

THE TRENDS AND CHARACTERISTICS OF DEVELOPMENT OF ASSOCIATIONS OF LOAN AND SAVINGS IN MOLDOVA

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Abstract

The objective of this article is to analyze the microfinance sector in Moldova, through elucidation of the main trends of development of savings and loan associations in the past five years. The financial market in Moldova consists of banking and non banking financial institutions by providing credit and loans for meeting the financial demand. The non-banking financial institutions include: central association, microfinance organization and savings and loan associations. Therefore in the paper the author intends to analyze and evaluate the work of savings and loan associations, as reflected through the improvement of all indicators. The emergence of these institutions is caused by the need of rural microfinance sector activity, as well as the financial support for small and medium businesses namely entrepreneurship in the sphere of production, trade and services.

Keywords: non-bank financial institutions, microfinance, savings and loan associations, stability, rural sector.

JEL classification: G21, G23.

Introduction

The activity of nonbank financial institutions are complementary to those of banks, as they provide services that are not appropriate for the degree of risk that can take a bank. The competitive advantages of nonbank financial institutions derives from the fact that they can be targeted at specific sectors or group of clients to benefit both from a more flexible regulation and sometimes certain tax incentives. In addition, NFIs significantly strengthen the financial system resilience to shocks caused by economic crises.

From the scientific point of view, about the activities and characteristics of nonbank financial institutions has been studied very little, both in Europe and in Moldova, being made usually traditionally articles or monographs. In Moldova the non-banking financial institutions (microfinance sector) are: central association, microfinance organization and savings and loan associations. In this article, the authors try to outline the specific development trends of NFIs, mainly focusing on Savings and Credit Associations (SCAs).

The system of Savings and Loan Associations play a significant role for Moldovan citizens. Thus, taking into account the international practice, the process of strengthening and institutional development of the Savings and Loan associations should lead to financial independence to external sources of financing.

Methodology and data sources

The research methods used in this paper: scientific abstraction method, the method of analysis and synthesis, logic method and statistical methods. At a conceptual approach to the topic of the study were the work and publications of the famous scholars in the country. Data sources for the study constituted the legislative acts of the Republic of Moldova, which regulates the activity of the microfinance sector, statistical data of the National Bureau of Statistics of the Republic of Moldova for 2009-2013, and respectively, the activity reports of the National Commission of Financial Market of the Republic Moldova regarding the microfinance sector activity. The study reflects the case of the Republic of Moldova, the basic indicators of SCA are presented annually by the NCFM and with monthly delay, for the analysis were used annual data presented in MDL lei.

Brief overview of the history of microfinance in Moldova

From a historical perspective, the microfinance sector began to form in Moldova in 1997, with the establishment of the first Savings and Credit Associations (SCAs) in the Rural Finance Project, funded by the World Bank, while banks in the Republic of Moldova do not grant credit for all segments of the population, as well as the procedure for granting a loan was too complicated,

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especially for those in rural areas. Therefore, the Rural Finance Project aims to support the private agriculture sector through the development and testing of forms of citizens' banking cooperation in terms of mutual financial support, being approved by the Government. This project is focused primarily on rural population with middle and low income who received or were to receive their share of land and value. (Radu Diaconu 2011).

The following year 1998 was founded the National Federation of SCAs and State Supervisory Service. It was further established the following microfinance organizations (hereinafter OMF): Rural Finance Corporation in 1997, ProCredit in 1999 and MicroInvest in 2003. However, the system of Savings and Loan Associations in the Republic of Moldova was established in 1998. Therefore at the end of 2009 there were over 398 SCA member organizations that register 120 000 members and assets in the amount of 345 mln. lei. And in 2013 there were 340 SCA institutions registered with a volume of 403.9 million in assets, up 17% compared to 2009.

Framework for Savings and Credit Associations (SCAs)

During the period 1997-2014, the regulatory framework for the microfinance sector has been perfected by a number of laws and acts (regulations, directives, decisions) that concerns the activity of savings and loan associations in Moldova. The main difference between the microfinance organizations and savings and loan associations is that microfinance organizations are entities engaged in lending on a professional basis and do not accept deposits or other repayable funds from the public (members).

The supervision activity of savings and loan associations is exercised by the National Commission of Financial Market (NCFM), an independent body that is accountable to Parliament, including through the annual report of activity.

The main legislative act is the Savings and Loan Associations Act No. 139-XVI dated 21.06.2007, which regulates the organization and operation of associated companies on common principles that accepts savings deposits from its members, provides loans, such as and other financial services under the category of the license it holds.

Therefore, in accordance with the Law, in the year 2013 NCFM issued 300 notices for state registration of the SCA statutes in a new version. As a result of the liquidation, 5 SCA obtained NCFM opinion on removal from the state register of legal entities. On 31.12.2013 have the license to conduct business 340 SCA entities, of which: 273-A license associations, 65 associations-B license and two central associations. In accordance with the Regulation on requirements to SCA administrators, approved by NCFM no. 63/6 of 25.12.2007, NCFM examined SCA 17 applications holding a B license, associations which have obtained confirmation of the directors as required by the law.

An important tool used in the supervision of savings and loan associations are annual and special reports received by NCFM through the Information Management System (IMS).

Therefore, the outcome of policies to enforce the legislation and the protection of legal rights of SCA members were issued 148 warnings, dropping 14.5% from last year. Similarly there were also fewer the number of penalties such as the suspension of the SCA bank account transactions (43 percent reduction). The number of prescriptions issued on compliance with legal requirements, including reporting requirements, has increased of approximately 2 times compared to the indicator from last year.

The surveillance activities at the headquarters of savings and loan associations established deviations from the law, including non-compliance with financial prudence, the conduct of general meetings of members of the association and designation of directors, financial reporting requirements and other violations that led to the application of a range of measures and sanctions.

The evolution of Savings and Loan Associations (SCA) in Moldova

In recent years, the developments in the domestic microfinance sector contributes to local Moldovan labor market recovery. In 2013, 10.7% of the economically active population in Moldova has benefited from loans of the microfinance sector, represented by savings and loan associations and microfinance organizations. Respectively, 36525 people were recipients of loans from savings and loan associations during 2013 to 6% more than in 2012.

Table 1

**The evolution of the number of professional participants
in the non financial market of microfinance sector in Moldova in 2009-2013**

<i>Supervised entities</i>	2009	2010	2011	2012	2013
Central Association	1	1	1	2	2
Savings and loan associations	394	398	376	359	340
Microfinance Organizations	35	43	59	73	85
Total - microfinance sector	430	442	440	431	427

Source: prepared by the author based on data from annual reports 2009-2013, NCFM.

In 2013, there were a total of 427 professional participants in the financial nonbank market of the Republic of Moldova, of which 85 microfinance organizations, two central associations and 340 SCA who held the license of which 302 conducted the activity. In order to provide for its members a full range of services, determined in accordance with legislation, with the category of license held by the laws and policies, SCAs have used the following sources: 1. Banking credits and received loans 206 associations; 2. Savings deposits 64 associations, of which did not contract bank loans and foreign loans - 30 associations; 3. Own capital 80 associations.

At the end of 2013, the number of SCA increased by 255 persons or 0.2% from 2012. During the same period the number of depositors' savings indicator has decreased by 34 persons or 0.6%. The number of beneficiaries of loans amounted to 34 620 people, increasing by 1,600 persons or 4.8% compared to the size of the indicator recorded in 2012.

The trend indicators during 2003-2013 reflect the following results on the number of members, of the beneficiaries of loans and savings depositors:

- Increasing the number of members in SCA from 71 200 to 127.0 thousand persons or 1.8 times;
- Reducing the number of beneficiaries of loans from 39600-34600 persons or 12.6 percent;
- Increase the number of savings depositors from 472-5800 people or 12.3 times.

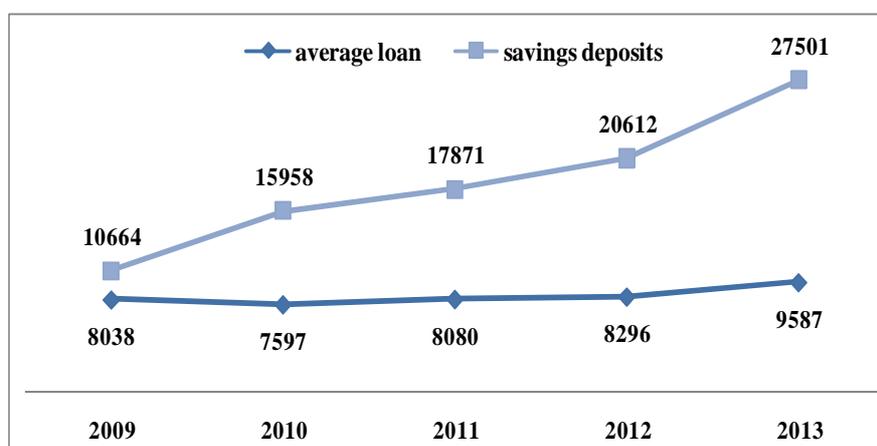


Figure 1. Evolution of average loans and savings deposits, in 2009-2013, %

Source: prepared by the author based on data from annual reports 2009-2013, NCFM

The evolution of the average value of loan that returns to a loan beneficiary member in the period 2010-2013 show a growing demand for loans from SCA. In 2013 this indicator reached an average value of 9587 lei, registering an increase of 1291 lei or 15.6% compared to 2012. In the same period the average value of savings attracted in the form of deposits, which returns to a depositor member, was 27501 lei, registering an increase in the amount of 6889 lei or 33.4% over 2012.

Analyzing the financial intermediation degree through the loan portfolio granted by microfinance entities in 2009-2013, there is a growing in the microfinance sector in the Republic of Moldova in relation to GDP, with a slight deviation in 2010 and 2011. During the year 2013 has a share of about 2.23% of GDP, of which the SCA - 0.33%, and the OM - 1.9%. This indicator is rising by 0.11 pp in 2013 compared to 2012, being influenced by a positive evolution of the performance indicators for microfinance entities by supporting the loan granting process with maximizing their turnover.

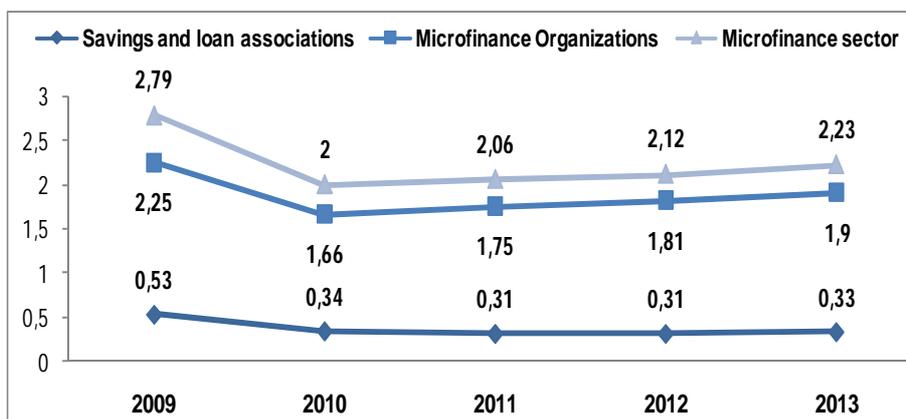


Figure 2. The degree of financial intermediation of microfinance sector (loan portfolio relative to GDP) in 2009-2013, %

Source: prepared by the author based on data from annual reports 2009-2013, NCFM.

The financing rate from deposition loans granted to savings and loan associations of category B is maintained at the level of 2012, which indicates the providing for comfortable financial independence to external sources of financing. The increase of the average value of savings attracted in 2013 is the result of increasing the amount of savings deposits taken by SCA that holds a B category by 32.7%, while reducing the registered number of savings depositors.

The efficiency of using the assets and equity capital by the domestic entities of microfinance sector has shown a rate of return of about 7.4% of them, and respectively, 19.0%, or up 2.8 pp and, respectively, 9.4 pp compared to 2012. This was conditioned by a significant increase in the net profit value approximately twice during 2013.

At the end of 2013 the consolidated SCA volume of assets constituted 403.9 million. The total volume of assets 69.7% go back to SCA that hold the B category license. The increase in consolidated assets compared with 2012 by 20.7% is due to the increase in size loans by 21.2%.

The maximum weight in the SCA structure assets go back to granted loans that make up 82.2% of total assets, a share that recorded an increase of 0.3 pp compared with 2012. Consequently, during 2013, similar to the previous year, is established a priority given by the SCA to income-generating asset to the detriment of fixed and unprofitable assets. The efficient assets share increased in 2013, registering a higher value of the minimum level recommended by WOCCU by 1.3 pp.

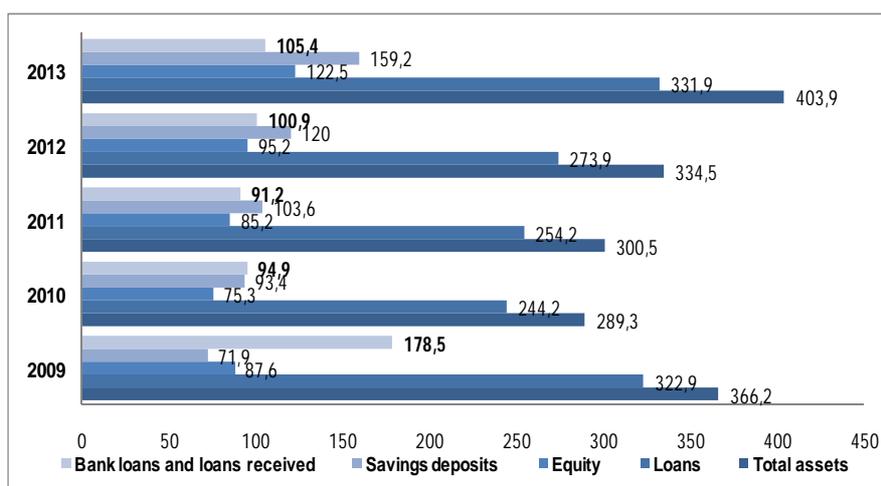


Figure 3. Evolution of main indicators of activity of SCA (MDL), 2009-2013

Source: prepared by the author based on data from annual reports 2009-2013, NCFM.

SCA reported profit in 2013 amounted to 19.6 million. The increase profit recorded 8.6 million or 78.2% compared to 2012 due to the reduction of the net result from the creation and cancellation of provisions together with the increase of total expenditures at a lower rate than the increase in total revenues. The maximum share (56.7%) of the equity value goes back to SCA that holds the B license category.

On 31.12.2013 the consolidated value of savings deposits attracted from SCA members constituted 159.2 million, increasing compared to the value of this indicator recorded in 2012 by 32.7%. In the structure of savings deposits the maximum weight (67.4%) goes back to saving deposits with maturity period between three months and one year, a percentage that has declined in 2013 by 7.5 pp for deposits with maturity exceeding one year term, and deposits with maturity up to three months.

At the end of 2013, most of the loans were granted to agriculture and food - 46.73%. Thus, in the structure of the loan portfolio granted by SCA the loans for respecting contractual conditions (standards) are 95.8% and supervised loans (overdue up to 30 days inclusive) - 1.9%.



Figure 4. Share savings deposits by maturity (%)

Source: prepared by the author based on data from annual reports 2012-2013, NCFM.

The remaining loan rate is the including result of the fact that the largest share of the loan portfolio, 94.2% have unsecured loans with mortgage, which declined by 0.8 pp compared to the same period last year. The rate loans with expired term, registered by SCA that is holding a category A, is 5.0%, a level that exceeds the size of the registered associations that own a category B by 1.2 pp

The ratio of the amount of liquid assets and the value of all assets in 2013, unlike 2012, is exceeding the recommended maximum level (16.0%) for SCA that holds the B license category. Consequently, the decrease reflects adversely on the process of investment of funds held in interest-bearing assets, as confirmed by the increase of assets that do not generate income in the total amount of SCA assets and is holding the B license category.

At the end of 2013, in the structure of the loan portfolio granted by SCA, the loans for respecting contractual conditions (standard) is 95.8% and supervised borrowings (expired up to 30 days inclusive) - 1.9%.

Thus, there is a positive trend in the quality of loan portfolio, the share of standard loans increasing during 2013 by 1.9 percentage points.

Table 2.

The portfolio structure of loans granted by the SCAs in Moldova

Category	Granted loans mii lei		2013/2012 %	2013,%	
	2012	2013		SCA with A license category	SCA with a B license
Standard	257,1	318,0	123,7	31,1	68,9
Supervised	8,1	6,3	77,8	38,1	61,9
Substandard	2,3	2,7	117,4	29,6	70,4
Dubious	2,6	2,5	96,2	8,0	92,0
Compromise	3,8	2,4	63,2	70,8	29,2
Total	273,9	331,9	121,2	31,3	68,7

Source: prepared by the author based on data from annual reports 2009-2013, NCFM.

The overdue loans of rate indicator, registered on 31.12.2012, was 6.1% and at the end of 2013 this indicator decreased to 4.2% of total value of granted loans, diminishing at the same time, below the maximum set by WOCCU by 0.8 pp. The remaining loan rate is the including result of the fact that the largest share of the loan portfolio, 94.2% have unsecured loans with mortgage, which declined by 0.8 pp compared to the same period last year.

The rate loans with expired term, registered by SCA is holding a A category, is 5.0%, a level that exceeds the size of the registered associations holding a category B by 1.2 pp

The share of loans with expired term in 2013 does not exceed the recommended maximum level of 5.0 percent, recording at the same time a decrease of 4.0 percentage points for SCA that is holding a A category and 0.7 percentage points where SCA holds a B license, compared to the end of 2012. The favorable changes is due to reduction in the value of outstanding loans by 17.5 percent while increasing the value of the loan portfolio.

Although the indicator for the share of money recorded cash value that exceeds the recommended minimum for both SCA holding an A license, as in the case of SCA holding a B license, it records a positive deviation in 2013. Simultaneously, the indicator that reflects the ratio of book of liquidity and the value of savings deposits recorded negative deviation in 2013, but exceeding the minimum recommended level.

Conclusion

Difficult access to finance in Moldova serves as a current constraint which collides the entire SME sector. Thus, microfinance is a powerful tool against poverty. The access to sustainable services from the financially point of view enable the poor to increase income, build assets and reduce vulnerability to external shocks. Microfinance allows poor households to move from everyday survival to planning for the future, investing in better nutrition, better living conditions. The emergence of these institutions is caused by the need of rural microfinance sector activity as well as the financial support for small and medium businesses namely entrepreneurship in the sphere of production, trade and services.

The final conclusion of the authors of this paper would be: accession to the socio-economic structures of the European Union means reforming the fundamental structure of the economy, often difficult, slow and contradictory, the socio-economic stabilization and long-term steady improvement in the economic competitive environment.

Consequently, the Moldovan economy must produce substantial improvements in terms of economic potential, the behavior of economic agents, the force of products and farmers competition and not least the institutional and administrative capacity with special treatment for rural areas. Otherwise there is a risk that the Republic of Moldova will become, yet a certain period of time, mainly a market for food products in the EU, in which the native farmers would be exposed to the practice of primary agriculture for subsistence.

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