



ROMANIA

FINANCIAL SECTOR ASSESSMENT



United Nations Advisors Group on Inclusive Financial Sectors
Private Sector Working Group



Introduction

Achieving economic and social development is greatly facilitated through access to a savings account, credit, and insurance. Financial services and products can minimize unforeseen risks and protect one from economic shocks. Access to a well-functioning financial sector offering a variety of financial products and services can directly provide the tools needed to protect, diversify and increase one's sources of income. Such access thus makes it possible for the poor to make their own economic decisions that can provide a path out of poverty.

Despite the broad consensus of the importance of financial access as a poverty alleviation tool, it is estimated that between two and three billion people around the world have no access to financial services. The majority of the population in developing countries do not have access to formal financial services. The situation is particularly dire in the Least Developed Countries, where more than 90 per cent of the population is excluded from the financial system. This situation has become an international policy concern.

The private sector can and should play a more active role in developing inclusive financial sectors. Some private sector financial institutions have been actively engaged in providing debt and equity capital to increase the provision of financial services to the formerly excluded population. The demonstrated potential for profitable return has encouraged commercial banks and other financial institutions to adopt microfinance as part of their core business strategy. Microfinance provides financial institutions with a way to achieve the double bottom line objectives of sustained profitability and socially responsible investment.

More than 200 commercial banks and other formal financial institutions are now engaged in the provision of financial services to the poor. However, not all attempts have succeeded. There is still a significant gap in the demand and supply of financial services. It is our firm belief that an increasing number of private sector institutions can and should play a more significant role in building well-functioning financial systems across the globe.

In this regard, in 2006, the Private Sector Working Group of the UN Advisors Group on Inclusive Financial Sectors brought together eight major commercial banks working in the provision of financial services to the poor and low-income population in the developing world. These banks include ABN AMRO, Deutsche Bank, Barclays, Citi, Gruposantander, HSBC, ICICI Bank, and Standard Chartered.

The group agreed to select a few countries for in-depth analysis of (the access to) the financial sector, representing the major regions of the world and to work collaboratively with various partners on the ground in 2007. Five countries were selected: Argentina, Egypt, Ghana, Philippines, and Romania. The partner institutions worked together to identify constraints in accessing the formerly un-tapped market of the lower income segment of the population, and the innovative ways some of the challenges are being resolved. The group also worked together with its partners on the ground to identify some possible approaches to tackling the remaining obstacles.

The year-long effort has resulted in individual analyses of the financial sector in each of the five countries and the challenges and opportunities in providing financial services to the previously excluded segment of the population. The findings show how the private sector and all relevant parties can actively contribute to building inclusive financial markets through activities oriented toward the private

sector. These five studies include a description of the enabling infrastructural, legal, technological, and other relevant requirements in the countries and explore how the private sector can best facilitate access to capital for microfinance institutions and other financial service providers as well as promote capacity development. The five studies can be found online at <http://ag.uncdf.org>.

On the basis of these five studies, we have broadly concluded that there is no one winning business model for the private sector to support microfinance solutions. One size indeed does not fit all. We have found that private sector entities can make significant and lasting solutions to the challenges of inclusive finance in different ways. But across the studies, it proved helpful that:

- Microfinance is a part of the core client business - not only an activity designated as Corporate Social Responsibility - and organized in a format suitable to your business model;
- There is a strong, safe and fully accessible payment system;
- There is top level commitment and operational level mandates to take this forward; and
- Original partnerships are forged, with private companies, NGOs, and other actors with local retail presence to ensure innovative solutions are developed and implemented.

No matter how well intentioned a company may be, it will never be able to design appropriate solutions on its own. The private sector should engage broadly with governments, development partners and regulators to create an enabling policy and regulatory environment for expanded provision of financial products and services to the un-banked, and to protect our investments.

In this regard, our Private Sector Group is organizing roundtables in the five countries in 2008 where we have conducted our research, together with local commercial and savings banks as well as regulators and government

officials. We trust such local platforms for collaborative action will create the change needed to ensure widespread access to financial services.

We would like to share the findings of our collaborative efforts with the wider world, especially our fellow private financial institutions. We hope the studies and conclusions will inspire others to continue the work we have started and will develop new findings and activities that will allow the private sector to actively contribute to the development of well-functioning and inclusive financial sectors around the world.

ABN AMRO	Barclays	Citi	Deutsche Bank
Gruposantander	HSBC	ICICI Bank	Standard Chartered

March 2008

Country Profile



Basic Macroeconomic Data	
Population	22.3m (July 2006 est.) 25% <i>below poverty line</i> (2005 est.)
Gross Domestic Product	\$197.3b PPP (2006 est.) 6.4% real growth rate (2006 est.) \$8,800 per capita PPP (2006 est.)
GDP by Sector (2006 est.)	10.1% Agriculture/Forestry 30.7% Industry 55.2% Agriculture
Inflation	6.8% (2005 est.)

Brief overview of political structure (Head of state, key political parties or government bodies).

- Republic with executive, legislative and legal branches.
- Head of State is President Traian Basescu (elected since 20 December 2004).
- National Government consists of a Cabinet, headed by the prime minister (Calin Popescu-Tariceanu since 29 December 2004), who is nominated by the president.
- The main political parties are the Conservative Party (CP); Democratic Party (DP); Greater Romania Party (GRP); Hungarian Democratic

Union in Romania (HDUR); Liberal Democratic Party (LDP); National Liberal Party (NLP); Social Democratic Party (SDP).

- Current government is a coalition of the National Liberal Party and the Hungarian Democratic Union in Romania.
- Legal system is a Parliamentary republic; a new constitution was adopted in 1991 and 2003.
- National legislature: Bicameral parliament composed of the Senate (137 seats) and the Chamber of Deputies (332 seats). Both chambers are directly elected from 41 multi-member constituencies, comprising 40 counties and the municipality of Bucharest.

- Next parliamentary and presidential elections due in 2008 and 2009, respectively.

Brief overview of socio-economic situation.

- The population has been declining since 1990, owing to declining birth rates, increasing mortality rates and emigration. Data from the latest census, held in March 2002, indicate that the population declined by 4.9% between 1992 and 2002, to 21.7m, a far sharper fall than had been indicated by official population estimates between the censuses.
- Females accounted for 51.2% of the population, compared with 50.8% at the 1992 census. The urban population constituted 52.7% in 2002, compared with 54.3% in 1992.
- Romania's population is relatively young compared with countries in western Europe, with a median age of 34.6 in 2000 but the increase in the old-age dependency ratio (of retired people to working-age population) is the most striking change in Romania's population structure in the past decade, and this trend is set to become more pronounced because of the falling birth rate.
- The collapse of the communist economic system has resulted in significant changes in the size and composition of the labor force.

Although the working-age population increased between 1989 and 2000, total employment fell by more than 2.2m, to 8.6m at the end of 2000.

The labor force participation rate¹ fell from 80% in the early 1990s to around 60% in the early 2000s. The largest job losses have been in industry, where employment fell from 4.1m in 1989 to 2m in 2000, with the greatest redundancies being seen in large enterprises.²

- Unemployment peaked in 1999, reaching 11.8% but has declined steadily since then. It continued to fall in 2005, to 5.9% of the labor force and further still in 2006 to around 5.1%. Unemployment has fallen steadily, despite lay-offs and closures in large, loss-making state-owned enterprises, as the creation of new enterprises and the expansion of private-sector activity have helped to absorb some of the displaced labor. Romania still has a low rate of unemployment compared with other transition economies, which can be attributed partly to the relatively slow rate of reform and restructuring. In addition, many displaced workers return to the countryside, where there is significant over-employment and hidden unemployment. There has also been an increase in the number of people

¹ Working-age labor force as a proportion of the population of working age.

² Because of revised definitions and coverage, following re-weighting after the 2002 census, data from 2002 onwards are not comparable with those from previous years.

of working age seeking employment abroad and remitting earnings to their families at home.

- Clear regional patterns of unemployment have emerged. High rates of persistent long-term unemployment are recorded in counties affected by factory closures and restructuring, whereas unemployment is falling in counties with low rates of pre-existing unemployment, particularly in the Hungarian border regions. For example, unemployment rates in Brasov, Hunedoara and Vaslui have been consistently high, at 10-13%.
- The most significant gains in employment in 2006 were recorded in the retail and wholesale trades and in “other activities” (which includes emerging sectors that do not fit conventional statistical categories). Other sectors in which employment expanded in 2006 include post and telecommunications, research and development, financial intermediation, and the public sector, including public administration and health and social assistance.
- Educational attainment levels in Romania are similar to those of other countries in the region. Some 14% of the population has a higher educational qualification; 21% graduated from secondary school; 11% graduated from elementary school and 1.3% did not graduate from any.

Demand for Financial Services

Brief overview of the informal economy.

- A large informal sector exists in Romania with independent research estimates putting the informal sector to 30% of GDP. In general, the size of the informal sector has followed an upward trend, growing from a low of 9% in 1993 to a (possible) high of 42% in 2000. Since then it has been on a decline. Since 1989, the high levels of inflation, the hesitant rhythm of the reform process, and the fiscal system, have strongly influenced the development of the informal sector in Romania.
- Of the country’s working population of around 9.5m, only 4.5m appear to be employed. With around 0.6m being unemployed the remainder of the labor force work either abroad or in the informal economy under the status of unpaid family worker or self employed.

The informal economy can be divided into 4 categories:

- *Informal dependent activities:* The group engaged in such activities lives in poverty and engages in the following activities for survival purposes: mostly subsistence farming/occasional labor, day work, transport or construction, but also some small handicrafts or street trading.

- *Informal supplementary activities:* Households that aren't poor perform diverse economic activities that promote the improvement of their standard of living. This includes farming and the sale of products, qualified trades, professional services, and temporary work abroad.
- *Relatively substantial enterprises:* that are either unregistered and avoiding the payment of taxes, or formally registered ones, that employ much or all of their workforce informally, without any contract, to evade payment of social insurance and taxes. Most people in this group lack adequate material and financial capital and therefore, are unable to officially start up a business. They are mostly active in work-intensive sectors such as trading, professional services (computer operation, accounting, tutoring), and trades that require little investment.
- *Criminal initiatives:* include theft, drug producing and dealing, and finance criminality.

The government's focus thus far has been on the criminal activities. The emphasis has been to punish rather than prevent them from turning to the informal sector. The government's economic policies in combination with the structural distortions of the former planned economy, resulted in severe

poverty, which has pushed more (even including public institutions) to operate in the informal economy.

Estimated number of micro, small and medium enterprises (MSMEs) in the informal and formal sectors.

- Taking the 30% ratio as a realistic estimate, the total number of registered and unregistered SMEs in Romania would be approximately 545,000, of which 507,000³ would be micro.
- The formal sector of SMEs is estimated at 370,000 to 400,000 registered entities in 2000-01.
- Regardless of the economic position of the household, 67.6% of households earned either monetary income from informal cash activities or products from agriculture.

Breakdown of MSMEs by industry and region.

- The distribution of private active SMEs in the year 2000 was as follows: 65.7% in commerce; 15.1% in services; 11.1% in processing industry; 2.9% in transportation; 2.9% in civil works; 1.7% in agriculture; .5% in tourism; and .1% in extractive services.
- Micro enterprises continue to hold the main share, although they are experiencing a slightly descending trend.

³ But a considerable percentage is probably inactive. The author assumes that 15% would be reasonable estimate, making the number of active micro enterprises 431,000.

Major characteristics of MSMEs in the country.

The Ministry for SMEs and Co-operatives, established in January 2001 defines MSMEs according the criteria set forth below:

Definitions	Micro	Small	Medium
Maximum number of employees	<10	<50	<250
Maximum total turnover in million Euro	<8	<8	<8
Maximum capital/ voting rights held by non-SME enterprises	25%	25%	25%

Percentage and nature of migrant and immigrant labor (legal and undocumented).

The net migration rate in Romania is 0.13. Romania is both an exporter and importer of labor. Most migrate to Western Europe and Canada in search of jobs. At the same time, Romania is a transit country for immigrants (coming from Asia, Middle East or Turkey), who arrived here trying to cross illegally the border for going to the European Union countries.

3 trends in migration can be observed in Romania:

- Permanent emigration.
- Temporary emigration: around 360,000 Romanians in 2002 (1.6% of the population).
- Rural-Urban migration.

Estimated demand for Microfinance Services and breakdown of demand.

- The Romanian microfinance (defined as loans less than €25,000) market has strong growth potential. According to a 2003 study, the demand for the microfinance sector could be as high as US \$500m covering 113,000 micro entrepreneurs throughout Romania. Currently 35 of the 41 counties are covered by the NGOs offering microfinance services. It is expected that by the end of 2004, all counties were represented.
- Demand for funding and demand for microfinance by individuals is very high.
- The current microfinance market is estimated to be €500m (2006 est.) in outstanding loans however the potential significant since many banks in Romania are largely unwilling to lend to Micro Finance Institutions due to the perceived risks associated with the sector, while non-banks are largely limited by a lack of their own funding.
- Segmenting the market is challenging since many Micro Enterprises (ME's) fall under the definition of SMEs. According to the National Agency for SMEs and Cooperation, 90% (313,000) of Romanian SMEs are micro enterprises (defined as fewer than 10 employees). This is likely to change in 2007 and onwards due to new tax legislation.

- Estimates put the number of active and credit-worthy micro-enterprises that would want access to credit to 218,000 entities.

Types of products demanded (credit, savings, insurance, remittances, etc.).

The financial services demanded by SME are varied, and normally are categorized as loan products, savings products, and miscellaneous services. The potential demand for each of these products not only varies between the products themselves, but also is country specific.

- *Microcredit:* Projections suggest that there is a “hard core” of about 113,000 creditworthy micro entrepreneurs, nationwide, who are willing to borrow up to US \$25,000 on a repeat basis. Their potential credit demand, over time, could be expected to be at a level of about US \$565m. The regions of the greatest concentration of these borrowers are Transylvania (37,000 potential borrowers, US \$208m) and Bucharest-Ilfov (23,000 potential borrowers, US \$114m). The remaining demand is spread fairly evenly across the rest of the country, with the least demand in the South West-Oltenia Region (2003 est.).
- *Microsavings:* By North American and Western European standards, Romanians are prolific savers, with an average savings rate for 1998-2002 of 13% of GDP. This high level

of savings is serviced by a network of 3,156 bank branches and 840 credit co-operatives, which suggests that for most Romanians who wish to serve in monetary assets, they would have the opportunity to do so. Additionally, the WB notes that most rural enterprises have some type of bank account. This suggests that there is only a limited unfulfilled demand for this service.

- *Other Financial Products/Services:* While many of the other financial services normally required by micro-businesses are available in Romania (e.g. fund transfers by Western Union), it is likely that the outlets for them are limited, as well as being expensive. As such, there is probably a considerable amount of pent-up demand for these financial products. While this need is recognized, a detailed market survey of these products in terms of demand has not been conducted yet. It is suggested, however, that as the microfinance market grows, serious consideration be given to the provision of these services.

Estimated percentage of demand currently being met by formal and informal sources:

Formal financial sector:

The formal banking sector also serves the micro and SME sector, although banks have yet to downscale significantly. Several banks house finance facilities with EBRD credit lines for on-lending to SMEs. The average loan size

is however, approximately €45,000, leaving a gap that the microfinance organizations are currently trying to bridge. A OECD-EBRD joint study found that in 2002, only 8.1% of Romanian MSMEs surveyed used private local banks for working capital needs and 6.4% of Romanian MSMEs used private local funds for new investment needs. 1% of Romanian MSMEs surveyed used foreign banks for working capital needs and 1.4% of Romanian MSMEs used foreign banks for new investment needs.

Government banks / programs:

In 2002, only 2% of Romanian MSMEs surveyed used government funds for working capital needs and 2.4% of Romanian MSMEs used government funds for new investment needs.

Specialized microfinance providers:

There are about 15 significant minor microfinance service suppliers in Romania. These consist of various commercial and public sector banks, specialist commercial microfinance banks, non-governmental organizations (NGOs) or "Finance Companies", and other public sector entities.

Cooperatives and/or informal lending circles:

840 cooperatives provide savings services.

Moneylenders:

In 2002, 1.1% of Romanian MSMEs surveyed used moneylenders for working capital needs and 1.0% of

Romanian MSMEs used moneylenders for new investment needs.

Internal Funds and friends/family:

The analysis of the sources of finance used by Romanian entrepreneurs to finance their working capital needs and new investments demonstrates a heavy reliance on internal funds and loans from family and friends, which is greater than in western European economies. The study found that in 2002, 69.5% of Romanian MSMEs surveyed used internal funds for working capital needs and 62.2% used internal funds for new investment needs. 5.9% of Romanian MSMEs surveyed used family/friends for working capital needs and 5.6% used family/friends for new investment needs.

Existing Financial Services Available to the Poor

How many providers of microfinance currently operate in the country?

The microfinance sector in Romania principally consists of 10-12 NGOs, commercial banks, and one microfinance bank, a majority of which are operationally self-sustainable and are currently seeking commercial funding. In 2003, the 5 largest NGOs/finance companies were thought to have a combined market share of less than 25% of the total loans outstanding.

What is the composition of these providers?

- The market can be largely split between microfinance organizations (NGO's/MFIs since 2005) and banks. The market share of NGO/MFIs is quite small, compared to the actual and potential market share of the commercial banks).
- The 6 significant MFIs include: CHF, CAPA, OMRO, CDE, LAM PLC and FAER (with about €40m loan portfolio in 2005).
- Many banks – including Romanian Commercial Bank, Raiffeisen Bank, Transilvania Bank, Alpha Bank, Romanian Bank and the MIRO-Bank (renamed Pro Credit Bank) – were implementing SME lending programs funded by EBRD. Many of these providers are clustered in the Transylvania region and Bucharest, while other areas of the country (rural) are less well serviced.
- Other financial services providers (transactional or financing) include the Romanian Post, Provident Financial and Paystore.

Main deals recently:

- €88m facility launched by EBRD, EU and Romanian government for banks and MFIs to on-lend to micro and small enterprises.
- €43m syndicated loan arranged by Citigroup for ProCredit Bank.
- €12.4m syndicated loan extended by EBRD, Taiwan's ICDF and commercial lenders to ProCredit.

- US \$30m financing provided by US agency (OPIC) and Citigroup for microfinance lending in 19 countries including Romania.

If there are government initiatives that provide microfinance services, are they at commercial or concessional rates?

The government, through the Ministry of SMEs also is providing grant funding to 13 targeted industries, including textiles, wood and woodwork and metallurgy. These grants will be for up to US \$40m per grant, and up to 20% of the capital costs. The amount being made available to the micro-business segment was not available. The government also backs many loan guarantee funds.

How does this impact they rest of the microfinance industry?

Information not available.

What types of products and services are currently available in the market?

Credit products:

Individual loans range from US \$150 – US \$57,000, with loan maturities of up to 10 years (with some exceptions). Interest rates vary from 6.95–12.50% (on hard currency loans – CHF, EUR, USD) and 7.95-16.50% (on local currency, RON), with some exceptions for programs who are utilizing grant loan capital. Still, this is the interest rate and not the DAE (Actual Interest Rate,

a lot higher than the interest rate) which includes granting commissions, administration commissions and so on. Solidarity group loan product for 12-month period are also available. There are several MFIs offering agricultural loan products often combined with technical assistance to farmers.

Relatively new on the Romanian market is Provident Financial, which offers personal loans to individuals, for up to a year, the amounts ranging between 400 RON and 2000 RON (around 150 USD to 800 USD).

Savings products:

As mentioned above, Romania is well served in the savings market. This high level of savings is serviced by a network of 3,156 bank branches and 840 credit co-operatives. The BUBOR rate for 7 day deposits currently running at 7-8% p.a. The Romanian Savings Bank known as CEC (Casa de Economii si Consemnatiuni) is the country's oldest savings bank and has over 1,400 branches serving some 2.8m customers.

Insurance products:

There are more than 15 insurance companies, several of which also provide leasing: Agi Romania, Allianz-Tiriac, Ardaf, Asigest, Asirom, Astra, Aviva - Commercial Union, Generali Asigurari, ING Nederlanden, Omniasig, Silas 2002, Unita, Aig, Inter American, etc.

Remittances:

As mentioned earlier, Romania is a labor exporter with many workers sending money back. Services such as MoneyGram (agents are BCR, OTP, Unicredit Tiriac, Procredit and Libra Bank counters) and Western Union (agents are Banca Romaneasca, Banca Transilvania, Bancpost, BRD, the Romanian Post, Raiffeisen Bank and SC Angelo Costa RO SRL) are available for making transfers to Romania and are widely used by Romanian workers abroad to send money to their families. Additionally, the Romanian Post offers the service of transferring local currency amounts, which allows individuals to transfer funds between themselves as well as transfer funds to companies, by depositing cash at one Post Office and transferring it at another Post Office (electronically) or directly to the Romanian bank account of the beneficiary.

Other financial services:

- Leasing is an expanding market but the focus is mainly for the purchase of vehicles, rather than equipment and appears to be largely restricted to medium sized enterprises at present.
- Credit Guarantee Funds are very popular and include: The Romanian Credit Guarantee Fund for Private Entrepreneurs, The Rural Credit Guarantee Fund, The National Credit Guarantee Fund for SMEs,

Guarantees for established firms,
Guarantees for start-ups, and
leasing guarantees.

What are the general lending methodologies used?

Various methodologies are utilized by the MFIs in Romania. However, the majority of MFIs use individual loan products with their customers. A few MFIs have a solidarity group loan product for a 12- month period, under which individual loans are made, but with each member of the group assuming joint liability for the entire loan.

Who are the target clients of the existing providers of microfinance services? (i.e. urban poor, women, rural farmers, etc.).

Most microfinance service providers target medium-sized enterprises. Most of the providers are concentrated in the Transylvania region and Bucharest-Ilfov. Agricultural loans are also available.

What are the main distribution channels for the provision of financial services to the rural poor (e.g. Retail, Postal Office, Others, etc.)?

- Bancpost network has counters in many post offices.
- Co-ops: while most are small (average total assets US \$100,000, average no. of employees 3.5), their combined loan portfolio as of 1998

amounted to US \$63m and there are now around 1.7m members of the co-op movement.

- Credit Unions are also vital: as of 2003, there were 3900 credit unions with 1.5m members. The total of members' savings were US \$165m and loans outstanding totaled US \$155m.

Are there any particular groups being excluded by the existing MFIs? If so, why?

Commercial banks do not generally provide support to start-up enterprises. And many of the MF providers are clustered in the Transylvania region and Bucharest-Ilfov, while other areas of the country are less well serviced. Regions such as the South- Muntenia and South West-Oltenia are likely to be underserved, both in terms of availability and range of products.

Under what accounting standards do MFIs operate? Do they have their own accounting standards or are they held to standard practice?

Draft legislation proposed in 2004 provides for a more transparent operating environment for the MFIs through specific accounting and fiscal provisions which follow International Accounting Standards.

Enabling Environment and Support for Microfinance

1. Regulatory Framework and Government Support of Microfinance

Is there a limit on interest rates financial institutions can charge? If so, what is it?

No

Does any legislation specifically regarding MFIs exist in the country? If so, please outline briefly:

There are 2 main groups of MF providers: commercial banks and NGOs/Finance Companies. The regulatory environment for MF is compromised of several regulations:

- Ordinance 28/2006, effective Feb 2006, requires all non-bank financial institutions (NFIs) to send, by March 2006, a statement to the National Bank of Romania (NBR) with information regarding their management, shareholding and finances.
- The NBR must maintain 2 main registries for NFIs: a general registry and a special registry. The NFIs listed in the special registry will face more thorough regulation and will be more closely scrutinized by NBR. The NBR is required to issue further norms regarding the conditions to be met in order for NFIs to be registered in the special registry by May 2006.
- The newly introduced Microfinance Law in Romania (with the assistance of USAID) - Law No. 240/15.07.2005 - adopted by the Romanian Parliament:
 - Legitimizes micro-finance activities.
 - Increases lending to micro and small enterprises by non-bank, community financial institutions.
 - Establishes the necessary framework in accordance with EU provisions for the functioning and development of micro-finance enterprises by:
 - setting the legal form of organisation for MFIs as joint stock company administered by the Trade Register;
 - prohibiting deposit taking activities, mortgage loans for real estate investments and consumer loans;
 - defining microcredit as maximum amount of €25,000 for a 60 months period;
 - setting the NBR as the supervisory authority/body (minimum capital requirement of €200,000).
- Government Ordinance No.40/2000-provides for the licensing of credit agencies (other than banks) to manage public funds (i.e. WB loan guaranteed by the Government) for granting microcredit.
- The law on the general legal conditions of the Employees' Mutual Aid Houses (i.e. Credit Unions).

Is there a regulatory body to oversee MFIs? If so, do they only regulate MFIs or do they perform other duties?

NBR, as a result of Ordinance 28/2006, oversees MFIs. It also oversees the activities of commercial banks.

Can MFIs legally accept deposits? If so, what types of legal entities are permitted to take deposits (e.g. NGOs, Co-ops, etc.)?

MFIs can not legally accept deposits. Co-operatives, credit unions and banks are permitted to take deposits.

If not, do some institutions take deposits anyway?

Information not found.

Are MFIs permitted to on-lend these deposits? If so, under what conditions?

N/A

Are there any restrictions on the types of credit products MFIs are allowed to offer?

According to the new NFI Law, the business of NFIs is restricted to the following credit activities:

- Extending various forms of financing facilities (including, but not limited to, consumer credits, mortgage loans, financing of commercial operations, factoring);
- Financial and operational leasing (subject to applicable NBR requirements);

- Issuance of letters of guarantee;
- Issuance of credit cards;
- Advisory services related to the above listed main activities.

What other type of financial services are MFIs allowed to offer (insurance, remittances, etc.)?

MFIs are not allowed to offer insurance services. Some have started payment transfer services.

Briefly outline the tax laws for NGOs. Focus on withholding tax and income tax.

As a general rule, any Romanian legal person (including an NGO) or foreign legal person that has a permanent seat in Romania is subject to tax on profit at the end of the financial year. The general tax on profit is 25%. A lower tax rate is provided for export operations and activities in free trade zones.

From the fiscal point of view the new microfinance law allows “microfinance companies to constitute, regulate and use specific credit risk provisions that are deductible from the profit tax, in accordance with, financing contracts and laws in force.”

Is there a limit to foreign borrowing? If so, outline (a) the amount of the limits and (b) the process for obtaining permission to borrow from abroad

Information not found.

Does the government recognize microfinance as an important development tool?

Yes, the government has just passed a new microfinance law (Ordinance 28/2006) in 2006 in recognition of microfinance being an important development tool. It also established the Ministry of SMEs and Cooperatives in 2001 to oversee, and help develop the SME sector. The Ministry of Development and Prognosis (MDP) has responsibility for the regional development agencies and actually disburse the PHARE funds and manage many of the development projects through which the SME funds are disbursed.

If so, are there any government incentives to carry out microfinance activity?

There are state-funded initiatives to focus on disadvantaged areas.

Briefly describe anything else you feel is relevant to the regulatory environment not included above (e.g. proposed changes to the law, general effectiveness of the regulatory regime, etc.).

The new microfinance law addresses some of the taxation issues that have impeded the development of the MFIs in the past. The issues are mainly related to tax officials' interpretations of the activities of microfinance organizations, how they register "profit", and provisions for write-offs, among others.

2. International and Local Support for Microfinance

Which international development agencies are promoting microfinance in the country?

The NGO MFIs/finance companies currently rely on funding from donors and other funders, such as the EU, EBRD, USAID, and the Swiss Government.

Briefly outline their programs and how long they have been active?

These donors provide grants and technical assistance.

Are there any locally sponsored programs promoting microfinance?

Information not available.

Briefly outline their programs, how long they have been active, and from where their support comes (i.e. technical assistance, advocacy, grants, loans, etc.).

N/A

Is there a national or regional association of MFIs in the country? If so, how many members does it have?

"Microfinance Romania" (or Microfinance Coalition (MC)) is an informal network of microfinance practitioners committed to improving the lives of the underserved through the provision of credit, business development services, and other financial services. All 14 MFIs in Romania are members.

How was it created?

The MC is one of the components of the Enterprise Development and Strengthening Program, financed by USAID, designed to improve the legal and regulatory environment for MFIs, creating the conditions for the growth of a healthy microfinance industry in Romania. Shorebank Advisory Services managed this activity and provided technical assistance and training to the MC and its members. A memo of understanding has been signed by 14 microfinance organizations and is serving as an informal contract in going forward with network activities.

What type of activities does it undertake?

Activities include:

- Contribution to the creation of a coherent legal and regulatory framework that would allow the development of the microfinance industry in Romania.
- Capacity building for the microfinance organizations, including a training program that covers various themes like risk management, best practices, development of new products, rural finance, branch management and benchmarking for the microfinance industry.

3. Sources of Funds

What are the main sources of funds for MFIs? (Please check all that apply).

- Government programs
- International donors or concessional lenders
- Local donors or concessional lenders
- International commercial specialized MF funds
- Local commercial specialized MF funds
- Local banks
- Other.

Please describe:

Which international microfinance funds are work in the country?

Omidyar, EFSE, Oikocredit, Dexia Microcredit Fund, and PCH AG are some of the major international microfinance funds in Romania. Please see *Appendix 1* for a complete list.

4. Telecommunications Infrastructure

What is the ratio of fixed broadband subscribers to the total population?

19.48/100 Romanians had a telephone line; 49.78/100 households had a telephone line; 4.2m main lines in use (end of 2006).

What is the ratio of mobile broadband subscribers to the total population?

80.7/100 Romanians cellular phone subscribers; 17.4m cellular lines in use (end of 2006).

What percentage of the population has internet access?

20.7/100 Romanians had internet access; 4.94m internet users (2005)

Who are the local telecommunications services providers?

- The deregulation of the market in 2003, which did not bring about significant changes in the initial period after its enforcement, started to generate the first visible effects in 2005.
- By mid 2006, 65 companies operated on the fixed telephony market, out of which 48 provided national call services and 63 offered international calls.
- Romtelecom is the dominant player; accounting for almost 86% of the local access market share, but it has to cope with competition from a number of alternative operators.
- Other local telecommunications services providers include RDS/RCS, UPC Romania, Atlas Telecom, EUfonika, Telecomunicatii CFR, Teletrans, and Radiocom. Cosmote, Orange, Vodafone, and Zapp are mobile cell providers.

Who are the local technology providers in the financial field (focus on agents of larger corporations)?

Information not found.

What is the number of payment cards currently being used? How are payment cards used? What is the relationship between the usage of payment cards to the overall population?

- In Romania more than 10m cards were issued (with credit cards accounting for 1.5m (15%) of the total and debit cards making up the remainder).
- At the end of August 2006 there were 27 card issuers and 4 card processors in Romania. Cards are issued mainly in the local currency, RON, but also in EUR and USD.

What is the geographic and demographic outreach of ATMs? What fees do the ATMs charge? Are these fees too high for the customer base?

At the end of August 2006, there were 5,300 ATMs in Romania and 40,000 POS devices installed. The ATM network is split between a few very large network banks: BCR, BRD, Bancpost, Raiffeisen, Banca Transilvania and Unicredit Tiriac. Other Romanian banks have ATM networks but they do not match the networks of the banks listed above, at the moment.

Existing Private Sector Involvement in MF

Banking Sector Overview

What are the major commercial banks in the country? Who owns them? (Specifically note any government ownership or involvement with the major commercial banks).

The Romanian Commercial Bank (BCR) was the largest bank in Romania with assets of €9b and about 4.9m clients (2005) and was sold to Erste Bank in 2005. The government sold 61.88% of the bank's shares (36.88 owned by the government and 25% owned by the EBRD and IFC). The other shareholders are the five Financial Investment Companies (SIFs) - holding 30% of the bank, and the bank's employees, holding 8%.

Other commercial banks include ProCredit Bank (formerly known as Miro Bank), Banca Romaneasca, Banca Transilvania, The Romanian Bank for Development Groupe Societe Generale, The Savings Bank (CEC), ING Bank, Raiffeisen Bank, Citibank Romania, The Romanian Export Import Bank/Eximbank, Alpha Bank Romania, Emporiki Bank Romania, Egnatia Bank, Unicredit Tiriac, Credit Europe Bank, Bancpost, Banca Di Roma, Volksbank Romania, Millenium Bank, OTP Bank and ABN AMRO Bank Romania.

What types of products are offered by the commercial banks?

Card product and services; Current and time deposit accounts in RON and foreign currencies; Credit facilities for working capital and other short term facilities in both RON and foreign currencies; Factoring of receivables; Medium term RON and foreign currency loans to finance acquisition of equipment, premises or other capital investments; International and domestic trade financing products such as letters of credit, letters of guarantee, foreign exchange receipts and payments; Payment orders in local and foreign currency; Cash deposit and withdrawals; Cheque and promissory notes; Direct Debits; and Electronic/ Internet Banking.

Which of these banks has any current involvement with microfinance? What type of involvement?

Many banks – including BCR, Raiffeisen Bank, Banca Transilvania, Alpha Bank, Banca Romaneasca and the ProCredit Bank were implementing SME lending programs funded by EBRD. ProCredit Bank, established in 2002, is the only micro-financing bank in Romania. Its goal is to become a provider of quality financing and general banking services for micro, small and medium-sized enterprises and agricultural producers in Romania. With a wide range of products and services, ProCredit Bank Romania

offers several types of deposits and financial investments to its retail and business clients.

Please provide a brief overview of the performance of the commercial banking sector in general.

The Bank Privatization Law, passed early in 1998 and applicable to state state-owned banking institutions, stipulates the bank privatization can be effected solely through cash subscriptions made by Romanian or foreign persons. In 1998 two major banks were privatized, Banc Post and the Romanian Bank for Development, and a third, the Agricultural Bank, was privatized in 2001. The privatization of the largest Romanian bank, the Romanian Commercial Bank, took place in 2005.

Are commercial banks familiar with microfinance? In general how receptive are they towards microfinance?

Many banks in Romania are largely unwilling to lend to MFIs due to the perceived risks associated with the sector.

Is there any legislation which prohibits / encourages commercial banks to engage in microfinance? (i.e. provisioning policies for non-collateralized loans).

Information not found.

Has the formal financial sector been opened up to international players? What restrictions continue to exist on foreign firms?

Romania has a liberal foreign investment regime and foreign companies are subject to little discrimination. The law commits Romania to equal treatment of domestic and foreign investors, provides protection against nationalization and expropriation, and guarantees the right of foreign investors to repatriate profits. Foreign investors may participate in privatization bids and there are no limits set on the level of permitted foreign participation in commercial companies.

The main issues for foreign investors in Romania are the legal and regulatory systems, which remain unpredictable; excessive red tape; and the state's failure to ensure the uniform enforcement of the law.

Is there a surplus or dearth of liquidity in the local banking sector?

Information not found.

Do most nationals keep their savings at home or abroad?

Information not found.

Non Bank Participation in Microfinance

How is microfinance perceived by the upper and middle classes in the country?

Information not found.

Are private sector individuals with relative experience involved in the Bodes of MFIs or in other advisory capacity?

Information not found.

Have private sector players invested in microfinance directly or through funds? To what extent?

Information not found.

Constraints

Summary of any constraints to the enabling environment for microfinance identified.

Obstacles faced by MFIs include:

- Taxation issues that impede the development of MFIs.
- Access to capital.
- Lack of training and technical existence.

Obstacles faced by commercial banks include:

- Tight regulatory and oversight restrictions on banks involved in microfinance.

Obstacles faced by clients of MF services include:

- Micro entrepreneurs are faced with lack of available and affordable funds for developing and growing their micro businesses.
- Micro entrepreneurs face unclear, ever-changing, complicated legislation often resulting in misinterpretation and causing undue stress on the entrepreneurs.
- Clients are also in need of better business development services as they often lack basic management fundamentals and coherent business strategies for long-term sustainable growth.

Summary of other constraints to the growth of the microfinance sector.

- Existence of known and well structured MFIs is limited compared to e.g. India.
- One of the main problems encountered by Romanian MSMEs in their development and operation is the limited access to traditional bank loans due primarily due to the following factors:
 - Lack of a credit history of the micro and small companies, especially at start up;
 - Lack of collateral (the guarantee funds for SMEs do not apply to loans under €25,000);

- Loan amounts that are unprofitable for banks to underwrite and service.

Summary of constraints to private sector involvement in microfinance.

Information not found.

Opportunities

Identify potential solutions to the constraints above and who are the principal actors of each solution.

- The new Microfinance Legislation has just been passed in 2006 and could help to address some of the issues outlined above.
- The newly formed Microfinance Coalition is helping to build capacity and provide training.

Appendix 1: International Funds Operating in Romania

Fund Name	Country of Incorporation	Fund Assets (US \$)	% of Fund Assets Allocated to MF Investments	# of Active MF Investments	Projected new Funds allocated to MF Investments
1. Omidyar	United States	400,000,000 (12/05/05)	N/A (12/05/05)	7 (12/05/05)	- (12/05/05)
2. EFSE	Germany	326,771,403 (31/12/06)	55.06% (31/12/06)	38 (31/12/06)	120,332,142 (31/12/06)
3. Oikocredit	Netherlands, The	304,242,000 (31/12/05)	41.47% (31/12/05)	219 (31/12/05)	82,475,000 (31/12/05)
4. Dexia Microcredit Fund	Luxembourg	161,837,903 (06/02/07)	66.73% (06/02/07)	105 (06/02/07)	20,000,000 (06/02/07)
5. PCH AG	Germany	110,918,700 (30/09/04)	80.40% (30/09/04)	19 (30/09/04)	- (30/09/04)
6. responsAbility Fund	Luxembourg	96,154,726 (31/01/07)	93.17% (31/01/07)	111 (31/01/07)	- (31/01/07)
7. KFW	Germany	85,400,000 (31/12/01)	26.93% (31/12/01)	31 (31/12/01)	- (31/12/01)
8. Gray Ghost	United States	75,000,000 (30/09/06)	100.00% (30/09/06)	16 (30/09/06)	- (30/09/06)
9. Citigroup Foundation	United States	63,000,000 (31/12/01)	N/A (31/12/01)	42 (31/12/01)	2,400,000 (31/12/01)
10. MicroVest I	United States	24,230,000 (30/09/06)	93.15% (30/09/06)	25 (30/09/06)	7,500,000 (30/09/06)

Appendix 1 (Cont'd) ▶

11.	St. Honore Microfinance Fund	Luxembourg	15,874,783 (01/08/06)	53.54% (01/08/06)	6 (01/08/06)	15,000,000 (01/08/06)
12.	Rabobank	Netherlands, The	12,180,900 (30/06/04)	78.20% (30/06/04)	89 (30/06/04)	- (30/06/04)
13.	Dignity Fund, L.P.	United States	5,400,000 (30/06/06)	92.59% (30/06/06)	4 (30/06/06)	3,000,000 (30/06/06)
14.	AccessHolding	Germany	1,280,000 (31/10/06)	16.80% (31/10/06)	1 (31/10/06)	4,450,000 (31/10/06)
15.	VDK MFI Loan Portfolio	Belgium	0 (31/12/06)	N/A (31/12/06)	0 (31/12/06)	25,000,000 (31/12/06)
16.	BIO	Belgium	- (30/06/04)	N/A (30/06/04)	16 (30/06/04)	- (30/06/04)
17.	FMO	Netherlands, The	- (31/12/03)	N/A (31/12/03)	30 (31/12/03)	- (31/12/03)
18.	IFC	United States	- (30/09/04)	N/A (30/09/04)	52 (30/09/04)	- (30/09/04)
19.	DEG	Germany	- (05/10/04)	N/A (05/10/04)	9 (05/10/04)	- (05/10/04)
20.	USAID Credit Guarantees	United States	- (30/09/04)	N/A (30/09/04)	25 (30/09/04)	- (30/09/04)
21.	EBRD	United Kingdom	N/A	N/A	N/A	N/A

Source: MIX Market

Appendix 2: MFIs Operating in Romania

	Name	Country	Type of Institution	Gross Loan Portfolio in US \$	Number of Active Borrowers
1.	CAPA	Romania	Non-Bank Financial Institution	13,592,780 (31/12/06)	5,825 (31/12/06)
2.	Integra - ROM	Romania	Non-Profit (NGO)	320,560 (31/12/05)	140 (31/12/05)
3.	LAM PLC	Romania	Non-Bank Financial Institution	3,440,282 (30/06/06)	619 (30/06/06)
4.	OMRO	Romania	Non-Bank Financial Institution	4,504,259 (31/12/05)	1,348 (31/12/05)
5.	ProCredit Bank - ROM	Romania	Bank	208,892,682 (31/12/06)	29,621 (31/12/06)

Source: MIX Market

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