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MICROFINANCE INSTITUTIONS IN TIMES OF ECONOMIC CRISIS. CASE OF REPUBLIC OF MOLDOVA

Andrei Paslari*, ORCID: 0000-0001-9426-4231

Academy of Economic Studies of Moldova, 61 Banulescu-Bodoni str., Chișinau, Republic of Moldova
*Corresponding author: Andrei Paslari, *andrei.paslari@gmail.com*

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Abstract. The article explores the performance of microfinance institutions during economic disruptions, highlighting their crucial role in financial inclusion and entrepreneurship. Focusing on the Republic of Moldova between 2009-2023, the study uses data from national financial bodies to evaluate key metrics, including loan growth and gross domestic product rates. Results showcase the microfinance sector's consistent growth, directly linked to economic progress and increasing credit demand. Furthermore, the sector significantly boosted financial inclusion, evident from the growing number of beneficiaries and their loan sizes. Notably, microfinance institutions exhibited robust performance during economic crises, such as the COVID-19 pandemic and the Ukraine War, sustaining continuous growth even amidst local economic contractions. However, the study also points to certain limitations, suggesting a deeper look into the effects of regulatory measures and the promise of technology-driven innovations on the sector's future.

Keywords: *non-bank financial institutions, economic disruptions, financial inclusion.*

Rezumat. Articolul explorează performanța instituțiilor de microfinanțare în timpul perturbărilor economice, evidențiind rolul lor esențial în incluziunea financiară și antreprenorial. Concentrându-se pe Republica Moldova între 2009-2023, studiul folosește date de la organismele financiare naționale pentru a evalua indicatori cheie, inclusiv creșterea împrumuturilor și ratele produsului intern brut. Rezultatele arată creșterea consecventă a sectorului de microfinanțare, direct legată de progresul economic și creșterea cererii de credit. În plus, sectorul a stimulat semnificativ incluziunea financiară, evidentă din numărul în creștere de beneficiari și dimensiunile împrumuturilor lor. Remarcabil este faptul că instituțiile de microfinanțare au arătat performanța în timpul crizelor economice, cum ar fi pandemia de COVID-19 și Războiul din Ucraina, susținând o creștere continuă chiar și pe fondul contracțiilor economice locale. Cu toate acestea, studiul indică și anumite limitări, sugerând o analiză mai profundă a efectelor măsurilor regulatorii și a promisiunii inovațiilor tehnologice asupra viitorului sectorului.

Cuvinte-cheie: *instituții financiare non-bancare, perturbări economice, incluziune financiară.*

Abbreviations:
Microfinance institutions – MFIs;
National Commission for Financial Markets – NCFM;
Gross Domestic Product – GDP;
Return on Equity – ROE.

1. Introduction

Microfinance institutions provide financial services to low-income, economically active, borrowers who seek relatively small amounts of funding to support their businesses, handle emergencies, acquire assets, or manage their expenses [1]. These borrowers typically lack credit histories and collateral, which restricts their access to financial services from traditional commercial banks [2]. Due to this, MFIs are considered essential in creating economic opportunities and alleviating poverty. Recognizing the significance of microfinance in achieving the millennium development goals, numerous donors emphasized its importance, leading to the United Nations declaring 2005 as the “year of micro-credit” [3,4].

In recent decades, the world has witnessed the rise of MFIs from humble beginnings to powerful agents of change. The historical roots of microfinance can be traced back to the visionary work of Nobel laureate Muhammad Yunus and the establishment of the Grameen Bank in Bangladesh. Since then, microfinance has grown exponentially, with an extensive network of MFIs operating in various regions, reaching clients at the grassroots level, and catering to the diverse financial needs of the unbanked and marginalized.

Microfinance institutions play a significant role in promoting economic stability by fostering financial inclusion, supporting micro-entrepreneurs, and enhancing the overall resilience of the economy. Their contributions go beyond simply providing access to credit; they address the root causes of poverty, create avenues for income generation, and facilitate sustainable economic growth. MFIs primarily target the unbanked and underserved population, providing them with access to formal financial services. J. Morduch concludes that “there is ample evidence to support the positive impact of microfinance on poverty reduction and on income smoothing” [3]. Katsushi et al. suggest that microfinance significantly reduces poverty at macro level and thus reinforce the case for channelling funds from development finance institutions and governments of developing countries into MFIs [4]. Meyer’s analysis of MFIs in India revealed that microfinance can contribute to poverty alleviation and food security through supplying loans that enhance investment, reduce the cost of self-insurance and contribute to consumption smoothing [5].

Microfinance institutions often focus on serving local communities, making them intimately familiar with the economic landscape and specific needs of their clients. A study from Sharma and Puri shows a significant impact of microloans on GDP of India [6]. In the research conducted by Sultan and Masih the Auto-Regressive Distributive Lag time series technique was employed to analyse data from Bangladesh, the birthplace of microfinance. The findings indicate a strong bidirectional relationship between microfinance and economic growth, highlighting the pivotal role of microfinance as a catalyst for growth through various channels [7]. Apere's empirical evidence suggests that microfinance bank loans and domestic investment have a significant positive impact on Nigeria's economic growth. Furthermore, the analysis indicates a long-term relationship between microfinance bank loans, investment, and economic growth in Nigeria [8].

By promoting financial inclusion, supporting micro-entrepreneurs, and fostering local economies, MFIs contribute significantly to overall economic stability and sustainable development.

Throughout this evolution, MFIs have undergone trials of their own, navigating through past economic downturns such as the Asian financial crisis of 1997 and the global financial crisis of 2008. Several studies have examined the resilience of MFIs during periods of economic instability. Silva and Chávez [9] explored the challenges faced by MFIs during economic turbulence and found that MFIs in countries with stronger institutions and governance fared better during the crisis, benefiting low-income individuals they serve. Gupta and Mirchandani [10] conducted a case study in India to understand the impact of economic downturns on microfinance clients. The research revealed that economic turbulence adversely affected clients' businesses and loan repayment capacities, underscoring the need for flexible loan terms and client support during crises.

The relationship between financial inclusion and economic stability has been explored by Lee et al. [11] who highlighted the significant role MFIs play in achieving these goals. The study revealed that MFIs contribute to poverty reduction, job creation, and overall economic development, making them vital actors during times of economic turbulence.

The adoption of digital financial services by MFIs to enhance resilience has been studied by Khan et al. [12]. The research emphasized that technology-driven processes, such as mobile banking and digital payments, improve MFI efficiency, outreach, and risk management, thereby contributing to their resilience during economic uncertainties.

Studies on MFIs' performance during major economic events have provided valuable insights. Martínez [13] examined the role of MFIs during the global financial crisis of 2008 and found that they were more resilient than traditional banks, continuing to provide essential financial services to clients in need.

The impact of the COVID-19 pandemic on MFIs was explored by Chen and Junru, [14]. The study's findings indicated that the COVID-19 pandemic had a negative impact on the financial efficiency of MFIs, but it had a positive effect on their social efficiency, likely because they continued to provide essential financial services and support to their clients in need during the pandemic. The interest rates charged by MFIs for their loans influenced their overall efficiency during the pandemic.

Khalaf and Saqfalhait [15] found that MFIs have no effect on improving economic growth in Arab countries based on panel data model for six Arab countries over the period 1999-2016. Study conducted by Donou-Adonsou [16] delves into the macroeconomic implications of microfinance loans and reveal that the growth of microfinance loans has a positive and statistically significant impact on both economic growth and total factor productivity. However, the evidence regarding the influence of microfinance loan growth on investment and education is not substantial. The study suggests that while microfinance loans can contribute to income growth in developing countries, the process may occur at a gradual pace.

Recent events, such as the COVID-19 pandemic and the conflict in Ukraine, emphasize the challenges faced by MFIs during global economic crises. The war in Ukraine has led to a significant humanitarian crisis, displacing millions, and creating an urgent need for aid. Globally, the conflict disrupted commodity markets, trade, financial flows, and investor confidence, resulting in capital outflows and increased borrowing costs for many commodity-importing emerging economies. Neighbouring regions, like Moldova, grapple with the impact of lower remittances, while disruptions to supply chains and financial networks weaken regional economic growth.

Meanwhile, as the world faced uncertainty, the livelihoods of numerous micro-entrepreneurs and vulnerable individuals were at risk. In this challenging context, MFIs demonstrated their commitment and responsiveness by swiftly adapting their services. They provided support through flexible loan terms and digital financial solutions, not only safeguarding livelihoods but also serving as a stabilizing force for local economies.

The topic of MFIs and their performance during economic crises is highly important in the current global context, particularly for financial inclusion and poverty alleviation. Recent global events like the COVID-19 pandemic and regional conflicts, such as the one in Ukraine, have increased the urgency for MFIs to respond to emergencies and aid their clients, underscoring the relevance of this research.

In our study on microfinance in the Republic of Moldova, we aim to achieve the following **research objectives**:

- Evaluate sector growth: Analyze the growth and performance of the microfinance sector in Moldova, with a focus on key financial indicators.
- Evaluation of regulatory changes: Assess of the impact of the latest of the regulatory framework changes governing microfinance institutions in Moldova.
- Evaluate sector performance during period of economic crisis.

While the global microfinance movement has received extensive research attention, there is a noticeable absence of recent studies dedicated to the microfinance sector in Moldova. This gap is particularly worrisome, given the dynamic nature of Moldova's economic landscape and the challenges it has faced, including the COVID-19 pandemic and the conflict in neighboring Ukraine

2. Materials and Methods

Data Collection Methods: Considering the empirical nature of the study and the utilization of macroeconomic indicators, the analysis is conducted using *secondary data,* i.e., data that has been previously collected for purposes other than those of this project.

Data Sources include *external type of data* i.e. reports and statistical materials published for public use, obtained from international organizations, governmental bodies, research, and scientific centres and namely: National Bank of Moldova, National Statistics Bureau, and National Commission for Financial Markets.

In addition to these external data sources, the author conducted a comprehensive *literature review* within the field. This involved the analysis of academic papers, reports, and relevant publications to acquire a profound and comprehensive understanding of the subject matter.

Furthermore, to gain insights into the regulatory framework governing the microfinance sector, the author conducted a thorough examination of relevant legislation. This legal analysis aimed to understand the legal context within which microfinance institutions operate and to identify.

Data Utilization methods. After collecting the data and conducting measurements, organization (systematization), and subsequent data analysis were performed. This analysis involved examining trends, growth rates, and changes in financial indicators over time. Statistical analysis techniques, including time-series analysis, were employed to assess their impact on the microfinance sector's performance. The study also included comparing the performance of different financial institutions, such as banks and microfinance institutions, to understand their respective contributions to the financial sector's growth and stability.

Logical Reasoning Methods: The author employed logical reasoning methods such as induction and deduction. These methods were used to develop logical arguments and draw inferences based on the collected data and information.

Data: The study used data on the volume of loans granted by microfinance institutions and banks to individuals and businesses over the years 2009 to 2023Q1. Data on the annual GDP growth rate have been used to analyse the correlation between economic growth and the expansion of the micro financial sector. Information on the number of beneficiaries of loans from microfinance institutions, as well as banks, have been utilized to examine the reach and impact of financial services on the population. Data on the profit and Return on Equity (ROE) of the microfinance sector was calculated by the author to assess the sector's financial performance and profitability over time.

3. Challenges and Opportunities Ahead for Microfinance Institutions

While microfinance institutions have made significant strides in promoting financial inclusion and economic development, they face several challenges and opportunities that will shape their future trajectory. Addressing these challenges and capitalizing on the opportunities will be crucial for MFIs to maintain their impact and resilience in the ever-changing global landscape.

Challenges:

1. Over-Indebtedness: One of the primary challenges faced by MFIs is the risk of over-indebtedness among clients. In some cases, borrowers may take loans from multiple sources, leading to unsustainable debt burdens. Preventing over-indebtedness requires better credit assessment practices, financial education for clients, and responsible lending practices by MFIs.

2. Risk Management: MFIs operate in environments with varying degrees of economic and political stability. Managing credit risks, liquidity risks, and operational risks becomes more complex during economic downturns. Effective risk management practices and the establishment of robust risk management frameworks are essential to mitigate these challenges.

3. Funding and Capital Constraints: Many MFIs rely on external funding from donors, investors, and financial institutions to sustain their operations. Securing stable and affordable funding remains a significant challenge, especially during times of economic uncertainty. Diversifying funding sources and attracting long-term investment will be critical for MFIs' sustainability.

4. Regulation and Compliance: As MFIs expand their reach and service offerings, navigating regulatory frameworks becomes more challenging. Striking a balance between regulatory compliance and the need to serve vulnerable populations can be complex. Regulatory support that fosters responsible innovation while ensuring client protection is vital for MFIs' growth.

5. Technological Integration: While technology presents numerous opportunities for MFIs, integrating digital solutions can be challenging, especially in regions with limited internet connectivity and digital literacy. Ensuring secure and user-friendly digital platforms and providing training to both staff and clients will be crucial for successful technological integration.

Challenges ahead for microfinance institutions will require adaptive strategies, innovative solutions, and a strong commitment to their social mission. Embracing technological advancements, building resilient risk management systems, and fostering collaborations will be essential to overcoming challenges and capitalizing on opportunities. By staying true to their core values while embracing responsible innovation, MFIs can continue to drive positive change, promoting financial inclusion, and contributing to long-term economic stability and development.

4. Microfinance capital Market in the Republic of Moldova

The Republic of Moldova is home to over 160 microfinance institutions that have shown resilience during economic turbulence. Like many other countries, Moldova has faced economic challenges, including recessions, currency devaluations, and external shocks, which put the financial stability of its citizens and businesses at risk. However, the microfinance sector in Moldova has played a crucial role in providing support and stability to vulnerable populations during such periods.

Non-bank financial institutions in Moldova are supervised by the National Commission for Financial Markets established in 2007 through the merger of various non-bank supervisory agencies. The NCFM operates as an independent body of central public administration that directly reports to the Parliament. Its primary role is to regulate and authorize the activities of professional participants in the non-banking financial market and ensure their compliance with relevant legislation. The main objectives of this Commission are to enhance the stability, transparency, security, and efficiency of the non-banking financial sector. This is achieved through the establishment and maintenance of a suitable regulatory and supervisory framework for financial market participants, aiming to reduce systemic risks and prevent disloyal, abusive, and fraudulent practices in the financial sector, with the overarching goal of safeguarding the interests of clients and investors.

The authority of the National Commission for Financial Markets extends to various entities and institutions operating in the non-banking financial market. These include issuers of securities, investors, participants defined by the securities market legislation, insurance companies, insurance brokers, non-state pension funds, micro-financing organizations, savings and loan associations, mortgage credit organizations, and credit history bureaus. The policy framework for MFIs in the Republic of Moldova is regulated by Law № 202 on Credit Agreements with Consumers. This law aims to establish the necessary legal framework to ensure the protection of consumers' economic interests by creating fair conditions for obtaining consumer credits and setting guidelines for responsible behaviour among creditors when providing consumer credits.

Over the years, the main indicators of financial depth in the Republic of Moldova have significantly improved and are now broadly on par with countries at similar levels of development (Figure 1). Currently, there 155 microfinance institutions operating in the country. The number of financial service points has increased substantially, and geographical location is no longer a barrier to accessing financial services. The volume of issued loans increased 8 times from 1.3 billion MDL in 2009 to 11.8 billion MDL in Q1 2023, suggesting a steady and sustainable growth.

Let's analyze the data provided in Figure 2 for the years 2009 to Q1 2023 for both the loans growth rate and GDP growth rate. The loans growth rate (in current prices) showed positive growth throughout the years, with fluctuations in the rate of increase.

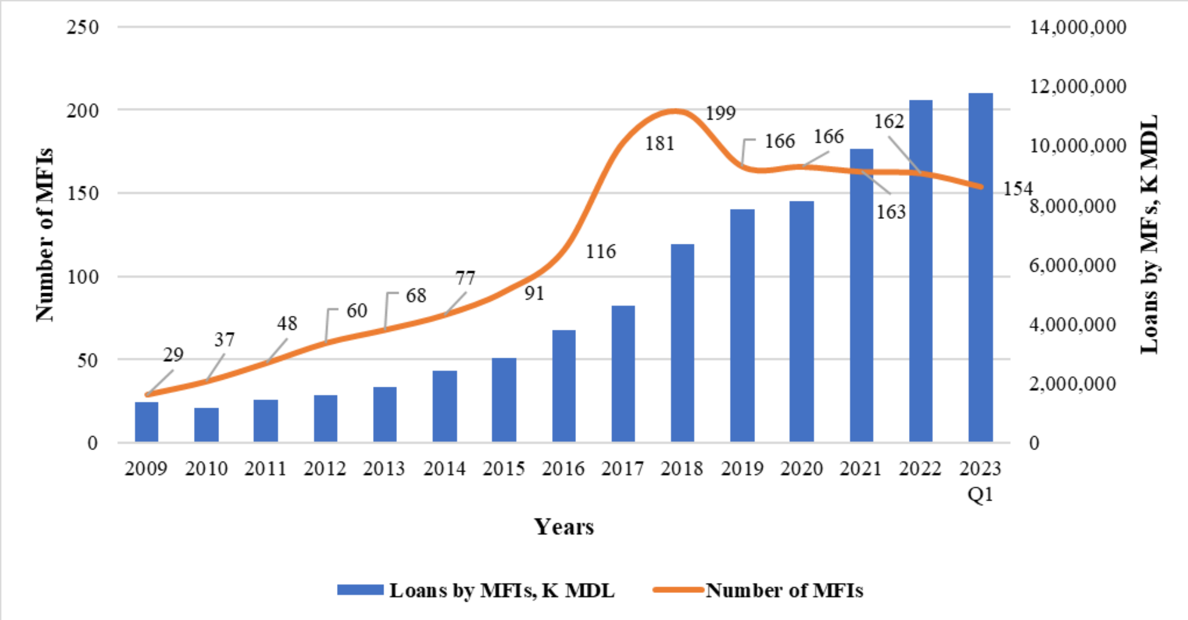

Figure 1. Dynamics of microfinance market volume and number of MFI in Republic of Moldova 2009-2023Q1.

Source: Developed by the author based on National Commission for Financial Markets.

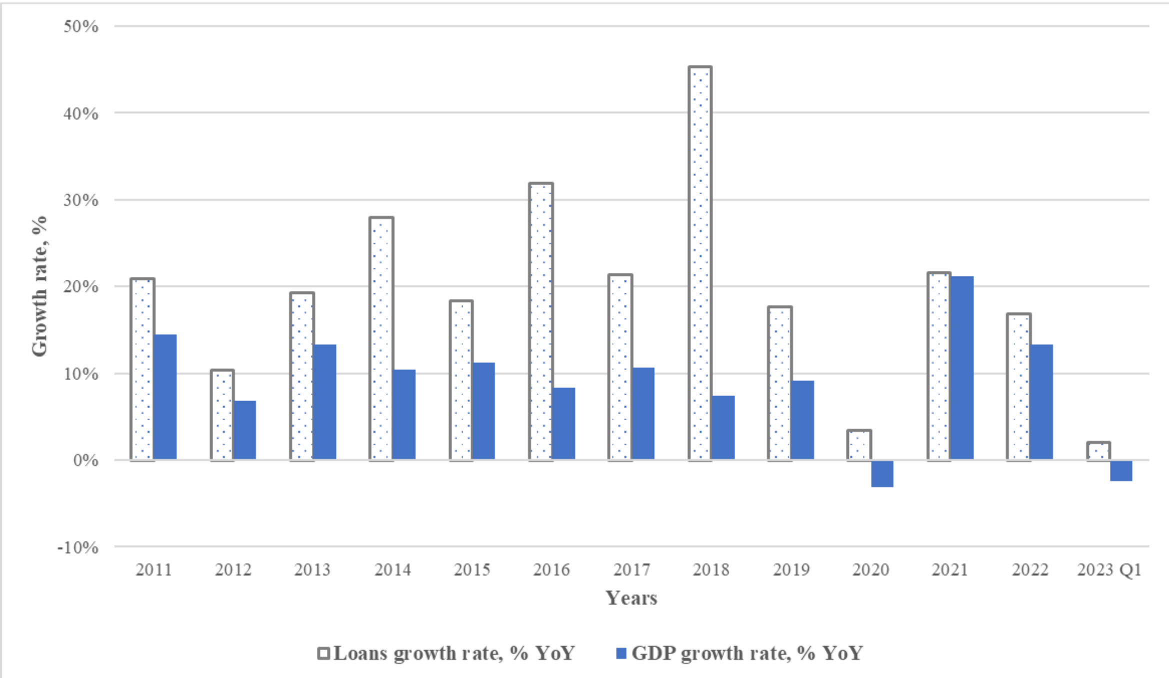

Figure 2. Microfinance loans growth rate vs GPD growth rate in Republic of Moldova 2011-2023Q1.

Source: Developed by the author based on National Commission for Financial Markets, National Bank of Moldova.

From 2011 to 2013, the growth rate remained relatively high, with percentages of 20.9%, 10.4%, and 19.3%, respectively. In 2014, the loans growth rate increased significantly to 28.0%, indicating a substantial expansion in loans issuance. The growth rate slightly decreased in 2015 to 18.4% but rebounded in 2016 with a growth rate of 31.8%, representing a rapid increase in loans. In 2017 and 2018, the loans growth rate remained elevated at 21.4% and 45.3%, respectively, showing continued strong growth in loans issuance. In 2019, the growth rate moderated to 17.7%, still indicating a healthy expansion of loans. The year 2020 saw a further slowdown in the loans growth rate to 3.4%, influenced by the challenges posed by the COVID-19 pandemic on the economy and new provisions of the „Law on Credit Agreements with Consumers", whereas any imposition of fees (including interest, commissions, charges, penalties, etc.) exceeding the contract amount is prohibited. Moreover, applying an interest rate exceeding 50% is also prohibited, and other related credit payments per day (commissions, charges, penalties, overdue interest, etc.) except for interest cannot exceed 0.04% of the total loan amount. However, loans growth rebounded in 2021, with a growth rate of 21.6%, and maintained a positive trend in 2022 with a growth rate of 16.8%.

The GDP growth rate experienced fluctuations over the years, but generally showed positive growth. Only the year 2020 was an exception, with a negative GDP growth rate of -3%, largely due to the impact of the COVID-19 pandemic on the global economy. However, the economy rebounded strongly in 2021, with a GDP growth rate of 21%. The data for 2022 shows a GDP growth rate of 13%. In the first quarter of 2023, Moldova's GDP, even in current prices, decreased by 2.4% as the Moldovan economy contracted further. This contraction was attributed to several factors, including rising living costs, the negative impact of the war, disruptions in export and logistical chains, and more restrictive monetary policies than expected. Despite these challenging conditions, the market volume of MFIs (Microfinance Institutions) increased by 2% compared to the end of 2022.

Overall Analysis. The loans growth rate demonstrated a general higher upward trend over the years than GPD growth rate, with varying rates of increase, showcasing an increasing demand for credit and financing in the economy. Furthermore, the GDP growth rate displayed positive growth in most years, indicating overall economic expansion, except for a downturn in 2020 due to the pandemic and in Q1 2023 due to the Ukraine war.

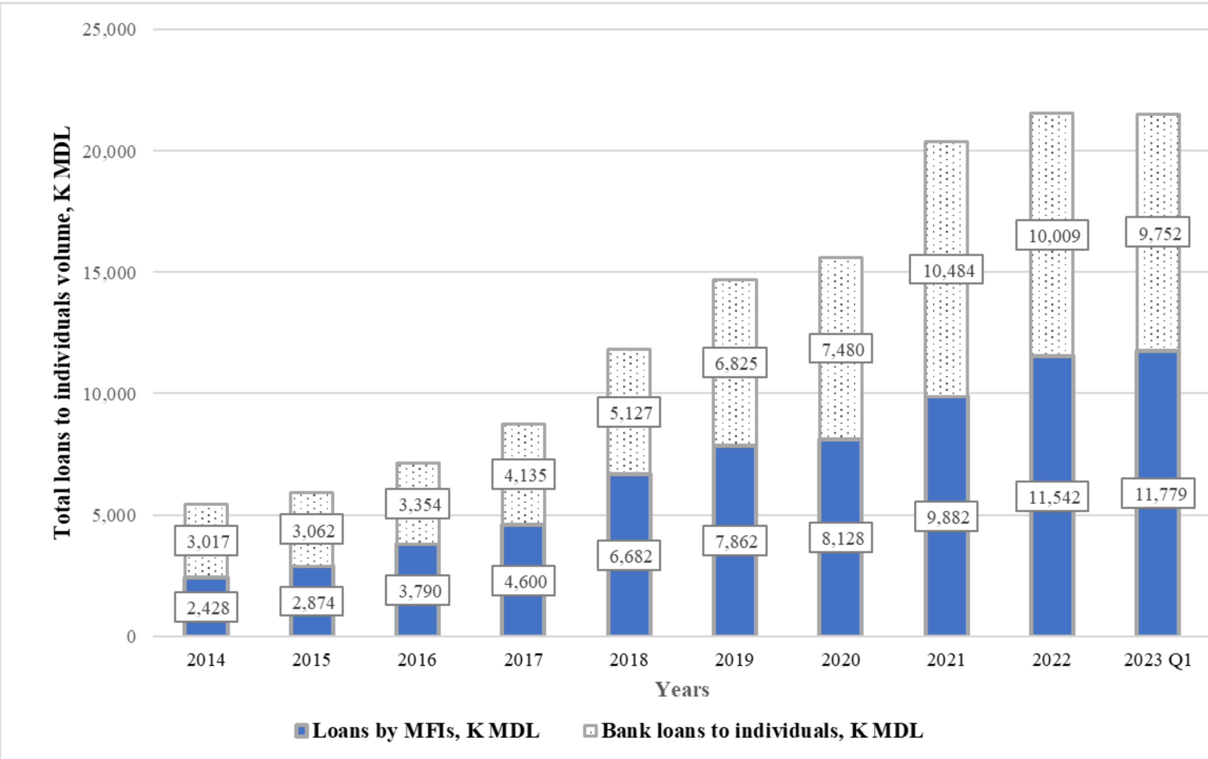

Figure 3. Comparision of microfinance and banking individuals loans market volume in Republic of Moldova 2014-2023Q1.

Source: Developed by the author based on National Commission for Financial Markets, National Bank of Moldova.

The positive correlation between loans growth and GDP growth suggests that credit availability and financial services play a crucial role in supporting economic development and growth.

Overall, the data shows that MFIs consistently expanded their lending to individuals over the years (Figure 3), and their share in the total loans to individuals fluctuated between approximately 44.6% and 56.6%. Banks also increased their lending, but the share of MFI's loans in the total loans remained significant and showed a slight overall increase over the years.

- The loan volume from MFIs to individuals has shown steady growth over the years, starting from 2,427,513 thousand MDL in 2014 and reaching 11,542,480 thousand MDL in 2022.
- Similarly, bank loans to individuals also experienced continuous growth during the same period, starting from 3,016,662 thousand MDL in 2014 and reaching 10,009,480 thousand MDL in 2022.
- The share of MFI's loans in the total loans to individuals fluctuated over the years, ranging from approximately 44.6% in 2014 to 56.6% in 2018.
- However, the share of MFI's loans declined slightly in the following years, dropping to approximately 48.5% in 2021. Subsequently, it rebounded to approximately 53.6% in 2022 and further increased to 54.7% in Q1 2023. During this time, bank financing decreased both in value and in its share of the overall financing market.
- MFIs consistently showed strong growth in loans to individuals, with the highest growth rate recorded in 2018 at 45.3%.

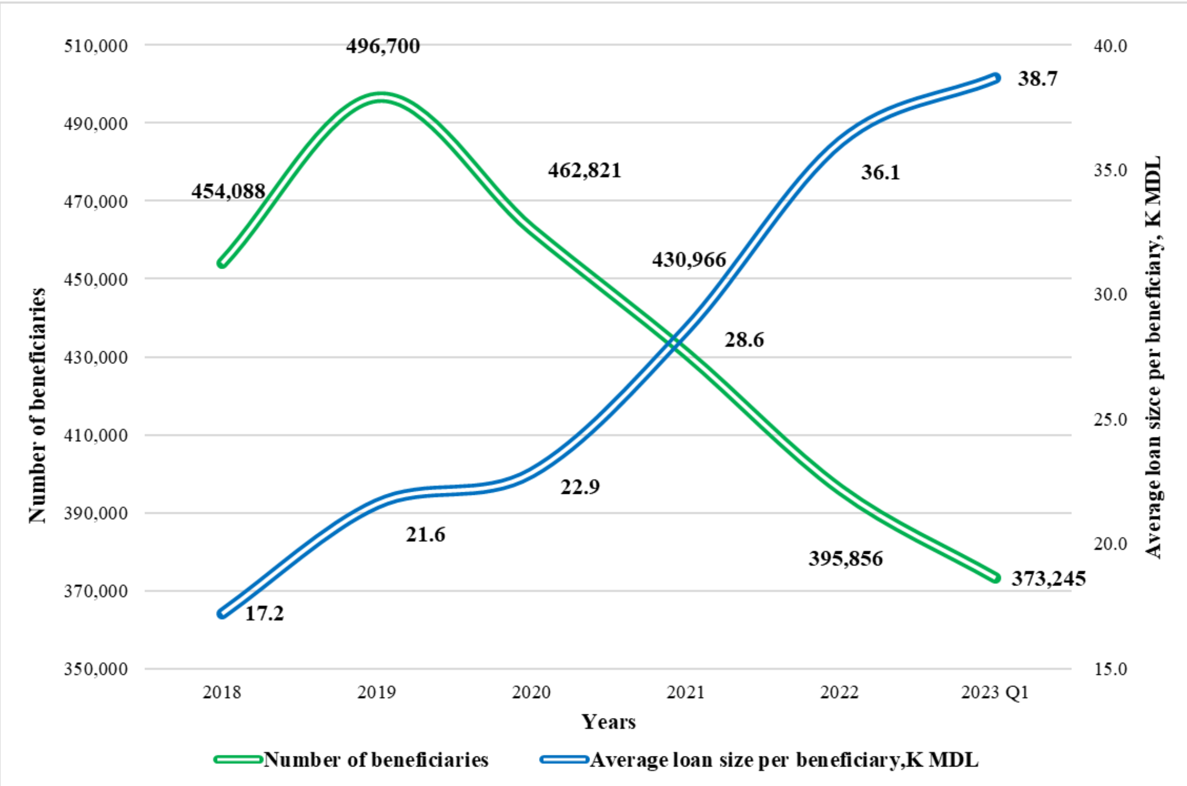

Figure 4. Comparison of the number of beneficiaries and the average loan size per beneficiary in the MFI market in the Republic of Moldova during 2014-2023Q1

Source: Developed by the author based on National Commision for Financial Markets.

– Bank loans to individuals also grew steadily, with the highest growth rate of 21.4% recorded in 2017.

Overall, the data indicates a positive trend in loans to individuals from both MFIs and banks, with MFIs' lending share remaining significant over the years. The steady growth in loans to individuals reflects an increasing demand for credit and financial services in the country, fostering economic activities and supporting individual financial needs.

The number of beneficiaries of loans (Figure 4) showed fluctuations over the years, with a slight increase from 2018 to 2019, followed by a decline in 2020-2023 Q1. Despite the fluctuations in the number of beneficiaries, the average loan size per beneficiary consistently increased from 17 thousand MDL in 2018 to 38.7 thousand MDL in 2023 Q1. The rising average loan size per beneficiary indicates a more substantial financial support over time and that individuals have been accessing higher-value loans. The combination of the changing number of beneficiaries and the increasing average loan size per beneficiary indicate shifts in market demand, economic conditions, and the availability of credit. It's important to note that changes in the number of beneficiaries and average loan size were influenced by various factors, including economic conditions and regulatory policies.

The MFI sector in the Republic of Moldova showed consistent growth in profit over the years, with some fluctuations. The sector's profitability, as measured by ROE, also showed variations but generally demonstrated strong performance. The highest profit and ROE were recorded in 2020, indicating a period of robust financial performance for the MFI sector. The decline in profit and ROE in 2021 was influenced by various factors, such as economic post Covid 19 conditions and regulatory changes. The rebound in profit and ROE in 2022 indicates a recovery and resilience of the MFI sector. However, in 2023, due to the consequences of the Ukraine war, economic contraction, and high financing costs, ROE declined to 6.5%

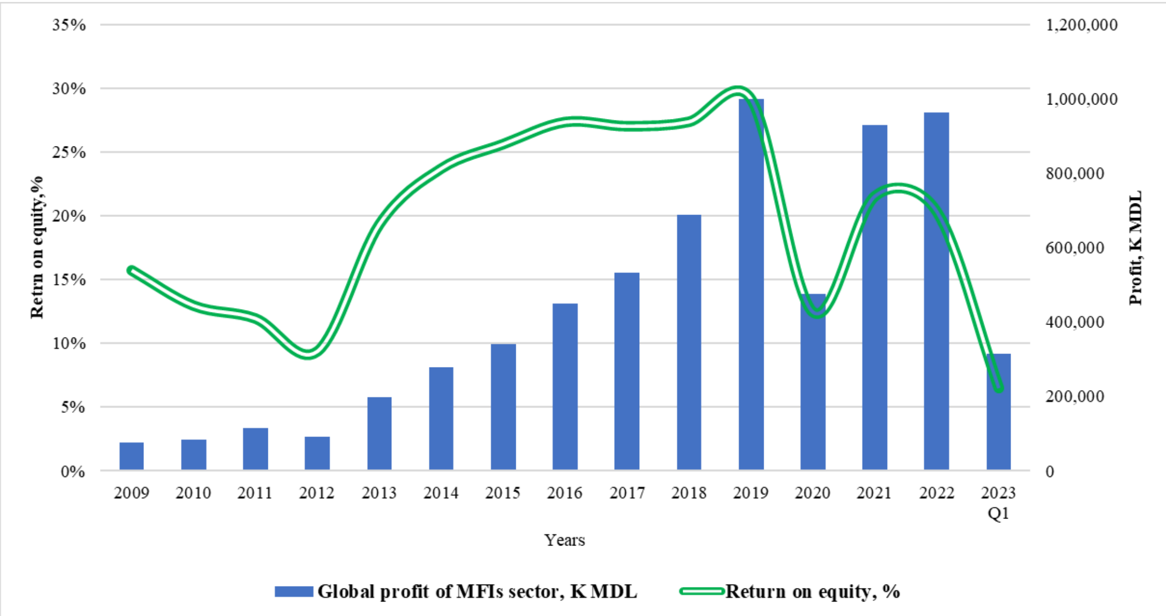

Figure 5. Return on equity and total volume of MFIs sector in Republic of Moldova 2009-2023Q1.

Source: Developed by the author based on National Commision for Financial Markets.

The MFI sector in Moldova has shown consistent growth in profit over the years (Figure 5), with profits increasing gradually from 77,132 thousand MDL in 2009 to 929,846 thousand MDL in 2022. However, there have been fluctuations in profit levels during this period.

The sector's profitability, as measured by ROE, has demonstrated strong performance, with ROE ranging from 9.4% in 2012 to 29.1% in 2020. Although there have been some fluctuations, the overall trend indicates efficient profit generation from shareholders' equity.

5. Discussions

The findings of this study shed light on the dynamic landscape of the microfinance sector in the Republic of Moldova, as well as its implications on economic growth, financial inclusion, and regulatory effectiveness. In this section, we discuss the results in the context of previous studies, the working hypotheses, and the broader implications. We also acknowledge the limitations of this work and suggest potential avenues for future research.

Interpreting the Results: Our analysis revealed significant growth in the microfinance sector, with the volume of granted loans increasing substantially over the years. This growth is in line with previous studies that have highlighted the growing importance of microfinance institutions in providing financial services to underserved populations. The rise in loan size per beneficiary indicates that individuals are accessing larger loans, potentially signalling improved financial capabilities and the sector's ability to cater to diverse financial needs.

Comparison with Previous Studies: The findings of our study align with prior research that has emphasized the positive relationship between economic growth and credit demand. The observed correlation between GDP growth rates and loan growth rates suggests that economic expansion has stimulated credit uptake, supporting entrepreneurial activities and investment.

Implications: The strong ROE of the microfinance sector demonstrates its profitability and efficiency. This implies that MFIs are effectively utilizing their equity capital to generate profits. The sector's resilience, as reflected in the rebound of profit and ROE in 2022, suggests its ability to withstand economic fluctuations and navigate challenging times. The regulatory improvements and the role of the National Commission for Financial Markets have contributed to the sector's stability and consumer protection. However, certain limitations still exist, requiring further adjustments to ensure a robust and inclusive financial system.

Limitations and Future Research: One limitation of this study is the reliance on open-source data, which may have some inherent biases or data gaps. Future research could explore the possibility of utilizing primary data collection methods for a more comprehensive analysis. The study focused on the microfinance sector's overall performance, but further research could delve into specific factors influencing loan demand, such as borrower demographics, sectoral preferences, and regional disparities.

Future Directions: Future research could investigate the impact of specific regulatory interventions on the microfinance sector's stability and its role in fostering economic growth. Additionally, exploring the potential of technology-driven financial innovations and their effects on financial inclusion and efficiency would be valuable.

6. Conclusions

The strong performance of microfinance institutions in times of economic turbulence reflects their unwavering commitment to financial inclusion and poverty alleviation. Throughout history, MFIs have demonstrated their adaptability, innovation, and support for clients during uncertain economic periods, providing stability and empowerment to vulnerable populations. During economic crises, MFIs have served as beacons of hope for their clients, offering flexible loan terms, digital financial services, and risk management strategies. By supporting micro-entrepreneurs and small businesses, MFIs have played a vital role in maintaining economic activity and stability, especially in regions with limited access to traditional banking systems. While MFIs face challenges such as over-indebtedness, funding constraints, and regulatory complexities, they also encounter exciting opportunities for growth and impact. Integration of technology, product diversification, and sustainable finance initiatives offer avenues to extend their reach and drive positive change. As the global community emphasizes financial inclusion and sustainable development, MFIs stand ready to play a pivotal role. Leveraging technology, fostering collaborations, and delivering client-centric solutions will be crucial in reaching more unbanked and underserved individuals, promoting economic stability, and lifting millions out of poverty.

The case of the Republic of Moldova highlights the instrumental role of MFIs in supporting micro-entrepreneurs and vulnerable populations during economic turbulence. Positive performance in profitability and growth underscores the sector's potential, though vigilance in monitoring market dynamics and regulatory changes is essential for sustainable growth. Strengthening the regulatory framework and addressing supervision issues will further enhance consumer protection and financial stability. Our study showed that during periods of economic crises caused by events like the COVID-19 pandemic or the Ukraine war, when the economic situation deteriorated and GDP declined, MFIs continued to demonstrate growth. The impressive performance of MFIs amidst economic challenges underscores their dedication to adopting innovative strategies and prioritizing the needs of their clients. Their focus on responsible lending, risk management, and financial education ensures support for vulnerable populations and economic stability. As the economic landscape evolves, the role of MFIs in providing essential financial services and driving inclusive growth remains pivotal for the people of Moldova.

In conclusion, this study underscores the critical role of the microfinance sector in the Republic of Moldova's economic growth and financial inclusion. The findings support the positive relationship between economic growth and credit demand while emphasizing the need for continued regulatory improvements. By addressing limitations and exploring future research directions, policymakers can strengthen the sector's contributions to sustainable economic development and financial well-being for all segments of society.

Conflicts of Interest. The author declares no conflict of interest.

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Submission of manuscripts: jes@meridian.utm.md