# BENCHMARKING MICROFINANCE IN ROMANIA

## 2019 – 2023

µFinance Romania

A report of the Romanian MicroFinance Association

# PURPOSE OF MICROFINANCE IN ROMANIA BENCHMARKING STUDY

This is the fifth1[1] benchmarking report for the Romanian microfinance sector, aiming to achieve several objectives:

• To determine the trends in the evolution of the Romanian microfinance sector within the 2019-2023 period;
• To assess the impact on the sector of the recent global crises COVID 19 and war in Ukraine
• To present the main Romanian microfinance sector's financial and social performance indicators and compare them with the European benchmarks;
• To promote the achievements of the Romanian microfinance sector in the lobbying efforts among regulators, investors, social partners and policy makers for continued support of the Romanian microfinance industry.

The current report was developed, printed and disseminated with the support and participation of the Romanian MicroFinance Association's members.

This study presents the performance indicators of 17 Romanian Microfinance institutions, 15 Non-Bank Financial Institutions registered as shareholding companies and the Credit Unions Association from Region West[2] (AsCAR-RV) and compare it with similar performance indicators from the EMN-MFC's Microfinance in Europe: Survey Report 2023.

The data used to prepare this study refer to fiscal years 2019-2023 and are self-reported by the MFIs and AsCAR-RV.The selected indicators included in the study are the European Code of Good Conduct for microcredit provision's common standards for the reporting and disclosure of financial and social performance indicators.

In order to provide a better understanding of the meaning of the data presented in the study, comments below the tables and graphs are included and the glossary section provides background information on the approach used to undertake the analysis.

1 Benchmarking MF in Romania reports for 2003-2004, 2005-2007, 2008-2009, 2016-2018
2 Association of Credit Unions from region Vest is formed by 26 Credit Unions located the Western region of Romania and is registered as an Non-Government, Not for Profit Organisation, CAR CFR Ramnicu Valcea data, not affiliated to the AsCAR - RV were included in the study as well.

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# OVERVIEW OF BENCHMARKING AND PERFORMANCE MEASUREMENT

## DEFINITION OF MICROFINANCE

Within the current legal framework that governs the microfinance activities in Romania there is no specific definition of microcredit or microfinance, therefore the EU definition is generally accepted by the sector and its stakeholders:

> "Microfinance" includes guarantees, microcredit, equity and quasi-equity, coupled with accompanying business development services such as in the form of individual counselling, training and mentoring, extended to persons and micro-enterprises that experience difficulties accessing credit for the purpose of professional and/or revenue-generating activities[3].

Previously, microcredits were limited to loans up to EUR 25,000, but a new definition has been proposed within European Social Fund Plus (ESF+) that removes the previous maximum microcredit loan amount; the European funded financial programs EaSI and InvestEU financial instruments established the maximum microcredit amount to EUR 50,000. However, the loan amount up to 150% GNI/ capita of the country is generally considered as microcredit with impact in the social and financial inclusion of the beneficiaries.

Two main types of microcredits can be distinguished: personal microcredit, which intends to improve the employability of the borrower, i.e. for education, improvement of the housing conditions, access to medical services, etc., and business microcredit, which finances revenue-generating activity (RGA) aimed at the creation or expansion of income-generating and job-creating activities or micro-enterprises, i.e. the financing of investment in productive assets and/or working capital.

## ROMANIAN MF SECTOR EVOLUTION, TRENDS, DEVELOPMENT AND STRATEGIES

Microfinance activities in Romania started more than thirty years ago (1992-1995), when the first International Microfinance Institutions (IMFIs[4]) launched their programmes aimed at supporting the development of the Romanian private sector through financing the establishment and further development of farms and micro & small enterprises initially in Transylvania expanding in the other Romanian provinces.

The Romanian Microfinance sector evolved rapidly and became more efficient and productive in achieving its mission of providing financial products and business development services to the underserved farmers and entrepreneurs.

Seventeen of the main Romanian MF providers included in the current benchmarking report are the members of the Romanian MicroFinance Association (MFA), registered in November 2019 with assistance and support from Microfinance Centre's project: "EU-level NGOs networks active in the promotion of social inclusion and poverty reduction or microfinance and social enterprise finance".

The main objectives of the association are to represent the common interests of the Romanian Microfinance Institutions in relation to the sector's key stakeholders, i.e. control and supervision authorities at local, regional, national, but also at international level (especially EU institutions), to support the development of the microfinance services provided by its members and promote their financial and social inclusion impact, recommending best practices and the highest standards of professional behaviour and ethics, and to contribute to the education and development of the business community and the public in the field of microfinance.

3 Proposal for the REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the European Social Fund Plus (ESF+) May 2018 (page 26) https://ec.europa.eu/commission/sites/beta-political/files/budget-may2018-european-social-fund-plus-regulation_en.pdf

4 CHF international, Opportunity Microcredit International, Swiss Gov. and HEKs/EPER organization, World Vision International

Mobilising Microfinance funds from European Funded Microfinance programs and Microfinance Investors for the targeted beneficiaries of the financial and business development services, the Romanian microcredit providers, MFIs, Credit Unions and SMEs Banks, are among the main beneficiaries of the EU-funded financial and technical assistance programmes: JASMINE, Progress and EaSI[5], EFSI, COSME[6] and InvestEU[7], and represent 40% of all European MFIs certified as compliant with the European Code of Good Conduct for Microcredit Provision[8].

## THE LEGAL FRAMEWORK FOR MICROFINANCE ACTIVITIES IN ROMANIA

During 2002-2006, the regulatory framework for the non-bank financial companies followed the fast pace of changes experienced by the sector mainly due to the successful lobby efforts of the non-bank financial services providers and international aid programmes, funders and investors. Specific legal frameworks were enacted as Government Ordinances or Laws, e.g. the Government Ordinance no. 40 (2000) for the licensing of Non-Bank Credit Organizations (NBCO) to manage public funds, the Credit Unions law no. 266 (2006) that regulates the credit unions and their regional and national apex structure: CUs National Union and CUs Regional Associations (UNCAR/ UTCARs), Government ordinance no. 51/1997 for leasing operations and leasing companies and Ordinance no. 200/2002/ Law no. 300/2003 related to the mortgage credit and operations of mortgage companies and the Microfinance Law no. 240/ 2005.

In order to unify the specific legal frameworks created, the Romanian Ministry of Finance and the National Bank of Romania created a full legal environment that regulates all the non-bank financial institutions and their financial activities which accelerated the development and "commercialization" of the sector.

The Non-Bank Financial Institutions Law no. 93/2009, adopted by the Romanian Parliament in May 2009, alongside with the secondary legislation issued by the Romanian National Bank constitute the current legal framework for all financial activities developed by leasing, mortgage, consumer credit, factoring and microfinance non-bank financial institutions. The National Bank of Romania is the regulatory and supervisory authority of all Non-Bank Financial Institutions (NBFIs).

The regulatory framework is mostly liberal, for instance no limitation is set on geographical expansion, foreign investment or interest caps, no deposits, transparency in setting costs, client protection, etc. and the capital requirements for non-bank financial institutions to develop micro-credit activities is only EUR 200,000.

Under the current legal environment, the competition within the financial sector increased to the benefit of the customers. The entire spectrum of financial services is offered from investment long-term to working capital short-term, credit lines, bridge loans to co-finance development projects funded through grant schemes, factoring, and business development support services, delivered traditionally or online through fin-techs.

The legal framework allows the implementation of the upscaling strategies of the MF Institutions, transferring the bankable clients to partner banks, and borrowing financial resources to finance the MFIs' growing portfolio of start-ups, sole entrepreneurs, farmers and microenterprises, as well as the implementation of the downscaling strategies of banks, establishing and financing their own MFIs as NBFIs and referring to them the applications for microcredits submitted to the bank by the not bankable clients.

The legal framework allows as well digitalization of the financial services, platforms fully digitalised enables microcredit beneficiaries to enrol, apply and contract microcredits online, shortening the application process to less than 2 days.

5 As of December 2022, Romanian MFIs and SMEs banks mobilised resources of Eur 765m for final beneficiaries from the EaSi program

6 EU funded microfinance and SMEs development programs: JASMINE (Joint Action to Support Microfinance Institutions 2007-2013); EaSI (Employment and Social Innovation 2014-2020) , EFSI ( European Plan for Strategic Investments), also known as the Juncker Plan, COSME (Competitiveness of Enterprises and SMEs)

7 InvestEU – the microfinance financial instruments contracted by the Romanian MFIs and SMEs banks mobilised resource of Eur 656m

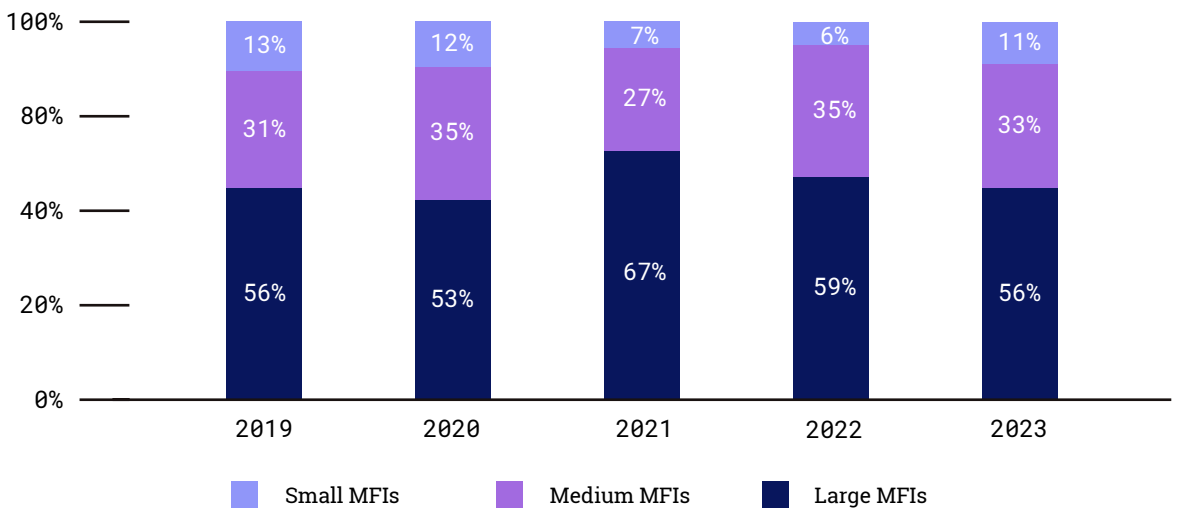
8 List of awarded microfinance institutions 18 Oct.2023 https://ec.europa.eu/social/main.jsp?catId=1482&langId=en

# INTRODUCTION

The data collected for the study were self-reported, aggregated and processed to allow a comparison of the benchmarks of the organisations with other MFIs that have a similar size in terms of outstanding microloan portfolio. For this purpose, the following segmentation of MFIs was adopted:

| MFIs Size | Gross Microloan portfolio |
|---|---|
| Small | below EUR 2,000,000 |
| Medium | between EUR 2,000,000 and EUR 8,000,000 |
| Large | above EUR 8,000,000 |

**MFI Size segmentation based on gross microloan portfolio**



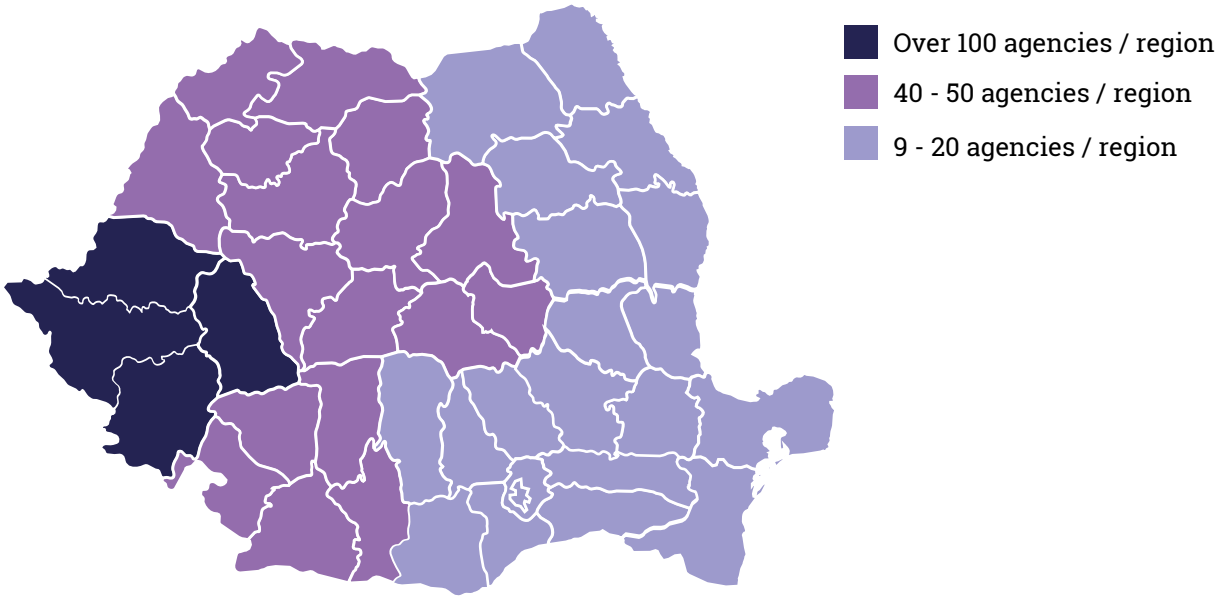
# 1 BENCHMARK DATA BY OUTREACH

## GEOGRAPHICAL COVERAGE

Geographical coverage chart allows identifying the regions of Romania where the MFIs have operational agencies promoting and distributing microcredits and business development support services. In 2023 the MFIs participant to the study have 410 operating agencies with the highest density in the western and central regions of the country.

During the last 5 years the establishment and rapid development of the fully digitalised MFIs operating platforms that covers all regions, improved the access online to financial services of the beneficiaries regardless the location of the firm.

**Geographical coverage with MFI agencies per region**

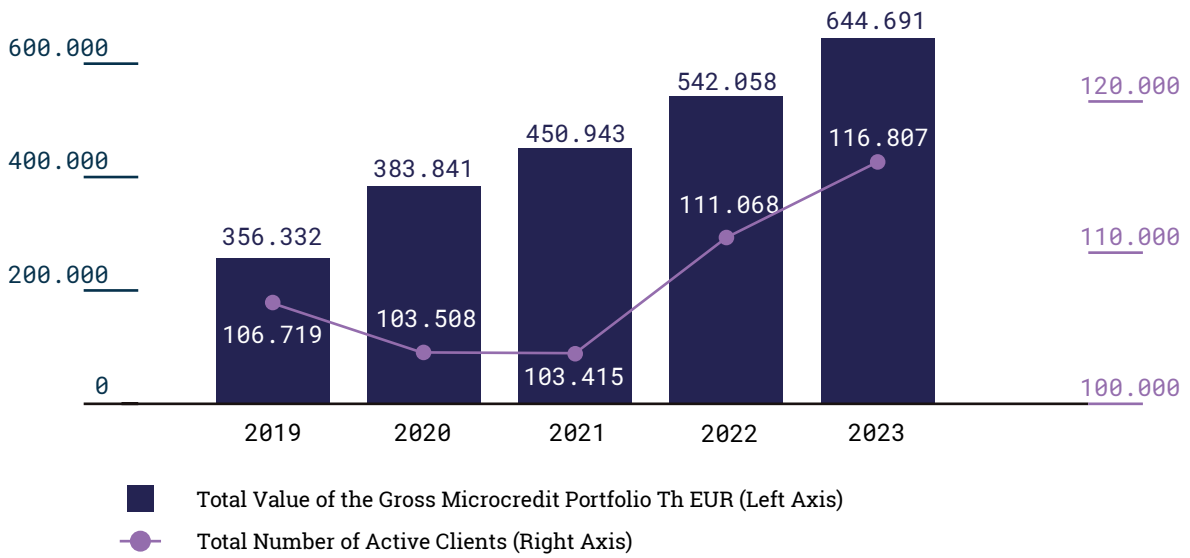


## AGGREGATED AVERAGE VALUE OF GROSS MICROCREDIT PORTFOLIO AND NUMBER OF ACTIVE BORROWERS PER SIZE OF THE MICROFINANCE INSTITUTION

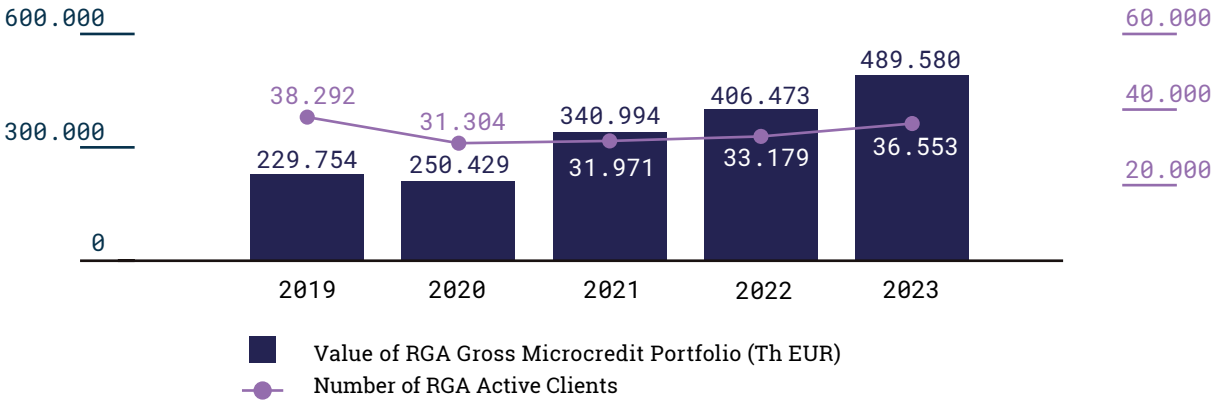
| Indicator / Year | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| **Aggregated Value of Gross Microcredit Portfolio (Th EUR)** | **356,332** | **383,841** | **450,943** | **542,058** | **644,691** |
| Small MFI | 3,679 | 3,589 | 1,847 | 2,065 | 2,199 |
| Medium MFI | 17,147 | 23,710 | 18,861 | 26,159 | 32,813 |
| Large MFIs | 335,505 | 356,542 | 430,235 | 513,834 | 609,679 |
| **Aggregated Total Number of Active Clients** | **106,719** | **103,508** | **103,415** | **111,068** | **116,807** |
| Small MFI | 1,551 | 3,153 | 1,558 | 1,196 | 1,120 |
| Medium MFI | 4,166 | 2,087 | 1,274 | 3,675 | 3,921 |
| Large MFIs | 101,002 | 98,268 | 100,583 | 106,197 | 111,666 |

The overall growth of the microcredit portfolio during the period was 80%, with a slow-down during the pandemic years, 2020 and 2021.

At the end of 2023, the microcredit portfolio for revenue-generating activities represents 77% of the total value and 31% of the total number of active borrowers.




| Indicator / Year | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Value of RGA Gross Microcredit Portfolio (Th EUR) | 229,754 | 250,429 | 340,994 | 406,473 | 489,580 |
| Number of RGA Active Clients | 38,292 | 31,304 | 31,971 | 33,179 | 36,553 |




The microcredit portfolio for revenue generating activities had a 113% growth during the period (2019-2023), with a significant slow-down during the pandemic years (2020 & 2021) due to the temporary closure of companies in the services and tourisms sector and ment projects postponed due to uncertainties.

## PRODUCTIVITY

**Productivity indicator, calculated as number of active borrowers per number of MFIs' staff**

| Indicator / Year | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Number of Active Clients at the end of the year | 106,719 | 103,508 | 103,415 | 111,068 | 116,807 |
| Total Number of MFIs' staff ( FTE) | 879 | 945 | 1,020 | 1,066 | 1,147 |
| Average Productivity/ year | 121 | 110 | 101 | 104 | 102 |

The productivity indicator varies significantly depending on the business model of the microfinance organization, thus in 2023, the productivity of traditional microfinance organizations was 45 active clients/ employee, of the FinTechs 142 and of 208 active clients/ employee of Credit Unions.

## CHAPTER 1: MAIN FINDINGS

The regional coverage of MFI agencies improved but it is still unequal, showing an important misbalance in the poorest and less developed South-East regions of the country, the Fintechs operating fully digitalised platforms established in the recent years improved the access online to financial services of the beneficiaries regardless the location of the firm.

Within the 2019 to 2023 period, despite the pandemic, the Romanian MF sector recorded a significant growth of the Microcredit portfolio by 81% as well as in the number of active clients by 9%, mainly due to the increased demand for microfinance services for revenue-generating activities that grew 113% and availability of financial resources and guarantees from social investors and from the EU-funded microfinance programmes: EaSI and InvestEU.

The number of MFIs personnel increases over the period by 30% and the productivity was maintained to over 100 clients/ staff, the productivity is expected to grow faster during the following years due to the digitalization of the financial processes implemented since 2018 and the successful establishment and development of Fintech MFIs.

# 2 BENCHMARK BY ACTIVITY INDICATORS

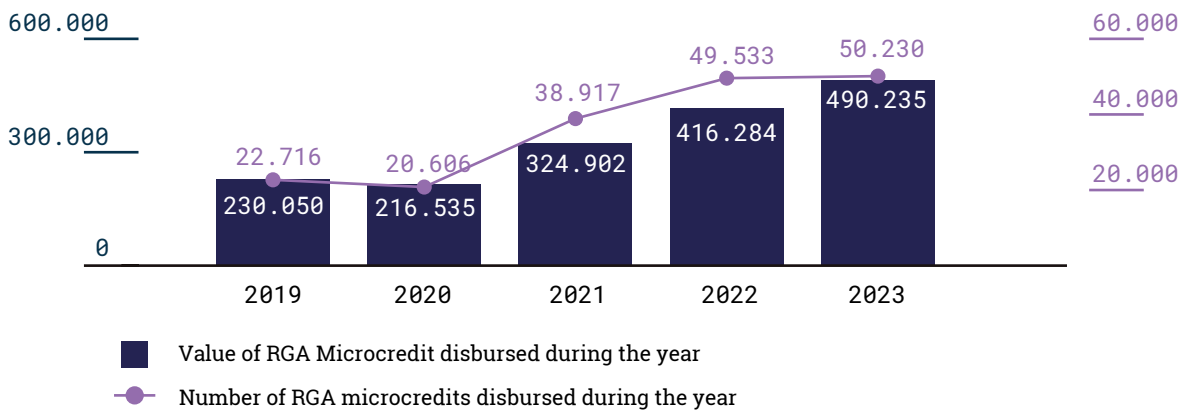
## VALUE AND NUMBER OF NEW LOANS DISBURSED DURING THE YEAR

**The Total value and number of new loans disbursed during the year, grouped based on the size of MFIs**

| Indicator/Year | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| **Total Value of New microloans disbursed during the year (Th. EUR)** | **309,927** | **280,049** | **412,549** | **513,075** | **600,109** |
| Smalll MFIs | 9,612 | 11,282 | 1,086 | 1,333 | 1,487 |
| Medium MFIs | 16,576 | 26,604 | 51,852 | 70,425 | 102,133 |
| Large MFIs | 283,739 | 242,163 | 359,612 | 441,317 | 496,489 |
| **Total Number of New loans disbursed during the year** | **84,724** | **68,394** | **109,056** | **104,665** | **106,452** |
| Smalll MFIs | 4,225 | 1,859 | 774 | 796 | 820 |
| Medium MFIs | 2,633 | 5,888 | 36,802 | 31,125 | 30,177 |
| Large MFIs | 77,866 | 60,647 | 71,480 | 72,744 | 75,455 |

At the end of 2023, the value of new microloans disbursed during the year to micro companies, self-employed /sole entrepreneurs and farmers for revenue-generating activities represents 82% of the total value of microcredits disbursed and 47% of the total number of new loans.

| Indicator / Year | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Value of RGA Microcredit disbursed during the year (Th EUR) | 230,050 | 216,535 | 324,902 | 416,284 | 490,235 |
| Number of AGV microcredits disbursed during the year | 22,716 | 20,606 | 38,917 | 49,533 | 50,230 |



The major impact of the state of emergency and of the measures taken for prevention of SARS COV 2 virus' spreading, on the performance of MFIs representative for the microfinance sector in Romania, was felt at operational level through the decrease by 9,3% of the number and by 5,9% of the total value of new loans granted in 2020 compared to 2019.

An important part of the new portfolio of micro-loans granted during the period consists of short-term loans, intended to finance working capital needs, factoring and discounting services. For 2023, this portfolio represents 40% of the total value of RGA microcredits disbursed during the year 2023.

## PORTFOLIO QUALITY

| Indicator / Year | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| PAR 30 | 8.72% | 8.38% | 8.00% | 7.86% | 7.92% |
| PAR 90 | 5.39% | 5.54% | 5.22% | 4.37% | 4.41% |

During the pandemic (2020) despite negative expectations, the quality of the portfolio of microfinance institutions participating in the study remained close to the previous year (2019), the 30-day risk portfolio (PAR30) at the end of 2020 decreased by 0.34% and PAR90, increased by only 0.15%, which confirms the validity of the financing measures taken during this period for the protection of microfinance organizations and customers.

A minor percentage, 4.55%, of the MFI clients participating in the study, representing 15.54% of the total value of the loan portfolio, requested the postponement of outstanding loan payments until the end of 2020, out of which only 0.38% of clients representing 0.67% of the total value of the portfolio, registered difficulties in repaying deferred loans were found in the PAR30 at April 2021. A higher percentage of loans in difficulty was registered among the beneficiaries of loans granted for revenue-generating activities, thus 0.52% representing 0.96% of the RGA loan portfolio as of December 2020, were found in the PAR 30 as of April 2021.

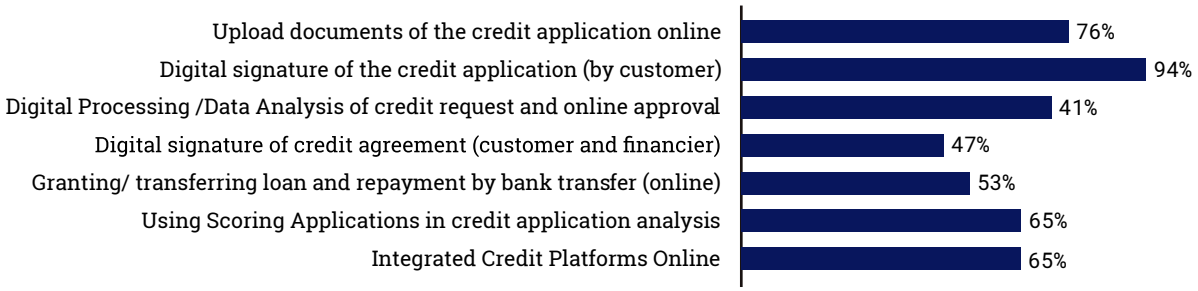
## OPERATIONAL SELF SUSTAINABILITY

In order to allow a comparison of the organisation's operational self-sustainability with other MFIs that have similar years of experience in the market, the following segmentation of MFIs was adopted:

- **Newly established/ Young MFIs:** up to 8 years of activity in the microfinance sector;
- **Mature MFIs:** between 9 and 20 years of activity in the microfinance sector;
- **Longest-Established MFIs:** 20+ years of activity in the microfinance sector.

| Indicator | Long established MFIs: 20+Years | Mature MFIs: 9-20 Years | Young and new MFIs: Up to 8 years |
|---|---|---|---|
| Operational self- sustainability in 2023(%) | 105 | 111 | 105 |

## DIGITALISATION OF THE ROMANIAN MF SECTOR (2023)




## CHAPTER 2: MAIN FINDINGS

Caused by the COVID -19 pandemic, the Romanian economy and alongside the microfinance sector faced the biggest challenge since the financial crisis of 2009-2012. The 3.9% contraction of the Romanian economy in 2020, followed by a strong recovery in the second quarter of 2021, supported mainly by private consumption and investment, increased the business confidence in the economy's recovery.

The cooping strategy of the Romanian MFIs was to reshape their offer and answer to the needs of their beneficiaries and complying with emergency ordinance issued by the Romanian Government aimed to protect the vulnerable borrowers.

An important part of the new portfolio of micro-loans granted during the year consists of short-term loans, intended to finance working capital needs, factoring and discounting services, 77% of the total value of loans granted in 2020 were intended to finance revenue-generating activities with a constant increase reaching 82% in 2023.

In 2020 in addition to the EaSI financial instruments, the EIF and the European Commission are launching new COVID-19 support measures under the EaSI Guarantee Instrument to enhance access to finance for micro-borrowers, micro and social enterprises affected by the socio-economic consequences of the coronavirus pandemic, alleviating working capital and liquidity constraints of final beneficiaries targeted by the EaSI programme.

Assistance and support was received from the traditional investors and funders of the Romanian MF sector.
During the pandemic (2020) despite negative expectations, the quality of the portfolio of microfinance institutions participating in the study remained close to the previous year (2019) and improved during the last years, which confirms the validity of the financing measures taken during this period for the protection of microfinance organizations and beneficiaries.

The digitization process initiated by the Romanian MFI sector since 2016 has accelerated during the period; in 2023, 80% of the MFIs participating in the study send and receive credit application's support documents via email, 65% digitalised the loan application's assessment, analysis and approval process and 94% have introduced the digital signature of the credit contract. An important progress recorded the disbursement and repayment of the loans via bank transfer or card that has become the current practice of 53% of MFIs in 2023 compared to 27% in 2019.

With the increased productivity and efficiency due to the digitalization of services and the good long-term relationship with the customers, the well (long)-established and mature MFIs are operationally self-sustainable, the newly established MFIs, among them the fast growing Fintechs break-even in 2023.

The recent entrance of the Credit Unions on the microfinance market with a diversified offer of financial products for start-ups, sole entrepreneurs and small farmers will ensure the coverage of the lowest segments of the market.

# 3 BENCHMARK BY SOCIAL/ECONOMIC AND INCLUSION IMPACT INDICATORS

The European Code of Good conduct for microcredit provision (the Code) defines a unified set of standards for the microfinance sector in Europe. It serves as a self-regulation tool and a quality label for microfinance institutions committed to ethical finance.

As part of the evaluation of compliance with the Code, the provider has to disclose publicly financial and operational information with a view to enhancing transparency and comparability.

## SOCIAL AND ECONOMIC INCLUSION

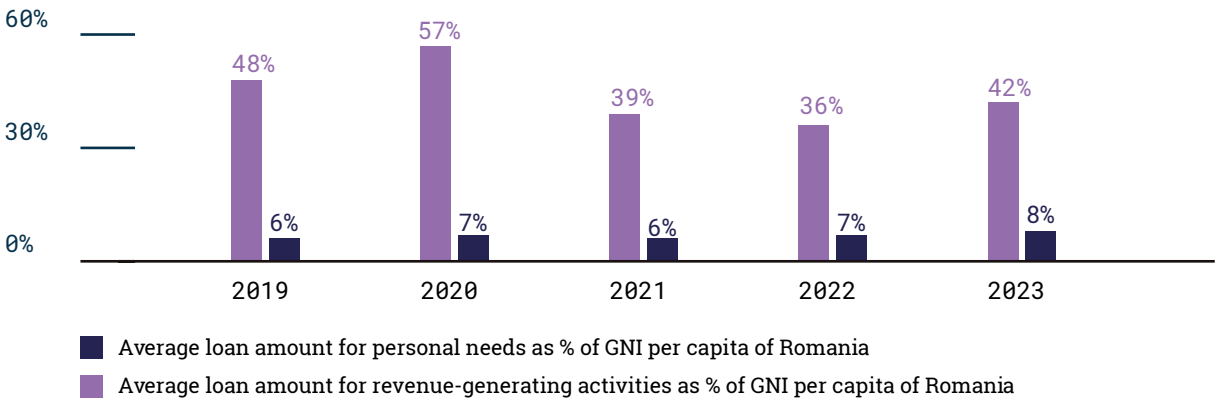
Social and Economic inclusion indicator was calculated as average loan amount disbursed divided by Gross National Income (GNI) per capita (Romania)[1]. Previously, microcredit was limited to loans up to EUR 25,000, but a new definition has been proposed that removes the maximum loan amount.

In the current practice the maximum microcredit value is EUR 50,000,the value of the microcredit lower than 150% GNI/capita is considered to have a social and economic inclusion impact disbursed to underserved non-bankable customers.

**Average loan amount for revenue- generating activities or personal needs as % of Gross National Income per capita of Romania**

| Impact Indicator / Year | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Gross National Income (GNI)/capita EUR | 100,333 | 90,338 | 105,417 | 116,055 | 115,957 |
| Average loan amount for revenue-generating activities RGA (RON) | 48,401 | 51,169 | 41,310 | 41,579 | 48,551 |
| Average loan amount for revenue-generating activities. RGA (EUR) | 10,127 | 10,508 | 8,349 | 8,404 | 9,760 |
| Average loan amount for personal/ professional needs -P (RON) | 6,157 | 6,472 | 6,183 | 8,686 | 9,722 |
| Average loan amount for personal/ professional needs (EUR) | 1,288 | 1,329 | 1,250 | 1,756 | 1,954 |
| Average loan amount for revenue-generating activities as % of GNI per capita of Romania | 48% | 57% | 39% | 36% | 42% |
| Average loan amount for personal needs as % of GNI per capita of Romania | 6% | 7% | 6% | 7% | 8% |

1 GNI per capita (constant LCU) - GNI per capita is gross national income divided by midyear population. GNI (formerly GNP) is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad. Data are in constant local currency. GNI per capita (constant LCU) - Romania | Data (worldbank.org)

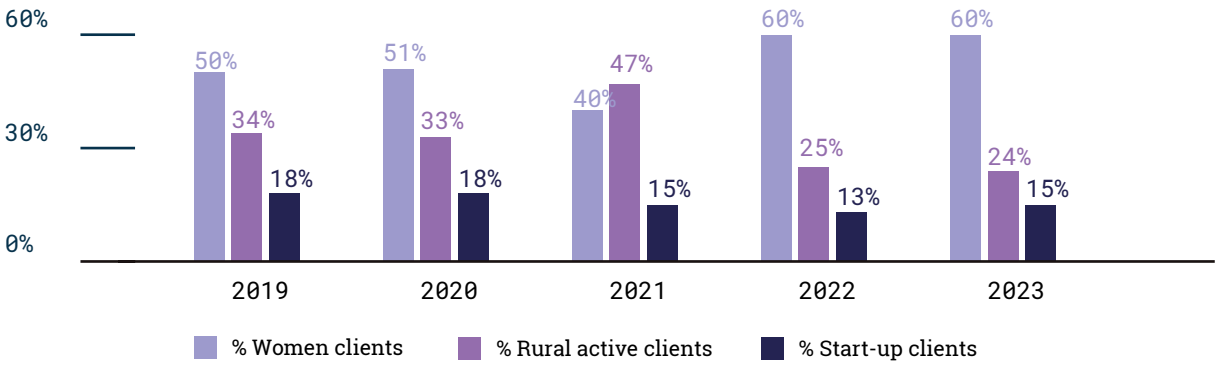



The following impact indicators are included in the Code's common standards of social reporting chapter. The Romanian MFIs are collecting and reporting these indicators regardless the MFI's mission is targeting or not those categories of beneficiaries.

In the period 2019-2020, in the socio-economic context of the pandemic, an important part of the new microcredits was extended to vulnerable clients: women (51% in 2020), rural customers, especially small farmers (33% in 2020) and start-up entrepreneurs and micro-enterprises (18% in 2020), the impact indicators improved until 2023.

## SOCIAL IMPACT INDICATORS

| Impact Indicator / Year | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Gender Inclusion: % of Women clients | 50% | 51% | 40% | 60% | 60% |
| Rural Clients Inclusion: % Rural active clients | 34% | 33% | 47% | 25% | 24% |
| Start Up Clients Inclusion: %Start-Up clients (18 months in operation) | 18% | 18% | 15% | 13% | 15% |



## CHAPTER 3: MAIN FINDINGS

The targeted clients included in the mission statement the MIFs reporting to this study are underserved individuals, farmers, sole and start-up entrepreneurs and micro-enterprises.

As within the 2029-2023 period the Romanian MF sector recorded a significant growth of the number and value of the microcredits disbursed during the year, an important part of the new portfolio of microcredits is disbursed to women (60% in 2023) rural clients, mainly small farmers (47% in 2021) and start-up entrepreneurs and micro-enterprises (15% in 2023).

The average loan amount increased by 60% during the analysed period, having in 2023 a value of 24% of the GNI per capita, the personal credit 8% and the microcredits for revenue generating activity 42%, significantly below the limit of 150% and much lower than the European's peers, proving the fact that the MFIs reporting for this study are reaching the targeted clients included in their mission statements and the financial sustainability of the sector is well balanced by a social inclusion impact.

## COMPARATIVE BENCHMARK INDICATORS

| Indicator | Benchmarking MF sector in Romania 2019-2023(2023) | Microfinance in Europe: Survey report 2023[1] |
|---|---|---|
| Average loan amount for Revenue-Generating Activities (EUR) | 9,760 | NA |
| Average loan amount for Personal needs (EUR) | 1,954 | NA |
| Average loan amount for Revenue-Generating Activities (EUR)/ GNI per Capita | 42% | 87% |
| Average loan amount for Personal needs (EUR)/ GNI per Capita | 8% | 14% |
| Portfolio quality: PAR 30 | 7.92% | 11% |
| Portfolio Quality: PAR 90 | 4.41% | NA |
| Operational Sustainability (OS) | 107% | 108% |
| Gender inclusion: % of Women clients | 60% | 42% |
| Rural Clients Inclusion: % Rural active clients | 24% | 40% |
| Start Up Clients Inclusion: %Start-Up clients (18 months in operation) | 15% | 16% |

1 European Microfinance Network and Microfinance Centre report: surveyReport2023_comp final.pdf (european-microfinance.org)

# KEY FINDINGS FROM THE BENCHMARKING MICROFINANCE ROMANIA 2019–2023 STUDY

Within the last five years (2019-2023), the value of the microfinance portfolio and number of microcredits disbursed during the year by the main MFIs from Romania doubled and the Credit Unions from Region West with the financial support of the EaSI guarantee instruments are providing financial services for revenue-generating activities serving the lowest segment of the microfinance market: start-ups, sole entrepreneurs and small farmers.

The average loan amount of microloans disbursed for revenue-generating activities represented in 2023, 42% of GNI/ capita of Romania and the professional microcredit just 8%, 60% of the loans are disbursed to women, 24% to rural clients and 15% to start-up clients, proving the social and economic/financial inclusion impact of the microfinance activities provided by the main Romanian MFIs participating in the study.

As consequence of the liberal legislation for the financial sector in Romania, due to the increased competition on the financial market and the diversity of financial institutions: SMEs banks, NBFIs: leasing, factoring, consumer credit, micro-credit, credit unions, cooperative banks, guarantee and counter-guarantee institutions, Fintechs, investment funds, etc., access to finance is not among the main difficulties or barriers for the development of Romanian MSMEs[1].

From the macroeconomic standpoint, Romania did not enter the pandemic with a balanced situation, and the war in Ukraine next to the borders added more pressure, uncertainties and risks are associated with the fiscal policy, yet challenged by an unsettled economic and social environment, both domestically and globally.

The Financial intermediation (total non-government loans to GDP) in Romania is the lowest from eastern and central Europe, represented at the end of 2021: 24% just two-thirds of its volume ten years ago (2012)[2].

1 World Bank' Doing business report 2020, Doing Business in Romania - World Bank Group and FCNEF decembrie 2023_RO.pdf

2 Romanian National Bank: New Avenues for Financial Intermediation – Dialog for the Assessment and Improvement of SMEs' Post-Covid Financial Health & Beyond; Bucharest, April 5, 202 -E.Dijmarescu

# CHALLENGES FOR THE FURTHER YEARS

**Legal Framework**: Key challenges include the restrictive legal framework for CUs related to the provision of business microcredits, and the secondary legislation related to provisioning procedures for large NBFIs and the lack of access to the national credit bureaus and to national financial resources.

**Recognition:** Although microcredit is explicitly mentioned in the law, MFIs do not have any distinct status compared to the other financial institutions and are not recognized as special type of organizations by national players. Even though many of the Romanian MFIs, 40% from all EU certified MFIs, have acquired the EU Code of Conduct (the EU quality label) – they are not recognized at the national level as social economy actors, so it does not help to differentiate themselves from the other NBFIs players.

**Promotion of the sector:** The two national microfinance associations: Romanian microfinance association (AMF) and the CUs National Association (UNCAR) are engaged in various promotional activities aiming at MF sector recognition and promotion by the key stakeholders; through organizing policy forums, specific events on the European MF days, participation to meetings and events organized by the regulators and central authorities.

**Funding & incentives:** The funding for Romanian MFIs comes largely from European central instrument – Progress, then EaSI now InvestEU, Romanian MFIs are among the top of the Progress and EaSI and currently InvestEU Microfinance financial instruments, the sector relies heavily on the guarantees provided by the EIF.
The recent signed collaboration protocol between Romanian MF association and the National Guarantee Fund for SMEs, will open the access to the Romanian MFIs to the portfolio guarantee instruments for MSMEs and Social enterprises.

**Opportunities and Challenges of the targeted Microfinance beneficiaries:** micro and small companies, self-employed and family business, farmer, etc.
There are simplified administrative procedures in place for entrepreneurs, such as business and self-employed registration processes and registration costs.
The legal registration for micro-enterprises was also simplified, especially for young entrepreneurs who may register for free as 'debutante micro-enterprise' (SRL-D);
The current (approved in September) changes of the fiscal regime for the micro enterprises and increase of taxation, as well as limitation of the cash transaction will impact the activity of MFIs and CUs targeting the underserved, unbackable individuals and micro& self-entrepreneurs and farmers.

# GLOSSARY

### Active borrowers
Natural or legal person who currently has an outstanding loan balance or is primarily responsible for repaying any portion of a gross loan portfolio. Natural or legal persons with multiple loans from a microcredit provider should be counted as a single borrower.

### Average microcredit value
Value of microcredits disbursed during the year/ Number of microcredits disbursed during the year.
Average microcredit value/GNI per Capita
Average microloan value compared to local gross national income (GNI) per capita to estimate the outreach of microloans relative to the low-income population in the country.

### Gross microcredit portfolio
Principal balance of all outstanding microloans, including current, delinquent, and restructured microloans, but not microloans that have been written off or interest receivable.

### Gender Inclusion
Gender inclusion indicator is calculated as the percentage of women customers from the total number of active clients at the end of each year.

### Microfinance Institution (MFI)
Non-Bank Financial Institution registered and licenced by the Romanian National Bank under the law 93/2009 with a major portfolio of microcredits.

### Number of microcredits disbursed
Number of microcredits disbursed during the period.

### Operational self- sustainability ratio
It measures the extent to which a provider is covering its costs through operating revenues. Itis calculated using the following formula: Operating revenue/ (Financial expense + Loan loss provision expense + personnel expense + administrative expense).

### Productivity indicator
Indicator calculated as the number of active borrowers per number of MFIs' staff.

### Rural Clients inclusion
Rural Clients inclusion indicator is calculated as the percentage of customers located in rural areas from the total number of active clients at the end of each year.

### Staff
Number of staff expressed in full-time equivalent (the ratio of the total number of paid hours during a period by the number of working hours in that period).

### Start-up Clients Inclusion
Start-up Clients Inclusion indicator is calculated as the percentage of the number of microcredits disbursed for revenue-generating activities by entrepreneurs and micro-enterprises within the first 18 months of operation, from the total number of active clients at the end of each year.

### Social and Economic inclusion
Social and Economic inclusion indicator was calculated as average loan amount disbursed divided by Gross National Income (GNI) per capita (Romania)[1].

### Value of microcredits disbursed
Value of microcredits disbursed during the year.

1 GNI per capita (constant LCU) - GNI per capita is gross national income divided by midyear population. GNI (formerly GNP) is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad. Data are in constant local currency. https://data.worldbank.org/indicator/NY.GNP.PCAP.PP.CD?locations=RO

# PARTICIPANT ORGANISATIONS IN THE BENCHMARKING ROMANIAN MF SECTOR 2019-2023 STUDY

ADWISERS FINANCIAL IFN SA
http://www.adwisers.ro/

AURORA IFN SA
http://www.auroracredit.ro/

OMRO IFN SA
https://www.omro.ro

BT MICROFINANTARE IFN SA
https://www.btmic.ro/

FAER IFN S.A.
www.faer.ro

ROCredit IFN SA
http://www.rocredit-ifn.ro

BCR Social Finance IFN S.A
https://www.bcr-socialfinance.ro

INSTANT FACTORING IFN SA
https://www.instantfactoring.com

TARFIN IFN SA
https://tarfin.com/ro

LAM IFN SA
http://www.microcreditlam.ro

VITAS IFN SA
https://vitasromania.ro/

OmniCredit
https://omnicredit.ro

PATRIA CREDIT IFN SA
https://www.patriacredit.ro

IFN ROMCOM SA
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ASCAR RV
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Mikro Kapital IFN SA
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