

ALTERNATIVE SOURCES OF ENTERPRISE FINANCING AND THE IMPACT OF COVID-19 PANDEMIC

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ABSTRACT

In current conditions of digital transformation and difficulties in accessing traditional financing, alternative sources of finance acquire particular importance. At the same time, the knowledge regarding the alternative finance market is yet in its infancy, with little evidence of the effects of the Covid-19 pandemic on the alternative finance market in Moldova. Therefore, the article aims to explore financing alternatives for enterprises in Moldova and determine the effects of the Covid-19 pandemic on the alternative finance market. Additionally, there were analysed data from other reference countries. In order to achieve the objective of the study, a mixed research approach, based on both primary and secondary data, was used: analysis of statistical data, international rankings, comparison, synthesis, deduction, as well as a questionnaire-based survey designed for small and medium-sized enterprises. SMEs have proven to be vulnerable to crises. The alternative finance market in Moldova was analysed, showing that despite a rise in recent years, alternative sources of financing are still poorly developed. The study shows that enterprises face the biggest problems in accessing venture capital, financing on the securities market and use of electronic platforms to attract funding (crowdfunding, cryptocurrencies, etc.). At the same time, there was registered an improvement in accessing crowdfunding since the beginning of the pandemic. Generally, obtained results are essential for further research, practitioners and in determining measures to facilitate access to finance.

Keywords: *alternative finance, crowdfunding, entrepreneurship, finance, Fintech, peer to peer lending, venture capital.*

În condițiile actuale de transformare digitală și dificultăți în accesarea finanțării tradiționale, sursele alternative de finanțare capătă o importanță deosebită. În același timp, cunoștințele privind piața de finanțare alternativă sunt încă scăzute. De asemenea, nu există suficiente informații despre efectele pandemiei Covid-19 asupra pieței de finanțare alternativă din Moldova. În acest context, articolul își propune să exploreze surse alternative de finanțare pentru întreprinderile din Moldova și să determine efectele pandemiei Covid-19 asupra pieței de finanțare alternativă. În plus, au fost analizate și date din alte țări de referință. Pentru atingerea obiectivului studiului a fost utilizată o abordare mixtă de cercetare, bazată atât pe date primare, cât și pe cele secundare: analiza datelor statistice, clasamente internaționale, comparație, sinteză, deducere, precum și chestionarul pentru întreprinderile mici și mijlocii. IMM-urile s-au dovedit a fi vulnerabile la crize. A fost analizată piața de finanțare alternativă din Moldova, care a arătat că, în ciuda unei creșteri în ultimii ani, sursele alternative de finanțare sunt încă slab dezvoltate. Studiul arată că întreprinderile se confruntă cu cele mai mari probleme în accesarea capitalului de risc, finanțarea pe piața valorilor mobiliare și utilizarea platformelor electronice pentru a atrage finanțare (crowdfunding, criptomonede etc.). Totodată, de la începutul pandemiei s-a înregistrat o îmbunătățire a accesului la crowdfunding. În general, rezultatele obținute sunt importante pentru cercetările ulterioare, practicieni și elaborarea măsurilor de facilitare a accesului la finanțare.

Cuvinte cheie: *finanțare alternativă, crowdfunding, antreprenoriat, finanțe, fintech, creditare peer to peer, capital de risc.*

В современных условиях цифровой трансформации и сложности доступа к традиционному финансированию особое значение приобретают альтернативные источники финансирования. В то же время знания о рынке альтернативных финансов все еще находятся на начальной стадии, кроме того, недостаточно исследовано влияние пандемии Covid-19 на рынок альтернативных финансов в Республике Молдова. Таким образом, цель статьи состоит в исследовании альтернативных источников финансирования предприятий в Республике Молдова и определении

влияния пандемии Covid-19 на рынок альтернативных финансов. Кроме того, были проанализированы данные из других стран. Для достижения цели исследования был использован смешанный исследовательский подход, основанный как на первичных, так и на вторичных данных: анализ статистических данных, международных рейтингов, сравнение, синтез, дедукция, а также анкетный опрос малых и средних предприятий. МСП оказались уязвимыми перед кризисами. Был проанализирован рынок альтернативного финансирования в Республике Молдова, который показал, что, несмотря на рост в последние годы, альтернативные источники финансирования все еще слабо развиты. Исследование показывает, что наибольшие проблемы у предприятий возникают при доступе к венчурному капиталу, финансированию на рынке ценных бумаг и использовании электронных площадок для привлечения финансирования (краудфандинг, криптовалюта и др.). В то же время было отмечено улучшение доступа к краудфандингу с начала пандемии. В целом, полученные результаты важны для дальнейших исследований, практиков и при определении мер по облегчению доступа к финансам.

Ключевые слова: альтернативные финансы, краудфандинг, предпринимательство, финансы, финтех, пиринговое кредитование, венчурный капитал.

JEL Classification: G20, G30, O16, L26

UDC: 336.648

INTRODUCTION

Small businesses represent a key part of most economies, contributing to employment and sustainable economic development. Despite their significant role, Small and Medium-sized Enterprises (SMEs) still face a number of challenges, one of the most significant being access to financing, which affects the productivity and growth of enterprises. This is especially relevant when considering the global pandemic. The Covid-19 pandemic has affected the normal economic order, causing a major economic shock. Specifically, SMEs were seriously hit due to their disadvantaged position during the crisis ([Brown et al., 2020](#); [Doshi et al., 2018](#)). Along with all the negative effects, the COVID-19 pandemic has accelerated the trend towards digitalisation ([Klein & Todesco, 2021](#)), including digital transformation in the financial sector ([Fu & Mishra, 2022](#)).

The rise of alternative financial channels represents a significant outcome of the digitalisation of the entrepreneurial finance ecosystem ([Bertoni et al., 2021](#)). Alternative financing instruments are valuable sources of external funding of SMEs' activity, especially when they experience borrowing constraints from banks. At the same time, alternative finance instruments remain poorly developed in Moldova. Therefore, difficulties in accessing finance are significant challenges for SMEs, which are becoming very pronounced due to the current crisis, proving the relevance of the research topic.

The paper aims to explore financing alternatives for enterprises in Moldova and determine the effects of the Covid-19 pandemic on the alternative finance market.

This study contributes to the growing literature on alternative finance markets in developing countries on example of the Republic of Moldova, and the effects of the COVID-19 pandemic on entrepreneurial finance.

The remainder of the paper is organised as follows. Section 2 presents a literature review, followed by a methodology section, describing the data sources and research methods. Section 4 explores the level of development of alternative finance in Moldova and analyses the effects of the Covid-19 pandemic on alternative finance of small businesses. The last section reveals the main conclusions of the study.

LITERATURE REVIEW

SMEs are the leading form of enterprise globally. They account for approximately 99% of all enterprises in Moldova and employ 60,1% of the population. The access to finance is essential for the activity, growth and innovation of SMEs. Despite their importance, SMEs are perceived by banks as high-risk clients with limited collateral options ([Corredera-Catalán et al., 2021](#)), higher degree of informality, lack of history and lower financial management capacities ([OECD et al., 2020](#), [Berger & Udell, 2006](#)). Thus, SMEs are unlikely to have the required amount or type of assets to act as loan guarantees. They may not have a long-standing relationship with a financial institution. The high cost and slow financing of SMEs is a great challenge for economic development, which has aroused the concerns of many scholars ([Song et al., 2020](#)). In this context, alternative sources of finance acquire special attention.

Several studies have focused their attention on the analysis of access to finance in developing countries ([Ayyagari et al., 2021](#); [Nizaeva & Coskun, 2019](#); [Manzoor et al., 2021](#)) and alternative sources of finance during the pandemic ([Sahay et al., 2020](#); [Fu & Mishra, 2022](#); [Liu et al., 2022](#)). For several years technology was changing the landscape of the financial sector, increasing access to financial services ([Sahay et al., 2020](#)). During the pandemic, there were created new opportunities for digital financial services. Alternative sources of finance include peer-to-peer lending, equity finance, angel investments, crowdfunding, etc. They are disrupting traditional financial markets and offer new opportunities for business.

Traditional financial services require high investments in branches and staff, while online financial services have limited operational costs with minimum staff and no branches. [As L. Lu \(2018\)](#) noted, technologies have provided alternative lenders a “competitive advantage in terms of saving costs and improving business efficiency”. Due to the use of big data technology and artificial intelligence, online lending platforms have access to more information about the borrowers and can faster and more precisely evaluate the credit risk. Additionally, in contrast with banks, online sources of finance have no geographical limitations.

Thus, digital financial services are disrupting traditional financial markets and offer new business opportunities. They are generally perceived as being faster, more efficient, and typically cheaper than traditional financial services ([Sahay et al., 2020](#)). Compared to traditional financial instruments, Fintech is more inclusive, offering additional opportunities for overcoming the financial constraints of SMEs ([Gao, 2022](#)).

The online alternative finance market is still small, but growing fast from 1.5 billion USD in 2013 to 23.2 billion USD in 2019. At the same time, the knowledge regarding alternative finance markets is yet in its infancy. Additionally, to our knowledge, the effects of pandemic were not explored on alternative finance market in Moldova.

METHODOLOGY

The research is based on a mixed approach, using both primary and secondary sources of data. The study draws upon primary data collected using a questionnaire-based survey. The questionnaire provides data on the impact of alternative sources of finance on the development of entrepreneurship in Moldova and their changes over the past two years. The questionnaire was designed for small and medium-sized enterprises. The total number of respondents amounted to 106 entrepreneurs from micro, small and medium-sized enterprises from different regions according to their distribution in the North, Centre and South of Moldova. The questionnaire consisted of two parts. First, the impact of different indicators of the development of entrepreneurship was identified. Secondly, the trend of these indicators over two years (2021 compared to 2019) was determined.

Additionally, the following scientific methods were used: analysis of statistical data, international rankings, comparison, synthesis, and deduction.

The data for performing the analysis were extracted from databases of the National Bureau of Statistics, World Bank, Cambridge Centre for Alternative Finance, World Economic Forum, and Organisation for Economic Co-operation and Development.

The limitations of chosen research methods lie in questionnaire data obtained from respondents from one country. For future research, it would be interesting to evaluate the perceptions of entrepreneurs from other reference countries.

Covid-19 and the alternative finance market in Moldova

The main sources of financing the investment activity of enterprises in Moldova are their own means reaching 65% of total investments in long-term tangible assets in 2016. However, insufficient financial resources determine enterprises to access external sources to finance their activity.

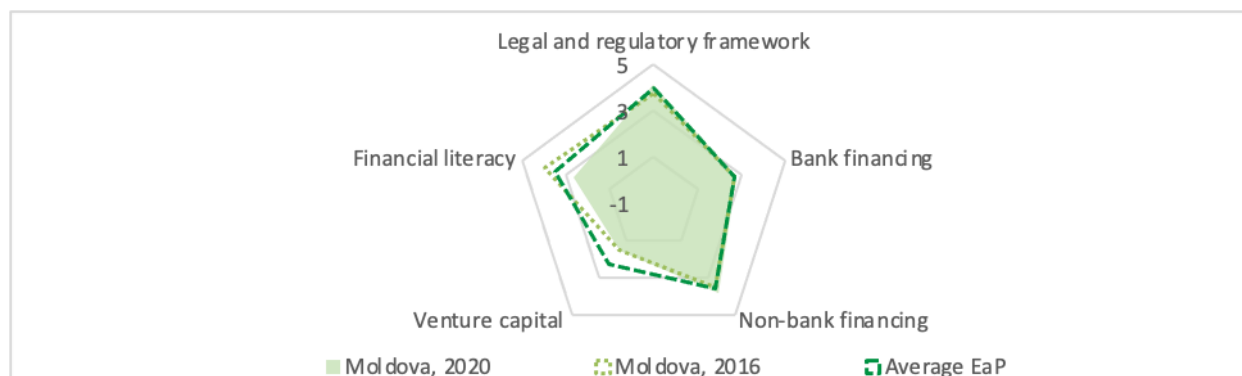
Over 80% of the total credit supply is covered by bank financial resources ([NCFM, 2020](#)). In the last five years, the share of loans in GDP granted by non-bank credit organisations (NCOs) has increased 1,6 times, constituting 4.66% in 2020. In the structure of the lending sector, their share constituted 14.5% in 2020, or by 1.8 p.p. more than in 2017. The share of loans in GDP granted by Savings and credit associations did not change considerably in the last years, accounting for 0.46% in 2020. Non-bank credit organisations and Savings and credit associations are slowly growing as sources of financing for SMEs, especially in rural areas, mainly due to the high requirements of bank guarantees. At the same time, it should be noted that 82% of NCOs loans are granted to individuals and only 18% are offered to legal entities. Other sources of financing such as leasing, business angels, crowdfunding, and venture capital are still poorly developed.

In order to highlight the strengths and weaknesses of policies that support access to finance for SMEs, there were analysed data from SME Policy Index ([OECD et al., 2020](#)). The country ranks third out of the Eastern Partnership (EaP) countries on pillar – *Access to finance*, with a score of 3.61 (out of max. 5), slightly exceeding the average of EaP countries (3.57) and is 0.21 more than in the previous report in 2016. Georgia and Armenia rank higher: 4.02 and 3.81, correspondingly.

The Republic of Moldova obtained better scores on the sub-dimensions: *Legal and regulatory framework* (4.1) and *Non-bank financing* (3.79), exceeding the average of EaP countries by 0.11 and 0.24 respectively (figure 1).

Figure 1.

Score of the sub-dimensions of the pillar Access to financing in Moldova

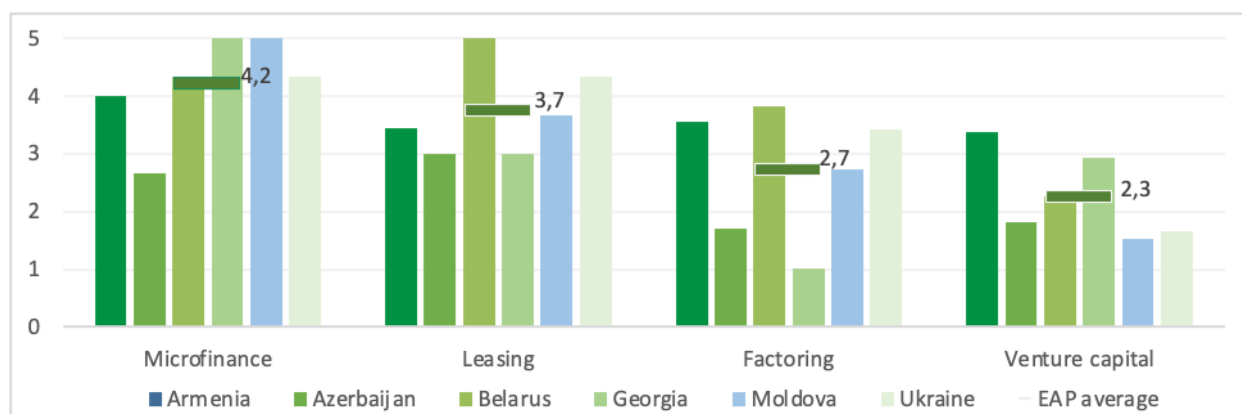


Source: developed by the author based on SMEs Policy Index 2020

At the same time, the *Stock market* (score of 2.43) does not represent a potential source of business financing. The country obtained the lowest scores in the *Venture Capital* (1.53) and *Financial Literacy* (2.67) sub-dimensions, being lower by 0.73 and 0.79, respectively, compared to the average of EaP countries. Analysis of non-bank sources of finance (figure 2) showed that Moldova obtained the highest score on *Microfinance* (5.0). Adoption of Law no. 1 on non-bank credit organisations from 16.03.2018 was an important step in diversifying the sources of financing, including strengthening leasing regulations, but alternative sources of finance remain underutilised in the country. The share of leasing in the structure of the credit sector in the country has decreased by 1.2 p.p. from 3.8% in 2017 to 2.6% in 2020 (NCFM, 2022). In the field of factoring, there is a corresponding regulation, which could be further improved. At the same time, no statistics are available to assess the market penetration of this instrument.

Figure 2.

Scores for the non-bank financing indicators in EaP countries



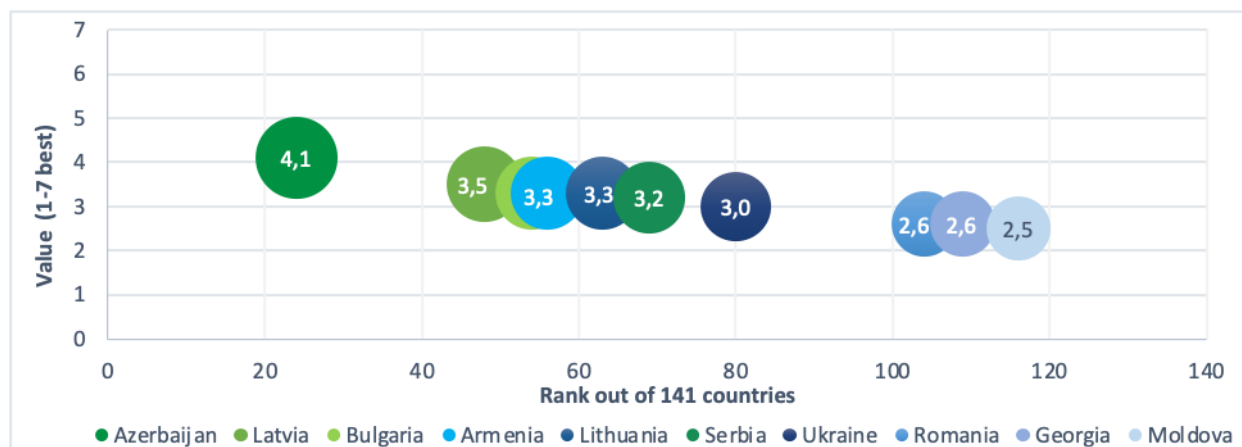
Source: developed by the author based on SMEs Policy Index 2020

In relation to other EaP countries, Moldova ranks last on the *Venture Capital* sub-dimension (1.53), the highest score being obtained by Armenia (3.37). In Moldova, plans to introduce a legal framework for venture capital have existed for years, but it has not been adopted yet. Generally, this financial instrument is underutilised in the country.

Thus, in terms of ease for start-up entrepreneurs with innovative but risky projects to obtain equity funding, Moldova is placed last compared to reference countries, ranking 116 out of 141 countries with a value of only 2,5 (figure 3).

Figure 3.

Venture capital availability in the Ranking of Moldova and reference countries



Source: developed by the author based on Global Competitiveness Report (Schwab, 2019)

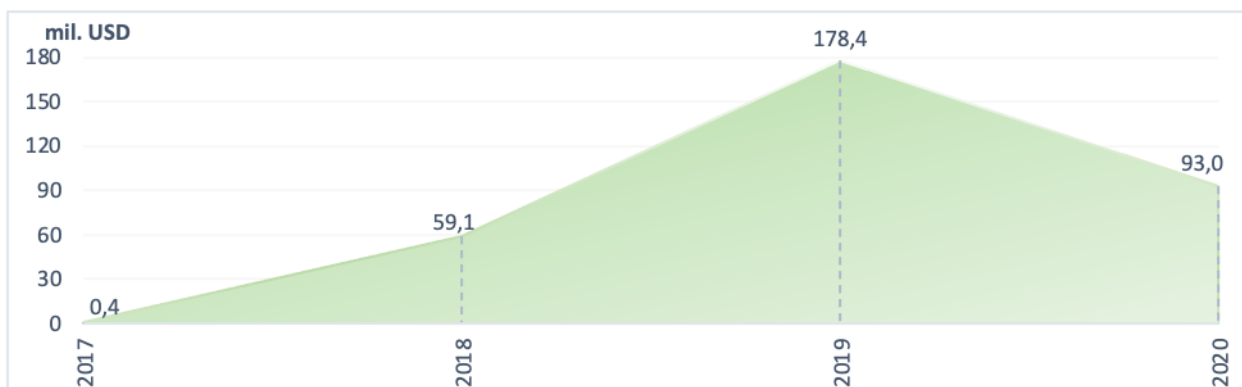
Another alternative source of finance is crowdfunding. Crowdfunding represents an emerging type of equity-based, non-bank financial instrument. There are various types of crowdfunding, specifically: peer-to-peer, equity and rewards-based, donation-based, profit-sharing, and debt-securities crowdfunding. In order to analyse the development of this financial instrument, there was analysed data on business volumes of crowdfunding platforms through annual surveys provided by the Cambridge Centre for Alternative Finance (CCAF). They represent data for this alternative finance in the form of digital lending (balance sheet lending, peer-to-peer lending, debt-based securities, invoice trading) and digital capital raising (investment and noninvestment-based crowdfunding).

Crowdfunding is still a small market, but it is growing fast. Many companies experienced difficulties during the Covid-19 pandemic. Over the years, the European (including the UK) online alternative finance market volume grew consistently from 1.5 billion USD in 2013 to 23.2 billion USD in 2019. However, 2020 saw a drop in overall market volume to 22.6 billion USD, representing the first decrease in market volume since 2013. At the same time, it is important to remark that the crowdfunding industry provided additional support and flexibility for businesses. Out of the total amount, crowdfunding platforms in Europe, excluding the UK, raised 5.2 billion USD for businesses in 2020 or by 0.9 billion USD more than in the previous year. Volumes for SME focused finance have been increasing steadily over recent years, with business funding accounting for 35% of the total volume in 2019 and 52% in 2020 (CCAF, 2022).

Data for Moldova show that the crowdfunding market was also increasing in Moldova, reaching 178.4 million USD in 2019 (figure 4). But the amount dramatically decreased by 47.9% in 2020 due to uncertainty on the market, conditioned by the Covid-19 pandemic.

Figure 4.

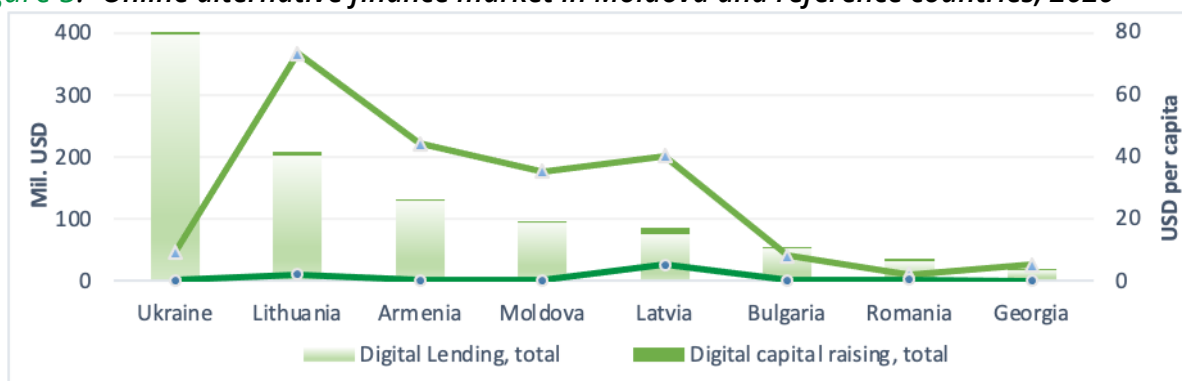
Online alternative finance market in Moldova for 2017-2020



Source: developed based on Ziegler et al. (2021), CCAF (2022)

Comparative data on online alternative finance market in Moldova and reference countries is represented in figure 5.

Figure 5. Online alternative finance market in Moldova and reference countries, 2020



Source: developed based on Ziegler et al. (2021), CCAF (2022)

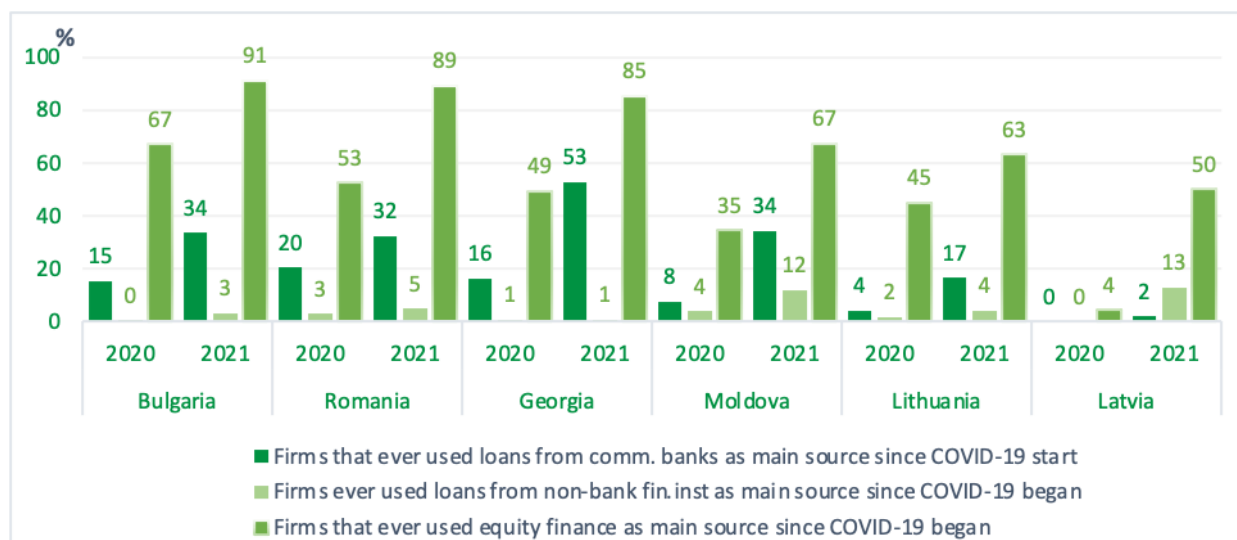
Although, there was registered a significant decrease in the crowdfunding market, Moldova is in fourth place in terms of online alternative finance per capita among reference countries, following Lithuania, Armenia and Latvia.

According to World Bank Enterprise Survey 2019, 29.4% of the respondent enterprises in Moldova identify access to financial resources as a major constraint, twice the average in Europe and Central Asia (14.7%). Due to the COVID-19 pandemic, the private sector experienced growing financial distress. Totally 96.5% of firms in the republic ever experienced decreased liquidity or cash flow availability since COVID-19 began, the indicator being worse compared to other reference countries (Georgia - 84.0%, Bulgaria- 81.0%, Lithuania -78.9%, Romania - 65.7%, Latvia - 59.0%). These led to delay payments to suppliers, reported by 69.3% of firms.

At the same time, the Covid-19 pandemic accelerated the digitalisation processes in all spheres of activity. According to WB Enterprise Survey (2022) data, the percent of firms that started or increased online business activity constituted 32% in June 2020 and doubled in June 2021 (68%). In terms of sources of finance, it could be observed that bank loans prevail over non-bank loans in most of the analysed countries (figure 6).

Figure 6.

Percentage of firms that used bank and non-bank sources of finance since Covid-19 began



Source: developed by the author based on World Bank Enterprise Surveys follow-up on Covid-19

Nevertheless, as of June 2021, over half of respondents mentioned that their loan application was rejected, 34% of Moldovan firms reported the use of bank loans as the main source since Covid-19 began and 12% - the use of loans from non-bank financial institutions. At the same time, a big share of firms reported that they used equity finance as the main source of finance (67%).

QUESTIONNAIRE DATA:

Respondents' evaluation of the alternative sources of finance

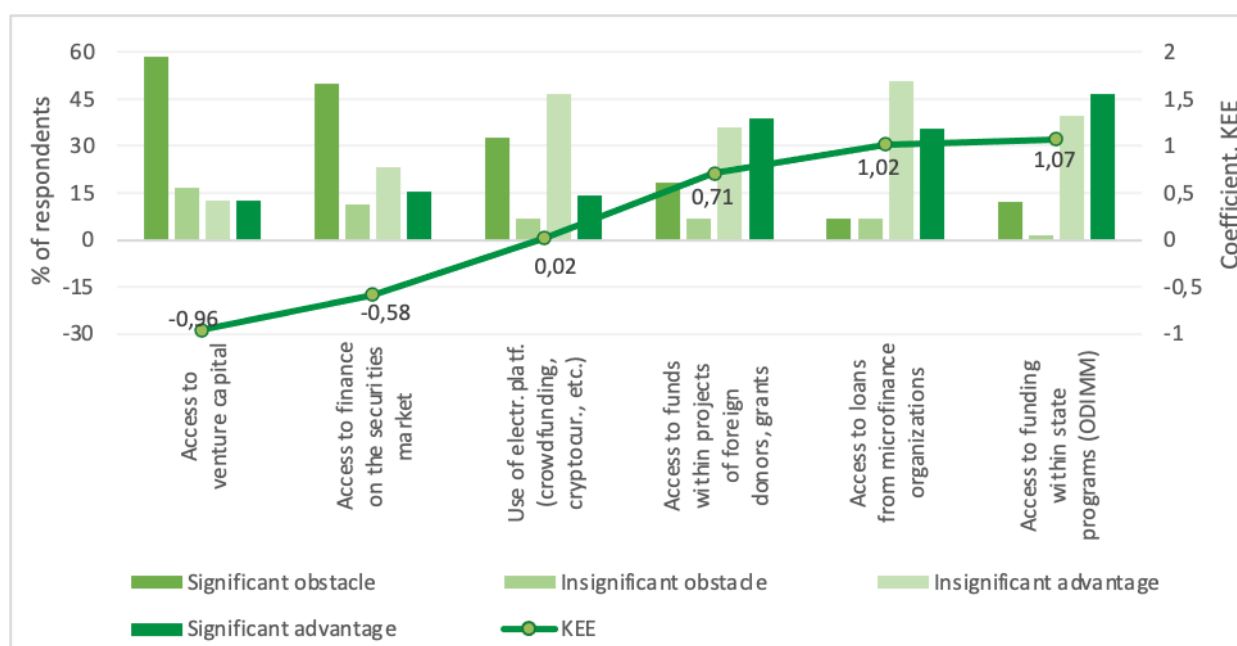
Based on the conducted survey, the access to alternative sources of finance and their impact on the development of entrepreneurship and the entrepreneurial ecosystem were considered. An important indicator is the coefficient of evaluation of the entrepreneurial ecosystem (K_{EE}), which shows the weighted average evaluation of the entrepreneurial ecosystem by a specific indicator. The value of the coefficient varies between "-2" - meaning that the analysed indicator represents a significant obstacle to the development of the entrepreneurial ecosystem, to "+2" - meaning that the analysed indicator

represents a substantial advantage for the development of the entrepreneurial ecosystem, zero value means a neutral impact.

Analysis of the alternative sources of finance in Moldova shows that enterprises encounter the biggest challenges in accessing venture capital ($K_{EE} = -0.96$) and financing in the securities market ($K_{EE} = -0.58$) (figure 7). The access to venture capital was assessed negatively by 75% of entrepreneurs who evaluated the given indicator, and the access to finance on the securities market - by 62%, which reflects a relatively poor degree of development of these financing instruments in the country. Over half of the respondents consider that these indicators significantly hinder entrepreneurship development (58.3% and 50.0%, respectively).

Figure 7.

Evaluation of the SMEs access to alternative sources of finance, % of respondents who evaluated the indicators



Source: developed by the author based on the questionnaire data

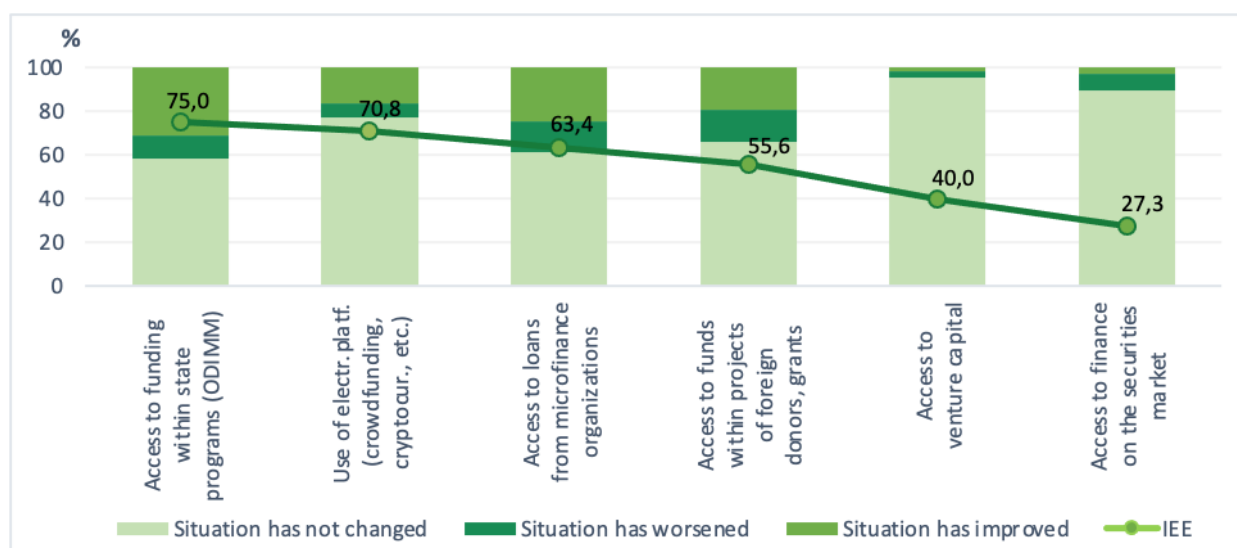
Nevertheless, the use of electronic platforms to attract funding (crowdfunding, cryptocurrencies, etc.) has an almost neutral impact, $K_{EE} = +0.02$, many entrepreneurs indicated that they face difficulties in accessing them (obstacle for 39.5% of respondents who assessed this indicator). Access to funding within the projects of foreign donors, including international organisations, and grants ($K_{EE} = +0.71$) was positively evaluated by over 70% of respondents. At the same time, for 1/4 of entrepreneurs, this represents a problem. The other two indicators, referring to the access to financing within the state programs implemented by ODIMM ($K_{EE} = +1.07$) and the access to loans from the microfinance organisations ($K_{EE} = +1.02$), are perceived by entrepreneurs as a potential advantage for their enterprise.

Additionally, it should be mentioned that the evaluation of the access to finance by size of enterprise reveals that respondents from small enterprises perceive access to finance as a problem for business and entrepreneurial ecosystem development (33%) relatively more frequent compared to respondents from medium enterprises (16%). Also, it was determined that access to finance is a bigger problem for enterprises in the industrial (41%) sector, construction (39%) and services (34%).

According to the survey data, the majority of respondents consider that the situation regarding access to finance by enterprises has not changed since 2019 (figure 8).

Figure 8.

Changes in access to alternative sources of finance registered in 2021 compared to 2019, % of respondents



Source: developed by the author based on the questionnaire data

The highest values of the Change Perception Index of Entrepreneurial Ecosystem (I_{EE}), which reflects the greatest relative excess of positive evaluations regarding the changes in access to finance within the entrepreneurial ecosystem, are registered in the indicators "Access to funding within state programs, implemented by ODIMM" ($I_{EE} = 75.0\%$) and "Use of electronic platforms to attract funding (crowdfunding, cryptocurrencies, etc.)" ($I_{EE} = 70.8\%$).

Besides access to funding within state programs, the indicators "Access to loans from microfinance organisations" and "Access to funding within projects of foreign donors, including international organisations, grants" show the highest share of respondents who indicated a change in the situation: 25% and 19% of respondents indicated an improvement and 14% and 15% - worsening of the situation respectively. "Access to finance on the securities market" is the indicator with the lowest value of the I_{EE} index (27.3%), which reflects the largest relative excess of negative assessments associated with changes in the entrepreneurial ecosystem. Another indicator that reveals the situation's relative deterioration is "Access to venture capital" ($I_{EE} = 40.0\%$).

CONCLUSIONS

The capacity of enterprises to access financial resources remains one of the main challenges affecting their activity, especially during the current crisis caused by the Covid-19 pandemic. Along with all the negative effects, the COVID-19 pandemic has accelerated the digital transformation, one of the outcomes being the rise of alternative finance opportunities. Alternative finance is expected to ease existing constraints of bank financing, helping small enterprises successfully raise financial capital to ensure sustainability and growth.

Today, banks are the main providers of external financing, almost 80% of the total credit supply in Moldova is covered by bank financial sources. At the same time, alternative sources of financing are still poorly developed. Thus, the share of leasing in the structure of the credit sector in Moldova has decreased by 1.2 p.p. from 3.8% in 2017 to 2.6% in 2020. According to SME Policy Index, the Stock market (score of 2.43) does not represent a potential source of business financing. Additionally, the country obtained the lowest scores in the Financial Literacy (2.67) and Venture Capital (1.53) sub-

dimensions. Venture capital is underutilised in the country. Plans to introduce a legal framework for venture capital have existed for years, but they have not been adopted yet.

Over the years, the crowdfunding market was increasing in Moldova, reaching 178.4 million USD in 2019. But, the amount dramatically decreased by 47.9% in 2020 due to uncertainty in the market conditioned by the Covid-19 pandemic. At the same time, European experience shows that the volumes for SME focused finance (crowdfunding) have been increasing steadily over recent years, with business funding accounting for 35% of the total volume in 2019 and 52% in 2020.

The data from questionnaire-based survey for small and medium sized enterprises reveals that enterprises face the biggest problems in accessing venture capital (KEE = -0.96), financing on the securities market (KEE = -0.58) and use of electronic platforms to attract funding (crowdfunding, cryptocurrencies, etc.) (KEE = +0.02), obstacle for 75.0%, 61.5% and 39.5% of respondents who assessed this indicator. The majority of respondents consider that the situation regarding access to finance by enterprises has not changed since 2019. The highest values of the Change Perception Index were registered for indicators "Access to funding within state programs, implemented by ODIMM" (IEE = 75.0%) and "Use of electronic platforms to attract funding (crowdfunding, cryptocurrencies, etc.)" (IEE = 70.8%, revealing the greatest relative excess of positive evaluations regarding the changes in access to finance, meaning these sources of finance became more accessible.

Obtained results are important for further research, practitioners and in determining measures to facilitate access to finance, development of Fintech and alternative sources of finance (crowdfunding, venture capital, business angels, etc.). Thus, along with promoting traditional sources of finance and making them more accessible for SMEs, it is advised to make efforts towards the development of alternative finance, the legislation should be adjusted, the alternative source of finance should be promoted, as well as entrepreneurs should be educated.

DISCLOSURE STATEMENT

The article is based on the results of the research project within the "State Program" competition (2020-2023): 20.80009.0807.38 "Multidimensional assessment and development of the entrepreneurial ecosystem at national and regional level in order to boost the SME sector in the Republic of Moldova", financed from the budget of the Republic of Moldova.

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