

## National and International Practices of Innovative SME Financing

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**Abstract.** In market economy, the small and medium-sized enterprise (SME) sector is an important segment of the national economy, which contributes significantly to the development of society. Its role is undeniable in stimulating production, growth and diversification, triggering innovation, improving quality and increasing competitiveness, creating the supply and meeting the demand for goods, creating new jobs. The development of small and medium-sized enterprises mainly depends on the company's ability to access and successfully gather its existing financial resources. This option gains even more importance when the lack of funding represents one of the basic problems that entrepreneurs face in trying to organize and expand their business to achieve high performance and to be competitive and innovative.

**Keywords.** Innovation, financing, small and medium-sized enterprise sector, financing programs, support instruments.

### 1. Introduction

In the framework of globalization and technologization, the small and medium-sized enterprise (SME) sector constitutes an important segment in the national economy, which contributes significantly to the socio-economic progress of the society. Small and medium-sized enterprises lead to the improvement of the economic situation, the stimulation of the production and quality, register a faster and easier manufacture adjustment to unique and small-lot items, lead to an increase in the new-job creation, trigger the development of technical and scientific progress.

Even though the main path of economic development has been the concentration of production, the versatility of the enterprise, the unification of branches within one unit - small enterprises have not vanished in the mists of time, but on the contrary, by virtue of their unique advantages to adapt to the permanently fluctuating economic conditions and the drastic conditions imposed by the COVID 19 Pandemic in recent years, not only have they survived, but not seldom have been at the forefront of technical, scientific and economic progress.

The organization of economic activities within small businesses is back on track today, taking an important place in national economies, becoming a pillar for social progress and a subject for public policy. Upon these points of view, it can be reckoned that the small and medium-sized enterprise sector is an essential component of the economy and plays a satellite role in the development of large companies. Large companies carry out a complex production process, which includes various industries from different branches, while small companies are narrowly specialized and usually render services to consortia by providing courier services, supplying spare parts and details needed to assemble units and machines, etc.

**Materials and methods:** The research carried out in this study has been conducted by applying empirical, historical, systemic, analytical, economic and other methods for studying the SME's financing practices.

## 2. Outcomes and discussions

Recently, there has been an increase in the role of the small and medium-sized enterprise sector in the innovation field. Although, it may seem difficult for small businesses to influence technological development, at present, in partnership with large companies and research centres, they are making remarkable innovations in the fields of information technology, engineering, medicine, pharmaceuticals, environment, etc. However, we must not neglect the state's role in boosting the development of small businesses and their involvement in promoting technical and scientific progress as well as in the economic and social fields.

Currently, in the Republic of Moldova, the state intervenes in the development of the small and medium-sized enterprise sector through the public policies it adopts and promotes, through the facilities it offers to this sector, through bilateral agreements negotiated and concluded with international bodies and through their promotion within various conferences, meetings, exhibitions at local and international level.

Recent studies and the evolution of public policies in the Republic of Moldova have highlighted the need for taking additional measures in encouraging small and medium-sized enterprises to adopt more innovative and greener business practices.

While SMEs generate around 64% of industrial pollution in the European Union, only 16% of them are engaged in environmental actions [4]. Therefore, there is still great potential for the promotion of instruments and good practices to encourage the "greening" and "innovation" of SMEs in the country. Many of these instruments have already been implemented by the Member States of the European Union and can be adapted to the needs of the SMEs in the Republic of Moldova, thus encouraging the companies' and country's economy sustainable development and international economic competitiveness overall.

Statistical data coming from Europe shows that more and more European programs are focused on supporting SMEs that are geared towards innovation in the following areas: sustainable business development; green industry innovation; information and communication technology (ICT), and in Romania, for instance, the companies focused on sustainable development in the marine and maritime sector are also sustainable for financing.

In the conditions of globalization and international competition, the innovation development scenario has no alternative. Encouraging innovation has now become an extremely important requirement for all countries' policies engaged in the building of the knowledge-based society. It has become an important component of modern socio-economic and technological policies, being defined as the state's innovation policy, which shows the state's attitude towards innovation, defines the objectives, directions, activity types of public authorities in the scientific field, technology and the implementation of scientific and technological findings. It represents a system of institutional, normative-legislative, economic-financial and other instruments, meant to boost all the stages of the innovation activity by creating favourable conditions. Their creation, as a rule, begins with the establishment and ratification of the normative-legislative framework adequate to the functioning of an innovative climate favourable for entrepreneurial activity.

The biggest challenge for the EU and the Member States is to take a far more strategic approach to innovation in all its aspects (product, process, organizational and marketing innovation). Specifically, in order to achieve the Innovation Union, it is necessary to improve cooperation between the scientific and business environments, to remove obstacles and barriers from market research findings and to put into practice specific incentives including innovative commercialization.

According to point 2 of the Methodology for financing projects in the research and innovative fields, [2], in the Republic of Moldova, innovation and technology transfer projects

can be financed from the state budget for 2020-2023, in the amount of approximately 8 million lei per year. For 2021, 8 million lei were budgeted in the following sectors:

- Health 1413.3 thousand lei;
- Sustainable agriculture, food security and food safety 1573.3 thousand lei;
- Environment and climate change 1920.0 thousand lei;
- Societal challenges 1253.4 thousand lei;
- Economic competitiveness and innovative technologies 1840.0 thousand lei

(Source: ancd.gov.md.)

Concurrently, the information presented by the National Institute of Statistics from Romania, reports that large companies are more innovative (17.9%), compared to medium-sized (11.9%) and (9.3%) small ones [5], a trend also witnessed in the industry and service sectors in the Republic of Moldova.

According to the ranking of the global innovation index in 2020, the Republic of Moldova ranked 59th out of 131 countries and economies, receiving 32.98 points out of 100 possible. For the sub-index innovation inputs, our country ranked 75th, and for the sub-index innovation outputs, it ranked 48th. In terms of infrastructure, we are ranked 88th, human capital and research - 75th place, creative outputs - 51st, market sophistication - 42nd place, business sophistication - 88th place, institutions - 81st place, and for the knowledge and technological results indicator - 51st place. The Republic of Moldova ranked 6th globally among the countries with lower-than-average incomes. It should be noted that Switzerland leads the ranking of the global innovation index, maintaining its position since 2011. It is followed by Sweden, the United States, the United Kingdom and the Netherlands. In 2020, the Republic of Korea appears for the first time in the top 10 most innovative countries. Ukraine is on 45th place, while Romania is on 46th place. The Global Innovation Index is one of the most important reference studies for measuring the country performance in terms of innovation. 131 countries from all around the world have been researched, using approximately 80 indicators, including: human and research capital, infrastructure, loans, investments, interconnections, innovation, outcomes of the creative activity, etc. [6].

In the last 3 years, the state has contributed to the development and implementation of the following programs for the support of small and medium-sized enterprises focused on innovation:

- The Greening Program for Small and Medium-sized Enterprises, approved by the Government Decision No. 592 of 27.11.2019, implemented by the Organization for the Development of the Small and Medium-sized Enterprise Sector, in order to promote, support and develop the capacity of SMEs for the adoption of greening practices in manufacturing processes and service provision. Throughout this program, SMEs can benefit from: training and education in the greening field; financing of greening actions in a small amount of up to 200 000 lei or in a large amount of up to 500 000 lei;

- The backup instrument regarding the digitalization of SMEs, approved by the Order of the Ministry of Economy and Infrastructure No. 100 of 26.05.2020, implemented by ODIMM. The purpose of the instrument is to support the digital transformation and development of SMEs in order to exploit their innovative potential and facilitate their operation in internal and external markets. This tool involves supporting small entrepreneurs through: entrepreneurship training and education; granting financial support by means of a “business voucher” in the amount of up to 20 000 lei and / or through a grant in the amount of up to 200 000 lei.

- For SMEs that are, planning to export outside the country, to expand on foreign markets and / or to replace product / service imports in the Republic of Moldova, on 01.07.2020, upon Government Decision No.439, the Government of the Republic of Moldova approved the support Program for high growth potential businesses and their internationalization. This

program includes the non-reimbursable financing component by means of a Business Voucher worth up to 50 thousand lei and by means of a grant worth up to 2 million lei. The instrument also provides informational and consultancy support.

All programs and instruments for SMEs, which are non-essentially supported by the state, offer a higher score for the innovative businesses which take part in the competition, but this indicator is not decisive.

In addition to these support instruments, SMEs in the Republic of Moldova can benefit from funding within the applications submitted by the Ministry of Agriculture through the Agency for Payments and Intervention in Agriculture. They can also apply to the bank crediting mechanism, but in order to receive the state support for guaranteeing loans, they can apply to the Guarantee Fund. Domestic SMEs can benefit from financial, technical support and assistance within the Projects financed by the European Union and other foreign donors in the implementation of innovative investment projects, etc.

The institutional framework for supporting small entrepreneurs in the Republic of Moldova is represented by the line ministries; local public administrations; SME support agencies and organizations, such as: the Moldovan Investment Agency, the Organization for Small and Medium-sized Enterprises (ODIMM), the Agency for Payments and Intervention in Agriculture (AIPA), the Chamber of Commerce and Industry of the Republic of Moldova, the State Agency on Intellectual Property (AGPI), Business Incubators; International support organizations; Embassies of European states, etc.

The main role in providing support to small entrepreneurs in the Republic of Moldova belongs to the Organization for the Development of Small and Medium Enterprises (ODIMM), which is currently managing 12 Business Support Programs, through which beneficiaries are offered advice, training, financing and mentoring. ([www.odimm.md](http://www.odimm.md))

The analysis of the submission documentation for financing projects and of the conditions for contracting state support has resulted in certain **findings**:

a) Over the years, a specific way of applying for financing and financial support for SMEs has emerged, which practically does not differ from one Program / Project to another. The support that SMEs can obtain is in the form of grants, non-reimbursable financing, consultancy and mentoring, and credit guarantee. Small and medium-sized companies can also benefit from such facilities as discounts on the space rental price within business incubators. We emphasize that the non-reimbursable financial support that small and medium-sized companies from the Republic of Moldova can benefit from is very modest compared to the one that SMEs from abroad can obtain. According to the legislation in force (Law No. 139 of 15.06.2012 on state aid), the amount of de Minimis aid granted to an enterprise within 3 consecutive years must not exceed the threshold of 2 million lei. Consequently, the amount of money that can be obtained by an economic entity focused on innovative activities, is often very small to start and develop a business. For example, in the European Union, innovative SMEs can benefit from grants of up to € 2.5 million [7].

b) SMEs that are not eligible for non-reimbursable financial support programs can contract bank loans and benefit from state guarantees under the Guarantee Fund. This mechanism is suitable when no collateral is pledged, but this burdens the activity of economic entities with an additional payment of 0.5% of the guaranteed amount [8]. At the same time, the guarantee procedure does not imply the simplification of the documentation package that must be submitted to the bank for contracting the loan and the total lack of collateral pledged by the loan applicant.

c) The terms and application forms for support programs / projects are similar, varying only depending on the specifics of the implementing organization. In turn, the eligibility criteria vary only depending on the area concerned, and the application forms (business plan)

are similar in content. The business plans / concept note for application to the support projects implemented by ODIMM lack the indicators which reflect the profitability of the entity's activity and the investment recovery period - indicators that are strictly necessary in evaluating a business and creating the right business planning. There is also a lack of information about the risk degree and the causes that lead to its multiplication. The evaluation criteria of the projects submitted for funding are not clearly identified, often the evaluation grid is missing or its content is non-essential.

d) There is no definite program delimitation by eligibility areas, for example, agricultural companies can benefit from support for the procurement of agricultural equipment both on behalf of the projects implemented by AIPA and by ODIMM, the difference lying in the amounts which may be contracted or the purchase period of the investment items.

e) Although all projects and support programs are developed and implemented with the purpose of solving a certain problem, it can still be noticed that there are shortcomings in terms of measuring their impact on the economy. The impact indicators to be achieved are not clearly defined and there is no well-established monitoring mechanism. In turn, entrepreneurs are not always responsible for the actions they take and the goals they set for themselves.

f) The support in the form of training and mentoring often does not meet the entrepreneurs' requirements or their expectations. This is determined by the lack of specialists and experts in the field who could advise and guide entrepreneurs to an efficient business management and the implementation of innovations.

g) Digital transformation requires systemic changes in business processes, business models and economic relationships within and outside the company. The creation of an environment for the SMEs' digital transformation that would operate in the traditional sectors of the economy should provide a range of specialized technological and business consultancy services, which can be offered by centers of excellence, through the collaboration of the public and private sectors in initiatives at national level (e.g., skills development standards and common standards), as well as a comprehensive financial framework to support SMEs in this intricate endeavour.

h) Another apparent problem is that the best human resources are attracted by large companies or lured by the possibilities offered by the economies of other countries, the SMEs being left not with the best workforce, therefore these companies might not manage to provide innovation with their own employees, but they have to resort to the research and innovation outcomes of the academies and universities.

Based on the above findings, the following **conclusions** can be drawn:

- *The international experience in stimulating and promoting the SME sector* shows that in economically developed countries there is now a well-developed, innovative, organically integrated small and medium-enterprise sector into the national economies, with a significant share in GDP, the number of employees in the economy and a range unique products. The establishment of this sector has been possible thanks to the public authorities' awareness of the economic and social role of small and medium-sized enterprises and to the emphasis on promoting mechanisms that would stimulate innovative businesses. The significance of this support has considerably increased along with the deepening of the international financial crisis and the economic crisis triggered by the COVID 19 pandemic.

- *The support for the SME sector in the Republic of Moldova is fundamental* and contributes to the promotion of new innovative initiatives. Innovation promotion and support in our country could lead to the overcome of the economic crisis from the last decade and a faster integration of the SME sector into the business cycle.

- *The lack of an innovation management system* in SMEs in the Republic of Moldova is worsened by the lack of measures for promoting innovation within entities which entail the

loss of benefits. This results in many difficulties at the concept stage and in the process of developing innovations, and these, in turn, lead to the early death of the project or idea.

- The adaptability of the SME sector to the new working conditions is crucial. Consequently, the *awareness of the need to create and implement innovations* ensures their existence in the future.

The conclusions reached include the following **recommendations**:

1) Continuous insurance of state support for the innovative small and medium -sized enterprise sector through non-reimbursable financing, with the possibility to increase the minimis ceiling by at least twice (minimum 4 million lei), fiscal and financial facilities, including the active promotion of innovations nationally and internationally. In this regard, it is recommended to integrate the innovative domestic SMEs into the regional innovation ecosystem by faster joining the European Enterprise Network and receiving support from the European Innovation Council Fund.

2) In order to ensure a higher efficiency for the SME financing programs in the Republic of Moldova, it is recommended to modify the application forms for support programs / projects by the mandatory introduction of the indicators for efficiency, profitability and recoverability of investments supported both by state and donors, investors, as well as by SMEs. Respectively, when developing new financing and support projects for SMEs, the counting of the above-mentioned indicators should be included in the business plan or concept note, and in the evaluation grid, the maximum score should be given to investments in innovation. At the same time, it is recommended to introduce new requirements, thus contributing to the accountability of the applicants, their more detailed argumentation of the support needs for innovations and the deepening of the local entrepreneurs' knowledge and managerial skills. At the same time, the institutions implementing SME support programs are recommended to improve the communication strategy with SMEs and the selection procedures of the final beneficiaries.

3) As a result of the conducted analyses, it has been noticed that the state does not keep an accurate record of the impact of the implemented programs. In this regard, it is recommended to create a single platform for recording all economic agents from the Republic of Moldova, that would offer access to information on the activity field, the entity founders, turnover, investment volume, number of employees, indebtedness level by categories of creditors (banks), the amount of grants received and facilities granted (by categories of financiers), the amount of profits obtained. It is recommended to facilitate secure access to this platform for central and local public authorities, the State Tax Inspectorate (IFS), the Public Service Agency (ASP), banks, organizations and public institutions for financing entrepreneurs. This way, transparency will be ensured in channeling public financial resources and those from foreign donors, thus leading to a reduction in the periods for data collection and analysis of applications. Yet it will be possible to analyze the impact of the resources obtained in the form of support for the beneficiaries' activity in particular and of the economy as a whole.

4) As SMEs are undercapitalized, they cannot do research and innovation, so they have to borrow, which implies extremely much effort, often, without any success, thus we are pointing out that this aspect needs correction. As regards this, it is recommended that Moldovan institutions, including research institutions, should provide information to domestic SMEs and create a favorable framework for them to access budget lines which would target European funding for innovation.

5) Increasing the management capacities of innovative SMEs through various programs and support projects, which would be based on the audit of their activity, elaboration of action plans adapted for these SMEs, including the mapping of the innovation process from idea to

result, as well as leadership, management and cooperation strategies. The action plans provide an in-depth analysis of the innovation management from these companies, investigating possible gaps between innovation capacities and innovation objectives.

6) Integration of SMEs into clusters and value chains. To be able to innovate the SMEs from the Republic of Moldova, clusters should be formed, which would include companies from different fields, not necessarily only from the same activity area, and jointly create innovation and research centers, a structure which already exists in some European states. On the one hand, the SMEs from the Republic of Moldova need more investments in these clusters. On the other hand, SMEs need certain national research and innovation programs. Last but not least, the research carried out by universities and profile institutes must be in agreement with the practical requirement, i.e., to be applicable.

7) The creation of Accelerators in the Republic of Moldova, which will contribute to the support of innovative SMEs, inclusive of consulting and financial support, and to the digital transformation of entities operating in the traditional sectors of the economy. Many small and medium-sized enterprises in our country, which mainly belong to micro and small enterprises, lack consultancy services due to their cost. These companies also need quality consulting, which they often cannot afford, because of its high costs. Entrepreneurs in the Republic of Moldova must be aware of the need for SMEs to allocate a budget for consultancy to manage to take advantage of all the opportunities that arise, therefore it is required to provide support for entrepreneurial consultancy. SMEs are at a disadvantage compared to large companies, at European level as well, having a restricted and limited power in negotiations with these. All these phenomena make SMEs leave innovation in the last place, thinking about the present day, but normally they have to access research, innovate and bring in new technologies to ensure sustainability and longevity as a company.

8) The creation of business incubators within higher education institutions that will represent a symbiosis between the business environment, the academies, the specialized and vocational education institutions focused on innovation and technologizing. It is recommended that universities and research institutes, which have, and have had, sufficiently large funds for research from the state and EU budgets, including SME funding organizations, be focused on partnerships with SMEs and carry out applied research, i.e., to identify what an SME from one field or another needs, so that, based on the identification of financing needs and areas of applicability, to create sustainable partnerships between several players. This would create a value chain and the money used for research, either within the research institutes or universities we already have, should finally be conditioned by a partnership with SMEs and by a research result applied directly to these companies. Solutions can be found and it is certain that, now, if we make a comparison with other European countries, Moldovan SMEs are not generating innovations, because innovation costs. In order to innovate, you must possess human resources who are very good at it, but the best human resources have been attracted by large companies or have been lured by the possibilities offered by the economies of foreign countries, and thus SMEs are not left with the best workforce. Therefore, these companies have not been capable to generate innovations with their own employees, but are forced to resort to the research and innovation outcomes of the academies and universities.

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