

## FINANCIAL REPORTING QUALITY AS A DRIVER FOR ACCESSING EXTERNAL FINANCING

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**Abstract:** *Within the financial market of the Republic of Moldova, which is heavily dominated by the banking sector in the absence of a fully developed capital market, the informational gap between companies and creditors represents a major structural obstacle to securing external financing. This research employs a methodology based on qualitative synthesis and a critical-comparative analysis of national and international literature, evaluating the transmission channels of agency theory (adverse selection and moral hazard) in correlation with financial reporting regimes.*

*The findings reveal that the credit market in the Republic of Moldova remains constrained by the paradigm of asset-based lending (collateral-driven), a direct response to the opacity and formalism of financial statements prepared under National Accounting Standards (NAS). However, the analyzed evidence demonstrates that the transition to IFRS acts as a catalyst for enhancing Financial Reporting Quality (FRQ), providing superior predictability of cash flows and enabling a shift toward modern bank screening models (centered on IRR and financial performance). The study concludes that mere regulatory compliance is insufficient; optimizing FRQ through IFRS adoption, accounting digitalization, and the reinforcement of auditing stands as vital strategic tools for improving credit ratings and unlocking external financing for SMEs.*

**Key words:** *Quality of Financial Reporting (FRQ), Cost of Debt, Bank Guarantees, Cash Flows.*

**JEL: M40, G10.**

### **Introduction**

In the modern financial market, accounting information has transcended its traditional role as a mere historical record, evolving into a strategic asset within the communication process between entities and capital markets. Today, disclosure quality forms the bedrock upon which investor and creditor trust is established. For a transition economy like that of the Republic of Moldova, where the capital market remains underdeveloped and bank lending represents the primary source of external capital, informational asymmetry continues to pose a major challenge. The structural divergence between National Accounting Standards (NAS) and International Financial Reporting Standards (IFRS) provides a compelling analytical framework for understanding how reporting rigor directly influences the cost of borrowed funds.

The purpose of this study is to investigate, through the lens of specialized literature and recent regulatory developments, whether the adoption of a more complex reporting framework (IFRS) and an enhanced quality of explanatory notes can serve as signals of stability, leading to a reduction in the cost of debt and a relaxation of collateral requirements. In the context of aligning national regulations with the EU *acquis*, recent research highlights the necessity of an integrated debt reporting methodology. As argued by Russu (2025), financial debt can no longer be viewed merely as a certain

liability, but rather as a strategic source whose transparency directly shapes risk predictability. Furthermore, discrepancies between NAS and IFRS regarding the evaluation of borrowing costs and complex hybrid instruments—such as corporate bonds and redeemable shares—can distort performance indicators, directly impacting the cost of attracted capital. Consequently, financial reporting quality (FRQ) emerges as a critical determinant of an economic entity's bargaining power in relations with external creditors.

### **Basic content**

#### **Research Methodology**

The present study employs a qualitative methodology based on content analysis and a critical-comparative approach to recent empirical literature, utilizing foundational reference sources. In the first stage, a synthesis of evidence from international literature was conducted to identify the primary channels through which informational transparency influences creditors' decisions. Subsequently, these theoretical models were transposed and adapted to the specific context of the Republic of Moldova. This approach enabled a direct assessment of how financial reporting quality determines the behavior of commercial banks in the Republic of Moldova during the credit granting process.

#### **Literature Review**

Within specialized literature, the nexus between informational transparency and external financing mechanisms occupies a central role, demonstrating that corporate financial reporting directly influences investor behavior and the cost of capital. In this regard, current developments reflect an expansion of the reporting scope, migrating beyond the rigid boundaries of classical financial statements toward sustainability, integrated, and ESG paradigms. Rather than substituting financial reporting, these new informational frameworks act as validation factors of its quality, reconfiguring access to external resources through four main channels:

- **Sustainability Reporting (CSR):** acts as a catalyst for reducing overall informational asymmetry. Corporate social responsibility disclosures have ceased to be mere public relations tools, evolving into fundamental pillars for credit risk assessment. An expanded volume and higher quality of reports, backed by independent external assurance, mitigate financing constraints and facilitate access to capital (García-Sánchez et al., 2019).
- **Integrated Reporting (IR):** functions as a direct determinant of the cost of capital. High-quality integrated reporting is empirically associated with a significant decrease in the cost of debt for listed European firms (Raimo et al., 2021). However, a purely quantitative expansion of IR disclosures does not guarantee a reduction in the cost of equity; its actual impact depends on specific external financing needs and the entity's structural credibility (Lailiyah & Permatasari, 2025).
- **ESG Framework (Environmental, Social, and Governance):** represents a cornerstone of investment efficiency, particularly in emerging markets. High-quality ESG disclosures are correlated with lower borrowing costs; as these costs decrease due to robust disclosures, negative phenomena such as corporate under-investment and over-investment are corrected (Kookkaew et al., 2026).
- **Financial Reporting Regimes:** The introduction of a more stringent financial reporting regime drives a generalized expansion of external financing opportunities and an increased volume of investment at the firm level, with adjustments between debt and equity being modulated by the borrowing capacity of the entities (Naranjo et al., 2020).

**Table 1. Synthesis of the relationship between reporting type and its effects on external financing**

Reporting type	Primary effect on external financing
CSR	Reduces financing constraints, improves access to capital (García-Sánchez et al., 2019)
Integrated Reporting (IR)	Decreases the cost of debt (Raimo et al., 2021)
ESG Reporting	Decreases the cost of debt and improves investment efficiency (Kookkaew et al., 2026)
Strict Reporting Enforcements	Increases the utilization of external financing and investment volume (Naranjo et al., 2020)

*Source: Developed by the author based on [2, 4, 5, 6]*

While advanced frameworks like ESG and Integrated Reporting represent the global frontier of transparency, for transition economies like the Republic of Moldova, the immediate baseline priority remains the transition from national accounting standards to IFRS.

**The accounting regulatory framework: A driver of reporting quality in optimizing access to capital**

While the quality of financial information modulates investor decisions at a conceptual level, in practice, this quality is guaranteed by the rigor and evolution of the financial reporting and accounting regulatory framework. From this perspective, Financial Reporting Quality (FRQ) cannot be dissociated from institutional alignment efforts. A primary, essential pillar in consolidating FRQ as a driver for attracting external resources is the ongoing harmonization of national accounting systems with International Financial Reporting Standards (IFRS), European Directives, and International Public Sector Accounting Standards (IPSAS). This global convergence does not merely aim for regulatory compliance, but rather for the structural standardization of fundamental qualitative characteristics—such as relevance, faithful representation, comparability, and timeliness of information (Golochalova & Turcanu, 2020; Lazari & Iavorschi, 2025; Railean, 2022). When an emerging market adopts these unified qualitative attributes, cross-border informational asymmetry is drastically reduced, providing international creditors with a common, trustworthy financial language.

This structural accuracy must be reflected above all in the depth of disclosures presented within the financial statements. Specifically, clarifying and rigorously aligning the content of the explanatory notes with IFRS requirements—particularly in the complex area of financial instruments—represents a critical condition for eliminating the risk of reporting ambiguous or misleading data (Korol & Sokolova, 2019). Detailed explanatory notes function as a protective shield against uncertainty: the more transparent the disclosures regarding financial instruments, the lower the risk margin demanded by financiers. Furthermore, enhancing reporting quality requires the development of detailed sector-specific methodological guidelines, such as those tailored for Public-Private Partnerships (PPPs) or other highly specific economic areas. Centered on transparency, consistency, and the digitalization of reporting processes, these guidelines enable the standardized transmission of data to capital market participants, thereby optimizing the financial screening process (Panus, 2025).

In sectors heavily monitored by investors, such as the insurance industry, promoting non-financial reporting through clear regulations focused on Key Performance Indicators (KPIs) becomes a strategic priority for attracting reinsurance capital and institutional investment (Dolghi, 2023). Ultimately, for reporting standards to be recognized as genuine instruments for guaranteeing FRQ to external investors, the simultaneous reinforcement of corporate governance and monitoring mechanisms is mandatory. The synergistic operation of internal and external auditing, independent audit committees, and active boards of directors forms the supervisory core that ensures true compliance with standards and prevents earnings management. This control infrastructure is vital, especially within financial institutions, where high-

quality reporting restores the confidence of depositors and long-term creditors, solidifying the stability of the entire financial system (Sahi et al., 2022).

### **The transmission channels of financial reporting quality (FRQ) on access to finance**

To gain a profound understanding of how financial reporting quality (FRQ) becomes a fundamental driver of access to external financing, it is essential to delineate its mechanisms through the lens of the microeconomic agency theory. Specifically, FRQ does not act in isolation; rather, it operates through clear channels that mitigate financial transparency deficits, adverse selection, and moral hazard. The mitigation of these market frictions subsequently materializes into tangible contractual advantages for entities, reflected in the efficiency of the initial screening process, the optimization of loan pricing (the reduction of the cost of capital), increased flexibility in collateral requirements, the calibration of restrictive clauses (covenants), and a reduced intensity of post-lending monitoring.

Mitigating credit risk and optimizing transparency. A high level of financial reporting quality implies superior informational transparency, which diminishes the initial uncertainty experienced by external financiers during the analysis phase. When corporate earnings quality is solid, investors and creditors can forecast future cash flows with greater accuracy. Conversely, a reduced level of earnings quality directly amplifies the adverse selection component reflected in transaction costs, prompting market participants to demand an additional risk premium to compensate for information opacity (Bhattacharya et al., 2013). Therefore, mitigating the risk of adverse selection grants transparent entities significantly greater flexibility in issuing equity and, implicitly, drives a faster convergence toward the optimal capital structure, ensuring better stability and long-term financial equilibrium (Biddle et al., 2009; Synn & Williams, 2023). From the perspective of credit institutions, improving the rigor of financial reporting—as demonstrated globally by major structural reforms like the US Sarbanes-Oxley Act (SOX Section 404)—strengthens banks' capacity to conduct significantly more efficient *ex-ante* screening. This optimized screening allows for a sharp differentiation of risks and leads to the construction of loan portfolios with a superior qualitative profile, reducing the incidence of non-performing loans (Gallimberti, 2020). Concurrently, adopting a conservative accounting approach and ensuring the timely recognition of economic losses acts as a signal of credibility in capital markets, reducing the overall cost of debt (Chen & Zhu, 2013; Wittenberg-Moerman, 2008).

Once the initial capital allocation phase is completed, the protective role of financial reporting quality shifts to the post-contractual phase, acting as an instrument for controlling moral hazard. In credit markets, the risk that management or majority shareholders might adopt opportunistic behavior to the detriment of creditors (underinvestment, asset substitution, or obtaining unjustified benefits) is closely linked to the opacity of financial reports. A high FRQ severely restricts this scope for opportunistic manipulation by providing prompt and verifiable accounting signals. As a result, external creditors can significantly reduce their expenditures on the direct monitoring of debtors.

This informational efficiency brings about a profound restructuring of contractual clauses. Instead of resorting to rigid collateral requirements (heavy physical guarantees and asset encumbrances), financiers become willing to structure flexible contracts based on financial covenants anchored directly in high-quality accounting indicators. When the financial reporting system instills confidence, performance indicators become predictive, allowing the activation of automated protective mechanisms only in the event of an actual deterioration in performance.

In conclusion, qualitative financial reporting functions as a genuine institutional "antidote" to information asymmetry, adverse selection, and moral hazard. It reduces the fundamental cost of information processing, streamlines bank screening and monitoring, and enables the transition from lending based exclusively on patrimonial guarantees to financing based on performance and the quality of reported financial cash flows.

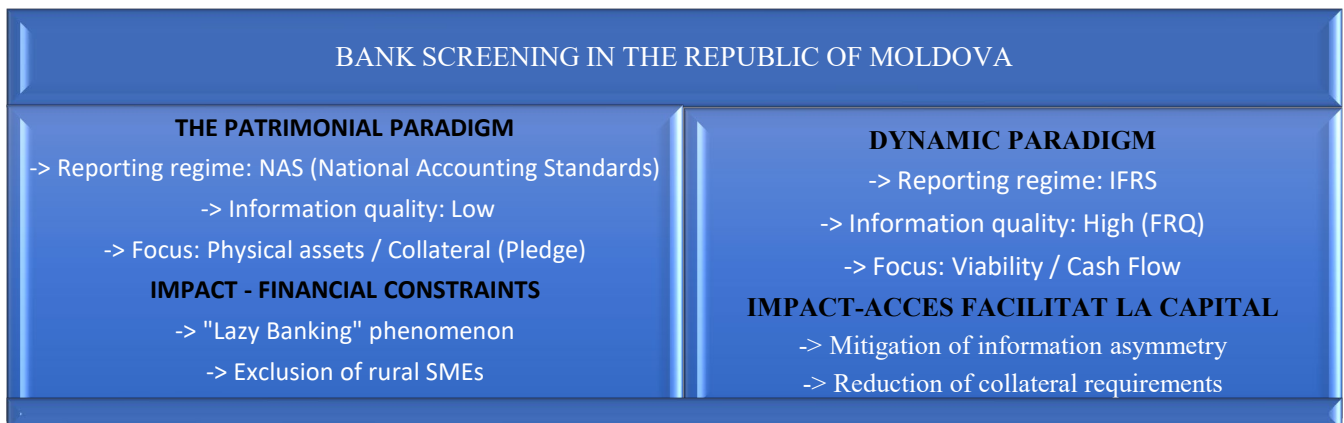
### **Configuring the relationship between Financial Reporting Quality and creditor behavior in the Republic of Moldova: The "Collateral vs. Cash Flows" Dilemma**

In the Republic of Moldova, informational gaps manifest directly in the relationship between entities and credit analysts within commercial banks. Credit risk management has historically relied on an asset-based approach, governed by the requirement of massive real estate collateral (Băncilă & Popovici, 2022). This rigid institutional preference represents a direct response to the formalism and poor quality of information reported under National Accounting Standards (NAS). Under the NAS regime, explanatory notes are frequently minimalist and opaque. Faced with this lack of transparency, commercial banks compensate for adverse selection risks by imposing stringent pledge conditions. Empirical studies conducted on the Moldovan market confirm that the lending sector remains heavily anchored in this paradigm, where high collateral requirements constitute the main barrier to accessing bank resources, with over 39% of managers assessing these requirements as extremely high, while the aggregate indicator records a negative mean score (mean = 2.14; Kea = -0.86) (Ianioglo, 2023).

This barrier affects local market companies differently, depending on their size and specific field of activity. While large corporations and entities in highly visible sectors (such as the IT sector) access capital relatively easily, micro-enterprises, HoReCa companies, and rural businesses feel the collateral constraints most acutely (Ianioglo, 2023). The situation is structurally compounded by imperfections in the national regulatory framework regarding pledges and the absence of liquid secondary markets for the rapid liquidation of pledged assets in the event of default. This aspect inflates transaction costs for banks and, consequently, increases the price of credit for borrowers (Băncilă & Popovici, 2022). Even state-backed interventions, such as the government guarantee schemes during the pandemic crisis, failed to resolve the core issue; empirical evidence suggests that such mechanisms tend merely to substitute unsecured loans with secured ones, without inducing a net expansion in the total volume of financing (Altavilla et al., 2025).

Within emerging economies, the impact of financial transparency deficits on credit allocation manifests as a structural trade-off between asset-based lending and performance-driven assessment. Evaluation based on cash flows and dynamic profitability indicators (specific to investment projects) is widely recognized as superior for efficient resource allocation. However, its feasibility is strictly conditional upon the existence of transparent, faithful, and audited financial statements—namely, a high Financial Reporting Quality (FRQ) (Onikiienko et al., 2021; Jovičić & Pešić, 2024).

This dynamic changes radically with the transition to International Financial Reporting Standards (IFRS), a process that acts as a catalyst for enhancing reporting quality. The IFRS framework compels entities to shift toward reporting based on economic substance and forward-looking estimates, mandating a transparent disclosure of cash flows and financial risks (Jovičić & Pešić, 2024; Onikiienko et al., 2021). To visualize how the level of reporting quality reconfigures the bank evaluation process, this structural relationship is synthesized in Figure 1.



**Figure 1. The structural matrix of bank screening in the Republic of Moldova based on FRQ**

*Source: Developed based on the research findings documented by Ianioglo (2023), Onikiienko et al. (2021), Băncilă & Popovici (2022), and Jovičić & Pešić (2024).*

The structural matrix presented in Figure 1 clearly highlights that optimizing Financial Reporting Quality (FRQ) becomes the fundamental pillar upon which the transition from historical, asset-based lending to performance-driven financing can be constructed. As long as financial reporting under the national framework based on NAS generates informational opacity, commercial banks in the Republic of Moldova will exhibit heightened risk aversion, discounting economic viability in favor of physical collateral.

Consequently, for the Republic of Moldova, fostering IFRS adoption, enhancing disclosures within the explanatory notes, and conducting external audits of financial statements represent the only mechanisms capable of delivering sufficiently reliable financial statements. Only by achieving this level of transparency will banking institutions be enabled to migrate from the static analysis of pledges toward the dynamic evaluation of performance and actual cash flows generated by economic entities.

### Conclusions

The present research demonstrates that enhancing Financial Reporting Quality (FRQ) extends beyond mere regulatory compliance, serving as a strategic driver in optimizing access to external financial resources. Internationally, informational transparency—underpinned by the implementation of IFRS frameworks, integrated reporting, and ESG indicators—ensures a comprehensive and verifiable flow of both financial and non-financial data to creditors. This mechanism mitigates initial lender uncertainty by providing a faithful representation of repayment capacity, thereby directly reducing credit risk and driving a substantial decrease in the cost of debt. In the Republic of Moldova, however, a structural deadlock is observed. The national banking system remains anchored in an asset-based lending paradigm, dominated by the requirement of massive real estate collateral, which restricts SME financing. This rigid institutional preference of banks is directly fueled by the quality of financial statements prepared under NAS. The content of the explanatory notes accompanying these financial statements hinders the application of modern screening methods based on economic performance and cash flow analysis. Consequently, optimizing FRQ through the transition to IFRS represents the fundamental pillar capable of reconfiguring creditor behavior, offering superior predictability over liquidity and implicitly allowing for a relaxation of collateral requirements. Building upon the conclusions of this study and the current limitations of the specialized literature within the national framework, subsequent investigations should focus on the following priority directions:

- *Direct quantitative empirical analyses*: evaluating, through econometric models, the direct impact of the transition from NAS to IFRS on bank interest margins (credit spreads) and on the volume of physical collateral required from entities in the Republic of Moldova. Such an approach would allow for the exact quantification of the financial benefits generated by the enhancement of financial reporting quality.
- *The role of qualitative information in financial assessment*: studying the extent to which non-financial variables—such as management reputation, corporate governance, and relationship history with the bank—can compensate for the lack of physical collateral assets. This research direction is vital for facilitating the financing of early-stage entities (start-ups) and companies in innovative sectors, such as services and information technology (IT).

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