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MODERN WAYS OF FINANCING ECONOMIC AGENTS

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Abstract: Financial innovation is closely linked to the evolution of technology, its dynamics being ever greater. Technology, in various forms, is increasingly present in the financial market, with consumers having to adapt to new trends. Innovation in the financial market has emerged as a natural response of consumer needs for financial products and services to technological progress in recent years.

Subject of the study consists in highlighting the need to apply financial instruments, as well as ways of financing economic agents from the Republic of Moldova in order to improve access to financing through the use of alternative sources. The future of finance is digital: consumers and businesses are increasingly turning to digital financial services, innovative market participants are implementing new technologies, and existing business models are changing. Digital finance has helped citizens and businesses cope with the unprecedented situation created by the COVID-19 pandemic. FinTech solutions have helped expand and accelerate access to loans.

The research methodology used: theoretical and statistical analysis, systemic and situational approach.

Key words: Innovation, financing investments, the financial market, technologies, venture capital, crowdfunding.

JEL Classification: D26, G3; G21; L26; M21.

Introduction.

The actuality of the subject. The digital transformation of the economy has changed the innovation process and business models, including in the field of financial services. Although technological innovation in finance is nothing new, investment in new technologies has increased substantially in recent years and the pace of innovation is exponential. The use of new technologies in finance brings the promise of increased competition and new, more efficient or beneficial products and services.

The degree of research of the problem. The national program for promoting entrepreneurship and increasing competitiveness in the years 2023-2027, in the Evaluation Report of the Development Strategy of the Small and Medium Enterprise Sector 2012-2020 had some recommendations:

- incorporation into the regulatory and institutional framework of the concepts of crowd

funding, business angels, clusters, business takeovers;

- more attention needs to be paid to supporting innovation, which should focus on those with real potential in forward-looking sectors;
- access to finance must remain a major concern and be more sustainable, so that the focus is on beneficiaries with the potential to generate value, especially SMEs with growth potential;
- the introduction of targeted support programs to stimulate the integration of SMEs in clusters and value chains with high export potential;
- more attention should be paid to developing innovative solutions to climate change and strengthening awareness of sustainable economic development and biodiversity protection to ensure a sustainable rural economy.

The national development strategy “European Moldova 2030” (SND), approved by Law no. 315/2022 establishes as the first general objective “Increasing income from sustainable sources and mitigating inequalities” which contains three specific objectives, one of which refers to “Development of opportunities for innovations and entrepreneurship”.

We mention that the analyzed topic was developed through the contribution of local researchers such as V. Ganea, V. Cerbușca, A. Timuș et al.

Formulation of the researched problem. The research problem consists in highlighting the need to apply financial instruments, as well as ways of financing economic agents in the Republic of Moldova in order to improve access to financing using alternative sources.

Recognizing that innovation is a key driver of economic development, the Global Innovation Index (GII) aims to provide an innovation ranking and rich analysis referencing around 130 economies. Over the last decade, the GII has established itself as both a leading reference on innovation and a “tool for action” for economies that incorporate the GII into their innovation agendas.

If we examine the situation of the Republic of Moldova during the years 2020-2022 with regard to the evolution of the GII, we note a negative evolution in 2021, from 59 rankings to 64 in 2021. In 2022, however, there is an increase from 64 to 56.

Table 1. The GII rankings for the Republic of Moldova (2020–2022)

Year	GII	Innovation inputs	Innovation outputs
2020	59	75	48
2021	64	80	54
2022	56	78	46

Source: https://www.wipo.int/edocs/pubdocs/en/wipo_pub_2000_2022/md.pdf

On the indicator of innovation inputs, the Republic of Moldova holds positions clearly lower than that which appreciates the results of innovations, the difference increasing from 26-27 in the years 2020-2021 to 32 in the last year of analysis.

The deciphering of the components of GII for the analyzed years is presented in table 2.

Table 2. Deciphering the components of the Global Innovation Index 2020-2022

Name of the components of the GII	The position		
	2020	2021	2022
Pillar 1. INSTITUTIONS (political environment, regulatory environment, business environment)	81	81	98
Pillar 2. HUMAN CAPITAL AND RESEARCH (education, tertiary education, Research & development (R&D))	75	77	62
Pillar 3. INFRASTRUCTURE (ICTs, General infrastructure, Ecological sustainability)	88	82	84
Pillar 4. MARKET SOPHISTICATION (Credit, Investment, Trade, competition, & market scale)	42	74	58
Pillar 5. BUSINESS SOPHISTICATION (Knowledge workers, Innovation linkages, Knowledge absorption)	88	87	79
Pillar 6. KNOWLEDGE AND TECHNOLOGY OUTPUTS (Knowledge creation, Knowledge impact, Knowledge diffusion)	51	54	49
Pillar 7. CREATIVE OUTPUTS (Intangible assets, Creative goods and services, Online creativity)	51	53	43

Source: https://www.wipo.int/edocs/pubdocs/en/wipo_pub_2000_2022/md.pdf,
https://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2021.pdf

In the last year, the Republic of Moldova performs above in four pillars, namely: Human capital and research, Market sophistication, Business sophistication, Knowledge and technology outputs and Creative outputs.

The weak points of the Republic of Moldova, reflected in the GII 2021-2022, can be seen in table 3.

Table 3. The weaknesses of the Republic of Moldova in the GII 2021-2022

2021		2022	
Indicator name	Rank	Indicator name	Rank
Global corporate R&D investors, top 3, mn US\$	41	Policies for doing business	107
QS university ranking, top 3	74	Global corporate R&D investors, top 3, mn USD	38
Logistics performance	108	QS university ranking, top 3	72
GDP/unit of energy use	107	Logistics performance	106
Domestic market scale, bn PPP\$	116	Domestic market scale, bn PPP\$	118
GERD performed by business, % GDP	76	GERD performed by business, % GDP	74
Innovation linkages	119	University-industry R&D collaboration	101
University-industry R&D collaboration	116	State of cluster development and depth	114
State of cluster development and depth	126	Research talent, % in businesses	67
Global brand value, top 5,000, % GDP	80	Global brand value, top 5,000, % GDP	77
National feature films/mn pop. 15–69	101	n/a	-

Source: https://www.wipo.int/edocs/pubdocs/en/wipo_pub_2000_2022/md.pdf,
https://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2021.pdf

We noticed that mostly the weak points of the innovative system in the Republic of Moldova remain present in 2022, the financing of research and development activities by the business environment

being at an unsatisfactory level. Thus, the implementation of financial innovations in boosting investment activity remains a priority objective.

Financial innovation is defined as the act of creating and then popularizing new financial instruments, as well as new financial technologies, institutions and markets. Financial innovation refers both to technological advances that facilitate access to information, transactions and means of payment, and to the emergence of new financial instruments and services, new forms of organization and more developed and complete financial markets.

Modern ways of financing the company through the application of innovations that can be applied to enterprises in the Republic of Moldova refer to:

1) *Venture capital* appears in the form of a fund with risk capital or venture capital, which represents a specialized institution, which accumulates and places investments in the capital of companies with high potential, in the early stages of development, and after the increase in the stock market value, disposes of the share (or shares) held in their capital. Given the fact that in the market economy the business, as a rule, starts from a small business, venture capital funds, by their nature, are in direct contact with SMEs, unlike other funds that invest in early stage enterprises expansion or restructuring.

The cycle of venture capital begins with the mobilization of the means necessary for investments, it continues with the selection and realization of investments, monitoring and increasing the value, the fruition of the investment and ends with the distribution of the gains made, and then the cycle starts again. Depending on the specifics of the fund, the private equity cycle can last between 3-5 years in the case of buyout investments and 7-10 years in the case of venture capital investments.

At the same time, venture capital provides companies with operational assistance provided by a professional management, essential for the harmonious development of the business. The mission of venture capital funds is to facilitate SME access to venture capital as a profitable source of medium and long-term financing, while traditional financial institutions come to support businesses at the stage when venture investments have been justified and they capitalized.

Plans to introduce a legal framework regarding venture capital have existed for several years in the Republic of Moldova, but have not yet materialized. Since 2015, a draft law that takes into account existing EU regulations has essentially remained dormant. Private investments are available from angel investor associations, crowdfunding platforms, foreign private equity funds, but the current regulatory framework in the Republic of Moldova does not stimulate such investments.

The expansion and success of venture capital is strongly influenced by several factors, including the availability of innovative and high-growth businesses, the investment readiness of businesses, and a policy framework that favors equity investment. In the absence of these factors, it is not expected that the Republic of Moldova will gain a significant share of venture capital investments in the financing of startups and SMEs in the coming years.

2) *Informal investors*, also known as business angels, invest their own funds, unlike venture capital funds, which manage other people's resources. Business angels are people who, in addition to investing in businesses that will bring them an income over a period of time, invest ideas and experience for the development of start-up and growth businesses.

In most cases, business angels are former entrepreneurs and managers, they usually fill the self-financing space, entering the company when it cannot attract credits, and the need for capital is too small to be attractive to venture capital investors.

Obviously, the venture capital fund will not agree to invest in a company with a cost of evaluating the financing request higher than the potential financial income.

Business angels are willing to invest small amounts, and the investment process is simpler and less expensive. Angel groups are, in general, local organizations formed by 10 to 150 accredited investors, interested in investing in start-up activities.

Business angels investments are usually applied in areas where other financing instruments, such as bank loans or financing from European funds, are not a viable alternative - either where the projects or companies are not mature enough or where the procedures and the criteria that other tools assume are too thick for companies. For this type of financing, we discuss projects or companies at the beginning of the road that need initial capital to be able to develop a product idea. It should stimulate more young businesses, i.e. those that were established no more than three years ago, because they have the most important business dynamics, but also the greatest associated risk. If these businesses succeed, they generate many jobs, prosperity and positive economic effects in general.

3) *Mezzanine financings* represent hybrid instruments and refer to long-term subordinated loans of five to eight years, repayable in full at maturity, with the financier having the option of becoming a shareholder of the borrowed company, at a given moment, when the majority shareholder changes of the company or it is listed on the stock exchange.

The costs associated with this type of financing consist of the fixed interest charged and the income obtained from the sale of the shares held in the company. The holder of a mezzanine instrument will enjoy a level of priority, often holding the shares of the other shareholders as collateral.

A mezzanine financier will usually negotiate various put or call options in order to ensure the liquidity of his holdings, in order to contribute to the acquisition of a controlling position in the event that the company's performance drops dramatically, as for to resort to them in case of a possible exit from the company.

The advantages of mezzanine financing are determined by the fact that they allow business owners to obtain growth capital by increasing the degree of indebtedness without exposing the company to a high level of debt service demand because the holders of mezzanine instruments are rewarded by preferential dividends only when the enterprise is profitable.

International practice presents mezzanine financing as an alternative financing tool, but which does not correspond to every type of business. Although it is a form of financing that requires from the entrepreneur a high degree of knowledge in terms of financing, profitability estimation, risk calculation, it is a financing tool that must be taken into account by businesses that register rapid growth and need funding for research-innovation activities.

4) *Equity crowdfunding* consists of selling a share of your business to a number of investors in exchange for investment. The existence of equity financing is well established, with private equity, venture capital and angel investment having long played a role in the development of companies.

The main difference between crowdfunding and these traditional models is that, rather than establishing a one-to-one relationship, it is offered to a wide range of potential investors, some of whom may also be current or future clients. Equity crowdfunding does this by matching companies with potential angels through an internet-based platform.

Four crowdfunding models are known:

- model based on donation - for a cause with a social purpose;
- reward-based model - similar to an agreement between the supplier and the buyer, before the purchase of the product or service. The cost of the reward to the entrepreneur should be less than the cost of the product;
- lending-based model – a low or zero interest rate is charged, usually to support social entrepreneurs.

Before considering crowdfunding as a source of financing, both the advantages and challenges of this tool must be analyzed:

- the need for a diversified network to support the collection of funds;
- the crowdfunding system loses its effectiveness the larger the amount of money needed for the business. It is ideal to choose a partial financing of the project through this instrument and obtain complementary funds from other financing sources;
- success in collecting resources depends on the reward system.

Crowdfunding is a financing technique derived from crowdsourcing, based on the idea of involving the community as a potential investor.

Crowdfunding platforms mediate the obtaining of financing for various projects, by putting entrepreneurs in contact with investors.

As a result of the approval of Law No. 181 from 07-07-2023, starting from March 1, 2024, the business environment of the Republic of Moldova will have a more accessible financing alternative, using crowdfunding tools.

According to the document, the National Commission for Financial Markets (CNPF) will authorize, regulate and supervise the activity of crowdfunding service providers. In this sense, crowdfunding can be seen as a new business model that uses technological innovations and offers small and medium-sized enterprises (SMEs), at any stage of development, an alternative financing tool by connecting investors directly with business environment.

The maximum ceiling of resources that can be attracted by SMEs for a business project through crowdfunding platforms is 1 million euros. This financial instrument will allow citizens to invest their available resources in business projects. Transactions will take place on digital platforms and through secured means of identification, which will lead to the avoidance of bureaucratic procedures. In addition, the crowdfunding platforms will also allow the intermediation of loans for eligible individuals, who have the right to benefit from consumer financing projects in the maximum amount of 7,500 euros.

Conclusions

The challenges that exist at the current stage regarding economic development, which also has an influence on the application of financial instruments aimed at the activity of enterprises in the Republic of Moldova, refer to low economic productivity, demographic challenges, skills mismatch and a high vulnerability to both climate-related shocks and external ones, as well as global crises that generate additional uncertainties for the country's economy. There is a need to develop the regulatory and institutional framework to allow the development of alternative sources of financing, such as crowdfunding, business angels and financial technology (fintech). From the aforementioned, we conclude that the effective development and promotion of innovative financial instruments will contribute to the substantial boost of the financing of enterprises in the Republic of Moldova.

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