OPERATION OF THE MICROFINANCE SECTOR FROM THE REPUBLIC OF MOLDOVA IN TERMS OF STRATEGIC MANAGEMENT

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Abstract

The microfinance sector plays an important role in the socio-economic development of a country, and occupies a special place within the financial system. However, the microfinance instrument can even be a strategic engine for growth and a key source of job creation for any country in the world. And in other European Union (EU) countries and in the Republic of Moldova, microfinance can be seen as a mechanism for developing a new era of non-banking financial institutions. The specialized literature reflects a multitude of definitions of the concept of microfinance. However, the roots of the notion of microfinance is recommended to be put into the historical context in order to understand as clearly as possible the meaning and origin. Thus, the purpose of the research is to analyse historically the microfinance models from Bessarabia till the nowadays well-structured microfinance organizations under the strategic management aspect. To achieve the objectives proposed in the study, the author has used the following research methods and tools: the method of synthesis, comparison and analogy.

Keywords: microfinance, strategy, management, mechanisms, method, instrument, etc.

JEL classification: G21,G23.

Introduction

The Microfinance tool is one of the sources of funding that has enjoyed a strong promotion throughout the world in the last decade, especially in poorer countries in financial resources. Against this background, analysis of the evolution of the microfinance sector demonstrates that microfinance allows poor households to move from day to day surviving to future planning, investing in better nutrition and better living conditions. The emergence of these institutions is caused by the need for microfinance activity in the rural sector, as well as the financial support of the small and medium business, namely the entrepreneurial activity in the spheres of production, trade and provision of services.

Strategic microfinance models in Bessarabia

Strategic microfinance models in Bessarabia originate from ancient times in various forms and had encompassed many segments of the economy, according to the needs, conditions and necessities of the population. The first microfinance models began to form starting with the second half of the nineteenth century, with a wide range of forms of financial co-operation such as: credit and retention comrades, loan comrades, small credit comrades and other institutions with diverse names, which had the basic function of keeping money savings and granting loans to its members. These Bessarabian microfinance models had a cooperative shape and were inspired by Rochdale's first cooperative association model, founded in 1844 in England. The author explains in Table 1, the structure of microfinance models in the first half of the nineteenth century, in the Kingdom of Romania, Bessarabia, Bucovina and Transylvania.

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Table 1. The structure of microfinance models in the first half of the 19th century

Area	Year of appearance	Forms of microfinance	Structure, principles of operation
Kingdom of Romania	The second half of the 19th century	*Popular banks* (from urban areas, have turned into commercial credit companies over the years)	1907- 90.8% of the number of cooperatives of all categories was owned by the Kingdom. 1912- 11 federal, 1917-35 federal. The federal task was to provide their members with financial means for lending the farmers.
Bessarabia	1860	*Credit and retention comrades, loan companions, small credit comrades.*	1914-349 of the credit comrades, 313771 members, financial means were oriented towards the financing of purely commercial operations, at the expense of lending to peasants.
Transylvania	1868	*Mutual aid societies, holding and lending companies, deposits and loans, saving houses or units.*	1915-108 Romanian cooperatives with 11112 members with 1323470 crown capital with 852570 crowns reserve, with 6333,000 crowns for strengthening and with 1607920 crowns loans distributed to peasants.
Bucovina	1875	*Credit and agricultural accompaniment for purchase and sale.*	1914-175 companionships. Much of them were governed by the principles of the Herman Schulze-Delitsch co-operation, others following the rules established by Frederick Wilhelm Raiffeisen.

Source: developed by the author based on material [2].

The first credit and saving association is retained in history since 1840, created in Causeni commune of Tighina county. Respectively, in the same year – 1840, there were 398 credit and economy comrades, 5 credit houses and the Union of Credit and Savings of Bessarabian Cooperatives. At present, the State Archive of Moldova keeps numerous and important documents certifying the presence at that time of a highly developed network of primary institutions of mutual financial aid. There are materials confirming the organization of annual national level congresses with representatives of these institutions, as well as materials proving the presence of a strong regulatory and supervisory system by the state.

Table 2. Evolution of microfinance models in Bessarabia in the 19-20th centuries

Year of appearance	Forms of microfinance	Principles of operation
1840	The first credit and saving comrade	398 credit and savings comrades, 5 credit houses and the Union of Credit and Savings of Bessarabian Cooperatives were functioning
1882	peasant associations	organized a congress in Chisinau; the villagers accused the leaders of the cooperatives of lack of capacity and, as a result of their complaints, the comrades were wound up or forced to merge
1895	a new law was developed to encourage the cooperative system	the imperial government has drafted a new law to encourage the cooperative system, which was designed to contribute effectively to the satisfaction of agricultural credit applications and to adopt the name of rural banks for all existing peasant associations.
1900	a new category of "credit comrades" appeared	
1915	the first federal county of loan and savings company, "Codrul"	was set up in Calarasi in Lapusna County.
1918	Bessarabian Union of Credit and Savings	had four county branches and 149 associate units, 23 Unions of credit and savings comrades, small loans of zemstva and consumers cooperatives were activating
July 1, 1918	23 Unions of credit and savings comrades, small loans of zemstva and consumers cooperatives	all of these have merged into Cooperatives Unions Central from Bessarabia, which started to function from September 1918, as the headquarters of credit and consumer societies and which has been liquidated under the Law on Unification of Co-operation from March 15, 1923.

Source: developed by the author based on material [2].

According to historical dating, at the beginning of the 20th century, under the influence of official propaganda, a new category of associations of "credit comrades" appeared. From a legal and administrative point of view, there were no differences between loan and savings and credit associations. The only difference was that the loan comrades had their own equity, formed of social parts, but the credit comrades did not have such capital, their funds being allocated by the state. In most cases, small-scale credit comrades and often those of loan and savings were made with borrowed funds from the State Bank and later from the Zemstva House, obtained for a period of 13 years, with the obligation for debtor cooperatives to pay each year the quota originally set for the repayment of the debt, starting from the fifth year after the receipt of the loan.

Overall, the evolution of the cooperative credit organizations in Bessarabia did not have such significant effects, these institutions did not evolve because the necessary economic conditions were lacking and the population did not know perfectly their commitment and how they were organized. Unfortunately, the good tradition of mutual aid institutions has been wiped out by the 1940 government. Respectively, during the 1940-1989, mutual financial support existed informally within the enterprise working teams, but since they were not formally organized, they did not had the magnitude of an important economic and financial phenomenon.

The activity of the microfinance sector in the Republic of Moldova

The activity of the microfinance sector in the Republic of Moldova starts at the end of 1996, representing a new phenomenon similar to other segments of the financial market, with potential for growth. The emergence of this sector was caused by the need for microfinance activity of the rural sector, as well as the financial support of the small and medium business, namely the entrepreneurial activity in the sphere of production, trade and services.

Therefore, at the end of 1996, in order to support the private agricultural sector, the *Rural Finance Project*, approved by the Government of Moldova, was launched in the Republic of Moldova. This project is focused primarily on rural and middle-income rural population who have received or should have received their share of agricultural land and value. The aim of the project was to develop and test some forms of bank co-operation of citizens for mutual financial assistance.

The phenomenon of microfinance in the Republic of Moldova is considered to be young and the creation period started in 1997 with the first Savings and Loan Associations (SLAs) under the Rural Finance Project financed by the World Bank, when the Moldovan commercial banks did not lend for all segments of the population, and the procedure for granting credit was too complicated, especially for those in rural areas. Another important event is the creation of the Moldovan Microfinance Alliance in 1997. Therefore, in 1998 the National Federation of SLAs and the State Surveillance Service were founded. Afterwards, microfinance organizations (hereinafter MOs) were also set up: the Rural Financing Corporation in 1997, ProCredit in 1999 and Microinvest in 2003.

On June 13, 2003, the Government of the Republic of Moldova approved the Plan of Measures for Preparing for the International Year of Microcredit - 2005 (*Decision of the Government of the Republic of Moldova no.723*), according to which the Ministry of Economy, in cooperation with the local public administration authorities, has elaborated the National Program for Mediation of the Objectives of the International Year of Microcredit - 2005 "(*Government Decision of the Republic of Moldova no.1106 of October 8, 2004*). As a result, 2005 was proclaimed as the International Year of Microcredit, at the United Nations initiative, while the Member States, non-governmental organizations, the private sector and civil society aimed at boosting micro-credit programs and contributing to increasing knowledge to the society of the role of microfinance in solving socio-economic problems.

The regulatory framework for the microfinance sector

The legal-regulatory framework, which regulates the activity of the microfinance institutions, was further developed. In this context, during the period 1997-2018, the framework for regulation of the microfinance sector was finalized with a series of laws and normative acts (regulations, instructions, decisions,), which concern the activity of microfinance organizations and savings and loan associations from the Republic of Moldova.

The legal framework of the activity of the microfinance sector, in 2004 - 2017, is regulated by Law no. 280-XV of 22.07.2004 regarding the microfinance organizations and the Law of Savings and Loan Associations no.139-XVI of 21.06.2007.

At the beginning of 2018, a new law was adopted and approved by the Parliament of the Republic of Moldova on non-bank lending organizations that is supposed to replace Law no. 280-XV of 22.07.2004 on Microfinance Organizations, with the entry into force on October 1, 2018.

Therefore, we note that the "old" Law on Microfinance Organizations from 2004 does not include levers to mitigate potential risks, in addition to lending, and the role of the NCFM (as a supervisor of the field) was reduced to "monitoring", while the "supervision" element is absent. Thus, among the existing institutional deficiencies can be summarized the following ones:

- ✓ lack of explicit restriction of attracting repayable resources from the population,
- ✓ lack of provisions allowing entities to cumulate freely different types of activity such as financial leasing and lending;
- ✓ lack of a mechanism for authorization and registration of microfinance entities,
- ✓ absence of single common provisions for establishment of provision to cover potential losses related to the non-repayment of loans,
- ✓ no requirements in terms of corporate governance,
- ✓ exigencies to administrators and founders.

Under the new Law on Non-Banking Loan Organizations No.1 of March 16, 2018, non-banking lending organizations are meant to ensure the development of the non-banking lending field, including by preventing excessive risks in the system and increasing access to financial resources for individuals and legal entities. Therefore, according to the provisions of the new law, the non-banking credit organization is a limited liability company or a joint stock company, which carries out professionally only the non-banking lending activities, namely: the granting of non-bank loans and financial leasing. Thus, the main new basic provisions of the law focus on:

1. clear and explicit definition of the activity of non-bank lending organizations;
2. ensuring the conditions for defending the rights and legitimate interests of creditors, donors, clients, as well as of founders, associates and shareholders of non-bank lending organizations;
3. express setting of permitted and prohibited activities to be carried out by these organizations;
4. introducing the requirements related to the requirements to the administrators and founders of the non-bank lending organizations;
5. establishing the procedure for issuance of the pre-approval notice, including the necessary documents to be submitted to the NCFM for the establishment of the non-banking credit organization, the obligation to register in the Register of non-banking lending organizations held by NCFM and the grounds for suspension and deletion from the respective register;
6. introducing the authorization requirement and establishing the minimum admissible own funds requirement of 5% of the value of the assets;
7. mandatory audit if the balance sheet value of the assets exceeds 50 million lei at the end of the management period;
8. introduction of a minimum amount of the social capital, (the minimum social capital of the organization is set at 300,000 lei and must be deposited in full by its founders in cash form, and the amount set is to be filled by 01.01.2021) ;
9. establishing certain prudential requirements such as limitations on lending, the obligation to create and classify provisions for loan losses, etc .;
10. introducing provisions on money laundering and terrorist financing.

In the author's opinion, the new legal regulations of the microfinance sector activity facilitate the proper functioning and development of the sector. Changes in the legal framework will also help improve the management of the non-banking lending organization (microfinance organizations) by creating an efficient and professional strategic management system.

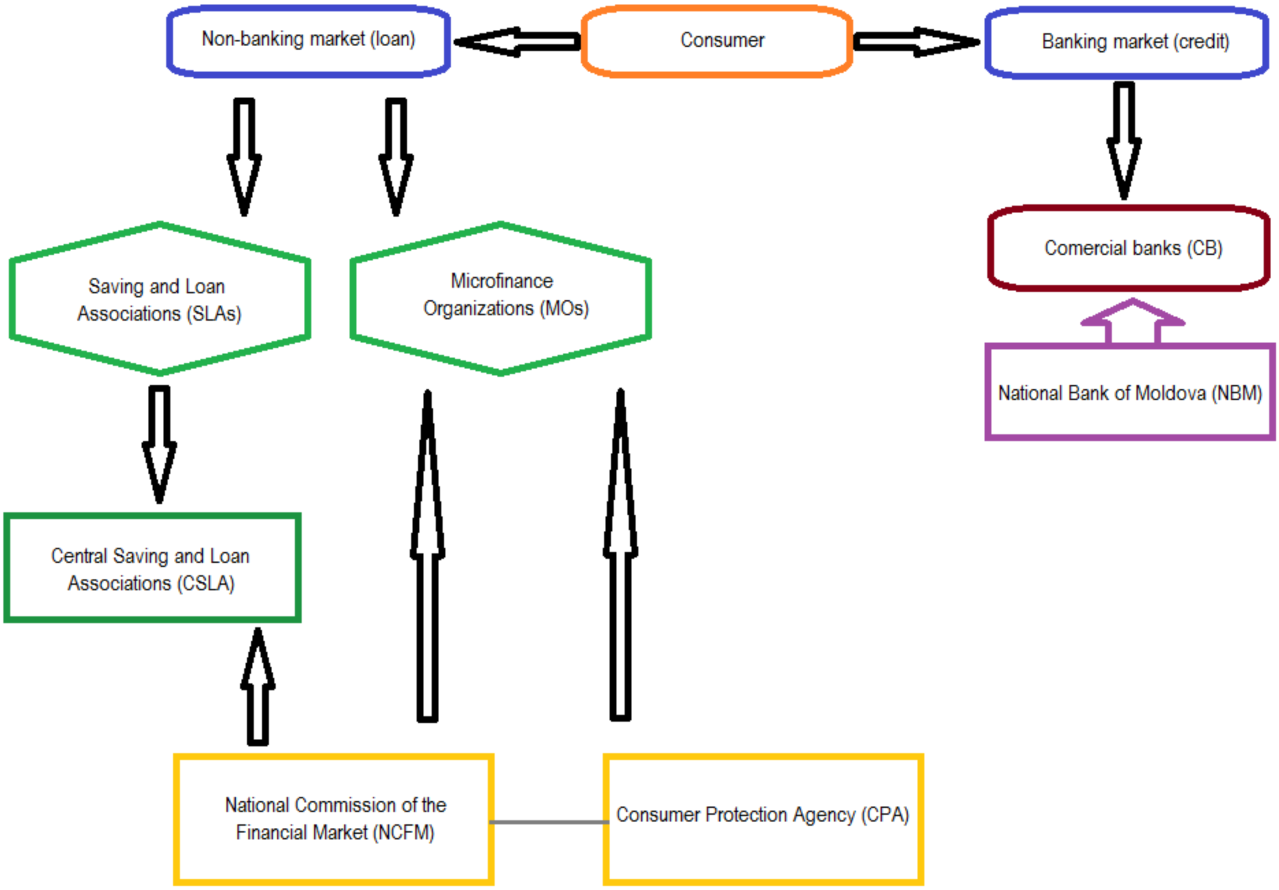
The structure of the non-banking credit sector (microfinance) in the Republic of Moldova

Structure of the non-banking lending sector (microfinance) in the Republic of Moldova involves organizations providing microfinance on the non-banking market, namely: Savings and Loan Associations, Central Association and Microfinance Organizations. Accordingly, the microfinance sector is supervised and regulated by the state body National Commission of the Financial Market (NCFM). Therefore, the National Commission of the Financial Market (NCFM) is an autonomous authority of the central public administration, responsible in front of the Parliament, which authorizes and regulates the activity of the participants on the non-banking financial market, as well as supervises the observance of their legislation ... *"(Art. 1, Law on the National Commission of the Financial Market No. 192-XIV of November 12, 1998 (in the redaction of the Law No. 129-XVI of 7 June 2007).*

The National Commission of the Financial Market defines microfinance as an additional source of funding for individuals and legal entities who want to obtain financial resources. This source of funding offers some benefits to the consumer over traditional bank loans, such as a shorter grant time and the ease with which they can be accessed, but may involve higher interest rates.

Thus, the functioning of the microfinance sector encourages the development of micro-credit activity by providing money to start a business, mainly in rural areas, thus facilitating access to cheap financial resources and stimulating private initiative. In this context, the author illustrates in Figure 1 the functionality of the banking and non-banking sector and their participants.

Figure 1. Structure of the non-banking and banking market in the Republic of Moldova



Source: developed by the author

From Figure 1, we observe that the consumer has two options to request a credit on the banking market or a loan on the non-banking market. The consumer on the microfinance market has the option to request loans from Microfinance Organizations or from Savings and Loan Associations (within the SLAs has the option to make savings). In this context, the author characterizes the functionality of each participant of the Moldovan microfinance sector, found in the Consumer

Protection Guide on the non-banking financial market in the Republic of Moldova. So the main participants of the microfinance sector are:

- *Microfinance organizations* that are joint-stock or limited liability companies, which provide loans under a contract with or without interest, to be repaid on maturity, according to the contract.
- *Savings and Loan Associations (SLAs)* are non-commercial organizations voluntarily constituted by natural and legal persons, associated with common principles, accepting savings deposits from its members, lending them as well as other financial services according to the category the license they own.
- Associations have the option of becoming members of a *Central Savings and Loan Association (CSLA),* which support the activities of associations through training, consultancy and even grant loans to them.
- The National Commission of the Financial Market (NCFM) is the authority that regulates and supervises the activity of Savings and Loan Associations, and in the case of Microfinance Organizations represents the authority to monitor their activity.
- The Consumer Protection Agency (CPA) plays an important role in the microfinance sector, is the supervisory authority on consumer protection law fulfillment, and in particular on credit agreements for individuals concluded by Microfinance Organizations. In the event of a violation of contractual rights by the MO, the consumer has the right to address the CPA in order to resolve the conflict.

The main difference between microfinance organizations and savings and loan associations is that microfinance organizations are categories of entities that carry out professional lending activities and do not attract deposits or other repayable funds by the public (members).

Therefore, the activity of the microfinance sector (non-banking lending sector) is complementary to that of banks, because they provide services that are not suited to the degree of risk that a bank can assume. The competitive advantages of non-banking financial institutions derive from the fact that they can be targeted to certain sectors of activity or groups of clients that benefit from both, a more flexible regulation and sometimes from certain tax incentives. In addition, non-banking financial institutions significantly strengthen the resilience of the financial system to shocks generated by economic crises. So, microfinance institutions have developed as an alternative to the banking sector. At present, the alternative for loans granted by commercial banks are the products offered by microfinance organizations.

The role and importance of this sector stems from the fact that many financial institutions are not willing to lend to micro-enterprises and small businesses because of the risks this sector is facing. Thus, access to finance for SMEs remains rather limited, but this sector can not be vital without an efficient and appropriate funding system.

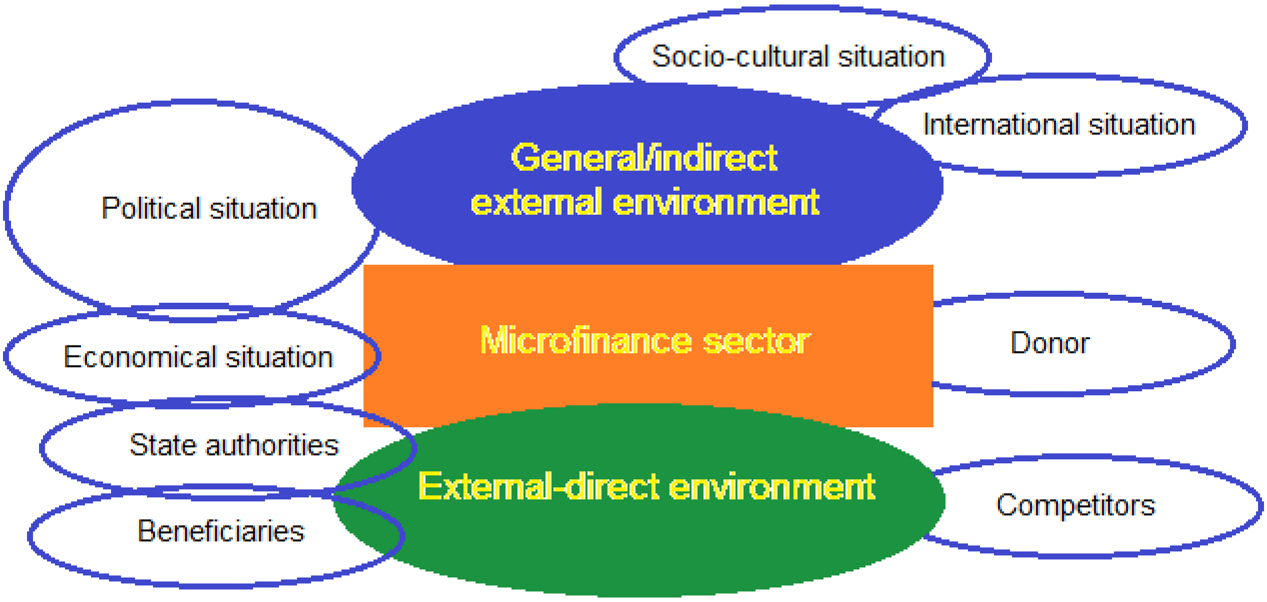
Taking into account the mentioned above, in our opinion, after choosing the banking or non-banking institution (in our case Mo or SLA), the main stage of granting a loan is the choice of products offered by microfinance institutions and the conclusion of the loan agreement with a MO or a SLA authorized by the NCFM. Thus, the consumer can request loans from the microfinance sector in the form of money in exchange for an interest, and at full maturity, the full amount of the loan is repaid. And the SLA offers its members the possibility of depositing savings in return for an interest. Next, it is necessary to mention a very important moment, the consumer, on the basis of a contract, will regularly pay a rate, consisting of the actual loan plus interest, according to a payment schedule that he will receive together with the loan agreement. And in the case of SLAs, the consumer / beneficiary will have to get membership by paying a membership fee before calling for SLA services.

In this respect, the author emphasizes the importance of concluding the loan agreement between the consumer and the MO, by setting out the mandatory requirements that the MO has to comply with in drafting the loan agreement in accordance with the Law 202 of 12.07.2013 on credit agreements for consumers.

The activity of microfinance organizations in the Republic of Moldova and other countries depends to a large extent on the external environment of the organization. For a more efficient operation of the organization, managers need to be aware of all endogenous and exogenous variables that influence the work of the microfinance organization (MO). Thus, the success of the organization

(MO) depends largely on the degree to which the organization manages to accommodate and control the influence of factors in the external environment. Factors outside the organization acting in one form or another on it represent the context in which the organization exists. Next, we will elucidate the external factors that have direct and general influence on the microfinance institutions represented in the scheme below:

Figure 2. Structure of the external environment of MO in the Republic of Moldova



Source: developed by the author

The external environment of organizations is reflected by factors that have a direct and indirect or general influence, so we explain:

1. the general / indirect external environment are the factors with indirect action on the organization manifesting their influence through: macroeconomic, international, political, socio-cultural environment.

2. the direct external environment is represented by factors with a direct influence on the organization and consists of: creditors, competitors, beneficiaries, government institutions.

In the author's opinion, microfinance organizations are indirectly influenced by factors in the general aspect of the external environment such as: the country's economic, political, socio-economic and international situation. Thus, the microfinance sector presents major opportunities for SMEs in providing access to financial services, creating new jobs, building an important tool for entrepreneurship development and increasing the country's macroeconomic indicators.

Further, the author proposes to analyze the influence of direct external factors on microfinance institutions such as: government institutions, creditors, beneficiaries and potential competitors.

Therefore, ***central public administration authorities*** have a direct influence on the microfinance sector:

1. Parliament (issues laws);
2. President (promulgates laws, issues decrees);
3. NBM (regulates and supervises the financial activity of banks);
4. The Ministry of Finance (regulates and supervises the financial activity of SLA, regulates the keeping of financial records and the presentation of financial reports, as well as carries out external audit);
5. The Ministry of Economy and Infrastructure (regulates competition, provides support in small business development, develops economic and social forecasts and programs);
6. The State Tax Inspectorate (defines the way of keeping the tax records, calculating and paying the taxes).

The Republic of Moldova obtains financial support from different international financial institutions, being called ***donors or creditors***, which offer a wide range of financial resources to the SMEs sector and the microfinance sector through a range of programs.

The ***donor community*** includes organizations that provide technical and / or financial assistance to the microfinance sector and, sometimes, to customers of this sector. International organizations such as: the World Bank (WB), the United Kingdom Department for International Development (DFID), the SOROS-Moldova Foundation, the Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ), the US Agency for International Development USAID), etc. may be mentioned in this regard.

The Government of the Republic of Moldova has been financially supporting microfinance, since 1997 till now, by guaranteeing loans from the World Bank and IFAD (International Fund for Agricultural Development) to finance small rural businesses.

The donors of the microfinance sector are:

1. The World Bank has developed and implemented, since 1997, the first rural funding project. It has granted, under the state guarantee, a 5 million USD credit. The loan is granted to CFR for the re-loan of SLAs. The WB has developed and implements the RISP program. Financial resources are also provided under State guarantee for business lending in rural areas. OSI and the Soros-Moldova Foundation have financially supported, through the MMA, the creation and development of SLAs since 1997. Since 2003, the OSI / Economic and Business Development Fund has provided technical and financial assistance to MicroInvest
2. GTZ has been financially supporting FIDES since 1997 to develop the concept of SLA. In particular, FIDES consulted the MMA to develop the SLA network, assisted in the drafting of the SLA law and the national accounting standard for SLAs. At the same time, FIDES is currently consulting the NFSLA the elaboration of the strategic plan for the development of this federation and of the SLA network.
3. The Government of the Netherlands granted a grant in 1997 to credit the first SLAs. In 1997 and 1998, it funded World Women Banking, which provided MMA assistance in setting up and developing the SLA network.
4. DFID, since 1999, provides technical and financial assistance to CDR in the creation and development of SLAs in the northern area and in Gagauzia's territorial-administrative unit. With the help of consultants, manuals for specialists from SLAs were edited.
5. USAID in the Republic of Moldova has been providing assistance for the development of SLAs since 1999. USAID, through its subcontractors (BIZPRO, EWMI, CNFA, etc.), supports CDR, MMA and NCFM. Since 2001, USAID, through BIZPRO, also provides training to banks wishing to be actively involved in financing small business.
6. IFAD began its activity in 2000 in Moldova. It has provided, under state guarantee, a credit that will be disbursed by banks for the creation and development of small and medium-sized businesses in rural areas. On the other hand, IFAD provides development grants for NGOs to prepare agribusiness plans.

Conclusions

From the above analysis, we find that microfinance is an important source of financial capital for both individuals and SMEs. It is important to note that the activity of microfinance organizations is not a licensed one, as well as the ban on accepting savings deposits. Thus, those who lend to microfinance organizations assume the risk of loss in the case of non-reimbursement of the value of the loans, by giving adequate confidence to managers of microfinance organizations.

We find that microfinance in the Republic of Moldova continues to remain a good opportunity for operators who buy or have cheaper financial resources compared to those offered by banking institutions, and liberal regulations attract new operators on this segment, especially foreign capital. Further, the author delimits the most important *advantages of microfinance institutions compared to banking institutions*, they being:

- Rapid processing of the file, accessibility of services by reducing the number of acts and flexibility of the repayment schedule with stronger logistical support and higher degree of risk-taking;

- Serving the start-up entrepreneurs and self-employed people, customers without salary certificates.

From the above, we conclude that the evolution of the microfinance sector shows that it has small proportions in the country's economy, compared to the banking sector, its coverage is very wide, providing lending services complementary to those available in the banking sector small and medium-sized enterprises throughout the country.

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