

<https://doi.org/10.52326/ic-ecco.2022/MM.04>



Microfinance organizations under conditions of crisis and uncertainty

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Abstract— In conditions of deep global crisis, microfinance is considered to be one of the most adaptable financial instruments to the needs of small and medium-sized enterprises. This form of financial support for small enterprises in the form of microfinance organizations is highly relevant for the economy of the geographical region, the stability and scale of the activities of existing companies in this area. In this context, the authors, in addition to highlighting the momentary gaps in this segment of the economy activity, but also identify a number of proposals with regard to the management of credit risk and over-indebtedness risk, these are identified as the most urgent probable risks of the microfinance market, both in the Republic of Moldova and internationally.

Keywords— microfinance, non-banking financial market, microcredit institutions

I. INTRODUCTION

Microfinance has become an international phenomenon in recent decades, with continued growth in financial markets. In 2019, worldwide, this sector registered a portfolio of over 124 billion USD and over 98 million beneficiaries. As far as European countries are concerned, the microfinance sector is a relatively new one, starting to develop in the Western States since 2000, compared to 1990 in the eastern and central part of the old continent. As for Central and Eastern Europe, the microfinance sector gained popularity since 1990, initially as private initiatives, supported by international financiers. In other countries such as Romania and Bulgaria, microfinance organizations have a role as a non-bank intermediary, providing loans to the target segment. Currently Romania, microfinance is intensively supported by the European Investment Fund. In the Republic of Moldova, in recent years the sector continues to gain market share and become a visible competitor on the credit market. Considering this growth and the

upward development trend of these organizations, a study of this sector is therefore necessary in order to determine the institutional capacities of these non-bank financial market players, as well as a determination of the degree of risk management capacity.

II. RESEARCH METHODOLOGY

The proposed objectives were achieved by applying several types of scientific research, of which is identified: *the documentary method, synthesis method, quantitative and qualitative analysis method, graphic method, etc.*

III. ANALYSIS AND DEBATE

The definition of micro-credit, being attributed to a relatively new and constantly changing sector, is not an ambiguous one, with different sources resorting to various statements. One reason would be the multitude of products and services offered by microfinance institutions, which take various forms: micro-credit, micro-insurance, each subcategory having its own services, its own operational costs, strategies and institutional contexts. According to the European Commission, microfinance consists, in particular, in granting small loans, necessary for entrepreneurs when starting a business, as well as SMEs for small investments or for regulating various cash flow problems. On the basis of the bibliographic analysis [3; 5; 6], we conclude that microfinance can be defined as that instrument for economic and social purposes, that put into action by non-formal organizations of the non-banking financial sector, by providing microcredit and other financial services to vulnerable rural populations, who want to start or develop their existing business and who do not have access to the necessary resources, thus achieving social goals of social and economic inclusion of the target segment.

Microfinance has an international spread, for this reason are found different interpretations of the concept, of the services offered, but also of the structure of the microfinance segment. Such a wide spread therefore leads to a multitude of organizational forms, ways and sources of funding, as well as services provided by the NBLOs (non-bank lending organizations). According to statistics published by the World Bank, in collaboration with MIX market, in 2018 there were 139,9 million beneficiaries of microfinance services, compared to 98 million in 2019 [7]. Of these 139,9 million, 80% of beneficiaries are women and 65% come from rural areas, proportions that have remained stable over the last decade, despite the increase in the number of beneficiaries of microfinance companies' products. Microfinance organizations (NBLOs) have provided billions of dollars in loans worldwide, with an average annual growth of 11,5% [7].

According to European statistics, most microfinance organizations take the form of non-governmental organizations (40%) and non-banking financial institutions (29%), followed by credit cooperatives and private banks. It is worth noting that the spread of organizations is different from state to state: for example, state-owned banks offer microcredit services predominantly in Germany, here the sector is traditionally based on the banking system. In other countries, the form of non-banking financial organizations prevails: Albania (100%), Montenegro (100%), Great Britain (71%) [3].

The microfinance sector is therefore very fragmented and differs significantly from one region to another, depending on the normative-legislative framework, but also on other economic, historical and cultural factors. In the Republic of Moldova, the microfinance sector is found in non-bank credit institutions (Figure 1):

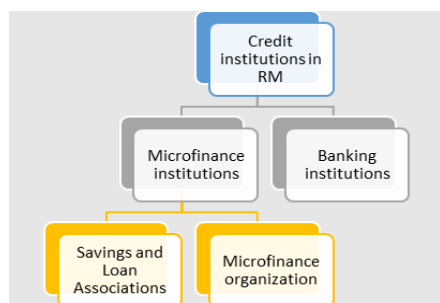


Figure 1. Financing sector structure in the Republic of Moldova

Source: Developed by authors

Savings and loan associations have a specific place in the non-bank credit market, targeting a certain category of beneficiaries, especially in rural areas, engaged in agricultural activities. This subsegment

continues to be relevant, considering the importance of agricultural activities for the Republic of Moldova, which require an intensive investment and credit.

The European microfinance market is characterized by a diverse range of products and services offered, which can be largely divided into financial or non-financial products and services. The financial ones aim to directly contribute to the welfare of the target segment, by offering micro-credits for personal or entrepreneurial consumption, insurance services, deposits, etc. Non-financial services, on the other hand, are aimed at solving some managerial, strategy, and other types of problems within the client's business activity. Thus, the consultancy services aim to increase and/or maintain the financial profitability and sustainability of the beneficiaries of microfinance services. A common activity practiced by European NBLOs is to provide a combination of financial and non-financial services, thus ensuring both the profitability of the institution by ensuring the reimbursement of the amounts offered and the well-being of the client, on the other hand.

In the Republic of Moldova, lending predominates in terms of financing, but there are also several donors, such as the World Bank, the US Agency for International Development (USAID), the International Fund for Agricultural Development (IFAD), etc. We conclude that microfinance can take various forms at international level in terms of organization, types of services offered, institutional forms as well as funding sources. In order to determine the situation of the microfinance sector as a whole for the Republic of Moldova, as well as its dynamic trends in recent years, calculations will be made for dynamics indicators, which reflect the speed of integration and increase of the market share of microfinance organizations; capital quality; the ability of organizations to manage financial risks effectively, as well as market concentration indicators, in order to determine the existence of a monopoly on the microfinance market. Thus, overall, the evolution of the penetration rate of the sector before the pandemic shows a high and increasing demand for financial resources from the active population, while demonstrating the substantial growth of the sector and its relevance in the non-bank lending market (see Table 1).

Table 1. The penetration rate of Savings and Loan Association (SLA) in Moldova, at European and global level

	Republic of Moldova	Europe	Worldwide level
Number of associates	268	3 491	85 400
Number of members	137 860	9 103 706	274 227 022
Penetration rate	3,29 %	9,16 %	9,38 %

Source: Developed by the author on the basis of [8]

Analyzing the solvency indicators, we find from the National Commission of the Financial Market (NCFM) data that both types of microfinance organizations perform higher than the allowable values: In 2019, the solvency of the OCNs was 1,75 and the loan associations registered a considerable value of the indicator of 9,23. For NBLOs, this indicator has seen a modest growth trend of 5% compared to 2016. This shows a positive direction in the funding policy of these organizations. Referring to the solvency of savings and loan associations, such a high level is determined by the existence of a conservative financing policy and an undeveloped investment policy [1; 2].

We conclude that the indicators reflect a favorable situation of the profitability of the organizations of the microfinance sector, reassuring its profitability and importance overall in the non-banking financial market of the Republic of Moldova. Thus, participation in this sector can be seen as attractive to potential investors. However, the accessibility of the sector, especially for new participants as entities in the sector, can be considered as low. Thus, considering the specificity of the microfinance sector, but also the fact that the sector in question is relatively young and in the process of consolidation, the risk management policy for these organizations is still in the process of building up and requires a well-defined implementation, with the possibility of the contribution of certain regulatory rules by market surveillance bodies.

The country rating does not yet provide the level needed to attract other types of international investors, such as MIV (Microfinance Investment Vehicles) or other categories of investors that would allow for more notable growth. Another problem would be the dependence of remittances, the existence of increased risks of non-payment of loans and over-indebtedness. These issues involve the need to review investment, credit and risk policies within organizations. At present, the most relevant risks of the microfinance

sector in the Republic of Moldova remain to be credit risk, over-indebtedness risk, and strategic risk. Good management of these risks would ensure a safe and continuous development of the sector and previous states experiences of risk reduction policies could strengthen this assurance.

In the Republic of Moldova, the most urgent risks identified for the microfinance sector remain to be credit risk and over-indebtedness risk. Considering the lack of transparency and limited reporting, as well as the decentralization of information on the credit history of beneficiaries, these risks have maximum exposure to the sector. Another issue would be determining the sector's dependence on remittance-based consumer lending and other sources that can be considered uncertain and unstable in terms of sustainability and security, which are also catalysts for the effects of credit risks.

However, future and stable growth must take into account the multitude of political, economic, social and technological factors that directly influence the activity of these organizations. It also identifies the need to pay more attention to borrowing risk, credit risk and the implementation of the costs of granted loans. Effective management of these risks would allow the growth based on sustainable and quality services, which would also lead to a strengthening of the loyalty and confidence of beneficiaries.

IV. CONCLUSIONS

In order to limit exposure to risks, under conditions of major uncertainties in the region, several measures may be taken to be implemented by microfinance organizations, but also by the authority supervising the sector concerned, such as, for example, the ongoing assessment of geographical and economic areas prone to insolvency risks. In this context, an assessment of the economic sectors whose participating beneficiaries carry increased risks of default is welcome, limiting services to them thus reducing the degree of risk exposure.

A growth strategy for the sector will therefore have to address all the possibilities for expansion, whether it is to generate more potential beneficiaries, by continuously increasing the rate of market penetration, whether it's about implementing new types of financial services and products. The development of new products can be an effective way to allow the sector to grow continuously and sustainably. This will involve the continuous study of the needs of the beneficiaries, their economic and social conditions, and the implementation, based on these determinations, of appropriate products. Such a strategy would ensure a high rate of return on the products offered. For these reasons, we conclude that the microfinance sector of the Republic of Moldova has real and feasible development prospects, and a correct management of all

possible risks, accompanied by correct growth and diversification strategies are sufficient to create a well-built segment within the non-bank financial market.

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