

ANALYSIS OF MICROFINANCE IMPACT

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Abstract

In recent years, global microfinance has become a diversified service industry, using continuous growth and development strategies. Thus, in some countries in South Africa and Asia, microfinance is considered a key tool in implementing effective and sustainable strategies in the fight against poverty, and in European Union countries microfinance is seen as a mechanism for the development of new non-bank financial institutions.

Microfinance activities in Romania started 30 years ago (1992), when the first international microfinance institutions launched programs aimed at supporting the development of the private sector by financing the establishment and development of farms and small businesses in Romania.. The Romanian microfinance sector has evolved at a fast pace and has become more productive and efficient in its mission to provide financial products and development services to farmers and entrepreneurs with limited access to banking financial services. However, the microfinance market is competitive, with microfinance institutions constantly having to adapt their services to customer needs.

Key words: microfinance, financial services, socio-economic impact.

INTRODUCTION

Microfinance is a developing sector with considerable potential and an important role in the socio-economic development of a country, especially low-income countries. Occupying a special place in the non-bank financial system, microfinance is an engine of economic growth as an important source of financing, which in recent years has been strongly promoted around the world.

Studies in this area have shown that access to microfinance can reduce poverty and contribute to growth as well as job creation. As a result, in the European Union, microcredit practices vary considerably depending on the type of institution providing the microcredit, its legal status, the environment in which it operates and its own ability to apply effective management procedures. Globally, the principle behind microfinance is to provide loans to meet the needs of entrepreneurs, create new jobs or support new business ideas and start-ups.

MATERIAL AND METHOD

Regarding the research method, for the purpose of the study, a comparative analysis of microfinance systems at the national and international level was performed. By means of this method, the information from the studied sources was systematized and a point of view and a conclusion regarding the studied object was formulated.

RESULTS AND DISCUSSION

In the current legal framework governing microfinance activities in Romania, there is no specific definition of microcredit/microloan or microfinance. Therefore, the following definition, used in the European Union, is generally accepted by the industry and stakeholders: "Microfinance includes guarantees, microcredit / micro-loans, capital investments, accompanied by business start-up and development services, provided in the form of individual counseling, training and guidance, provided to individuals and micro-enterprises who have difficulty accessing financial services for professional purposes and / or to finance income-generating activities ". From the definition, two main types of microcredit can be distinguished: microcredit for personal use, which aims to improve the borrower's employability, intended for financing education services, improving living conditions, access to medical services and business microcredit, which finances income-generating activities, used to create and/or expand the income-generating activities of sole proprietors and small farmers or micro-enterprises, and to finance investments in productive assets and/or working capital, and for self-employment and/or job creation. The microcredit category for financing investments in productive assets also includes leasing financial products, and the microcredit category for financing working capital, factoring and discounting financial products (Strategic Benchmarking of the Microfinance Sector, 2020).

One of the big problems facing Romanian companies is access to finance. The conditions imposed by commercial banks for obtaining a loan are severe and quite difficult for small entrepreneurs, whether they want to start a business or want to develop an existing business. However, in Romania, the microfinance market is competitive, with the desire of large financiers (banks) to adapt the conditions for granting loans according to customer needs. Unlike bank loans, microfinance covers the category of people who are ineligible to apply for other sources of financing or disadvantaged people and who want to start a business or develop an existing business. Customers also benefit from long-term specialist advice, so microfinance plays a revolutionary role in the country's economy. The

purpose of microfinance is to increase the income of disadvantaged people, thus having a strong socio-economic impact.

The microfinance sector in Romania has evolved and become more efficient in achieving the goal of providing financial products and business development services and entrepreneurs who have limited access to financial services, being adapted to their development needs. Thus microfinance offers benefits to customers, offering the full spectrum of financial services.

The study entitled *The Effect of Microfinance Operations on Poor Rural Households and the Status of Women* showed that microfinance had a positive impact on beneficiaries' incomes. The microfinance program in the Philippines has had a significant impact on the number of enterprises and the number of people employed in these enterprises, reflecting that the program was designed to meet the needs of low-income entrepreneurs.

Another study entitled *Economic and Social impact of microfinance in vulnerable populations of Tungurahua, Ecuador*, reflects the impact that microfinance has had on the living standards of beneficiaries through indicators on business transformation, individual well-being, family well-being and social well-being. Following the research, a very positive impact was observed in terms of the aspects mentioned above. Thus, microfinance has become an important alternative for poverty alleviation in developing countries, guaranteeing access to financial resources for the disadvantaged population.

In the current context, generated by the COVID-19 pandemic, microfinance institutions have faced internal challenges in order to maintain their lending activities, initiating measures aimed at conducting their financing activity safely and reducing the negative impact of pandemic on the customer segments served. The COVID-19 pandemic caused an economic crisis, with a sudden effect, many economic agents being forced to suspend their activities, which significantly affected the revenues of companies and their employees.

CONCLUSIONS

Therefore, microfinance has a significant contribution in the socio-economic development of a country, having an impact on the lives of the beneficiaries, in the sense of improving the standard of living. At the same time, the microfinance market is a competitive one and requires the adaptation of financial services according to the customer needs.

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