

ROMANIA ASSESSMENT REPORT¹

Executive Summary

Romania is continuing the transition process started eight years ago towards a market economy. The new Government elected at the end of 1996 has started a robust privatization program while trying to gain the six years lost by the previous Government. However promising inroads made during the first twelve months of its mandate came to a standstill before the end of 1997 due to lack of consensus between the Government coalition parties. While foreign investment is pursuing its growth at an unaltered pace, and reforms were following their route albeit at a slower pace, the population is faced with increasing financial difficulties including a 50% rise in the price of gas in March 1998. This in turn has had a rippling effect throughout the economy.

Several measures are being taken in order to speed up the pace of privatization and to advance reforms and the World Bank has put together a vast program of support for the country. Before the economy will start growing again, which is expected to happen towards the end of this year, the privatization process needs to be finalized. This means that the population will continue to suffer, especially those employed by large unprofitable state companies which are supposed to be closed down in the near future.

Standards of living have been continuously eroding since 1989, as has GDP. High inflation rates and increasingly high rates of unemployment have contributed to the pauperization of the population. Consequently the gap between the well off and the poor has widened and continues to grow. The hardest hit segments of the population are women and the elderly: Women are the first to be laid off and pensioners because their incomes have been eroded by inflation.

The SMME sector – of which microenterprises account roughly for 90% - has been the sector with the greatest dynamism since the transition process began. It has been the most important contributor to the state budget and the only sector in the economy that has registered growth in terms of employment. The lack of enabling legislation and support at the macro level has stayed in the way of its development. Currently heavily decapitalized, SMME's have great difficulties to access financing. This is true especially for start-ups, self-employed people and family associations. Romania's low-income microentrepreneurs, and particularly female microentrepreneurs have no viable source of financing for their businesses.

MicroStart can bring a strategic contribution to filling this gap. The current mission has demonstrated that there is a real need on the part of low-income entrepreneurs - the target clientele of MicroStart - to get access to microfinance services. Currently there are very few institutions that respond to this need. Based on findings of the mission, there is a strong appetite for loans of less than US\$1,000. There are indications that borrowers are willing to take loans at market or higher than market interest rates, provided they are accessed rapidly and in a flexible manner which reflects their specific needs. In other words in Romania, and especially in the rural areas of Romania, market conditions are ripe for a successful implementation of MicroStart – even if done on a gradual basis. That is, if the program can not start at full speed (US\$1.5MM) for lack of funds, it can still start at a smaller scale, while additional funds allowing the program to expand may be gathered over time.

MicroStart can also have a strong impact at the macro level. Given the strategic position of the UNDP Romania office and also the willingness on the part of the legislators to improve laws governing the private sector, MicroStart can play a catalytic role. That means it can spearhead the efforts of the entire donor community in Romania to help legislators formulate regulations that would create an enabling environment for microfinance. However, UNDP Romania can not succeed alone. Efforts of the larger donor community, and especially the World Bank will

¹ *In lieu of an Assessment Report, this document is extracted from the MicroStart Project Document and attempts to portray the state of microfinance in Romania*

be needed to ensure the success. The Romanian counterparts for UNDP Romania in the implementation of MicroStart will be the Ministry of Reform and the Ministry of Privatization.

At the intermediate level MicroStart will be well poised to build institutional capacity badly needed in microfinance and thus it can have a major impact in promoting not only the microfinance sector but also the civil society in Romania. Finally, it will make a strong contribution to alleviating poverty to promoting women entrepreneurs and to creating a more dynamic private microenterprise sector.

MicroStart in Romania will be demand driven in its implementation and thus will contribute to the development of the microfinance sector in the country and throughout the region.

I. National Context

A. Country Situation

1. Overview

Romania is the second most populous and the second largest country in Eastern Europe after Poland. Its 23 million people live on 238,400Km². Nine percent of Romanians live in the capital city, Bucharest; the density is 95 inhabitants/Km². Ethnic minorities represent 11% of the population; urban population is 55%.

The relief distribution is: mountains (31%), hills (36%) and plains (33%). Neighbours: Republic of Moldova, Ukraine, Hungary, Yugoslavia, Bulgaria, the Black Sea.

The average nominal wage in mid 1997 was US\$112 per month. GDP per capita was US\$1,590; the private sector's share in GDP accounted for 52% (1996). Industry accounted for 36% and services for 35%. The monthly inflation rate is currently estimated at 6%. In 1997 annual inflation reached 135%; for 1998 it is estimated at 45%.

Romania's administrative division is: county, town, commune. There are 41 counties (judet) and the Bucharest municipality; 262 cities and towns; 2,687 communes (with 13,285 villages). The official language is Romanian, the easternmost member of the family of Romance languages.

2. Socio-Economic Situation

The present Government, in place since November 1996 liberalized prices and trade, as well as state enterprises including banks. However 75% of banking sector assets are still in the hands of state banks. It implements an austerity policy in the fiscal and monetary sectors as well as a number of structural reforms in order to put the economy on a sound footing.

36% of the population now live below the relative poverty threshold, while 7% live below the subsistence threshold. The fall in the standard of living and the unequal distribution of the costs of the transition are the causes of the extension and aggravation of poverty. 60% of state owned companies will be privatized by the end of this year and state banks and farms are being included for the first time in this process.

Government needs now to implement mechanisms that use resources more efficiently but will also design mechanisms that will reduce the effects of transition. Among those: pension schemes to complement the state scheme;

3. Cultural Context

Eighty-nine percent of the country's population is Romanian; the remainder are Hungarians (7.1%); Gypsies (1.7%); Germans (.5%); Ukrainians (.3%); Jews (.04%) and others. Most of the population is Orthodox (87%) followed by Roman Catholics (5%); Reformed (3.5%); Greek Catholics (1%) and others.

From remote times, thanks to the “transhumance” (seasonal movement of herds from the lowlands to the mountains and viceversa) and commercial ties, a continuous cultural dialogue has been maintained within the country. For this reason the Romanian language is uniform across the regions. Minorities speak in addition to Romanian their mother tongue. The majority of the Hungarians and Germans live in Transylvania, which up until 1918 was part of the Austro-Hungarian Empire.

Nicolae Ceausescu’s dictatorship was overthrown in 1989. This opened the way to the restoration of democracy in Romania as well as Romania’s reintegration into Europe. Romania will accede to the European Union in the near future (second wave of accessions). After December 1989, there was an information boom following the setting up of private newspapers, publishing companies, radio and TV stations, etc. subject of late to the rigours of the free-market economy. The privatization process started later and carried out at a slower pace than in other former communist countries is increasingly gaining momentum.

The gender issue has largely been ignored; Romanians tend to believe that equality between the sexes already exists. Both women and men are equally educated and the literacy rate is quite high for both sexes. However, there are differences in wages and in the positions that women can occupy. Women are more likely to be made redundant and their incomes are generally lower than men’s.

4. *Finance and Banking*

Romanian state banks don’t have a strategic interest to engage in crediting activities with micro and small enterprises. They pretend that they don’t have sufficient staff and these small credits would imply high labor costs and small profits. For a microentrepreneur or an aspiring microentrepreneur, accessing investment and working capital funds from the bank system is not an option. For women entrepreneurs this situation is even more difficult. Today Romanian statistics are still not gender specific; however interviews with clients and institutions that do extend credit to SMME’s show an estimated 20% share of women borrowers. Many of the people interviewed were quick to point out that this state of affairs reflects the reality: about the same percentage of business people are businesswomen.

Another factor that discourages borrowing is the high levels of inflation. This year inflation is estimated to go down to 45%. Last year inflation reached 135%. In addition research by the ABN/AMRO bank has shown that at the present time interest rates in Romania have reached the highest level in Central and Eastern Europe.

a) *Public banks*

The seven largest Romanian banks, based on assets, are: Bancorex, Banca Comerciala Romana, Banca Agricola, Banca Romana de Dezvoltare, CEC, Bankcoop and Banca ION TIRIAC (the only private bank in the group). Banking assets are highly concentrated: the first four account for 60% of total banking assets in the country. The financial condition of state owned banks is poor. One of the reasons why their health continues to deteriorate is the fact that they have continued to give loans to state owned firms. Those loans represent 50% of the state banks total portfolio. State companies are notorious for not servicing their debt. To date, their compounded arrears account for 10% of the GDP.

In the present environment characterized by high inflation and high fluctuation of exchange rates, loans are made with high levels of collateral. Collateral and guarantees reached 73% of total loan amounts in 1996. Current legislation makes it difficult for a bank to take possession of assets pledged as collateral when borrowers default on

their loans. Research by the ABN/AMRO bank has shown that at the present time interest rates in Romania have reached the highest level in Central and Eastern Europe.

Given the high cost of funds, banks have tried to expand their branch system throughout the country in order to access cheaper sources of funds, i.e. to attract savings from the population. However this has not succeeded since only 20% of the Romanian population have banking accounts. Romanians do not utilize the banking system much; they prefer to exchange their surplus of funds into hard currency and not deposit those at the bank. Statistics show that bank loans represent less than 15% of the GDP in Romania while in the Check Republic they represent 66% of GDP.

The banks mentioned as being potential strategic players in microfinance are BANCPOST, BANCA AGRICOLA, CEC and BANCOOP. Only the first one seems to have the potential needed to move fast in this sector. It is harder to convince the others that microfinance could represent a valid proposition. The banking institution in Romania that could have been a logical partner for microfinance, CEC (Savings Bank) with the largest branch network throughout the country seems to lack the dynamism necessary to starting a dialogue in this sense.

b) Private banks

The difficulties encountered today in the Romanian banking system stem from the very limited presence of private banks: only 4% of the banking market. Starting in 1996, two private banks, Banca ION TIRIAC and MINDBANK were the only banks that have agreed to manage a revolving US\$375,000 Government fund for the development of the SMME sector in Romania. Target borrowers are established SMME's with activities in services and production. Loan amounts are between US\$1,250 and US\$6,500. Interest rates are 50% of the Romanian National Bank prime rate. Loan terms are six years with a six-month grace period.

A third bank, BANC POST started to offer the same funds to microentrepreneurs in February 1998. The only state bank that agreed to participate in the program, BANCPOST, is in the process of being privatized. Given its specificity i.e. it is the Post Office bank, it has numerous branches throughout the country. Starting at the end of 1997, BANCPOST is managing another government fund on behalf of the Ministry of Labor and Social Protection. The fund's aim is to facilitate the creation of new jobs and alleviate unemployment. Loan terms are similar to those described above. The difference is that for each new job created, borrowers can get an incremental US\$2,500 in loans. Employees hired by borrowing companies under this program can not be fired before the end of the life of the loan (i.e. three years). It is expected that BANCPOST will be privatized before the end of the year. Another bank listed for privatization is the Romanian Development Bank.

c) Other Financial Institutions

Credit unions – the Romanian CAR's

Credit Unions are perceived by many Romanians as a remnant from the Communist past, and as such are not trusted. The communists have created the CAR in a way that was suited for a totalitarian regime, i.e. in their present form and governance structure, CAR is not adapted to the market economy. Romania has a long tradition in credit union development, which goes back to the 19th century (Raiffeisen model).

Today the CAR has legislation in place, which makes it an alternative worth studying more closely. Albeit very restricted, inflexible and not adapted for the needs of the market economy, the CAR legislation exists and therefore it can be utilized before a more flexible legislation will be voted. CAR's may offer a viable alternative for microentrepreneurs as an institution well poised to serve their needs. It is estimated that there are some 2,2 million Romanians CAR members; 4,850 CARs or glorified "tontines". Just like in any other credit union system in the world, CARs are organized under the umbrella of 43 regional federations (one in each of the 41 counties of Romania, plus two cities: Roman and Rimnicu Sarat). At the national level the CARs fall under the jurisdiction of a national apex organization, UNCAR, based in Bucharest. UNCAR has a strong lobbying position and does not want to lose its position as the only legal credit union type organization in the country. WOCCU is working with UNCAR and is in the process of modernizing the CAR system (see WOCCU in section D).

d) The SMME sector

The creation and development of private SMME's in Romania between 1990-1998 is a complex phenomenon. The private sector was practically inexistent at the beginning of this period. The SMME sector became the most dynamic and efficient component of the economy, despite the lack of enabling legislation. Although the sector has developed rapidly, it still lags far behind its counterparts in developed countries. The most dynamic component of the SMME sector are microenterprises. Viewed from their employee count microenterprises (1-9 employees) represent 90% of the SMME sector. At the end of 1996, they had created 1.5 million jobs, thus being the only sector that has created jobs since 1989. Two thirds of these employees are engaged in trade and services.

Since 1996 the private sector has reached 52% of GDP. This includes the self-employed, farmers and farmer cooperatives. In 1996 the private sector contributed more than 70% of state budget revenues out of which more than 50% came from the SMME sector.

The SMME sector is currently going through a particularly difficult period. It is estimated that SMMEs function with half of the capital they need; that is, they function with 50% of needed raw material and equipment. Approximately 90% of SMMEs can not afford to borrow funds from banks because of prohibitively high interest rates. Some 25% of SMMEs engaged in import businesses have suffered heavy losses due to the rise of the dollar, which reduced by half the value generated through sales. Furthermore SMMEs lack the financial resources for investments.

Eighty percent of the SMME sector has reduced their sales, which in turn reduces the internal market for products and services. This also has the effect of reducing the demand for bank loans, which in turn lowers bank activity. Investments in the private sector diminished drastically. Unemployment in the private sector registered 200,000 jobless in mid 1997.

Inflation hit 135% in 1997 and is forecasted to reach 45% in 1998. The fluid exchange rate of ROL-hard currency represents serious financial barriers for SMME's. Some of the barriers hampering SMME development include: limited access to foreign currency; under capitalization, which makes them vulnerable to crises; the lack of risk capital; not enough financial institutions offering a limited array of services and finally the slow development of leasing activities as well as the lack of legislation governing leasing operations.

SMME's face major difficulties when confronted with the banking system:

- high interest rates for current accounts (presently at 80% per annum);
- insufficiently diversified banking services responding to their needs;
- banking staff insufficiently prepared and motivated to work with entrepreneurs;
- lack of financial incentives for banks to offer credit to start-up entrepreneurs or microentrepreneurs (i.e. 90% of the sector) since due diligence for a small line of credit is as costly and cumbersome as a large credit;
- banks take deliberately long to transfer funds in order to gain interest rates on funds in transit;
- need to pledge large sums as guarantees and collateral when taking credits – which SMME's can not mobilize;
- the absence of financial institutions specialized in SMME's;
- the absence of development banks to offer long term credits, with substantial grace periods;
- significant differences in ways in which banks deal with private SMME's and state owned firms.

Low-income entrepreneurs, especially those who live in rural areas, are in general "cut off" from financial markets and from sources of information and technical knowledge that would help them operate their businesses more

efficiently. Their access to funds is more limited than for their counterparts who live in urban areas, and especially in large cities.

Furthermore, there is a prevailing lack of understanding of what SMME's really are. Many specialists talk about micro companies when referring to firms that employ up to fifty people. Definitions of micro, small and medium size enterprises vary. Only recently research has pointed out that the largest segment within SMME's is made out of microenterprises. The financial programs, which have been implemented in Romania since 1990 in the SMME area, have always targeted larger SMME's. PHARE, EBRD, EIB and the World Bank financial schemes have been designed for the largest 10% of private sector SMME's. Several such programs offered loans for US\$50,000- US\$250,000 and more, while completely neglecting the majority of SMME's, which are too small to access such loans. At present there is a large demand for loans less than US\$2,500 among start-ups and aspiring low-income microentrepreneurs, including women, for which there is no offer on the market.

In addition to the loan systems described above and the few microfinance programs described later on in this report there are no other alternative sources of funds for SMME's other than friends and relatives and, increasingly, pawnbrokers. The latter are equivalent to loan sharks. Present in urban areas, pawnbrokers represent the solution of last recourse. There are no statistics available to indicate the extent to which businesses use pawnbrokers to finance investments and working capital.

e) Legal framework

A substantial part of the basic laws are in place or in preparation: civil and commercial codes, business associations, bankruptcy, fiscal, accounting, customs, specific credit instruments, intellectual and industrial property rights, stock exchange, banking insurance, competition, transport, SMME promotion law. According to the World Bank's assessment in connection with the release of the second portion of the Financial and Enterprise Sector Adjustment Loan (FESAL), Romania has met requirements as far as legislation is concerned (if not its application). Many specific norms still need to be better adapted to the market economy, e.g. in the field of accounting standards, but efforts are currently under way to fill the gap.

Following is a list of some of the most cumbersome legal constraints encountered by SMME's as indicated in a recent study on the consolidation of the SMME sector in Romania:

- incomplete economic legislation which sometimes is even contradictory due to the coexistence of regulations stemming from three different juridical regimes: up to 1948; from the communist era and after 1989 – which are not harmonized;
- relatively low level of legislation stability – increasing lately – which precludes SMME's from planning and managing resources in a rational and efficient way;
- lack of umbrella legislation for SMME's, the most important sector in the market economy, in order to create an enabling environment;
- confusing fiscal legislation, frequently modified, gives many headaches to SMME's especially when implementing financial strategies;
- government decree 25/1993 regarding SMME's promotion is too general and difficult to implement;
- slow and unclear procedures with respect to the application of various laws e.g. taxes; the creation, administration and liquidation of commercial entities;
- heavy bureaucracy at the level of the auditing bodies whose role is to ascertain whether SMME's respect the law

f) Fiscal framework in relationship to SMME's

It is characterized by:

- High level of taxes which are estimated to reach 60-65% of the SMME's net income;
- lack of fiscal stimuli to entice SMME's to invest (reductions on invested profit; subsidies for investors in strategic sectors)
- utilization of a tax system that does not stimulate the efficiency and development of SMME's;
- impossibility to plan and forecast due to changing fiscal policies
- unclear, ambiguous and burdensome procedures for determining the level of taxes, including the tax on revenues
- SMME's have a more difficult tax regime when compared with the state companies and the autonomous "regies"
- excessive controls from regulatory and audit bodies that often err when assessing the size of fiscal obligations to the state

B. UNDP Country Office

1. Strategy

UNDP development cooperation has been designed so that the organization's comparative advantage in facilitating the development process can add value and produce significant multiplier effects with limited resources. UNDP's assistance is envisaged in the following areas: governance and European integration; poverty reduction and the promotion of sustainable livelihoods; and the promotion of environmental and natural resource sustainability. National capacity building will be a major focus of all activities, in order to enable Romania to make fuller use of its economic, social and human resources potential.

2. Programme Overview

UNDP Romania has three priority areas of intervention:

1. poverty alleviation and promotion of sustainable livelihoods;
2. support for governance, democracy and participation and
3. environmental and natural resource sustainability

1. Poverty reduction and promotion of sustainable livelihoods

The overall objective of the program is to establish a framework for poverty alleviation, both at national and local levels, related to all social sub-sectors and taking into account important group issues: minorities, women, children, elderly, etc.

UNDP focuses its efforts on elaborating a definition and assessment of poverty, formulating national and local strategies for poverty alleviation and developing institutional capacities to formulate and implement specific poverty alleviation actions. Special attention will be given to the feminisation of poverty and the need to involve women in all aspects of political and social life.

UNDP's assistance in this sector will be:

- Poverty Alleviation Phase II Project - nationally executed under the auspices of the President;
- Two Poverty Pilot Projects focusing on two pilot areas will be integrated in Poverty Alleviation Phase II Project in Zabrauti (peri-urban area near Bucharest) and Negresti (rural area). Their implementation is done in partnership with the Government, NGOs and the private sector;

- Support to SMME's: Restructuring of Privatized Enterprises to make more efficient and more competitive enterprises; develop export capacity through strengthening the Foreign Trade Center;
- Promotion of private SMME's;

2. Support of Governance, Democracy and Participation (GD&P) with special emphasis on gender issues

This program is in direct support of the Government's "1997-2000 Governance Program". The overall objective of the GD&P program is to strengthen human resources within Government institutions and civil society to meet the challenges of the transition to a democratic society, with special emphasis on gender issues.

3. Promote Environmental and Natural Resource Sustainability

The overall objective of the program is to support the Government's efforts to strengthen national structures for Green House Gas reduction and efficient management of energy. The program aims especially to: support the Ministry of Environment to implement Regional Environmental Programs; create a National Center for Sustainable Development; strengthen Government capacity in disaster mitigation; support NGOs working on environmental issues.

3. *Relationship to MicroStart*

MicroStart has a poverty alleviation orientation, and a focus on promoting low income entrepreneurs, especially women entrepreneurs, that fits with the UNDP Romania country strategy. In addition the program's objective is to strengthen the local institutional capacity in the microfinance sector. For these reasons, the program complements other activities being implemented at present under the UNDP umbrella, including the Poverty Alleviation Phase II Project (ROM/97/008). Projects directly concerned with microfinance appear to be the two Poverty Pilot Projects in Zabrauti and Negresti (ROM/96/551 and ROM/96/G51) and the project for the Restructuring of Privatized Enterprises and Foreign Trade Center (ROM/97/011 and ROM/97/012 respectively as well as the one on the Promotion of Private SMME's.

Additional potential synergies with MicroStart could be created through two SMME development projects currently under study by UNDP: one focuses on SMME development and the other one focuses on economic empowerment of rural women in Romania. Comments of the MicroStart consultant were taken into consideration in the formulation of the latter. It has very strong synergies with MicroStart as it targets low income and women entrepreneurs. Designed as a three year UNDP joint pilot project with UNIFEM and the World Bank, the project - currently under study, as part of Poverty Alleviation - seeks to be replicated later on throughout Romania.

The project's long term objective is to economically empower rural women in Romania through increasing their income, their access to and control over economic resources, and their bargaining power in the household, community and the market place on a sustainable basis. It is envisioned that the pilot phase of the project will be implemented in Buzau at the ARF, an offspring of FDL Buzau, a UNDP business consulting center. UNDP Romania has supported the creation of seventeen business consulting centers throughout Romania over the last five years. Starting in December 1997, UNDP has implemented an experimental microcredit scheme in eight of the centers. Two of these centers are described in section D.

a) *UNDP Business Consulting Centers*

Under the project "Support to Small and Medium Private Enterprises" (ROM/90/002), UNDP Romania has funded several Business Centers throughout Romania. The centers operate as local NGOs. The objective of the project was to strengthen the private sector in Romania by increasing the size and competitiveness of privately owned small and medium enterprises. There is a critical need to develop this sector as part of the overall economic transformation and development of the economy. This UNDP-funded, UNIDO-executed project began in 1991 and ended in December 1997. The Netherlands contributed funds to the project starting in 1994.

Between 1993-1997 seventeen business consulting centers with NGO status were created throughout the country. The centers' founding members were the local Chambers of Commerce, successful local SMME's, foundations for local development and associations for the development of SMME's. The Romanian counterpart in the project was the NAP. Under this project UNDP provided office equipment, a car and training programs. The centers' aim is to offer business consulting to SMME's (including microentrepreneurs) and technical assistance. From the inception, most of these centers covered their operational and development costs through services such as: business consulting and training to entrepreneurs; elaboration of business plans, market and feasibility studies; assistance in identifying business partners (including foreign partners); and access to financial support.

Today these centers are known as the ROM-UN Centers (see attached map). They differ in the range of activities performed and in their dynamism. In addition to the services listed above, the centers implement (following a bidding process) other programs operational in Romania (The PHARE program for the Development of the Civil Society; for Active Measures against Unemployment and for Social Services; the World Bank program for Active Measures for Unemployment).

At the end of 1997, UNDP utilized the last portion of the Dutch funds (US\$116,000) to finance a microcredit experiment through eight ROM-UN Centers (see attached list). The experiment consists of a one-year pilot project. Each participating institution was given US\$12,500 in funds for on-lending and US\$2,000 to cover its operating costs for one year. Loans are free of interest. The average loan amount for the eight centers is approximately US\$1,700. It is estimated that 20% of the borrowers are women. The project was intended to explore the interest and specific credit needs of microentrepreneurs. Loans have been given mostly for six-month terms in order to free funds for additional on lending. Each center seems to have waiting lists of interested borrowers. In addition there seems to be an appetite for loans, even when they bear market interest rates. FLD Buzau and CIDIMM Vaslui are currently operating a microfinance experiment (see section D). Following is a brief description of FAIR.

FAIR

FAIR, was created in 1996 in Bucharest with human and material resources from the UNIDO implementation unit after its mission to create UNDP business consulting centers and had come to an end. With FAIR, the UNDP network grew to eighteen centers. FAIR, today performs some of the same services as the rest of the network while focusing more on training, feasibility studies, and consulting to other international programs. FAIR's direct activity with entrepreneurs is more limited than that of other network centers.

FAIR planned to position itself as the UNDP business centers' hub. However, it seems that the centers did not accept FAIR in this role. Recently, the business counseling centers have proposed that two of the most active centers in the UNDP network act as network leaders in two fields: business counseling (FDL Buzau) and training (FPIMM Brasov).

b) Poverty Alleviation project in Negresti

Not a UNDP business center itself, Negresti is the place where one of the UNDP Business Centers, CIDIMM, Vaslui is implementing a UNDP project under the Poverty Alleviation Program. This includes the creation of a credit union and of a microloan scheme both started in 1997.

Although administratively speaking Negresti is a town, it is in fact a rural area. In 1997 UNDP opened an office in the city hall and is working on the project in close collaboration with the local authorities, especially the Mayor. Starting in December 1997, CIDIMM has on-lent US\$3,000 to ten borrowers as part of the UNDP Poverty Alleviation Program. This was made possible through an arrangement with Trickle-up (a US NGO) and the Negresti newly created credit union (CAR). Trickle-up will pay the US\$1,000 credit union membership fee for 10 borrowers. Under the CAR law, members can borrow up to three times the amount that they deposited in the credit union. CIDIMM, an NGO can not lend money itself. Most of the borrowers will repay the loans on a monthly basis; some borrowers have the option to have a four months grace period (those who buy animals with the loan proceeds). The loans are for up to one year (usually less than a year) in order to allow more borrowers to get access to loans. Sixty percent of the current borrowers are women.

Profile of a woman borrower from Negresti:

Miorita Andrei, 36 years; occupation: cleaning lady at the Negresti public library; salary: US\$50/month. Her husband is unemployed; they have three children: 12 to 17 years.

Terms of the loan: ROL equivalent of approximately US\$275 to be repaid in nine months with six months grace period. Interest rate is 20% per year (i.e. 25% of the market interest rate, which is 80% p.a.). Interest rate of this amount is compulsory on loans taken from credit unions. Needless to say, under the credit union law, only members qualify as borrowers. Grace period is six months.

Miorita has decided to start repaying the ROL equivalent of US\$17/month before the grace period is over in order to ensure proper repayment. To date she has repaid US\$56 of her loan. With the credit proceeds she bought five pigs, animal feed and a cow for which she also contributed personal funds. Later on she hopes to sell some of the piglets and a calf to service her debt. She has also made arrangements to sell milk.

The microcredit scheme has been made public with the help of the Negresti Committee for Poverty Alleviation and via radio announcements. The local Committee analyzed her situation and the business she intended to set up and approved the loan. Miorita receives on-going support from the CIDIMM office, which is running the microcredit scheme.

She proved that she has initiative and entrepreneurial skills. She is becoming increasingly aware of the potential benefits for herself and her family. She hopes that in the near future she will be able to increase the number of animals she owns and that she will start also developing a food processing activity (milk and meat processing). She hopes to achieve this goal by reinvesting the profit obtained and with additional microcredit. She is basing her plans on her ability to cultivate her family's 2 acres of land.

C. Donors Interventions in Sector

1. *The World Bank*

Has initiated discussions with the Government in order to implement the following:

- creation of an enabling environment for SMME promotion – intervention aiming to create institutional changes;
- development of services for existing SMME's and start-ups that include training consultants to obtain credentials in delivering specialized services to SMME's in specific areas: marketing; quality control; exports promotion; as well as technical;

- set-up financing schemes through: a) strengthening banks' capacity to support SMME's (banks will receive specialized software; will get specialized training for employees; will receive computers and other equipment allowing to work with SMME's; b) will develop a credit scheme
- a US\$100Million will be available to develop financial services as well as the legal framework, e.g. leasing, venture capital, business trusts, tax treatment of financial institutions. As preparation for this program, the World Bank is in the process of supplementing an SMME survey done by EU-PHARE with a view to get to know the major obstacles and needs for SMME development;
- a first identification mission for a new rural credit program is taking place at this moment. A microfinance expert was part of the World Bank team;

The MicroStart mission received indications that the World Bank Romania is willing to contribute funds to support MicroStart microfinance operations.

2. *IFC*

- Is discussing with RAEF the idea of setting up a credit program operated by RAEF. Each institution has committed US\$5Million;
- Is the initiator and partner in Romania's first leasing company, ROMLEAS which faces serious legal constraints and needs recapitalization.
- Is discussing with KfW the possibility of setting up a second leasing company;
- Is investing US\$2Million along with EBRD in the Danube Fund, a venture capital fund sponsored by the Alpha Credit Bank Group from Greece.

3. *European Union*

The EU has helped set up the CRIMM Foundation, which promotes the SMME sector through Business Advisory Services and implements decentralized SMME consultancy and grant schemes. A new lending program directed specifically to SMME's for a total amount of ECU6Million is now being launched. It bids out resources to interested banks, which can submit credit programs they are willing to implement. PHARE supports regional development and the banking sector with massive programs, among them the FIDEL program, which wants to integrate SMME's by involving them as members in local consortia (no direct support to enterprises).

4. *European Bank for Reconstruction and Development*

Most of its credit schemes are addressed to medium size enterprises and are placed with banks for different purposes. A new line with the Romanian Commercial Bank for SMME's targets enterprises requiring credit around US\$1Million. EBRD participates in a new venture capital fund through the Romanian Post Privatization Fund together with EU-PHARE and the Government.

Following the positive results of its microfinance intervention in Russia, and subsequently in Albania and the Republic of Moldova, EBRD is in the process of exploring the implementation of a new credit scheme for the upper end of the microenterprise segment, i.e. loans for US\$10-20-US\$30,000. In the aforementioned countries, EBRD had subcontracted the microfinance scheme to IPC, a German microfinance practitioner and South Shore Bank of Chicago. The scheme was implemented by the bank system. Since the Romanian program is at the inception stage it is not clear what form it will take.

5. *US AID*

Promoted and established the RAEF with its several programs across all enterprise sizes. It includes a small Enterprise Equity Fund, a Small Loan Program through banks and a Microloan program through World Vision's

CAPA Foundation. RAEF is the only non-banking organization in Romania able to engage in microcredit activities thanks to a special decree received from the Romanian Government. All programs that fall under the RAEF umbrella still benefit from this exception.

US AID is rethinking at present its SMME support strategy. The intention is to support much broader service delivery through Small Business Development Centers, possibly an enlargement of RAEF, support to the Government on the policy and legal level, and further financing programs.

USAID supports WOCCU's efforts to assist the C.A.R. movement. The C.A.R.'s can be potential institutional structures for the implementation of MicroStart.

6. *Swiss Development Cooperation*

Beginning in early 1990's the Swiss launched several microfinance programs built around several common features: support to entrepreneurs with zero interest credits to acquire second-hand equipment from Switzerland; on-going technical assistance in and in general management; exchange programs allowing Romanian entrepreneurs to work in Switzerland for a few months. Today these programs – all are local NGOs - are searching for ways to disentangle themselves from credit activities. Their vocation is not so much to develop an expertise in microfinance as to offer business development and social services to entrepreneurs. Presently the Swiss are looking into ways to build synergies with other organizations, e.g. Soros Foundation and FIDES, who can develop the microfinance component which the Swiss programs seem to be lacking. The Swiss programs are LAM in Ilieni, Covasna; FAER near Reghin; ELMOL in Moldova, ROMCOM near Oradea and PROFORDAR, in Bistrita Nasaud.

The most important foundations, LAM and FAER account together for a two year period for US\$340,000 in operating costs; training represents an additional cost of US\$10,000 while backstopping accounts for US\$21,000.

7. *German Cooperation*

Two years ago offered to set up an SMME development bank along the lines of Kreditanstalt fur Wiederaufbau (KfW). It was conceived as a second tier institution working through the banking system. The present Government prefers to integrate such a promotion activity as a department of EXIMBANK. The proposed new banking law includes a clause on development banks, which will be exempt from paying taxes and dividends. At a second stage, an ordinance is required to regulate the specifics of development banking.

The second area of concern is the availability of capital. KfW will make available a credit line of up to US\$29Million. It is important that EXIMBANK strengthens its capital base specifically for its future role in SMME's promotion. KfW is interested in the participation of the Swiss Government to this effect.

German bilateral aid in the area of microfinance is focused on a farmers "input" program in Northern Romania, FAMD. It provides farmers the inputs they need: capital in the spring to buy cattle, animal feed and seed, which they can sell in the fall to repay their loans. It envisions in the near future to start a new initiative, this time an "output" program in a region yet to be defined (most likely Buzau). Most likely it will be implemented in a vineyard area, with the objective of improving and build reputation around the output, i.e. wine in this case. GTZ has led the German initiative in FAMD in Vatra Dornei. It has funded both the operational costs and the loan fund in addition to the full cost of a German expatriate to manage the program. This funding started in 1993; the local management team is supposed to take over the program in the next two years.

8. *CIDA*

The Canadians support an entrepreneurship development program in five Business Advisory Centers through a TV promotion program and may be interested in supporting the CAPA microfinance program.

9. Dutch Cooperation

It's in the process of identifying an SMME support program in Romania. One possibility would be to set up a joint foundation for SMME promotion together with UNDP.

Donors are on the whole positive with regards to the implementation of MicroStart. This is due in part to the perceived significant potential demand for microfinance and the absence of an alternative supply of credit. They also favor the fact that MicroStart focuses on low income entrepreneurs and especially on women entrepreneurs, perceived as being in dire need of support both by the national and local Government and by the donor community. Most of the available programs on enterprise development and financing in Romania have targeted larger established SMME's.

In our discussion with the donors it became apparent that many donors feel that low income entrepreneurs have the potential to utilize microfinance services in a way that would enable them to become self sufficient and would raise the standards of living for their families and communities. In addition the stated objective of MicroStart is to develop institutional capacity in the field of microfinance. Lack of institutional capacity is a serious problem in Romania; for this reason most programs can not channel existing funds to their targeted population.

D. Local NGOs Interventions in Sector

1. CAPA/World Vision

The only microcredit program in Romania, CAPA/World Vision, operates under the umbrella of the organization that finances it, RAEF with funds from USAID. RAEF is a private investment fund, with capital from the US Government. One of its objectives is to support the development of the private sector in Romania. US\$1.5Million have been granted to the fund to finance the creation of a microloan program.

Created in 1995 as a result of the cooperation between RAEF and World Vision International, the program aims to promote microenterprises in two counties: Cluj and Dolj by offering consulting and credits. Today CAPA/World Vision operates in Cluj and Craiova. The program plans to extend its operations in four other cities in the near future.

Target borrowers are existing microenterprises with development potential. In addition to credits, the program offers borrowers consulting services throughout the life of the loan. Prior to receiving the credits, borrowers need to attend a two-day training offered by CAPA. The training covers small enterprise management, strategic marketing, production improvement, cost management, cash management and business ethics. The objective of the seminar is to facilitate the elaboration of a viable business plan. The cost of the training represents 1.5% of the credit and must be paid by the borrower.

Individual loans vary between US\$2,500 and US\$15,000 and are made in ROL. Interest rates range from 22-26% p.a. in dollar terms. The average loan amount is \$8,000. Commissions charged for processing the loans are 1.25% on the first loan granted, and 1% of additional loans. Repayments are up to 18 months.

In order to qualify for the loan the borrowers have to participate at the pre loan training and to invest in the business an amount larger than the credit amount. Credit officers make visits prior to disbursal. The program takes into account as collateral the assets of the company, mortgages; co-signers who have steady incomes. Credit officers also make their decision by ascertaining business cash flows and the character of the borrower. For loans smaller than US\$5,000, decisions are made by the internal staff and are confirmed by RAEF; for loans between US\$5,000 and US\$15,000, the decision is made by in-house committee members and the RAEF counterparts. It takes up to three weeks for borrowers to receive loan proceeds. Loan proceeds are disbursed and repaid at the bank.

In mid 1997, less than 1% were in arrears; 5% were considered to be at risk and 4% have been written off. Repayment rate is 90%. Of the \$1 million in outstanding loans, women borrowers represent 20% and rural borrowers 15%.

2. *FLD Buzau*

Created in 1993, by UNDP with support from local authorities, RDA and NAP, FLD's objectives are to: 1) develop the private sector (mainly the SMME's) in Buzau county and contiguous counties, and 2) promote local development through different programs implemented together with local authorities. Total staff is composed of five business counselors and two administrative assistants, all trained under the UNDP Program. Services offered to private SMME's and start-ups include writing business plans; elaborating feasibility studies in order for the enterprises to access financing resources made available by national bodies (NAP) and by international organizations (the World Bank; EBRD and BEI), etc.

The center performs several activities; it operates as a:

- business center including a UNDP micro-loan credit scheme and a PHARE loan guarantee fund

The micro-credit scheme was introduced by the center in December 1997. Total funds provided by UNDP: US\$12,500 were disbursed in January 1998. The fund is jointly controlled by the FDL Buzau and UNDP. At the FDL level, loans are approved by an in-house Committee on the basis of business plans and the prospects of the business and at the UNDP level, by the Program Officer in charge of the program. Borrowers utilize the services of the center counselors when applying for loans and when writing their business. Targeted borrowers are the self-employed and family associations.

Loan characteristics: ROL equivalent of US\$1,000 per loan (can reach up to US\$2,000 per loan). In order to avoid the inflation risk for the lender, all the UNDP microloans are made in ROL and are tied to the US\$. Loans are repaid in equal monthly or quarterly payments or bullet payments at the end of the loan term. Collateral used: consumer goods, which are insured by the insurance company (1% costs). To date there are nine borrowers, 30% of whom are women.

The guarantee fund is the only such program in Romania implemented by an NGO. The program was introduced in 1997 with PHARE funding (Active Employment Measures). The fund's objective is to create new jobs. FLD today Buzau manages ECU 51,000 in a joint account with ION TIRIAC Bank. The center approves guarantees (by an in-house committee) on loans on the basis of feasibility studies analyzing the current and future potential of the business. The employees of the center elaborate the studies under a counseling service supply contract. Guarantees are obtained pursuant to a tripartite contract co-signed by the client, the Bank and FLD Buzau. In order to facilitate clients' rapid access to the guarantee fund, the procedure takes up to a week. The center offers business development services to clients throughout the life of the loan.

The value of the guarantee can cover up to 100% of the loan amount (including accrued interest). The highest guarantee amount can reach the ROL equivalent of ECU 10,200. For each ECU 2,700 ROL equivalent loan, the borrowing enterprise is obliged to create one job. The guarantees are intended to finance small investments and working capital. The guarantee accompanies the loan throughout its life; loan terms are from three months to one year.

In addition to a good business plan and feasibility study, in order to obtain the guarantee, the client has to pledge company assets estimated to have twice the value of the guarantee. Furthermore, assets pledged must be insured. The cost of insurance is 1% of the total value of the collateral.

- resource center for NGOs

The objective is to strengthen the institutional capacity of NGOs; transfer management know-how and provide technical assistance for writing proposals for fund raising. FDL created ARF

in Buzau in 1996 and subsequently four offspring of it in the Buzau region: Galas, Braille, Roman and Blokes. ARF Buzau plays the hub role of this network of women NGOs. The activities of the ARF's include skills testing, training, business counseling and women enterprise promotion. ARF Buzau has four employees and it generated ROL227 million (US\$23,000) in consulting fees in 1997. 60% of the population served are women.

- local development center implements programs with the Ministry of Labor and Social Protection; stimulates employment and initiates business start-ups; training and business counseling for entrepreneurs. FLD identified eco-tourism as having potential for promoting business development and job creation and established another NGO, "Green Holiday" to address these opportunities.

3. *CIDIMM Vaslui*

The Foundation Elena Cuza, a non-profit, non-governmental organization, created CIDIMM in 1996. CIDIMM was established in partnership with UNDP Bucharest and the Vaslui County Council. It received support from UNDP (ROM-UN) as well as from RDA and NAP. Current staff consists of four consultants.

CIDIMM intends to open "satellite" consulting offices in two other towns: Barlad Husi and Negresti with the objective of stimulating the development of SMME's in the entire county. CIDIMM is currently implementing the ROM-UN Microcredit scheme in Vaslui and the UNDP poverty alleviation program in Negresti.

In Vaslui CIDIMM has on-lent US\$9,000 to fourteen borrowers (average loan amount: US\$670). Funds have been disbursed by partner banks. Loans are approved by an in-house committee.

In addition to services provided to entrepreneurs much like FDL, CIDIMM has created an SMME Business People Association at the national level, which provides support and consulting services to social assistance programs in Vaslui. Other programs conducted under different financing schemes (such as PHARE) include: a Day Care Center for the Elderly (SESAME); a Tourism Development Agency (CERT); a Business Incubator and a Temporary Employment Agency.

Microfinance is at its beginnings in Romania. The first microfinance program was implemented by World Vision starting in 1996 with funds from US AID. Other donor interventions have started in early 1990's in different regions of the country. There is little public awareness of existing microfinance operations in Romania, partly because of the limited activity in this domain and partly because of the lack of clear legislation governing the sector. Existing operators have found ad hoc ways in which to circumvent existing restrictions. They use legislative loopholes that allow them to operate legally in their region, but make the replication of the programs difficult elsewhere. This is due mainly to the absence of legislation allowing non-banking institutions, such as NGOs to engage in credit operations or to attract savings.

Few other programs that have developed variations of microcredit activities in Romania have been supported mainly by the Swiss Government (LAM, FAER, ELMOL, ROMCOM.), the German Government (FAMD) and most recently the Open Society Foundation, Romania.

4. *WOCCU*

WOCCU started its activity in Romania in 1996. It works in partnership with UNCAR and with the national federations of CAR. Over the last two years it has set up 22 new CAR. By 1999 it plans to modernize up to 700

CAR and to cover all the estimated 5,000 CAR within the next five years. A second objective is to consolidate the CAR.

The old CAR system consists of the following: members contribute to the CAR's social fund monthly; credits can be taken up to 3 times the amount in deposit. Interest rates on the loans, are 8-30% p.a. (vs 80% market interest rates), which has decapitalized the fund. Members receive a 9% interest rate on their savings. It is a "glorified tontine"; loans are for one week up to 6 months.

The new CAR system promoted by WOCCU is designed to attract savings, in the form of sight accounts, with market interest rates. Interest rates on loans can be 10-12% above commercial banks interest rates. The CAR are juridical entities with very low overhead costs and the flexibility that microentrepreneurs need. The features of the modern style CAR are: deposit the ROL equivalent of US\$4.00 in order to become a member; open a checking account for the equivalent of US\$6.00. Each new member has to be supported by two members of the CAR. Loans will bear interest rates at 20% more than the market average.

Another program supported by US AID that may have a potential strong link with MicroStart is ATA.

5. ATA

Started in 1995 with a US\$30,000 USAID grant as a pilot project, ATA has developed an extensive program and is working with 3,500 artisans throughout Romania. The program has five parts: production development; international marketing and business development; NGO development with the aim to create the National Association of Rural Artisans; trade show participation and promoting of a safer environment (lead free paints and clays).

ATA catalyzed participation at a ten-day event that will feature the Romanian cultural heritage at the Smithsonian Institute in mid 1999. The Smithsonian Folklife Festival in Washington DC attracts 1 million visitors and reaches 400 million more through media coverage.

In the current program, 1996-1999, US AID has financed 75% of the US\$444,000 ATA program in Romania. The remainder was contributed by ATA. ATA has generated to date US\$1 Million in sales and has expanded the monthly income for micro-enterprises from US\$5 per month to US\$75 per month. In addition it has created 600 new jobs. In the future, ATA wishes to promote products of Romanian artisans in Western European markets. Up to now, ATA has only promoted trade relationships with the USA.

ATA has elaborated a new proposal for the next two years which envisions the creation of a local NGO and the creation of a microcredit program targeting rural artisans. Following are excerpts from the proposal. Aware of the credit needs of rural start-ups, ATA proposes to address the needs of growing enterprises by:

- offering a microcredit program through the RAEF microcredit fund. RAEF will provide the institutional framework for lending; will assist with loan processing, collections and financial record keeping. The guidelines for credit will be established jointly by ATA and its programming partners, to ensure a microcredit program that is sensitive to the needs of micro-entrepreneurs.
- ATA will identify and recommend microentrepreneurs who are good credit risks and whose businesses could benefit from a microloans;
- ATA will provide non-financial services to microenterprises to assist them with loan applications; business counselling and monitoring;
- ATA will work to secure loan funds from other international donors and private foundations. RAEF will work in partnership with ATA to manage and disburse the loan funds.

The artisans are mainly low-income men and women (over 75%) entrepreneurs who live in rural areas. They represent the target borrowers for which MicroStart has been designed. Furthermore, ATA has a business development bent that complements the minimalist credit approach provided by MicroStart.

6. FAMD

Was created in 1993 as a farmer's association by GTZ, on the basis of an existing federation built after an Austrian credit cooperative model (inspired by Raiffeisen). This organization had NGO status (Law from 1924). In subsequent years the organizers had to find their way through the maze of the law, in order to make it possible for this organization to function, however, their legal situation is still not standardized to fit the framework needed to implement their activities. FAMD is in close touch with the regional authorities that gave it the green light to operate under the present formula, which is unique in the country. At the same time, FAMD's experience underlines the need for regulatory changes in the NGO sector in Romania.

The microcredit program:

Under Romanian mutual funds laws (like in other countries) loans can only be made to members. The FAMD microcredit program is possible since under the Romanian laws mutual funds can be lent but only to members. Loans are thus only made to FAMD's members. FAMD has today a membership base of 2,200 farmers. Members are asked to pay a very small membership fee. German aid has injected funds in FAMD: approximately US\$40,000 in 1993 as starting capital. Today the capital is about US\$65,000. There is apparently a huge demand for credit. Repayment rates are over 90%. Loans are made in ROL but the loan amounts are linked to the US\$/ROL rate to eliminate the effects of inflation for the lender. Interest rates are calculated based on inflation rate plus an 8% premium to cover expenses and to avoid erosion of the capital fund. In FAMD's experience, borrowers can not service their debt if interest rates are higher than 60% p.a. (Today market interest rates in Romania are 80%).

Governance:

FAMD has basically four types of microloans:

- Type A loans: up to US\$400 – are all purpose loans, i.e. can be consumer loans or business loans; term up to one year; run with a minimal intervention by FAMD; decisions on granting these loans are made by communes committees and are therefore decentralized.
- Type B loans: up to US\$1,700 – have an investment and development purpose; term up to 12 months; FAMD has to approve this loan; it also offers technical assistance to borrowers throughout the life of the credit. Total loan fund is
- Type C loans: up to US\$2,800 – for food processing; term up to 18 months; FAMD is not encouraging this type of loans but has introduced them to palliate the lack of such type of credits. Total loan fund for type C credits is US\$2,500.
- Type M loans: up to US\$1,200 – dedicated to buy machinery and equipment; term up to one year; a down payment of 30-50% of the loan amount is demanded but not compulsory;

7. LAM

NGO created in Ilieni, Covasna county, in 1992 in collaboration with the reformed local church and a Swiss church organization, HEKS. The board includes representatives from the agriculture local department and local administration. LAM's objective is to develop the private sector in the county.

The credit program

LAM made its first loans in 1993 and to date 560 loans for business development have been made, out of which 345 loans have been reimbursed. Ten of these loans have been made to women. There are two types of loans: less than US\$8,000 – approved by the local board; and more than US\$8,000, approved by the local staff decision and Switzerland. Recently a third type of loan has been introduced, for amounts less than US\$ 2,000 per loan. The

latter was introduced because it was felt that entrepreneurs badly needed working capital. The largest loans made are US\$100,000 for 8 to 10 years and were used to build and equip dairy factories and meat processing factories. Once the factory has been built it serves as collateral on the LAM loan, i.e. it can not be pledged against another loan by the borrower for the life of the loan. The loans are interest free, but a 2% commission is paid to cover bookkeeping costs. For larger loans LAM seeks to lend to two partners who jointly undertake to carry out the business and to repay the loan. LAM's loans are made only once, i.e. no repeat loans are available – to allow more borrowers to benefit from the program. LAM's loans outstanding as of the end of 1997 were US\$2.5Million; total amount disbursed to date is US\$3.5Million.

Training in agriculture

For six years in a row some thirty farmers have participated at an exchange program in Switzerland whereby they work on a farm for four months. They participate in a two-week training program during this period. At the end of the period the participants usually buy agricultural equipment which they can bring home. Starting in 1996 a two-year vocational training program in agriculture has been put into place. It is organized as several one week intensive courses and several one day courses totaling 40 days over two years. At the end of the second year students participate at the exchange program in Switzerland described above.

The farm laboratory in Ilieni: caters specifically to improving the culture of animal feed. The existence of the farm program offers the opportunity to integrate training and a more pragmatic approach to learning. In addition LAM is implementing a program to support dairy producers in the region. LAM also supports a program to improve agricultural constructions: stables. The program offers consulting in agriculture production and in business and legal aspects of creating a company.

8. FAER

Very similar in structure to LAM, FAER caters mostly to non-farmer entrepreneurs, whereas LAM is closer to farmers; FAER loans are higher, ranging at US\$30-US\$40,000 per loan.

9. Open Society Foundation/FIDES

Are in the process of negotiating with a Romanian bank an arrangement to implement jointly a microfinance operation, most probably in the Bistrita-Nasaud and Iasi regions (North-West and North-East. The process has just begun; it is not yet clear how the arrangement will materialize.

FIDES has started in 1996 a village bank program in the Republic of Moldova. Today there are over twenty village credit and savings associations operating successfully throughout the country.

III. Programme Justification

A. Demand for Microfinance

Demand for microfinance is very strong in Romania. As shown previously in the section explaining the SMME sector in Romania, the available offer for microfinance services is largely insufficient. It is expected that the creation of microfinance services adapted to the need of low income entrepreneurs will stimulate in a major way the entrepreneurial culture in this country and especially that of small producers and providers of services. This will not only allow already established businesses to receive badly needed capital but will also entice aspiring entrepreneurs to develop new businesses.

After five decades of communism and a particularly difficult environment during the late seventies and the eighties – much more so than in neighboring communist countries – the private initiative of Romanians was reduced greatly. In addition, the lack of a credit offer adapted to the needs of entrepreneurs has further blocked Romanians from launching business activities. This is especially true for low-income entrepreneurs. Today the few microfinance programs existing in the country are far from covering this population needs. The alternative sources of funds, when

friends and relatives could not help financially, are pawnbrokers (“Casa de Amanet”) used mostly as a solution of last resort.

Given the above, it is therefore clear that micro-entrepreneurs in Romania require nationwide sustainable sources of delivery for micro-finance services. The present development of micro-finance programs has shown the success and the need for the extension of the delivery of such a service, especially to low-income entrepreneurs.
