

# Finance as a crucial component of entrepreneurial ecosystem: constraints and perspectives in the Republic of Moldova

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**Abstract.** *Access to finance is an important component of the entrepreneurial ecosystem, which remains one of the pressing issues affecting SMEs activity, the situation being exacerbated by the COVID-19 pandemic. Objective: the article aims at examining the influence of access to finance on the entrepreneurial ecosystem on the example of the Republic of Moldova. Furthermore, the evidence from other European and EaP countries was analyzed and compared. Method: to achieve the above stated objective, a mixed research approach was applied, comprising both secondary and primary data: questionnaire-based survey for small and medium sized enterprises, analysis of statistical data, comparison, deduction and synthesis. Results: SMEs have been identified as vulnerable to crises, with limited financial capital, insufficient internal procedures for crisis management, and underdeveloped alternative sources of finance. The evaluation of access to finance for enterprises in the country reveals its relative weak advantage for the development of entrepreneurship and entrepreneurial ecosystem. Originality: There was identified the impact of various sources of finance on entrepreneurship development in the Republic of Moldova, and analyzed the ease of financing before the pandemic and how the pandemic crisis has influenced SMEs activity.*

**Keywords:** *finance, entrepreneurship, entrepreneurial ecosystem, fintech, venture capital*

**JEL classification:** *G30, G20, O16*

## 1. Introduction

Access to finance is a key component of the entrepreneurial ecosystem and can serve as a major driver or largest obstacle to growth. Launching and developing businesses creates demand for funding. Financial resources are needed at every stage of business activity, but insufficient personal funds cause enterprises to search for external sources. At the same time, access to finance remains one of the main constraints for small and medium enterprises (SMEs), particularly in developing economies (World Bank 2019; Sleuwaegen and Goedhuys 2002), the situation being exacerbated by the COVID-19 pandemic. In the Republic of Moldova, SMEs account for 98.6% out of the total number of enterprises and employ 60.1% of the population, serving as engines for job creation and sustainable development. However, difficulties in cash flow, lack of financial expertise and insufficient access to finance have been long-term constraints for small enterprises, which were aggravated in conditions of the pandemic crisis, confirming the relevance of the research subject.

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SMEs are perceived as having a higher risk profile (Corredera-Catalán, di Pietro and Trujillo-Ponce, 2021), fewer collateral options and lower financial management capabilities. In these conditions, it is difficult for SMEs to realize their full potential. Literature review shows that nevertheless the problem of small enterprises' access to financial resources is characteristic to all economies, it is more acute in transition and developing countries.

A number of studies have focused their attention on aspects and metrics of entrepreneurial ecosystem (Stam, 2015; Isenberg, 2011; Foster and Shimizu, 2013; Mason and Hruskova, 2021; Leendertse, 2021; etc.), analysis of access to finance in developed (Brown, Rocha and Cowling, 2020; Corredera-Catalan, di Pietro and Trujillo-Ponce, 2021; Lee, Sameen and Cowling, 2015; etc.) and developing economies (Ayyagari et al., 2021; Beck, 2007; Nizaeva and Coskun, 2019; Manzoor, Wei and Sahito, 2021; etc.). At the same time, the question about the influence of various factors of access to financing on the development of entrepreneurship remain underdeveloped. As a result, this research focuses on evaluating the impact of different sources of financing on the development of entrepreneurial ecosystem in developing countries and is considering aspects regarding access to financing in the time of the pandemic crisis.

The paper aims at examining the influence of access to finance on the entrepreneurial ecosystem on the example of the Republic of Moldova. Furthermore, evidence from other countries in the region was analyzed and compared. In this regard, it is important to determine which sources of finance have higher impact on entrepreneurship development, but also to understand how affordable the financing was before the pandemic and how the pandemic crisis has affected SMEs, which will contribute to identifying measures to facilitate SMEs' access to finance.

The research contributes to providing evidence on the impact of financing component on the entrepreneurial ecosystem in developing countries. The focus is on the importance of both traditional and new sources of finance. Additionally, the value of the paper consists in the analysis of the effects of the COVID-19 crisis on SMEs' access to financial resources.

The remainder of the article is structured as follows. Firstly, there is a brief literature review of access to finance as a component of the entrepreneurial ecosystem and presented recent developments in the availability of financing for SMEs. Secondly, the methodology is presented, which is based on a mixed research approach with primary as well as secondary sources of data. Then, there are outlined main results of the study and analyzed entrepreneurial perceptions of the access to finance, including new sources of finance. Finally, the conclusion outlines the contributions of the study and main areas for further research.

## 2. Literature review

Enterprises do not work in isolation but instead are embedded in an entrepreneurial ecosystem. "Entrepreneurial ecosystems are the 'fertile soil' in which start-ups and in particular scale ups emerge" (Mason and Hruskova, 2021). It is a relatively new concept defined by Stam (2015) as "a set of interdependent actors and factors coordinated in such a way that they enable productive entrepreneurship". Thus, the entrepreneurial ecosystem represents the economic and social environment for entrepreneurship, the role of individuals and interdependent factors that affect (enable or constrain) the entrepreneurial activity. Entrepreneurship contributes to economic growth (Valliere and Peterson, 2009) and it tends to thrive in a rich entrepreneurial ecosystem, proving the necessity to consider a range of factors of influence. These factors, including accessibility of finance by SMEs have stirred the attention of scientists and policy makers for many decades and remain a key area of focus in many countries.

Financial capital is one of the six domains of entrepreneurship identified by Isenberg (2011). Access to finance is a critical feature of entrepreneurial ecosystems. According to Foster and Shimizu (2013), funding and finance are one of the three areas of an entrepreneurial ecosystem identified by entrepreneurs as being of pivotal importance along with accessible markets and human capital/workforce.

Being one of the main elements in the development of financial inclusion, access to financial resources has been perceived as a major factor in the survival and growth of SMEs (Bakhtiari et al., 2020), capital investment and employment (Kersten et al., 2017; Ayyagari et al., 2021). At the same

time, insufficient finance is seen as a core challenge to firms' performance (Malhotra et al., 2007; Bakhtiari et al., 2020), being the second most cited impediment that SMEs encounter in the process of growing their businesses in emerging markets and developing countries (World Bank, 2019). Financing constraints hamper SMEs' growth (Moscalu, Girardone and Calabrese, 2020). Therefore, the literature review shows that nevertheless the problem of SMEs' access to finance is characteristic to all economies, it is more acute in transition and developing countries, and in conditions of pandemic crisis this problem has widened. The COVID-19 pandemic has created a significant economic shock, surpassing that of the GFC in 2007–2008. A study in the United Kingdom showed that, during the last five years took into consideration, one in twelve enterprises did not have cash reserves to tackle the crisis, and only four in ten had been saving for a 'rainy day'. Therefore, there is a large proportion of businesses that are at immediate or medium-term risk (Cowling, Brown and Rocha, 2020). Similarly, a study conducted in the Republic of Moldova in April-May 2020 (UNDP Moldova, 2020), reflects grim evidence: 1/3 of enterprises have liquidity reserves which could be enough to ensure their activity up to 3 months, just 12% have access to external sources of funding and 50% lack adequate crisis management procedures.

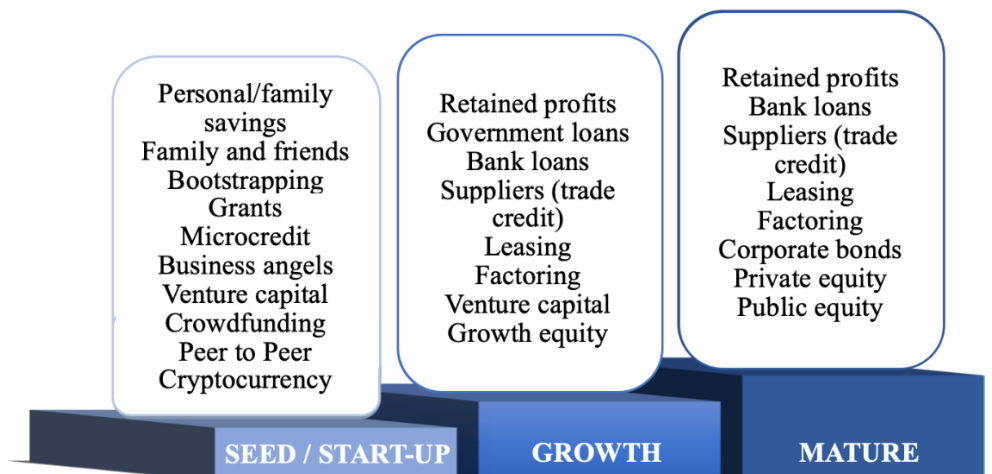
SMEs represent the "crucial players in the knowledge-based economy" (Blach, Wiczorek-Kosmala and Trzęsiok, 2020) as their successful activity provides employment growth, supports competition on the market, increases the innovation potential, alleviate poverty and contributes to the achievement of higher levels of economic development. Nevertheless, SMEs face continuous financing challenges and find accessing financing more difficult than larger firms (Schiffer and Weder, 2001; Beck et al., 2006). In the scientific literature, a number of studies refer to the problem of access to finance for SMEs (Brown and Rocha, 2020; Baker et al., 2020; Rashid and Ratten, 2021; Mc Cahery et al., 2015; Samitowska, 2011; Godke Veiga and McCahery, 2019).

SMEs often face barriers in accessing external financing, confront limits on borrowing funds because they are less diversified and are perceived as having fewer collateral options (Corredera-Catalán, di Pietro and Trujillo-Ponce, 2021), greater degree of informality, insufficient history for SMEs, higher risk profile reduced financial management abilities (OECD et al., 2020; Berger and Udell, 2006). At the same time, access to funding is vital for current operation, development and innovation of SMEs.

Sources of finances could be classified into primary and secondary sources. Primary sources include self-financing of the current activity, bootstrapping, enterprise profit, capital contribution of the founders. Secondary sources of financing comprise bank and non-bank loans, commercial credits, issuance of bonds, leasing, factoring, venture capital, business angels. Additionally, companies have the possibility to apply for grants, international programs of assistance, and subsidies in agriculture.

With the development of digitalization in the last decades, an increased number of innovations appeared in the sphere of financial products and services. The emergence of new sources of financing has considerably increased possible funding options for new enterprises (Figure 1).

**Figure 1. Main sources of finance over the business lifecycle**



Source: compiled by the author

Fintech (financial technology) companies have revolutionized the way people interact with financial services. Fintech companies are disruptive since they assist start-ups and companies to obtain funds from investors through technological means (Bollaert, 2021). Some examples of fintech lending include: equity crowdfunding, reward-based crowdfunding, peer to peer lending, cryptocurrency, etc. (Temelkov, Boshkov and Zezova, 2018; Bellavitis et al., 2017; Bonini and Capizzi, 2019). Thus, the development of fintech created new opportunities for SMEs.

### 3. Methodology and data

During the research both secondary and primary data were used, forming a mixed approach. Primary data was gathered using a questionnaire-based survey, carried out in 2021. The objective of the questionnaire was to assess the impact of the factors of the entrepreneurial ecosystem (access to finance for this study) on the development of entrepreneurship in the Republic of Moldova and their changes in 2021 compared to 2019.

SMEs participated in the questionnaire. The total number of SMEs in the Republic of Moldova in 2019 constituted 55918 enterprises. For the purpose of this study, the sample constituted 106 entrepreneurs. The sample was selected to match the structure of the population. Therefore, in determining the structure of the sample, the data from the National Bureau of Statistics on the number of enterprises in the SME sector and their distribution by size and development regions were used.

The structure of the sample was constructed in such a way as to match the structure of the general population regarding primary characteristics of the selection. As a general totality and its structure, the NBS data on the number of enterprises in the SME sector and their distribution by size and development regions were used.

In order to analyze access to finance by local enterprises, based on conducted literature review and observation there were determined main primary, secondary and alternative sources of finance used in the Republic of Moldova. These sources of finance were comprised into eight indicators, which reveal the level of access to different sources of financing and their influence on entrepreneurial ecosystem: access to borrowings from individuals (family, friends, colleagues); access to bank loans; access to loans from microfinance organizations; access to financing within projects of foreign donors, including grants; access to funding/grants within state programs, implemented by the Organization for Small and Medium Enterprises Sector Development (ODIMM) (since 2022, the Organization for Entrepreneurship Development - ODA); access to venture capital; access to finance on the securities market; use of electronic platforms to attract funding (crowdfunding, cryptocurrencies, etc.). For this purpose, the 5-point Likert-style scale was applied, revealing potential points for assessing corresponding factors (“Significant obstacle” = -2; “Insignificant obstacle” = -1; “Not an obstacle” = 0; “Insignificant advantage” = +1; “Significant advantage” = +2). As a result, there was calculated the Coefficient of evaluation of the entrepreneurial ecosystem ( $K_{EE}$ ) for the component Finance, which presents the weighted average evaluation of the entrepreneurial ecosystem by particular indicator:

$$K_{EE} = \frac{(-2) * \% \text{ sign. obst.} + (-1) * \% \text{ ins. obst.} + (+1) * \% \text{ ins. adv.} + (+2) * \% \text{ sign. adv.}}{100\%},$$

where: % sign.obst. - the share of responses, which indicated the significant obstacle;  
% ins.obst. - the share of responses, which indicated the insignificant obstacle;  
% ins.adv. - the share of responses, which indicated the insignificant advantage;  
% sign.adv. - the share of responses, which indicated the significant advantage (Vinogradova, 2022).

The value of the coefficient varies between “-2” - revealing a significant obstacle of the indicator on entrepreneurship development, to “+2” - revealing a significant advantage of the indicator on entrepreneurship development, “0” - shows practically a neutral impact.

The perception index of change of the entrepreneurial ecosystem ( $I_{EE}$ ) was used to evaluate the dynamics in the analyzed indicators in 2021, compared to 2019, i.e. over two years. The index shows the share of respondents, who mentioned the positive changes of the analyzed indicator (in relation to

the overall number of entrepreneurs participating in the survey, who mentioned the positive or negative changes in the indicator). The index varies from 0% (minimum – in case all entrepreneurs noticed the negative change of the indicators) to 100% (maximum – in case all surveyed entrepreneurs mentioned the positive change of the components of the entrepreneurial ecosystem). The value of 50% shows that the number of positive and negative evaluations is identical.

Additionally, the following scientific methods were used: analysis of literature on access to finance and entrepreneurial ecosystem, statistical data, data from international organizations (Organization for Economic Co-operation and Development, World Economic Forum, World Bank), deduction, synthesis, comparison.

The study is based on the case of the Republic of Moldova. As reference countries there were chosen Eastern Partnership (EaP) countries: Armenia, Azerbaijan, Belarus, Georgia, Ukraine; and two countries from the European Union: Romania and Bulgaria.

During the survey, the data were collected from respondents of the same country, representing a limitation of the research approach. Therefore, a direction for further research could be the analysis of the perceptions of entrepreneurs from other countries.

## **4. Research results and discussion**

### **4.1. Structure of the financial sector in the Republic of Moldova**

Own means of enterprises from the Republic of Moldova represent the major source of financing the investment activity, constituting about 65% of total amount of investments in long-term tangible assets in 2016. Equity capital is the main source for financing SMEs activity, but it is insufficient. Thus, companies need to search for external sources of financing for their activity. However, banks are the main providers of finance for businesses, bank lending is relatively underdeveloped in Moldova in relation to other countries in the region. According to the World Bank data, the domestic credit granted by banks to the private sector in the Republic of Moldova in the last 10 years has been decreasing by 5.5 p.p., constituting 22.6% of GDP in 2020 (+2.8 p.p. compared to the previous year), which is 4.1 times less than the average in the EU (92.3%). At this indicator, the Republic of Moldova occupies the last place in Europe.

Bank financial resources provide about 80% of the total credit supply, other sources of finance still remain underdeveloped. During 2016-2020, the proportion of loans in GDP granted by non-bank credit organizations (NCOs) has risen 1.6 times to a level of 4.66% in 2020. Thus, the share of loans granted by NCOs in the total structure of the lending sector was 14.5% in 2019, or by 1.8 p.p. more compared to 2017. At the same time, there was not registered a significant change in the proportion of loans in GDP granted by Savings and credit associations (SCAs), constituting 0.46% in 2020. Both NCOs and SCAs are slowly expanding as sources of financing for SMEs, particularly in rural areas, primarily because of high requirements of bank guarantees. However, NCOs loans to individuals account for 82%, while loans to legal entities constitute only 18%. Other sources such as for example leasing, crowdfunding, business angels, venture capital remain underdeveloped.

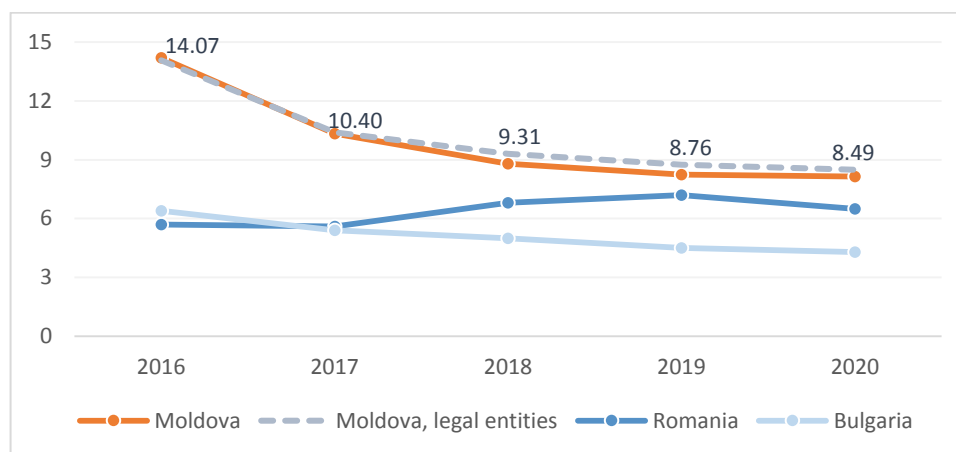
Bank loans are a substantial source of financing for SMEs in Moldova. Due to pandemic and a need for additional financial resources, there was an increase of 17 p.p. in loans granted to SMEs in 2020 in relation to the prior year. Thus, according to the National Bank of Moldova (NBM), in 2020 the value of loans offered to SMEs amounted to 13754.7 mil. MDL (696.7 mil. EUR). For the last few years, the proportion of loans granted to SMEs in the loan portfolio within the banking sector was about 30%, and the total share of loans offered to legal entities constituted 63% of the credit portfolio.

In the past years, a decrease of interest rates on loans has been recorded, facilitating their accessibility for companies. During the years 2016-2020, the total interest rate in the banking sector decreased by 6.05 p.p., amounting to 8.15% in 2020 (Figure 2). The interest rate on new loans to legal entities (8.49%) is 0.34 pp. higher than the sector average. Nevertheless, there was a positive trend, the interest rates on new loans in Moldova is above those in other European countries, such as Romania (6.5%) and Bulgaria (4.3%).

In recent years there has been an improvement in the quality of loan portfolio. The ratio of non-performing loans has decreased 2.5 times in the last 4 years, constituting 7.4% in 2020. The quality of the loan portfolio managed by commercial banks and microfinance organizations depends on the

liquidity and solvency of economic entities. During the state of emergency, the National Bank of Moldova allowed banks not to reclassify loans as doubtful or compromised so that the cost of lending would not be affected. Additionally, financial organizations have been encouraged to reschedule interest payments for borrowers facing a liquidity shortage caused by the temporary suspension of business. Thus, during the first half of 2020, over 15% of bank loans and 35% (Economic Council, 2020) of loans from microfinance organizations were rescheduled.

**Figure 2. Dynamics of the average annual interest rates on new loans granted in the Republic of Moldova, Romania and Bulgaria, 2016-2020**



Source: elaborated by the author based on NBM and World Bank data

The period from May to August 2020 was characterized by an increase in non-performing loans, as well as their share in the respective loan portfolio, the highest share being in August (8.9%). Since September, the situation has started to improve. Thus, the share of non-performing loans in the overall loan portfolio on 31.12.2020 was 7.4%, decreasing by 1.1 pp compared to the end of 2019. At the same time, it should be noted that the impact on non-performing loans could be delayed. The ratio of SME non-performing loans also decreased by 2.1 times, accounting for 11.7% in 2020. Although the quality of the loan portfolio offered to SMEs is improving, it remains lower than the quality of the loan portfolio generally in the banking sector and compared to other countries - less than 4.4% in Romania (CEIC, 2020).

A significant problem faced by banks consisted in the difficulty of estimating risks in pandemic conditions, thus many loan applications were rejected. In some banks, about 60% of SME requests were rejected for prudential reasons (Economic Council, 2020). There is a strong need to create a state loan guarantee fund for SMEs. In addition, amendments to the law on credit bureaus would be necessary so that the risk profile can be analyzed taking into account all the debtor's commitments, including tax commitments, related to housing services, obligations to provide heating, electricity, etc.

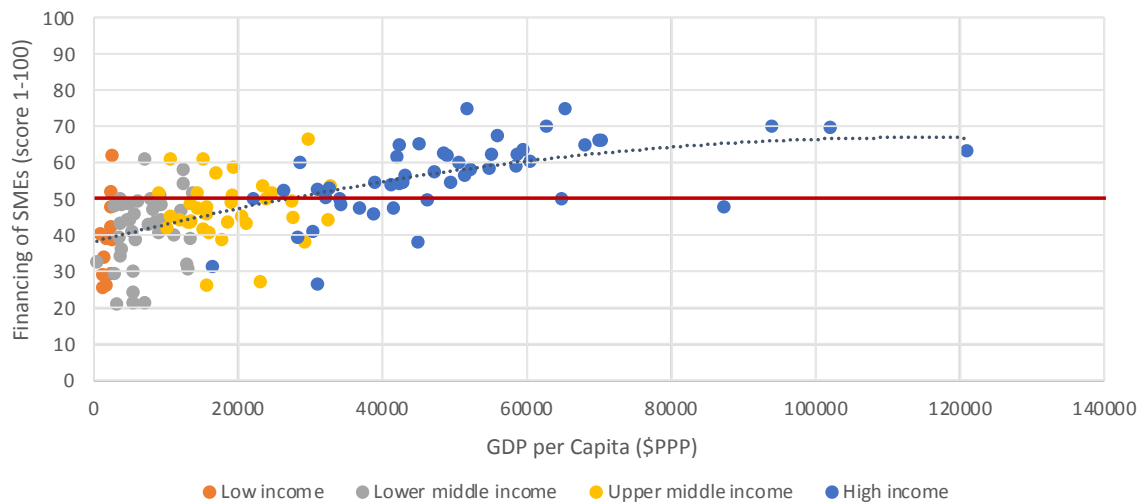
#### 4.2. Analysis of SMEs access to finance

SMEs have easier access to external financial resources they need for the business operation in developed, high income countries, compared to less developed countries. The analysis shows that there is a correlation between the indicator Financing of SMEs from the Global Competitiveness Report (Schwab, 2019) and GDP per capita (Figure 3). In low-income countries, the indicator Financing of SMEs obtained a relatively low score (less than 50 out of 100 max), while in highly developed countries most of the respondents reported a better situation in terms of financing, the score was above the average.

The degree of enterprises' access to finance in the Republic of Moldova is also reflected in the pillar: Financial System in the international ranking Global Competitiveness Report. The analysis of this pillar shows a negative dynamic in the last four years, the Republic of Moldova dropped 9 positions in the ranking, occupying the 124th place out of 141 countries in 2019. Although the country gained 4

positions in the ranking in relation to the prior year, the situation did not change significantly, the Republic of Moldova being ranked very low in the ranking.

**Figure 3. The correlation between access to finance for SMEs and economic performance**



Source: elaborated by the author based on Global Competitiveness Report (2019) and World Bank (2019)

The access to financial resources is reflected in a series of indicators from the international Global Competitiveness Report presented in Table 1.

**Table 1. Dynamics of main indicators revealing the access to finance in the Republic of Moldova, 2018-2019**

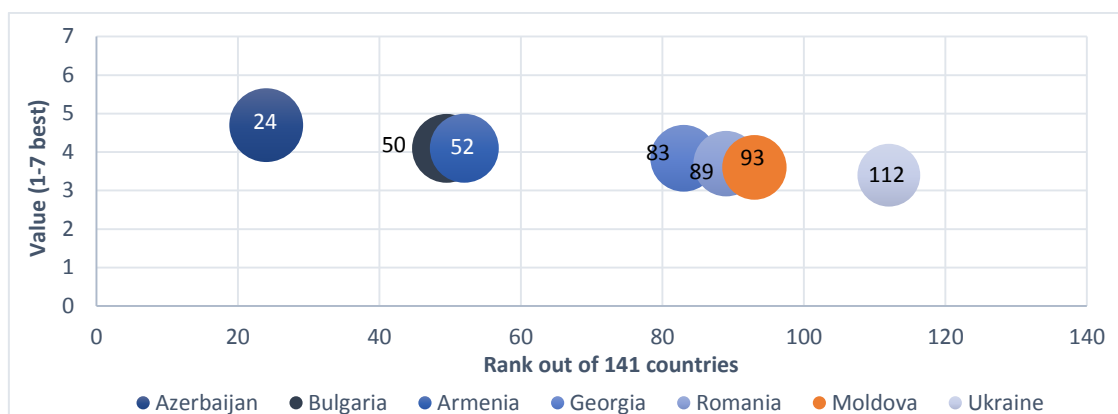
Indicators	Measure unit	2018, out of 140 countries	2019, out of 141 countries	Evolution
Domestic credit to private sector, % GDP	value	34.1	30.7	-3.4
	rank	92	99	-7
Financing of SMEs, 1-7 (best)	value	3.3	3.6	0.3
	rank	111	93	+18
Venture capital availability, 1-7 (best)	value	2.2	2.5	0.3
	rank	121	116	+5
Soundness of banks, 1-7 (best)	value	2.9	3.4	0.5
	rank	134	127	+7
Non-performing loans, % of gross total loans	value	16.4	18.4	2
	rank	122	130	-8
Cost of starting a business, % of GNI per capita	value	5.6	5	-0.6
	rank	62	60	+2

Source: developed based on Global Competitiveness Report 2019

The data reveal that, in 2019, the values of the indicators had a positive dynamic compared to the previous year, except for the indicators *Internal credit to the private sector* (-3.4) and the *Cost of starting a business* (-0.6). At the same time, in addition to the 7 positions lost in the Internal Credit to the private sector in 2019 (99th place out of 141 countries), the Republic of Moldova dropped 8 positions in the *Non-performing loans* indicator (130th place). The value of *Soundness of banks* indicator (3.4) increased by 0.5 in relation to the prior year, and the value of the *Venture capital availability* indicator constituted only 2.5 out of 7 in the 2019 ranking, placing on the 121st place (+5 positions), which is the lowest place among reference countries. Although there was a slight improvement of the analyzed indicators, the Republic of Moldova is placed lower than the global average, ranking in the last position.

An important indicator that directly reveals the access to finance is *Financing of SMEs* (Figure 4). In 2019, the value of this indicator increased by 0.3, constituting 3.6, which still represents only half of the maximum value, the Republic of Moldova ranking 93rd (+18 positions). In comparison with the reference countries, the Republic of Moldova ranks penultimate on Financing of SMEs indicator, followed only by Ukraine (112th place). Out of the 8 analyzed countries, 4 countries are ranked below the global average, only Azerbaijan (24<sup>th</sup> place), Bulgaria (50<sup>th</sup> place), Armenia (52<sup>nd</sup> place) and Serbia (65<sup>th</sup> place) have more advanced positions. Thus, nevertheless there was registered some progress, a difficult situation persists regarding the accessibility of financing, Moldova being placed on the last places in the ranking.

**Figure 4. Ranking of the Republic of Moldova and the reference countries on the Financing of SMEs indicator**



Source: elaborated by the author based on Global Competitiveness Report 2019

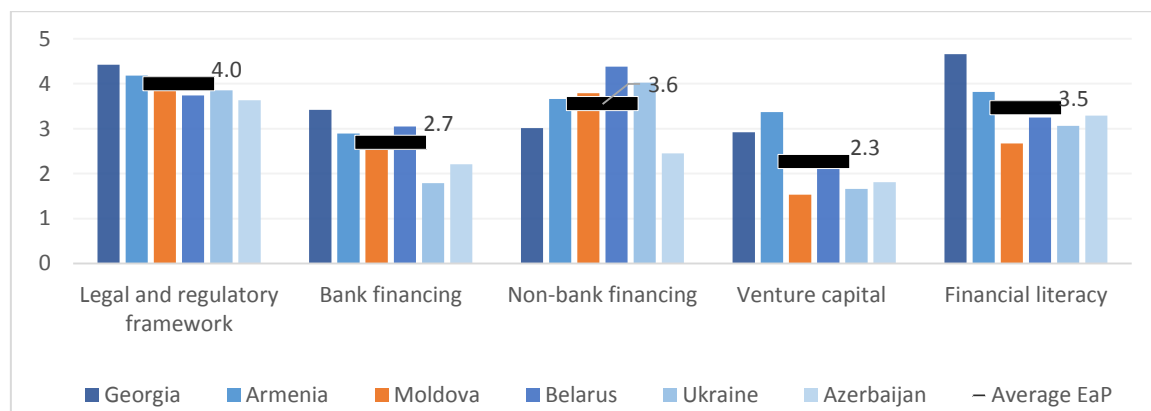
The SME Policy Index, developed by the Organization for Economic Co-operation and Development (OECD), is a tool for assessing the policy framework for SMEs and the progress made in implementing policies. It is structured according to ten principles of the Small Business Act for Europe, which have also been adopted by the Republic of Moldova. One of the 5 pillars is pillar *Access to finance*, which allows the evaluation of government efforts in facilitation of SMEs' access to financial resources. Out of all Eastern Partnership (EaP) countries, Moldova ranks third on pillar – Access to finance, obtaining a total score of 3.61 out of maximum 5, thus being a slightly higher than the average level of EaP countries of 3.57. Only Georgia (4.02) and Armenia (3.81) hold better positions: 4.02 and 3.81 respectively. The analysis of this pillar, composed of 5 sub-dimensions, allowed highlighting the opportunities and challenges provided by policies that address the issues related to financing of SMEs. Thus, the Republic of Moldova registered the highest scores on the indicators: *Creditor's rights* (5.00), *Microfinance* (5.00) and *Register of guarantees on movable property* (4.47). At the same time, a number of other indicators are at a lower level: *Leasing* (1.00), *Monitoring and evaluation in the Venture capital sub-dimension* (1.00) and *Financial literacy* (1.00), *Legal framework on venture capital* (1.22).

In general, there was registered a positive dynamic for all sub-dimensions for the Republic of Moldova, except Financial Literacy, whose score decreased by 1.3 compared to the one calculated in the Policy Index 2016. The country received higher scores on following sub-dimensions: *Legal and regulatory framework* (4.1) and *Non-bank financing* (3.79), which are by 0.11 and 0.24 correspondingly above the average of EaP countries. The Republic of Moldova has a developed legal and regulatory framework. The existing register has been supplemented with a system of registration of movable property, which facilitates the use of assets as collateral to increase funding. It should be noted that the *Stock market* (score 2.43) is currently not perceived as a possible source of business financing. *Bank financing*, although slightly improved, is still limited. Adoption of Law no. 1 on non-bank credit organizations from 16.03.2018 represented a significant action towards broadening sources of financing, the use of which is limited. On sub-dimensions *Venture Capital* (1.53) and *Financial Literacy* (2.67), Moldova registered the lowest scores, being by 0.73 and 0.79 correspondingly lower than the medium level of EaP countries.



In relation to other EaP countries, the Republic of Moldova ranks last on the *Venture Capital* sub-dimension (1.53), the highest score being obtained by Armenia (3.37); and *Financial Literacy* sub-dimension, with Georgia having the highest score (4.66). In other sub-dimensions, the Republic of Moldova is slightly above the average of the EAP countries, mainly being ahead of Azerbaijan and Ukraine (Figure 5).

**Figure 5. Scores on the sub-dimensions of the Pillar Access to finance in EaP countries**



Source: elaborated by the author based on SMEs Policy Index 2020

Based on the data from World Bank Enterprise Survey 2019, it could be stated that 10.4% of the respondent companies in the Republic of Moldova perceive access to finance as the biggest obstacle, this being included in the Top 5 biggest obstacles of the business environment. It should be noted that the sample included different categories of enterprises, of which 77.5% of respondents were SMEs. The values of the analyzed indicators reveal that in the Republic of Moldova the situation is lower than the average of Europe and Central Asia. Thus, the share of loans, which require guarantees in the Republic of Moldova is 90.4% which is higher than in other reference countries, being by 17.6 p.p. more than on average in Europe and Central Asia, and the amount of collateral required for a loan - by 45 p.p. more, constituting 221.2% of the loan amount (Table 2).

**Table 2. Value of some indicators on Finance in the Republic of Moldova and reference countries, 2019**

	Proportion of loans requiring collateral, %	Value of collateral needed for a loan (% of the loan amount)	Percent of firms not needing a loan	Percent of firms whose recent loan application was rejected	Firms using supplier/customer credit to finance working capital, %	Firms identifying access to finance as a major constraint, %
<b>Armenia</b>	71.7	207.5	35.2	2.7	8.3	31.6
<b>Azerbaijan</b>	77.8	198.6	64.5	10.2	5.6	10.9
<b>Bulgaria</b>	71.4	128.6	58.6	2.1	31.8	10.7
<b>Georgia</b>	80.5	194.2	57.2	12.7	24	22.4
<b>Moldova</b>	90.4	221.2	38.6	37	28.4	29.4
<b>Romania</b>	56.7	239.8	48.4	22.5	43.3	23.6
<b>Serbia</b>	41	101.1	52.9	0.3	50.1	5.5
<b>Ukraine</b>	68.7	173.6	32.2	11.9	13.2	46.3
<b>Average Europe and Central Asia</b>	<b>69.2</b>	<b>170.7</b>	<b>58.8</b>	<b>8.7</b>	<b>23.3</b>	<b>15.6</b>

Source: developed based on Enterprise Survey (2020)

The situation is aggravated by the fact that more than 1/3 of the companies (37%) mentioned that their recent credit application was rejected, while in the region the average is 9.1%. Against the background of the pandemic, this indicator rose to the level of 60% applications rejected. At this indicator a better position is held by Serbia (0.3% rejected loan applications in 2019), Bulgaria (2.1%) and Armenia (2.7%). A total of 29.4% of companies in the Republic of Moldova point out the access to financing as a primary obstacle. Above average this indicator was also registered in Ukraine, Armenia, Romania and Georgia. At the same time, the percentage of Moldavian companies that mentioned that they do not need credit was only 38.6% in 2019, while according to the previous study in 2013, their number constituted 53.1%.

Besides that, due to the pandemic, which significantly affected the economy, the private sector experienced growing financial distress. Thus, according to the Enterprise Survey 2020 data, conducted in October/November, 87.8 % of enterprises in the country faced reduced cash flow availability / liquidity since the beginning of the pandemic. On this indicator, the country is placed worse compared to others: Bulgaria – 78.8%, Romania – 63.2%, Serbia – 43% (Enterprise Survey, 2020). At the same time, a significant number of firms stated that they delayed payments to suppliers and tax authorities (64.4%) and that they have been overdue on liabilities to financial institutions (34.5%). Thus, despite the measures taken, access to financial resources remains one of the most pressing issues, affecting the activity of enterprises, especially SMEs, and limiting the creation of new businesses.

#### 4.3. Respondents' evaluation of the impact of access to finance on entrepreneurial ecosystem

Based on a questionnaire-based survey, there was an evaluation of the impact of the access to finance component of the entrepreneurial ecosystem on the development of entrepreneurship in the Republic of Moldova and its changes in 2021 compared to 2019.

According to obtained data, the value of the coefficient is on average positive ( $K_{EE} = +0.58$ ), which reflects a slight overcoming of positive evaluations of respondents over negative ones (Table 3). Nevertheless, this indicates that access to finance has a relative weak advantage for the development of entrepreneurship.

**Table 3. Evaluation of the SMEs access to finance, % of respondents**

Indicator	Is this factor an obstacle or an advantage for the development of entrepreneurship (EE)?				$K_{EE}$
	Significant obstacle -2	Insignificant obstacle -1	Insignificant advantage +1	Significant advantage +2	
Access to venture capital	58.3	16.7	12.5	12.5	<b>-0.96</b>
Access to finance on the securities market	50.0	11.5	23.1	15.4	<b>-0.58</b>
Use of electronic platforms to attract funding	32.6	7.0	46.5	14.0	<b>0.02</b>
Access to loans and borrowings from individuals (family, friends, colleagues)	21.0	6.5	45.2	27.4	<b>0.52</b>
Access to financing within projects of foreign donors, incl. grants	18.1	6.9	36.1	38.9	<b>0.71</b>
Access to bank loans	16.7	7.1	26.2	50.0	<b>0.86</b>
Access to loans from microfinance organizations	6.8	6.8	50.8	35.6	<b>1.02</b>
Access to funding within state programs, implemented by ODIMM	12.3	1.4	39.7	46.6	<b>1.07</b>
<b>ACCESS TO FINANCE</b>	<b>21.2</b>	<b>6.8</b>	<b>37.0</b>	<b>35.0</b>	<b>0.58</b>

Source: elaborated by the author based on the questionnaire data

According to survey data, enterprises face the major problems in accessing venture capital ( $K_{EE} = -0.96$ ) and financing on the securities market ( $K_{EE} = -0.58$ ). Thus, venture capital accessibility is evaluated unfavorably by 75.0% of respondents and the access to finance on the securities market - by 61.5% of entrepreneurs, who assessed the indicator. This reveals a relatively low level of development of considered financing instruments. At the same time, more than half of the respondents (58.3% and

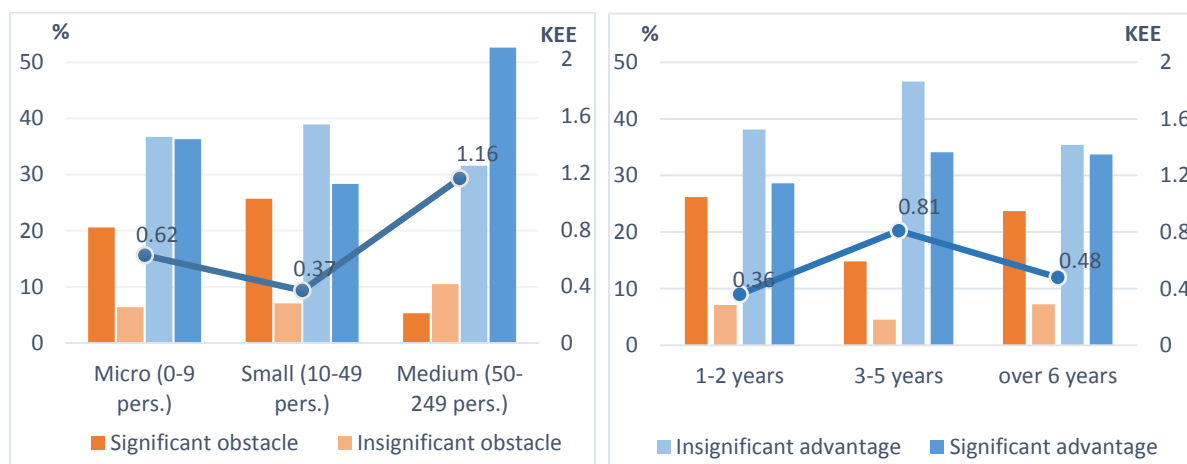
50.0% respectively) indicated that the corresponding indicators significantly impede the development of entrepreneurship in the country.

The use of electronic platforms in order to attract funding (such as for example crowdfunding, cryptocurrencies, etc.) has an almost neutral impact,  $K_{EE} = +0.02$ . Moreover, quite many respondents noted the difficulties they face in using these electronic platforms (constraint for 39.5% of entrepreneurs, assessing the indicator).

Although, over 70% of respondents indicated a positive impact of the indicators “Access to loans and borrowings from individuals (family, friends, colleagues)” ( $K_{EE} = +0.52$ ) and “Access to funding within the projects of foreign donors, including international organizations; grants” ( $K_{EE} = +0.71$ ) on the entrepreneurial ecosystem, for about 1/4 of entrepreneurs these indicators represent a problem (27.4% and 25.0% respectively). The data shows that access to bank loans ( $K_{EE} = +0.86$ ) for half of the respondents has a significant advantage for the development of enterprises. Nevertheless, for a fairly large number of respondents (23.8%) access to bank loans is currently an obstacle. The indicators regarding the access to financing within the state programs, implemented by ODIMM ( $K_{EE} = +1.07$ ) and the access to loans from the microfinance organizations ( $K_{EE} = +1.02$ ), are identified by respondents as a potential advantage for the operation of their company.

According to the size of the enterprise (Figure 6), access to finance is a bigger problem for the operation of small enterprises compared to micro and medium enterprises.

**Figure 6. Evaluation of the SMEs access to financial resources in the Republic of Moldova, by size and age of the enterprises, 2021**



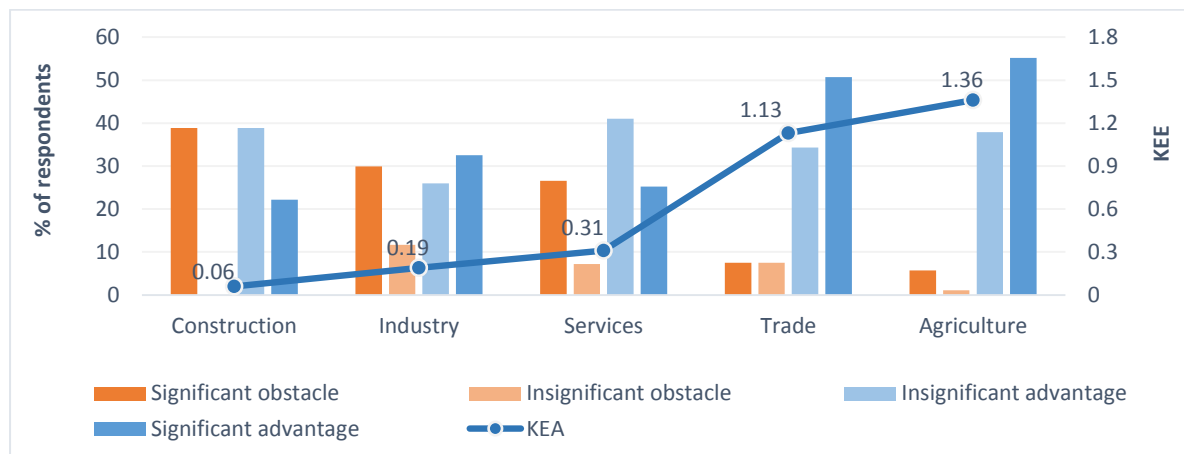
Source: elaborated by the author based on the questionnaire data

This proves that small enterprises face significant difficulties in accessing finance compared to bigger companies. Thus, the share of small enterprises, which identify access to finance as an obstacle was 32.7% ( $K_{EE} = +0.37$ ), and the share of micro enterprises - 27.0% ( $K_{EE} = +0.62$ ). At the same time, medium-sized enterprises reported easier access to financial resources, registering the highest level of the coefficient  $K_{EE}$  (+1.16). The evaluation of the access to finance according to the age of the enterprise (Figure 13) reveals that the lowest value of the coefficient  $K_{EE}$  was registered by enterprises that operate for 1-2 years ( $K_{EE} = +0.36$ ), as well as by those operating over 6 years ( $K_{EE} = +0.48$ ), representing an obstacle for 1/3 of the respondents (33.3% and 30.9% respectively). For enterprises operating for 3-5 years, access to finance is rather an advantage ( $K_{EE} = +0.81$ ).

According to the assessment of the access to financial resources for enterprises by respondents' type of activity (Figure 7), it could be mentioned that financing represents a more acute challenge for enterprises in construction ( $K_{EE} = +0.06$ ) and industrial ( $K_{EE} = +0.19$ ) sectors, obstacle for 38.9% and 41.6% respectively of the respondents. Taking into consideration the importance of industry for country development (specifically, manufacturing industry contributes almost 20% to gross output), the situation requires special attention. The share of enterprises in the services sector, for which access to finance is an obstacle is also significant (33.8%,  $K_{EE} = +0.31$ ). Access to finance as a component of

the entrepreneurial ecosystem has rather an advantage for the development of the agricultural sector (KEE = +1.36), which is due to the presence of several support programs for the sector.

**Figure 7. Evaluation of the access to finance for enterprises in the Republic of Moldova, by economic sector, 2021**



Source: elaborated by the author based on the questionnaire data

Depending on the location of the enterprise, it can be stated that the problem of access to financing is characteristic for both urban and rural enterprises. At the same time, access to finance presents a relatively greater obstacle to business development in urban areas (obstacle for 30.3% of respondents, KEE = +0.52) compared to those in rural areas (21.7%, KEE = +0.73).

The data from the questionnaire-based survey reveals that most of the respondents (71.2%) stated that since 2019 there have not been significant changes of situation regarding the access to finance, 11.2% of respondents indicated the aggravation and 17.6% - the improvement of the situation (Table 4). Totally, the value of the Change Perception Index of Entrepreneurial Ecosystem ( $I_{EE}$ ) of 61.2% reveals the slight predominance of positive assessments of access to finance over negative in the last two years, which unfortunately does not prove any significant improvement of the situation for entrepreneurs.

**Table 4. Changes in access to financial resources in 2021 in relation to 2019, % of respondents**

Indicator	Change in 2021 compared to 2019			$I_{EE}$ , %
	0 Situation has not changed	1 Situation has worsened	2 Situation has improved	
Access to financing within state programs, implemented by ODIMM	58.5	10.4	31.1	<b>75.0</b>
Use of electronic platforms to attract funding	77.1	6.7	16.2	<b>70.8</b>
Access to bank loans	51.9	15.4	32.7	<b>68.0</b>
Access to loans from microfinance organizations	61.0	14.3	24.8	<b>63.4</b>
Access to funding within projects of foreign donors, incl. international organizations; grants	65.7	15.2	19.0	<b>55.6</b>
Access to loans and borrowings from individuals (family, friends, colleagues)	70.5	17.1	12.4	<b>41.9</b>
Access to venture capital	95.2	2.9	1.9	<b>40.0</b>
Access to finance on the securities market	89.5	7.6	2.9	<b>27.3</b>
<b>ACCESS TO FINANCE</b>	<b>71.2</b>	<b>11.2</b>	<b>17.6</b>	<b>61.2</b>

Source: elaborated by the author based on the questionnaire data

Totally, five out of eight analyzed indicators revealed a relative improvement in the situation, which indicates the predominance of positive assessments of surveyed entrepreneurs over those negative. The highest values of the  $I_{EE}$ , which reflect the biggest relative prevalence of positive assessments concerning the changes in access to financial resources are seen in the following indicators “Access to funding within state programs” ( $I_{EE} = 75.0\%$ ) and “Use of electronic platforms to attract” ( $I_{EE} = 70.8\%$ ). At the same time, the indicator “Access to bank loans” shows the biggest percentage of entrepreneurs, who noticed a change in the situation: 32.7% of respondents indicated an improvement and 15.4% - deterioration of the situation in the entrepreneurial ecosystem.

The smallest value of the  $I_{EE}$  index was obtained by the indicator “Access to finance on the securities market” (27.3%), revealing the biggest relative prevalence of negative evaluations related to the changes within the entrepreneurial ecosystem. Among the indicators, “Access to loans and borrowings from individuals” is an indicator with the biggest proportion of respondents indicating aggravation of the situation (17.1%,  $I_{EE} = 41.9\%$ ). One more indicator, showing the relative worsening of the situation is “Access to venture capital” ( $I_{EE} = 40.0\%$ ).

#### 4.4. *Constraints and perspectives*

**Constraints.** The study shows that SMEs experience constraints in accessing financial resources mainly due to higher risk profile, banking sector regulations, high interest rates, high collateral requirement for loans provided by the financial institutions, fewer collateral options of SMEs, lower financial management capacities and financial literacy.

Bank financial resources are the major sources of financing the operation of local enterprises. At the same, higher interest rates and higher volatility than in EU countries, as well as the value by 45 p.p. higher than the average collateral in Europe and Central Asia limit the possibilities to access the financial resources, important for business development. For SMEs it is more difficult to access the external financial resources compared to bigger companies. If, in case of large companies, they normally have a history record and various available collateral, which provides credibility and makes them attractive customers for financial institutions, things work differently in case of small enterprises.

Usually, SMEs do not have or have limited history records, have limited assets and collateral options. Besides that, some of them have lower risk management capacities. During the COVID -19 pandemic, 87.8 % of enterprises in Moldova ever encountered decreased liquidity or cash flow availability. Local small enterprises are also characterized by lower financial management capacities. The indicator of *Financial Literacy* registered the lowest value in Moldova (2.67) compared to other EaP countries. Thus, financing small enterprises is perceived riskier by the banks.

Another constraint consists in less developed alternative sources of financing (crowdfunding, venture capital, etc.). As a result, the country is positioned last on the *Venture Capital* sub-dimension among EaP countries. Additionally, based on the survey data, it could be stated that enterprises encounter the most challenges in accessing venture capital, use of electronic platforms to attract funding (crowdfunding, etc.), and financing on the securities market.

**Perspectives.** The measures on facilitating SMEs access to finance should address the above mentioned constraints. Some future directions for facilitating SMEs financing could include the reduction of the loan interest rates, as well as ensuring their stability; the development of the loan guarantee system for SMEs, in order to ensure that small enterprises with the potential to grow have the possibility to access financial resources even with limited collateral.

Beside the measures on facilitating access to traditional sources of finance, in current conditions of digital transformation, alternative sources of finance should be given a special importance. The COVID-19 pandemic has accelerated the digital transformation and the increase of alternative financing opportunities. It is anticipated that alternative finance will alleviate current constraints related to the bank financing, offering the SMEs the possibility to raise financial capital for sustainable operation and growth. Various alternative sources of finance such as crowdfunding, angel investments, peer-to-peer lending, equity finance, are disrupting traditional financial markets, providing new opportunities for business. For this purpose, it is important to develop the legislative framework, develop the venture capital system and support programs. Additionally, entrepreneurs should be provided with accessible information on how to access above mentioned sources of finance.

Another important direction implies the increase in entrepreneurship education and financial literacy. It is important to facilitate access to training, consultancy, mentorship, technical assistance,

etc. Among subjects that should be covered are the development of the business plan, management of risks and finances, but also the development of innovative financing schemes for SMEs.

These measures could facilitate the accessibility of various sources of financing entrepreneurship and develop entrepreneurial skills for better management, including financial management of the entrepreneurial activity.

## 5. Conclusions

The study reveals that SMEs have proven to be vulnerable to crises, and access to financial resources remains one of the pressing issues affecting SMEs activity, including in the crisis caused by the Covid-19 pandemic. Generally, the problem of SMEs' access to finance needed for the business operation is more pronounced in developing countries, compared to developed ones. Banks are the main providers of external financing, almost 80% of the total credit supply in the Republic of Moldova is covered by bank financial sources. There was a positive dynamic of some indicators of access to finance before the pandemic, but the indicators worsened due to the crisis.

Thus, according to the Enterprise Survey (2020), totally, 87.8 % of Moldovan firms experienced decreased liquidity or cash flow availability since COVID-19 began. As the indicator Financing of SMEs points out, Moldova ranks 93rd out of 141 countries in the Global Competitiveness Index, with a score of 3.6, which is only half of the maximum value. Additionally, the value of the indicators Soundness of banks and Non-performing loans remain low, the country ranking 127<sup>th</sup> and 130<sup>th</sup> place. According to the SME Policy Index, among the indicators that remain underdeveloped are Venture capital, Leasing, Financial literacy.

Access to finance is an important component of the entrepreneurial ecosystem. The evaluation of access to finance for enterprises in the Republic of Moldova reveals its relatively weak advantage for the development of entrepreneurship and entrepreneurial ecosystem in the country ( $K_{EE} = +0.58$ ). According to survey data, enterprises face the biggest problems in accessing venture capital ( $K_{EE} = -0.96$ ) and financing on the securities market ( $K_{EE} = -0.58$ ), representing a problem for 75.0% and 61.5% of respondents correspondingly. The use of electronic platforms for raising financial capital (such as crowdfunding, cryptocurrencies, etc.) has almost neutral impact,  $K_{EE} = +0.02$ , with a fairly large share of entrepreneurs who mentioned difficulties they face in using these electronic platforms (obstacle for 39.5% of respondents).

The survey data reveals that most of the respondents (71.2%) stated that since 2019 there have not been significant changes of situation regarding the access to finance, 11.2% of respondents indicated the aggravation and 17.6% - the improvement of the situation. Nevertheless, the survey results do not show a significant worsening of the access to financial resources during the Covid-19 pandemic in 2021 compared to 2019, which could be justified by the actions taken by the government to provide necessary support enterprises, most of local enterprises experiencing decreased liquidity. With the acceleration of inflationary processes in 2021, the interest rate on loans was increasing, constituting 11.73% in 2022 and reaching a maximum of 14.34 in February 2023, thus exceeding the level of 2016. The increase in interest rates on loans had a negative effect on the accessibility of financial resources and the ability of companies to pay.

With the development of digitization in recent decades, an increasing number of innovations have appeared in the sphere of financial products and services. The emergence of new sources of financing has substantially increased the financing options available to businesses. Nevertheless, alternative sources of finance remain underdeveloped and require special attention.

The research results presented in the paper could be valuable for future research on the topic, as well as practitioners in identifying measures to facilitate access to finance, namely the provision of financial support, development of fintech and alternative sources of funding (such as crowdfunding, business angels, venture capital, etc.), support in financial and risk management, digital financial services, exchange of practices and innovative solutions.

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