THE ROLE OF INTERNATIONAL INSTITUTIONS IN SUSTAINABLE LOCAL DEVELOPMENT ON EXAMPLE OF ESTABLISHING MICROFINANCE IN THE REPUBLIC OF MOLDOVA

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Abstract

Given that over 80% of the EU territory is represented by rural areas inhabited by over one quarter of the EU population, the Agenda 2000 of the European Commission adopted in June 1997 includes „coherent policies of sustainable rural development”. Since the Republic of Moldova has regained its independence, it has been eager to occupy its own place among the democratic nations of the world and currently nourishes hopes to build a competitive economy. This paper will consider the ways, components, implications of the export system, preceded by a very brief description of the specifics of the Republic of Moldova. The case of the microfinance system will be used for a better exemplification, especially the part focusing on rural areas, analyzed from the quantitative and qualitative points of view.

Key words: Rural Area, Local Development, Microfinance, Welfarist and Institutionalist Approach, Non-banking Finance Institution, Credits and Saving Association.

INTRODUCTION

The definition of rural space has become a constant pursuit for various organizations of the European Community and affirms that „A rural space comprises an internal or a coastal zone containing villages and small towns, where most of the land is used for:
- agriculture, forestry, water resources and fishery;
- economic and cultural activities of the inhabitants of these zones;
- leisure and entertainment of non-urban or nature protection character;
- other destinations (except for dwelling).”
In 1997, OECD proposed to classify a rural space „if the population density is less than 150 persons per square kilometer” and to identify the following three categories, depending on the share of population living in rural communities:
- predominantly rural, over 50% of population living in rural communities;
- significantly rural, 15% to 50% of population living in rural communities;
- predominantly urban, under 15% of population living in rural communities.

This essay considers the ways, components, implications of export system, preceded by a very brief description of the specifics of the Republic of Moldova. The case of the microfinance system will be used for a better exemplification, especially the part focusing on rural areas, analyzed from the quantitative and qualitative points of view.

1. Brief outlook on natural and economic potential, human capital and mobility

The natural potential of rural space in the Republic of Moldova is made up of varied relief, spectacular landscapes, climatic conditions, water resources, flora, fauna, etc. At the beginning of the current year, the country's land fund has constituted 3384.6 thousand hectares. The area of agricultural lands comprises 2511.8 thousand hectares, that is, 74.2% of the total area, including 1820.2 thousand hectares or 72.5% arable lands, 301.8 thousand hectares /12 percent/perennial plantations, 364.2 thousand hectares (14.5 percent) meadows and pastures and only 25.8 thousand hectares (or 1%) non-arable lands.

One of the most controversial problems that occurred in the result of land transfer to private
property is the legal-organizational form of the agricultural enterprises. Agricultural lands are held by enterprises and organizations (state entities, joint stock companies, collective farms, etc.), farmer's units, auxiliary units and other land owners. The area of land lots attributed to small agricultural producers, farmer's units and auxiliary enterprises decreased from 1048.7 thousand hectares in 2003 to 987.4 thousand hectares in 2009. The agricultural lands attributed to farmer's units even within the limits of the same locality may be fragmented into several lots. As a sequence, the consolidation of farmer's units and the extension of agricultural enterprises is an objective necessity for the implementation of efficient technologies. There are two models of land consolidation with the scope of forming large agricultural holdings:

- **the Soviet model** - previously followed by our country, when lands consolidation was conducted under the pressure of the dictatorship regime. Consequently, the peasant was transformed into an employee of "kolkhoznic" or sovhoznic" type;
- **the western model** that provides for deliberate association of small agricultural producers into large holdings based on the principles of market economy. This process is quite slow. For instance, in France, the share of agricultural holdings with areas exceeding 50 ha increased from 4.3% in 1955 to 32.9% by 2003.

Evidently, we consider appropriate to follow the western model of consolidating agricultural lands granted that this process takes place in accordance with the requirements of the EU-Republic of Moldova Action Plan for the years 2007-2013, which encourages us to „continue the processes of voluntary re-parceling and consolidation of agricultural lands by means of land market”.

Since 2000, Moldova's economic performance has been commendable, in contrast to its deteriorating performance through most of the 1990s. The real GDP growth has been strong, averaging 6.6 percent since the recovery began in 2001. Moldova’s transition to a market economy system has been marked by a particularly prolonged and deep recession. Russia and the Ukraine, economies with which Moldova has strong trade ties, experienced similar problems. As a result, real GDP in 2005 was still less than half of the 1989 level. This is one of the worst performances amongst the transition countries listed by EBRD.

Economy showed remarkable resilience in 2006 and 2007, followed by a yearly doubling of energy prices, a Russian ban on wine exports, and severe drought. Since 2007, growth slowed each upcoming year, stabilizing in 2011. Although investment has been picking up, Moldova’s impressive growth performance still remains largely consumption-led, driven mainly by the inflow of workers' remittances. This was largely due to Moldova’s high vulnerability to external shocks (given its trade structure) and adverse weather conditions. Moldova’s external vulnerability has been further highlighted by the developments occurring since the beginning of 2006: firstly, the doubling in the price of natural gas imports from Russia and, secondly, the Russian ban on Moldovan wine imports effective since the end of March 2006. The recent global financial and economic crisis has had a serious negative impact on remittances, exports, imports and budget revenues since the beginning of 2009.

For the Republic of Moldova, agriculture was, and, in the nearest future, will remain the most important segment of our national economy. The contribution of agriculture to the formation of GDP in our country decreased from 22.4% in 2001 to 8.9% in 2011.

In all countries, and obviously in our country as well, agricultural products are produced mainly for the internal market. The internal market of the Republic of Moldova is limited to 3.6 million of consumers and conditioned by their purchasing power.

From 2001 to 2008, the monthly average income per person increased by 4.9 times, further registered a stagnation, but even on the pick of growth in 2008 it covered only 86.9% from the monthly average value.

In the Republic of Moldova, one of the poorest European countries, there is a considerable discrepancy between the disposable income of the rural and urban population. In the year 2010, the share of population with disposable income under 200 lei (14 EUR) per month in the urban areas was 1.1%, while in the rural space it was 4.4%.
If, in the urban areas, the population with disposable income under 1000 lei per capita per month was 52%, then in the rural areas it constituted 71.1 percent. The share of population with disposable income over 1600 lei per month was 20.8 and 9.6 percent, respectively. Hence, one may easily conclude that the poverty level in the rural areas is much higher compared to the urban ones.

The disposable income determines the structure of people's consumption costs. Both in the rural and urban areas foodstuffs and non-alcoholic drinks occupy the major place in the cost structure. In the year 2010, in the urban localities, foodstuffs occupied 41.2% of the costs while in the rural areas they occupied 46.4 percent of total costs. The external trade geography has changed categorically especially after the wine embargo imposed by Russia in 2006, the main destination for about 85% of total wine products exports at that time, which forced reorientation towards other markets than the CIS countries and registered 52% to the EU countries in 2011.

Thus, starting from the situation created on the food and agricultural market, we consider that the economic and financial crisis is quickly approaching Moldova; it can be diminished by the evaluation of the offers from the side of the European market.

Human capital is one of the most important elements for rural development. There is a direct correlation and complex mutual dependency between human resources and territorial development. The population of the Republic of Moldova increased from 2.88 million people in 1959 to 4.34 million in 1989, and then it decreased down to 3.57 million in 2008.

Although the territory of the Republic of Moldova is compact enough, the evolution of the demographic phenomena (natality/birth rate, mortality/death rate, natural growth, etc.) have a different regional character; however, they generally maintain the same trends as the national ones, with only some differentiations. There is an essential gap in the evolution of the demographic phenomena in various zones and administrative units, and in the demographic units and age groups, respectively. It is difficult to follow the evolution of the population number due to the numerous territorial changes that have occurred in the past decade. But one can certainly assert that the number of population has decreased in all administrative units. Even the evolution of the depopulation process in the urban and rural communities is different. The number of rural population decreased in all zones. Depopulation affected to a greater extent the large communities in the Northern and Southern areas.

The number of rural inhabitants is affected by smaller oscillations. In the year 1979 the number of rural population was the largest, accounting to 2.42 million people. Even nowadays it exceeds the figure of 2008 when the rural population attained 2.09 million people, accounting 86% of the peak year value.

The village is the basic organizational unit of rural space. As of 1st January 2008, the 1575 villages of our country were grouped into 917 communes. The density of localities is on average 4.65 villages per 100 square kilometers. The average population number of one village is 1331 people, but it varies from less than 100 to over 100,000 persons.

The population migration, one of the most complex demographic phenomena, exerts a considerable influence on the economic and social development of the state, on the distribution of population and human resources, and on the development of human habitat. Very often, the same type of migration is caused by several factors that concur according to the specific conditions of each stage in the history of the development of human society. Population migration, as a component of the whole migration process, is very different. Internal migration is not recorded, which makes it difficult to study the territorial mobility manifestations in accordance with the conditions of state development in each stage.

In relation to the information regarding the internal migration of the population during the period when statistical records were made, we can find the following:

• Within the internal (urban, rural) migration, approximately 180-200 thousand migration acts are recorded each year, i.e. up to 80-90 thousand inhabitants change their residence every year;
• These directions are distributed as follows:
urban to urban – 24%,
urban to rural – 26%,
rural to urban – 35%,
and rural to rural – 15%.
One can see that the predominant part of migration is between the urban and rural communities, which generally accounts for 61%. The rate of population migration between rural communities is insignificant (15%). Specialized studies show that, on the direction rural to rural, predominant is the population migration from small rural communities, categorized as lacking perspective, to large rural communities, categorized as rural communities with perspective, concentrating economic, social, cultural activities. Small towns are not attractive and they do not have the capacity to maintain the population in the territory. Chişinău maintains a high level of attraction, in its capacity of capital city and great economic, political, and cultural center, and, to a lesser extent, the town Bălți.

According to the UNFPA Report “Situation of the World Population 2007”, the Republic of Moldova continues to be the most ruralized in Europa. Considering internal migration, we can underline some key issues:

• Internal migration of population holds the main place in the distribution of population between the rural and urban zones;
• The lack of statistical evidence of internal migration generates studies on this important segment of population migration, based on intuition and some unofficial data – demand research, based on samples;
• The intensity of the internal migration can be a measure resulting from the processes of urbanization and population concentration.

On the other hand, Moldova has faced a big challenge due to external migration. The population migration under the present conditions of the Republic of Moldova requires a new vision of migration place in state development, and depends directly on the force of “attraction/rejection” factors, which are mainly economic. At the same time, both emigration and immigration have deeply changed the demographic situation:

• demographic losses of economically active population,
• diminution of demographic genotype,
• definitive disintegration of many families by formal or informal divorce.

Thus, a negative consequence of the external migration is the loss of reproductive population, economically active population and qualified population, according to the social and economic criteria.

Illegal migrants represent the young population that lacks economic and social protection, whose life is subject to a higher risk, including in the European space, characterized by a higher degree of insecurity. Nevertheless, in their countries of residence, migrants do not enjoy social protection. Furthermore, in the context of its vicinity with the European Union, the Republic of Moldova must establish some priority options regarding migration with the states in the region. Given its low living standards, the Republic of Moldova has practically no chances to attract human resources. According to the statistics of the National Bank of Moldova, in 2008-2011, the citizens of the Republic of Moldova working abroad transferred an average of 1.7 billion US dollars through commercial banks, which represents approximately one third of the GDP. Since 2007, the Republic of Moldova has ranked first in the top of states according to the GDP remittances, with a share of 36.2 percent, competing Tajikistan.

How we can influence the migration process? What changes must be done? What must be done to assure the countries' minimum reproductive fund? With a great assumption, we can say that one of the solutions might be a well-functioning microfinance system.

2. Premises, modalities, causes and effects of “export” of “new” products by international institutes.

Social exclusion is a complex phenomenon, dynamic and multidimensional, linking various dimensions of life from which people are excluded. There is no single, agreed definition, mainly due to the difficulty in defining an ideal referenced state of inclusion. Social exclusion refers to marginalization from employment, income, social networks such as family, neighborhood and community, decision
making and an adequate quality of life. The problems of social exclusion are often linked and mutually reinforcing. It is often difficult to disentangle the causes and consequences. The risk of social exclusion is highest for those with multiple disadvantages. However, unemployment is the major factor that contributes to social exclusion, as employment and job security promise an income to satisfy basic needs and provide social integration and social identity at the same time. Financial exclusion can be described as the inability of individuals, households or groups to access necessary financial services in an appropriate form. The causes and consequences of financial exclusion can contribute to social exclusion. Those unable to access finance for enterprise development or personal consumption have greater difficulty in integrating economically through employment and self-employment. Eastern Europe has experienced dramatic economic change in the past 17 years where structural reasons for social exclusion prevail in the former communist countries. These reasons are, first of all, unemployment caused by the collapse of state-owned industry and farms followed by significant social welfare cuts. In Western Europe, social exclusion is also linked to unemployment. Here, however, unemployment is partly the result of the shift from industrial-based economy to service-oriented and technology-dominated economy. And, although the welfare state is under pressure, when compared to Eastern Europe, it continues to provide significant benefits under the form of income support, national health and retirement payments. The fight against social exclusion has been a major concern of EU policy since the early 1990s. Facilitating participation in employment and access to resources, rights, goods and services for all have become key European goals. In order to increase transnational policy cooperation, all Member States have been asked to prepare national action plans on social inclusion. The Role of Microfinance in Social and Financial Inclusion. Microfinance refers to the provision of financial services - micro-loans, savings, insurance or transfer services - to low income households. It is widely seen as improving livelihoods, reducing vulnerability and fostering social as well as economic empowerment. Microcredit refers to provision of micro-loans for microenterprise development and can be a tool for social as well as financial inclusion, as it helps to prevent and redress all areas of exclusion - poverty, low income, lack of employment - which are evidenced as a major component and reason for social exclusion. Moreover, programs that provide training, advice and networking opportunities enhance skills and social empowerment of underprivileged groups, further contributing to inclusion. The question of how best to provide financial services to the poor has fueled intensive debates worldwide. The debate can be summarized into two different schools of thought: the institutionists and the welfarists. Although both view poverty alleviation as their prime objective, each camp defines poverty differently, and, consequently, each has a different view of what is the best means of helping the poor gain access to financial services. The institutionists believe that microfinance will make a significant and permanent dent in poverty only if microfinance is significantly scaled up through its integration into formal financial systems which can guarantee permanent and financially self-sufficient services for large numbers of poor people. Welfarists do not believe that full financial self-sufficiency is a prerequisite for them to be able to reach poor people. They fear that the need to be financially self-sufficient (profitable) in order to attract private capital will divert industry from its paramount goal of poverty alleviation. The microcredit programs implemented in the most of the East European countries generally fall into the institutionist school of thought and those implemented in the West generally fall into the welfarist approach. This difference is the result of historical, structural and legal factors; it creates excellent opportunities for cross regional sharing of best practices but also potential conceptual as well as practical difficulties in their application. The Republic of Moldova is the only place where the two approaches met at the same time,
from 1998 to 2004. The Institutionists were represented by World Bank group and the Welfarists by German Technical Assistance (GTZ). Aiming at the most vulnerable part of population, they started building the national microfinance system from creation and developing of Saving and Credit Associations, limiting their placement to rural area, i.e. villages. In order to understand this choice, it is necessary to have a glance over the past.

During the soviet period, a branch of the saving bank existed in almost every village, mobilizing important amounts of savings from the population. Low interest credit facilities allowed young families to start off a new livelihood, this concerned especially credits for the construction of houses. The system collapsed due of high inflation during the early 1990’s, in the first years after the proclamation of Independence. This led to the loss of all savings.

Because peasants have lost their life savings, it was difficult for the financial institutions to start new saving activities, even in the self-managed saving and credit associations. That was why the collection of deposits by commercial banks was highly insignificant during 1998-2002. Farmers lost their trust in these institutions, so whenever there was cash, it was immediately invested in assets or consumed. Trust in financial institutions had to be regenerated. After 1991, with the start of market economy relations, a process of informal lending was developed in rural areas. In villages, the money lending process was not conducted on a constant basis. Farmers used to borrow money when there was an urgent need, and lent money to others when they were able to.

Today, the financial sector is still resilient to the effects of the financial crisis, but its capacity to credit the economy, in the current circumstances, is seriously affected. The most developed segment of Moldova’s financial infrastructure is the banking sector. It is comprised of 15 commercial banks. Its banks have high capital-to-asset ratios of more than 17% and low levels of lending. The main shortcoming, common to all banks, is the lack of cheap credit resources.

While Moldova achieved independence in 1991 as a middle-income country, it is now one of the poorest countries in Europe, with GDP per capita significantly below the average of Central European countries. Moldova is ranked 117th in the 2009 Human Development Report, with a Human Development Index (HDI) value of 0.72. Thus, Moldova is one of the lowest ranking countries, in terms of HDI, covered by the European Neighbourhood Policy. With a per capita income of US$ 880 (GNI Atlas method, 2005), Moldova is the poorest country in Europe and the only one currently classified as a low-income country by the World Bank. Many of those who have recently moved out of poverty are just above the poverty line and are vulnerable to an economic downturn. Thus, massive land privatization and institutionalization of National Castrate System fertilized the land for SCAs development.

Both donor organizations applied to local NGOs services in order to achieve their goals, ensuring the transfer of knowledge in a different way. Regardless of the differences mentioned above, both participants estimate the projects relevance at highest level. First of all, there was a proper design, target groups were selected among the poorest out of poor; during the projects, 33500 people got an access to finance that allowed them not only to survive, but also to improve their livelihood. Moreover, it facilitated the “credit history”, making them more attractive for the banking system. We can conclude that this particular innovative financing was “delivered” just in time.

There were divergences in the efficacy evaluation. WB group considered it as considerable while GTZ classified as good, mainly because of the differences in approach. WB provided massive assistance to institutional development while GTZ relied on the existing local structures. Trying to find the best one, we faced a problem. In our case, both approaches were the best ones as Moldova got some brand new institutions and enhanced (improved) the existing capacities at the same time. For a small country like Moldova, it was a tremendous success. Speaking about effectiveness, we cannot compare these two donor institutions just because they enriched the newly created institutions such as the National Federation of
Saving and Credit Associations and the State Supervisory Body by different means, that where most likely complimentary than contradictory. WB ensured a proper financing and some strategic hints and GTZ came with a massive Technical Assistance. The National Federation of Saving and Credit Associations was designed as a lobbying, consultancy and the training institution while the State Supervisory Body as a main monitoring institution for SCAs. Both institutions were created by WB assistance and GTZ joint later due to the divergences in the view over how it should be, that was described in the differentiation of the two main schools.

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<tr>
<th>Approaches</th>
<th>WB group</th>
<th>GTZ</th>
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<tr>
<td>Management</td>
<td>Project implementation unit with local experts, combined with short-term visits of international experts teams (1-2 week/visit)</td>
<td>Established office in Moldova with a permanent international experts team based on mid-term assignment (3-4 years)</td>
</tr>
<tr>
<td>Transfer of Knowledge</td>
<td>Sort-term trainings of trainers and SCAs developers</td>
<td>On-job training on a day-by-day basis</td>
</tr>
<tr>
<td>SCAs development</td>
<td>Use of trained NGO developers with seldom site visits</td>
<td>Trained NGOs together with international expert</td>
</tr>
<tr>
<td>Institutional development</td>
<td>Built from scratch</td>
<td>Use of local existing ones, selected through tender</td>
</tr>
<tr>
<td>Financing</td>
<td>Creation of intermediary non-bank financial institution – Rural Finance Corporation</td>
<td>Use of local banking system, Moldova-Agroindbank - leading bank in Moldova</td>
</tr>
<tr>
<td>SCAs assistance</td>
<td>Permanent tuition since the first meeting of the founders</td>
<td>Initial support up to the first month of activity and after the Jungle rule – The strongest will survive is applied</td>
</tr>
<tr>
<td>Consultancy</td>
<td>Permanent</td>
<td>On demand</td>
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Source: Developed by author based on ex-post evaluation

Much discussion can be made overt these three key issues of any ex-post evaluation, but it will be somehow different from the topic of our case study. Usually, the most applied approach for ex-post evaluation is the Development Agency Committee which includes five basic key issues such as Relevance, Efficacy, Impact, Effectiveness and Durability, as well as three transverse topics – Gender, Poverty and Sustainability. Our research focuses mostly over Impact and Durability. Both projects ended in 2004 and it is interesting to see how the system has evolved afterwards.

Nowadays, the Microfinance System in the Republic of Moldova is formed from one specialized bank, twenty-four non-bank financial institutions and a network of 422 Saving and Credit Associations (SCAs). About 20 of the current non-bank microfinance institutions were founded in the last three years and are mainly oriented to consumption lending. We will exclude them intentionally, due to their very young age and still small impact over the national microfinance system.

In order to follow the Impact, we will focus mainly on two the MFI – main SCAs lenders and the SCAs network itself. We will look at the Rural Finance Corporation (RFC), founded under WB group supervision as the specialized financing intermediary, and Microinvest, a successor of Moldovan Microfinance Alliance (MMA) assisted by GTZ. Analyzing the figures above-mentioned, we can observe significant changes within national SCAs network since 2007. WB and GTZ projects ended in 2004 with crucial outputs, as follows:

- 532 SCAs spread all over the country,
- two specialized non-bank financial institutions (RFC and Microinvest),
- one lobby-training and consulting institute (National Federation of SCA),
- and a supervisory organization (SSB) under the Ministry of Finance and the Ministry of Agriculture.

The local NGOs involved in the project lost their attractiveness in terms of employment,
due to occasional assignments; therefore, trained developers were absorbed by financial institutions in order to cover the demand for skilled specialists in this area. Initially, SCAs were limited by:

- geographical boundaries with the village area, resulting to a good knowledge of each other,
- management conducted by the most respected persons, regardless of educational background;
- minimum capital requirement as membership contribution was symbolic (4 USD);
- small minimum number of members (20);
- inability to receive savings (monopoly of commercial banks) and other “light” provisions.

It is important to underline the fall of the institutionists’ approach in the case of SSB and NFSCAs. Both institutions were heavily financially supported by WB group during the project, offering their services for free. This was done by purpose at the very beginning in order to allow the SCAs’ strengthening of the financial capacity. Since 2002, NFSCA had some weak attempts to get some charges for particular services, such as legal assistance, accounting, training, etc. This led to the SCAs' ignorance for chargeable service, making it useless. Covering all SCAs, it created a big internal pressure on what should have been promoted and who would lead the process; by the end of 2006, it simply disappeared.

Among the healthy and surviving 400 SCAs, 75 percent were “affiliated” with the RFC and benefitted from access to the loanable funds and technical training offered within the RFC umbrella, coming to cover the gap and ensure uniformity.

The case of SSB was conceptually different and it was supposed to be financed by state. The biggest question was who should undertake it, causing informal inter-ministerial fight. The problem was solved in 2007, owing to the findings of another WB project that identified four separate bodies supervising non-banking financial sector in Moldova – what a luxury for the poorest county in Europe.

The growth of SCAs network performance indicators required the replacement of old regulatory approaches, creation of missing institutions and improvement of the existing ones. The newly-established mega-regulatory institution – the National Commission of Financial Markets, designed similarly to the German model, absorbed all para-ministerial bodies, putting forward the realization of the following main priority objectives:

- elaboration of the regulation framework for an adequate, transparent and efficient supervision;
- improvement of the quality control activity with increase in the number of control shares;
- improvement of monitoring instruments and analysis of deviation from current legislation;
- alignment to the EU standards and the good practices in supervision and reporting requests;
- MIS implementation for the analysis of the data and information provided by regulated entities;
- assurance of adequate protection and trust consolidation on the non-bank financial market.

Being above the government and reporting directly to the Parliament, it facilitated NCFM's ability in achievement of the objectives stated above and the fast changes in the legal framework, if necessary.

New legal provisions existed, clearly stated in the mechanism of SCAs foundation, mergers and liquidation. The new framework introduced new prudent rules, designed on the basis of the banking rules, as presented in Table 2.

This framework facilitated the consolidation of SCAs through partial mergers because the areas they are permitted to service (often only a single village) are too small, with high administrative and fixed cost, saving acceptance opportunities, etc.

Licensing was important for the durability of the development process. It was transferred from the commercial banking sector with necessary adjustments in order to assure the differentiation among SCAs, underlining their capacities.
Table 2. Main requirements by license type

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<th>Requirement</th>
<th>License Type</th>
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<tr>
<td>Operational area</td>
<td>Village bounders</td>
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<tr>
<td>Management education</td>
<td>Raion bounders</td>
</tr>
<tr>
<td>level</td>
<td>Whole Moldova</td>
</tr>
<tr>
<td>Minimum number of</td>
<td>High from 2010</td>
</tr>
<tr>
<td>members</td>
<td>&gt;250</td>
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<tr>
<td>Range of activities</td>
<td>Short-term Lending</td>
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<tr>
<td></td>
<td>Short- and medium-term Lending and</td>
</tr>
<tr>
<td></td>
<td>Savings, direct lending</td>
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<tr>
<td>MIS</td>
<td>Mandatory from 2010</td>
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<td></td>
<td>Mandatory from 2009</td>
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<td>Mandatory</td>
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Source: Developed by author based on legislation of Republic of Moldova

By the end of 2010, about 340 SCAs obtained the A-type License and fifty-seven SCAs - B-type of License; 20 of them received savings from members. Summarizing the evolution on deposit site, we can observe a high interdependence between savings and average monthly income per person on the one hand, and the increasing level of trustability of the prime-level financial institutions, on the other. The B-type License allowed medium-term lending providing borrowers bigger opportunities through flexible repayment schemes and a longer period of loans utilization. During the peak of the season, up to 70% of members on average were borrowers. But even on the snapshot basis, we could observe the increasing conscious of members for repayment since 2003, caused by the threat of losing access to valuable assets rather than public pressure and image deterioration. At the same time, we could assume that the SCAs network positively influenced people in terms of self-organization as well as credit history creation, increasing their attractiveness as potential borrowers for commercial banks. The average loan amount per borrower was still very small and not interesting for the banking sector.

The C-type License gave an opportunity to operate all around the country and was introduced to facilitate creation of so-called Central Association, that is, supposed to combine the NFSCAs function with the treasure ones. Here again, two approaches confront since the institutionists considered just one while the welfarists – more than one. The idea was based on vertical integration and seemed appropriate, but might fail due to several crucial factors; among them, the most important were the lack of qualified labor force and the low level of start-up wages. To see the impact, we will use transverse topics: gender, poverty alleviation and sustainability.

From the gender point of view, the SCAs network facilitates social inclusion of women into society. The results are impressive as their share in all categories is 56% in SCAs management, 52% out of total number of members, 59% out of the total number of borrowers and just about 49% as depositors. It varies with the same frequency as demographic distribution among zones.

Villages with a strong and healthy SCA are more developed than others, which in many cases explain the urban-to-rural and rural-to-rural migration described above; at the same time, agriculture is the easiest way to start a business in Moldova. Similarly, SCA improves the living attractiveness of the village, assuring population stabilization and demographic grow.

From the poverty alleviation point of view, access to finance improves the members’ livelihood and influences the villages’ infrastructure development such as electrification, healthcare, primary and secondary education, etc. It also leads to an increase in the number of self-employed people in rural area and village business specialization. In several villages, we can found informal
clusters at an initiation and very early expanding stage. We can also observe a possible positive relationship between the average monthly income and the loan amount, even though the pace is different.

Considering sustainability, we may assume that the SCAs network is just at the end of the linear innovation process model and takes some very first steps towards the complex interactive model. The performance of SCAs network, as well as the establishment of mega-regulatory body, encourages the development of microfinance activities in the urban areas too and, as a result, about 20 non-banking financial institutions have been founded over the last three years.

The SCAs network has playe a huge educational role, familiarizing people with basic knowledge of finance categories, such as lending, deposits, interest rates, etc., as well as “learning to allocate” to fill the existing gap in rural area. Thus, we can assume the impact is generally good.

Summarizing all the above-mentioned, we can imply that the biggest problem of SCAs network and the rural area is the population’s educational level. The accent should move from “learning to allocate” to “learning to learn” and here we can make a big assumption on the SCA role as an educational center for villages. Therefore, it is tremendous to strength their own educational level and training capacities. SCAs must play the same role as local banks in the developed countries, knowing that the population can identify people with entrepreneurial abilities.

Education of entrepreneurs and managers could be the “magic” tool for further development.

CONCLUSIONS

Analyzing the evolution of the Microfinance system in the Republic of Moldova, we can observe the tremendous role of legislation in its development. During the last ten years, huge amendments occurred, which has come to support the thesis of law as a living body, reacting to major external changes and enabling the vitality of the system in time. Many qualities such as adjust-ability, compatibility, uniformity, unicity, etc are definitely characteristic for the “set of rules” of this sector, being at the same time integrated and incorporated into the legal system of a country. In our opinion, this is one of the most relevant examples of two major ways of system export with numerous pros and cons. Probably the institutionalist approach is relevant for the countries in transition, as well as for the less developed countries, in terms of time and it is very important to find out the most appropriate moment to shift towards the welfarist approach.

In conclusion, we should state that the durable development of the rural space in our country may be assured by the development of the institutional space and the efficient mechanisms of legal regulation, as follows:

- Mobilization and thought-through use of human, natural and material capital;
- Promotion and support of economic activities in the rural space;
- Protection of the environment and cultural heritage specific to rural localities;
- Preservation and transmission of specific traditional professions;
- Improvement of the business climate and provision of support to small agricultural producers;
- Assurance of a favorable investment climate for the development of the business environment;
- Vocational education of human resources in the rural space.

REFERENCES