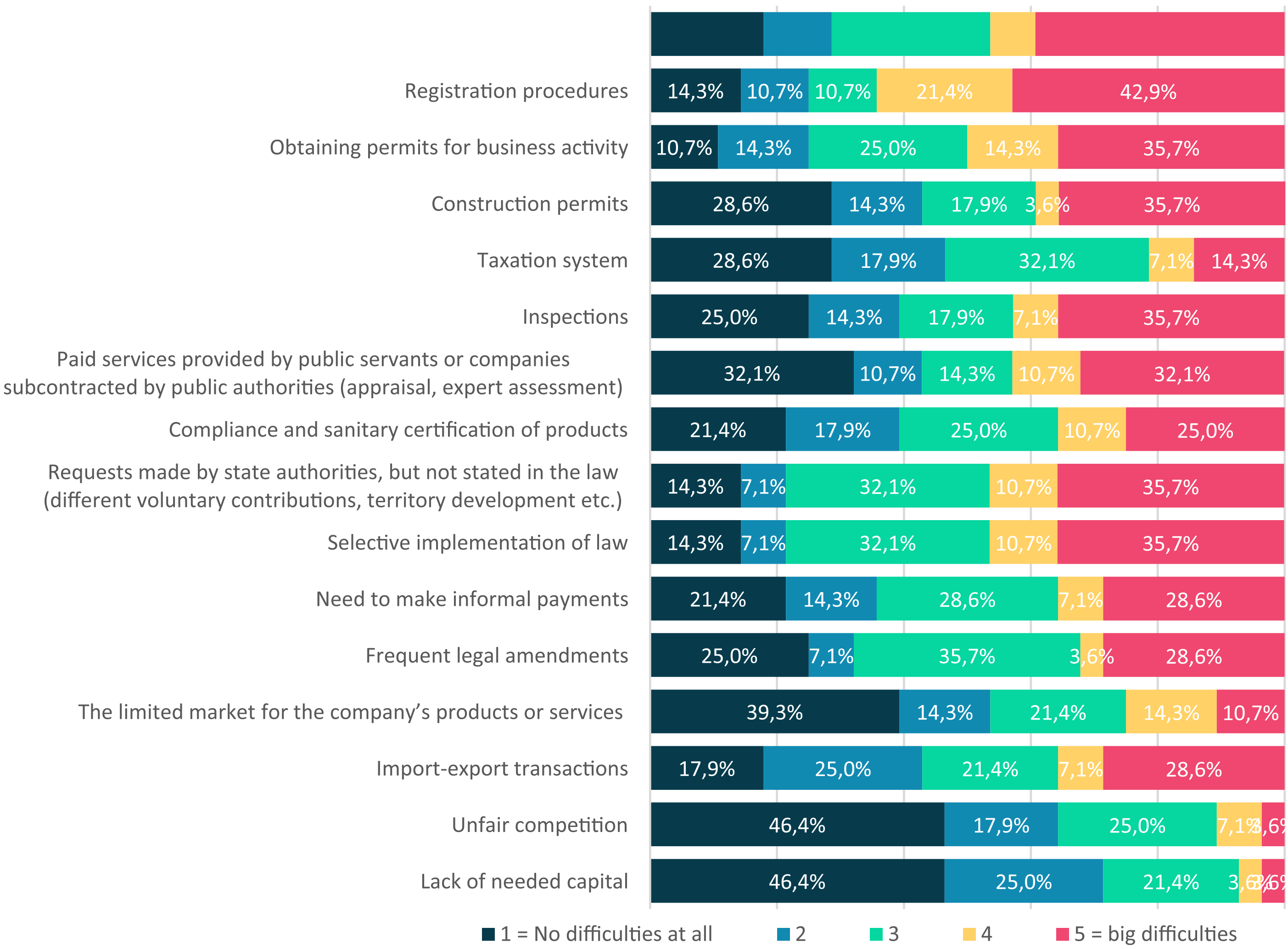
According to the interviewed companies, the main difficulties related to Government regulation in Moldova include:

- Lack of the needed capital and unfair competition were reported as very big and big barriers by an average of 2 of 3 interviewed companies;

- The limited market for the company's products or services is a major challenge reported by more than half of companies (53%);

- The taxation system, import-export transactions, demand for paid services by public employer or by other companies at the request of the former (appraisal, expert review), construction permits, sanitary compliance certificates for products and inspections are problematic to a large and very large extent for 40-45% of small producers.

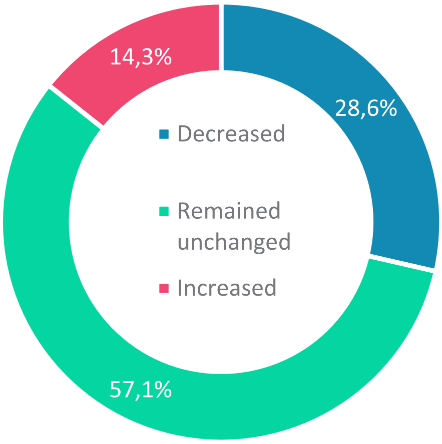
Figure 23. Assessment on a 1 to 5 scale of difficulties generated by different areas subjected by state governance in Moldova



On the other hand, though still present, the challenges related to licensing, registration or authorisation of a certain economic activity have a lesser extent, being reported by about 25-30% of small producers.

More than half of the respondents (57.1%) said that the controls remained at the same level during the pandemic period. At the same time, 28.6% claim that the number of controls decreased, and 14.3% say that their number increased.

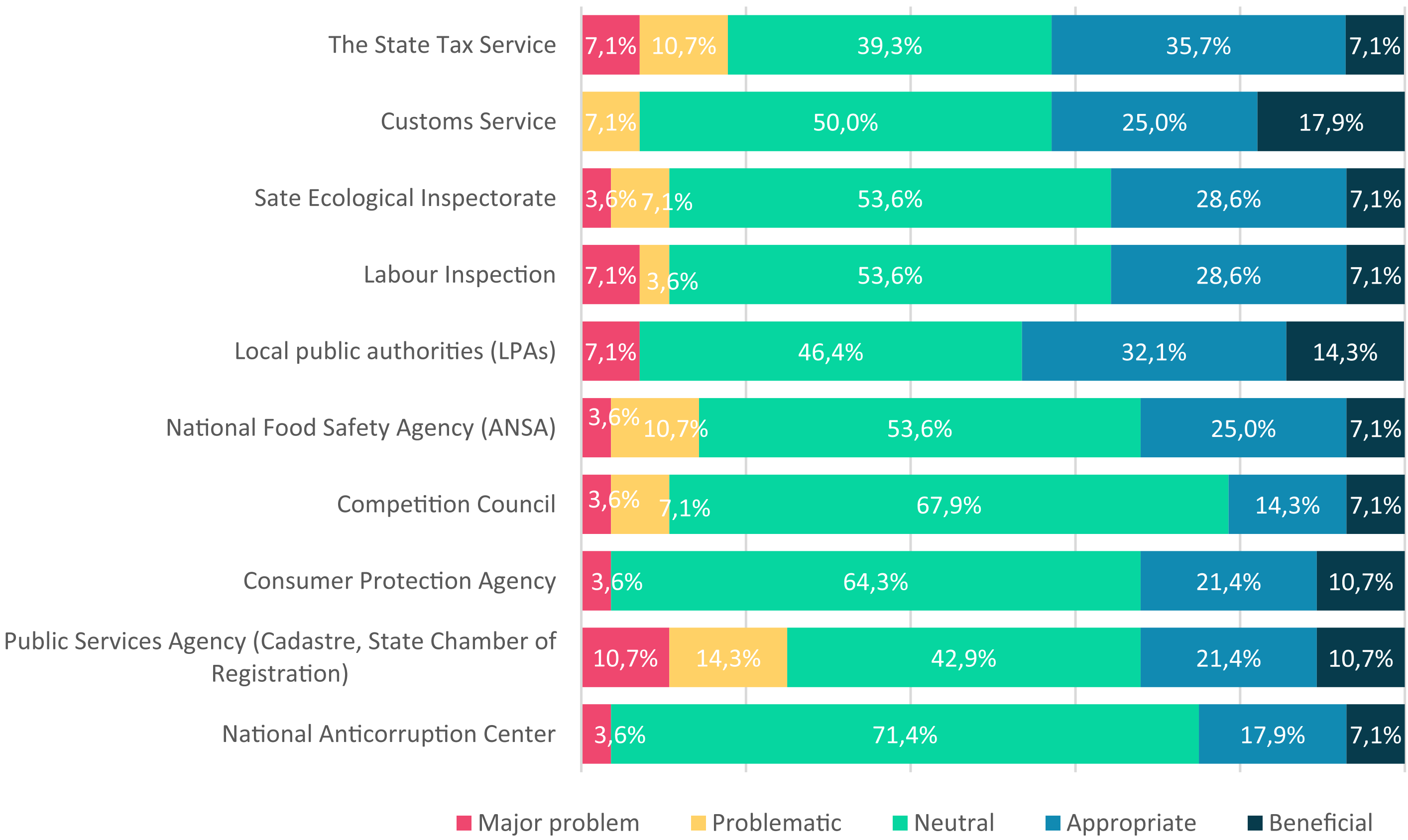
Figure 24. State control during the pandemic:



The interviewed companies assessed their relations with Local Public Authorities (LPAs) (46.4% of companies), Customs Service (42.9%), and Customs Service (42.9%) as beneficial and appropriate.

The Public Services Agency (Cadastre, State Registration Office) is on the opposite pole with 25% of companies claiming that their relationship with this institution is a major problem or are problematic, followed by the National Food Safety Agency (ANSA) (14.3%).

Figure 25. How do you assess your relationship with the following state institutions over the past 2 years?



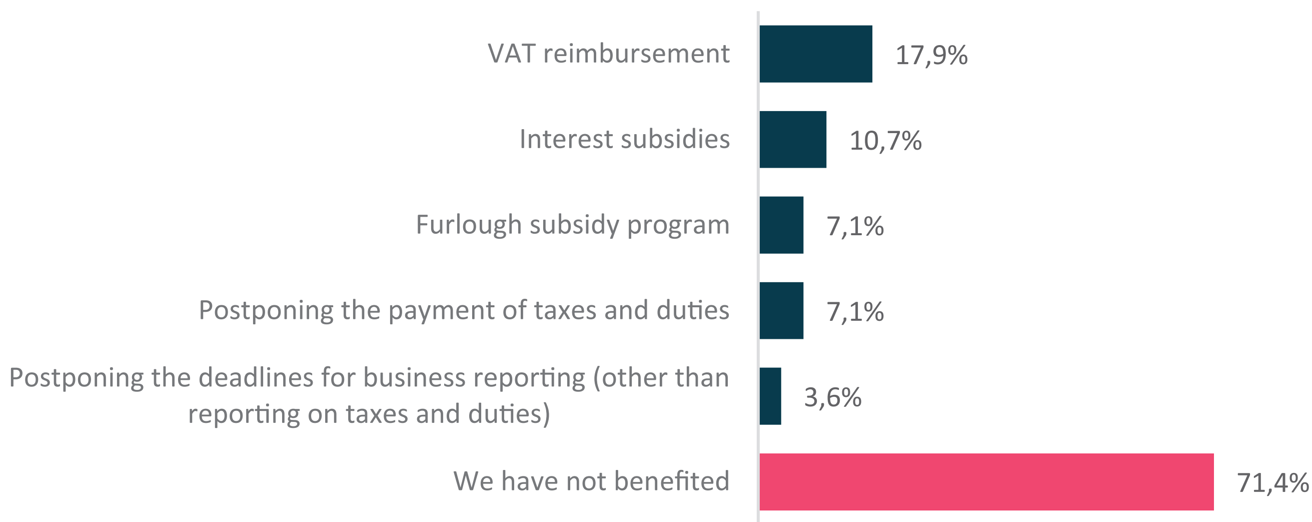
The relationship with the State Tax Service is separate: on the one hand, 42.9% of companies regard it as beneficial and appropriate with this institution, while 17.8% regard it is a major problem or problematic relationship.

Regretfully, 20 out of 28 companies (71%) did not receive any Government support measures to mitigate the economic impact of COVID-19 pandemic.

Most (5) of the 8 companies that benefited of such support measures (sometimes multiple) benefited of VAT reimbursement, and 3 of them received interest subsidies.

Two companies declared that they benefited of furlough support programs and other two - of postponement of tax reporting and payment, while one company answered that it was allowed to postpone the deadlines for reporting on its economic activity (other than reporting on taxes and duties).

Figure 26. Government support measures to mitigate the economic impact of COVID-19 pandemic:

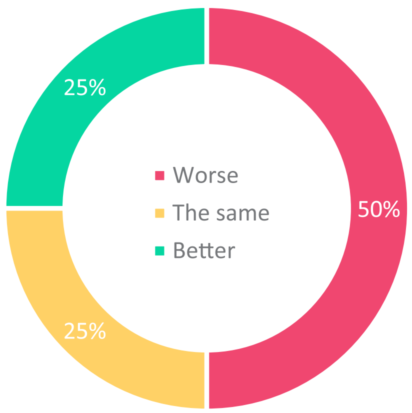


3.6 Business climate: evolution

Half of the interviewed companies believe that the business environment is not worse compared with last year, while 25% of companies believe that it is the same.

Only one in four companies from the sample declared that the business environment has improved compared to last year.

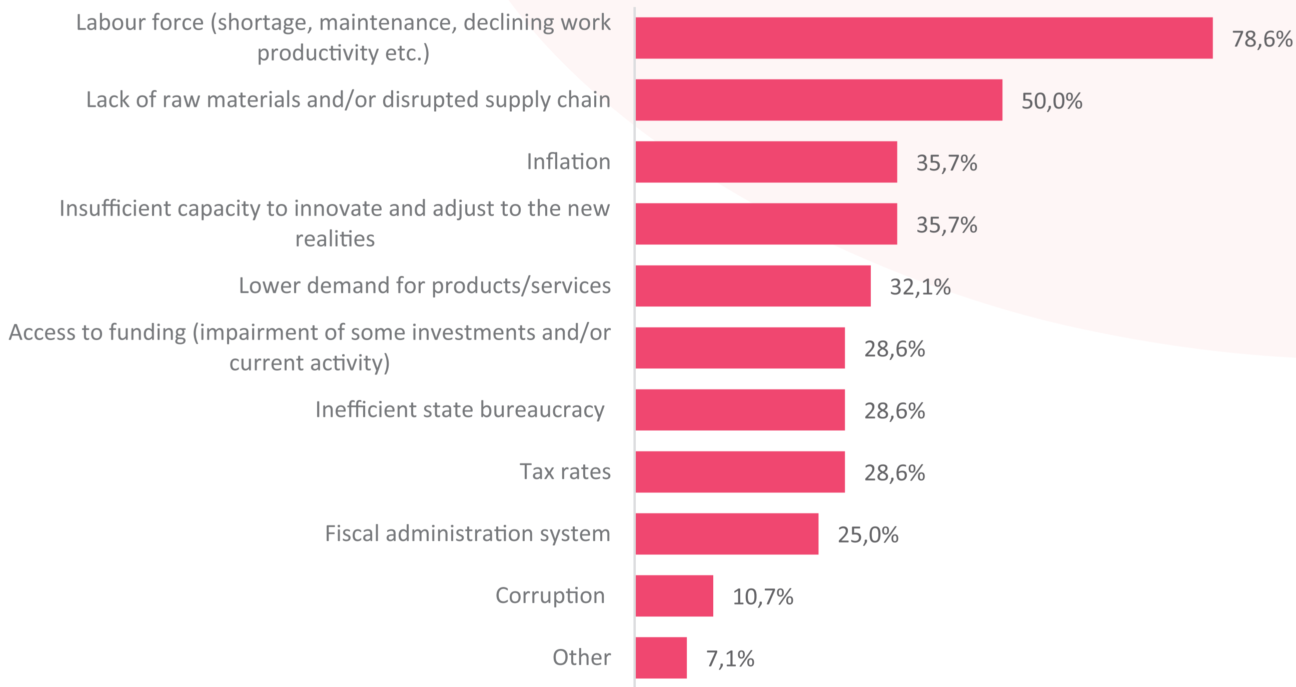
Figure 27. Overall business environment now, compared with last year



During the pandemic the companies had to deal with a mix of business-related problems

The main problem, reported by 78.6% of companies, is related to labour force (shortage, maintaining the staff, declining work productivity etc.). The pandemic also generated important disruptions in the supply chain, with half of companies reporting such problems. The increasing prices and insufficient capacities to innovate and adjust to new realities are other two major problems to doing business in Moldova, reported by 35.7% of the interviewed enterprises.

Figure 28. The main three challenges to doing business in the Republic of Moldova



Most of the companies (50%) are confident that their sales market will grow in the following 12 months. About 39.3% of firms are expecting that doing business in the Republic of Moldova will get easier, while 35.7% believe that capital investments (in long-term tangible assets) will grow in the following 12 months.

At the opposite pole, about 64.3% of companies declare that access to the labour market will become more difficult in the next 12 months.

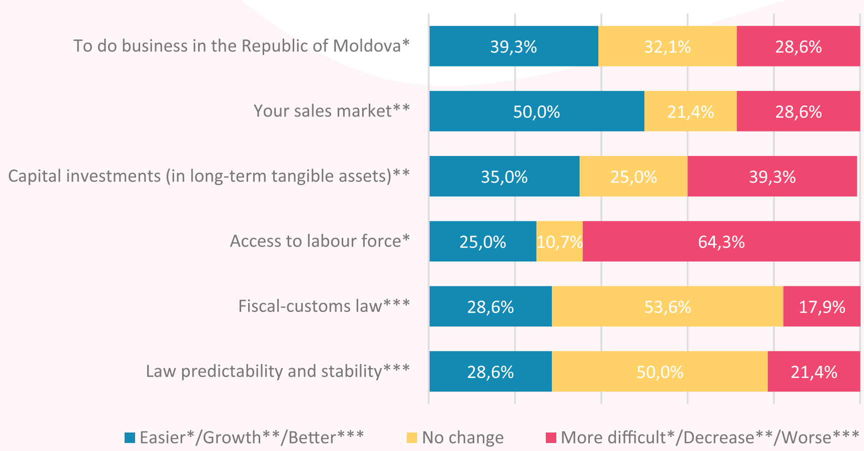
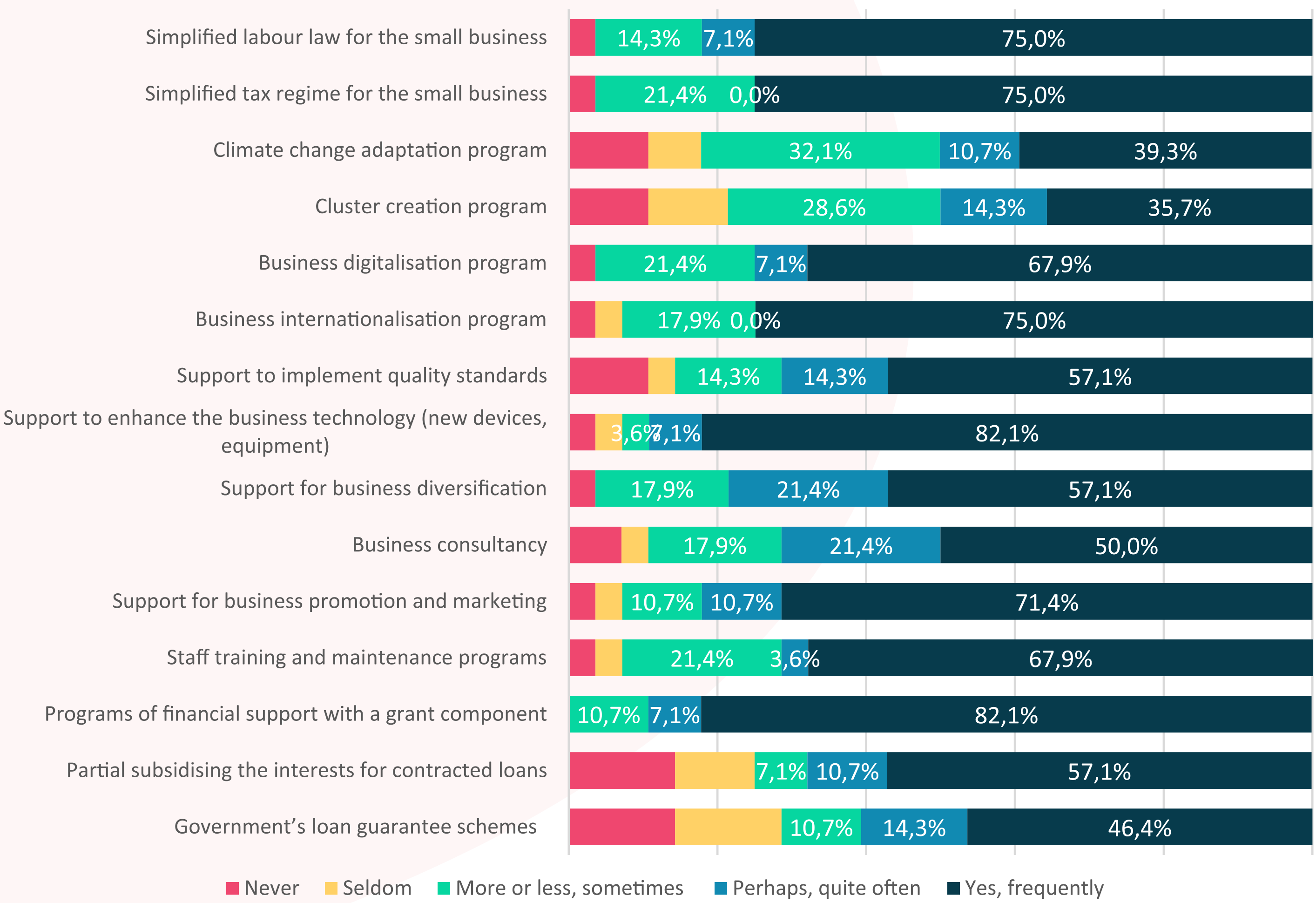


Figure 31. The expectations of your company for the following 12 month compared with the past 12 months

The fact that most respondents replied 'yes, frequently' and 'perhaps, quite often' to question 'What support do you need to overcome the impact of Covid-19 and increase the competitiveness of your business?' proves one more time the need for complex measures dedicated to companies to overcome the impact of Covid-19 and increase the business competitiveness.

Figure 32. Support needs to overcome the impact of Covid-19 and increase the business competitiveness



The top five business support measures include:

- Programs of financial support with a grant component (89.3% of companies);
- Support to enhance the business technology (new devices, equipment) (89.3%);
- Support for business promotion and marketing (82.1%);
- Simplified work regime for the small business (82.1%);
- Support for business diversification (78.6%).

As regards the open question 'Of all constrains encountered by your business, removal of which constrain would have the biggest impact on the growth and extension of your enterprise?', the interviewed companies answered the following:

- *Simplified (tax) regime for the small business;*
- *Long export period (the exported good stay for 48-60 at the border);*
- *Legislative aspects, bureaucracy; free movement*
- *Maintaining the staff, customers to pay their invoices on time, timely supplies of raw materials; VAT, taxes;*
- *1.leasing fees 2.Direct involvement in the activity;*
- *Increasing prices for raw materials and energy resources;*
- *Quality labour force; Access to foreign market; Ease the export process;*
- *Establish international partnerships between enterprises;*
- *Equipment upgrading is the key to success. Upgrading the production line opens direct access to exports. Hence, modernising and upgrading the equipment is the biggest challenge.*
- *I would like to transfer the production in the rural area to have access to stable work force, lower rental fees and access to support measures and funding. Investments, funding and capital*
- *Access to funding; except from VAT, qualified staff, access to management and marketing; Increasing taxes and duties;*
- *Procure packages and finish the products for online marketing. Develop labels and promotional materials. Employ staff. According to the technical recommendations formulated as a result of ANSA control, we need resources to change the infrastructure and working environment; Full training for entrepreneurial and monitoring by experts;*
- *A large impact can be produced by introducing a single account at the tax authority - for VAT/import-export duties/income tax for mutual offsetting. All European countries have such a system, and RoM needs one as well. For instance, we have a huge amount of VAT to be reimbursed, but we cannot use it to pay the income tax. The VAT reimbursement procedure is very complex and cumbersome, though the tax authority has all needed information in their system;*
- *Eliminate unfair competition; Qualified staff, production and office premises;*
- *Sales market, start exporting a new product, consulting in exporting.*
- *The current Covid limitations are the most difficult for businesses;*
- *Clear rules for all market players. To avoid under-the-table salaries paid by some competitors;*
- *Imported goods, funded by public money, is another constraint for our company. We believe it is unfair to pay with public money for imports of goods, thus make it impossible for local producers to compete with lower import prices.*
- *The biggest constraint are the exaggerated leasing fees for production premises and high salary taxes, that have a direct impact on products' costs and competitiveness.*

When the interviewed companies were asked to offer 'Other comments about the reforms and support measures that you expect and that could have a positive impact on the activity of your business?', they answered the following:

- *Simplified regime for businesses. Digitalisation.*
- *Eliminate or at least decrease some payments, receipts, contributions and other payments to the state budget in the first years of SME operation.*
- *Civilised European Procedure VAT Return.*
- *Fewer state controls*
- *I would apply for programs of business support with grant elements. Long-term projects, stability.*
- *I would be glad to receive a grant for the procurement or construction of a warehouse properly equipped for the company's activities.*
- *Programs to encourage the return of work force from abroad. Training.*
- *Please pay attention to other SMEs than start-ups, to the ones that already have work experience. Provide funding not only to enterprises run by young people or rural enterprises. Give a chance to those that proved to be insistent, patient and hopeful.*
- *Support for small business, local producers are not encouraged/supported. Unfair competitions with imported goods.*
- *Import duties, approval of European certificates and permits, support for salary payment/ simplify or reduce the taxes during the first years.*
- *1. Unfair competition on the market 2. in case of lockdown, to close the business if it cannot operate, support for SMEs - Government support..., unqualified staff, could not receive a grant because the product was not eligible (honey).*
- *Eliminate the underground business and unfair competition,*
- *We need funding for energy efficiency projects The high process for electricity reflect into high costs of end products. Fruit drying is an electricity-intensive process. Sun panels are a sound investment to optimise expenditures.*
- *Networking and communication between entrepreneurs. Further digitalisation of all Government systems, minimise the application review process in courts, possibility to obtain the needed documents remotely.*
- *Allow to import trucks aged up to 15 years for own use (not for re-sale). Not it is allowed to import trucks aged up to 10 years. These trucks are very expensive on the EU market and, hence, it is very difficult to buy them. Thus, companies that needs a truck for 2 thousand km a month do not afford buying a truck costing more than EUR 20,000. Such an investment is justified for companies that use trucks for over 5 thousand km a month.*
- *Compensate the leasing fee for large premises. Inform entrepreneurs about existing opportunities, facilities that they can access, in particular the newly established ones.*
- *Programs for staff training and maintenance, Support to increase the business technology (new devices, equipment), Simplified (tax) regime for the small business.*
- *The payment of salaries is the biggest headache of our company. We believe it is not fair for the Government to attract funding from banks, as it motivates banks to invest in Government securities rather than issuing loans. For example, if out company does not pay the taxes on time, we are given a one-month extension (with many phone calls and enforced collection of money from out accounts). Why can't we pay a higher interest and be offered a longer extension. Using scoring methods, the Government could assess which companies have the*

right to extension?

• Lack of cost-competitive staff is another major problem. The Government should allow gradually the entry of cheaper labour force. Vietnam, Ethiopia, perhaps Ukraine - are potential options. Start Government programs to identify people willing to work and accept cultural integration.'

4 Policy recommendations

1. Include the long-term objective of strengthening businesses' resilience to crises in the 2022-2026 National Program on Promoting Entrepreneurship and Increasing Competitiveness - the coronavirus crisis revealed the SME vulnerability to pandemic and lockdown. To move forward, it is important not only to shift from emergency to recovery support, but also to enhance SME resilience. Resilience stands for the capacity to respond better to shocks and policies that help prevent the negative impact of future shocks on SMEs. SME resilience can refer to internal factors (such as their cash reserves or their digital connectivity) and to external factors (for instance, their incorporation in global supply chains). As a continuation of the policy response to COVID-19 during the post-Covid period, governments need to further consider how they can contribute to enhancing the SME resilience. Some aspects of SME vulnerability are not likely to change easily, such as their prevalence in sectors at risk or their dependence on a limited number of suppliers and customers. Their vulnerability was also related to low cash reserves, limited use of digital tools, their unfamiliarity with public policy support systems and failure to include in the existing contingency plans measure to address pandemics. Assessing these factors and how policies can enhance them will help strengthen the SME resilience to new shocks.

2. Optimise the administrative barriers so that the Government's business support measures can be accessed by more beneficiaries - besides the limited support for SMEs, the pandemic also revealed a very low assimilation of support funds provided by the Government. Thus, ensuring rapid delivery of SME and entrepreneurship policy measures through simplified access to support and effective digital delivery systems, while maintaining accountability and effectiveness, are vital elements to help SMEs in the future.

3. Strong focus on SME digitalisation as a cornerstone for recovery and resilience - Statistical data, as well as the outcomes of small producers surveys reveal that digitalisation, in its broadest sense, is little understood and applied by many enterprises. It represents access to a large database of providers of inputs and services (national and international), innovative financial services, qualified labour force through recruitment sites, outsourcing and online services and last, but not least, a precious sources of networks with different knowledge dissemination partners. Support for SME digitalisation should be a central element of policies intended to strengthen recovery and resilience. In light of the persistent 'digitalisation gaps' between small firms and larger ones, there is a stringent need to strengthen the digitalisation component in SME support policies. Measures in this area broadly come in three areas: **teleworking, e-commerce and digital infrastructure and skills.** Thus, developing a Digitalisation Training and Funding Program and improving the relevant regulatory framework are of priority importance. Focus should be made on accelerating innovations and digital transformation among SMEs for them to keep up with larger companies, improve their competences and skills, establish business links with multinational companies. It is hence very importance to set up innovation support packages for SMEs in order to enhance their competitiveness and narrow the gaps with large companies.

4. Extend the loan guarantee schemes in combination with preferential interest rates - though companies would like for support programs with grant elements to continue, such programs can have a limited number of beneficiaries due to budgetary constraints. But extended loan guarantee schemes could provide value added to a much higher number of SMEs. The 2021 results, in particular the significant increase in the number of guarantees offered, in tandem with the recent announcement made by authorities about moving from individual guarantees to portfolio guarantees[10] are important preconditions for growth. Further capitalisation of Loan Guarantee Fund, including by attracting external resources and combining this instrument with preferential interest rate, in the current context of inflation and higher interest rates can be an additional incentive that would increase significantly the access of small businesses to funding.

5. Adopt a broad re-engineering program - an average of 9 out of 10 small businesses participating in the survey stated support for business re-engineering (new equipment, devices) as an essential precondition to overcome the impact of Covid-19 and increase the business competitiveness. Given the current acute deficit of labour force, with 2 out of 3 companies expecting this trend to worsen, and the need to maintain the employees by offering them higher salaries, the competitiveness can be increased only by upgrading and re-engineering. Thus, a program for procurement of new equipment and upgrading the existing equipment could contribute significantly to increasing the business competitiveness.

6. Improve the liquidity of small businesses by tax incentives - the shortage of liquidities is a major obstacle for small businesses, as they have a limited bargaining power with their suppliers and customer in the supply chain, as well as limited access to funding. Considering the experience of other countries and ideas collected during the interviews with small producers, the following two fiscal measures are recommended:

- **6.1 Promote the system of VAT on receipt for small producers,** which means accrual of VAT by the seller at the moment of receiving the money for the deliveries made/services provided, but at the delivery/service date. Such an instrument is recommended for small businesses at least for the first stage by setting a certain turnover level as an eligibility criterion.

- **6.2 Possibility to postpone the payment of salary taxes on request, with the payment of some interest** - for some of the enterprises, the payment of salaries is the biggest headache. They believe it is not fair for the Government to attract funding from banks, as it motivates banks to invest in Government securities rather than issuing loans: 'For example, if out

[10] https://me.gov.md/ro/content/guvernarea-anunta-noi-mecanisme-de-sustinere-mediului-de-afaceri

company does not pay the taxes on time, we are given a one-month extension (with many phone calls and enforced collection of money from out accounts)'. In this regard, some companies are ready to pay a higher interest for the period in which they are not paying the salary taxes. This will help them reduce the cash differences. The tax authorities could use the scoring method to assess which enterprises may use this right, and which may not.

7. **Solid financial support and proper institutionalisation of the Program to support businesses with a high growth and internationalisation potential** to attract a significant number of SMEs with a high growth potential from the sectors that have a significant impact on the economic growth of the Republic of Moldova. Given that the limited sales market for the company's products or services is a major challenge reported by more than half of companies (53%), facilitating exports is an essential element for competitiveness and growth.

8. **Fight unfair competition** by better quality control for products sold on the market by strengthening the Agency for Consumer Protection and Market Surveillance, as well as by developing and implementing a program (complex set of policy tools) dedicated for formal employments, focused on (I) studying, identifying and using behavioural factors to decrease the motivation for informal employments, (II) develop fiscal and legal tools discourage informal employment, (III) motivate to pay legally the salaries in correlation with funding the interest on loans or offering travel vouchers for employees and their families.

9. **Simplify the operational regime for small and family businesses**, by developing a dedicated chapter in the Tax Code and Labour Code. Almost half of the interviewed small producers regard the tax administration system as a major regulatory issue. Given their limited staff, it is necessary to simplify as much as possible the relationship with tax authorities, so that small entrepreneurs can dedicate more of their time to their core business activity.

10. **Make sure that support measures are inclusive and reach vulnerable segments of SMEs, by further supporting and strengthening the programs for young people and women** - In the past years, the number of young entrepreneurs who dropped out of entrepreneurial activity was bigger that the number of those who started this activity, with their share in the entrepreneurial population decreasing dramatically. If in 2009 about 23% of the entrepreneurs were aged 15-34, then in 2019 they account only for 14.4%. Entrepreneurship among young people needs to be supported by continuing the implementation of programs aimed at attracting young people in entrepreneurship. Supporting youth programs is an investment that brings higher chances for innovation, as innovation mainly comes from young people.

Female entrepreneurship is another untapped reserve, although the educational profile of women clearly shows that their human capital is by no means lower than the human capital of men. Though the participation of women in entrepreneurial activities improved in the past years, their participation growing by about 6.4 p.p. (in 2017, about 33.9% of enterprises were owned or managed by women), female entrepreneurship needs to be further stimulated. Women are still a minority in the business community and an underused growth potential given that they account for 52% of the total resident population of the country.