

ASPECTS OF MICROCREDITING IN ROMANIA

ASPECTE ALE MICROREDITĂRII ÎN ROMÂNIA

DONOSĂ D.

University of Agricultural Sciences and Veterinary Medicine Iași

Abstract. *A great variety of organizations and institutions are active as suppliers of microcredit. They can be divided in three groups: NGO's, credit cooperatives and credit unions, banks. The paperwork is reviewing the main characteristics of the microcrediting services from Romania, the suppliers of these services, and the problems that are facing in their activity*

Rezumat. *O mare varietate de organizații sînt active ca ofertanți de servicii de microcreditare. Aceștia pot fi grupați în trei categorii: organizații nonguvernamentale, cooperative de credit și bănci. Lucrarea trece în revistă principalele caracteristici ale serviciilor de microcreditare din România, ofertanții de astfel de servicii, respectiv cooperativele de microcreditare, și problemele cu care se confruntă acestea în activitatea lor*

A great variety of organizations and institutions are active as suppliers of micro credit, divided in 3 groups: NGO's, credit cooperatives and credit unions, banks. Some of the NGO's possess the required professional level, or the business culture. Most of the credit cooperatives and credit unions are limiting their services to the own members, of which savings are offering the financial basis for their crediting actions. The banks are offering credit to small clients in collaboration with NGO's and concerning the direct crediting, this means the creation of new loan products.

MATERIAL AND METHOD

A great variety of organizations and institutions are active as suppliers of microcredit. They can be divided in three groups: NGO's, credit cooperatives and credit unions, banks.

The great majority of the microcrediting programs are carried on by the NGO's. These include national organizations, much of them receiving assistance from international donors. The international NGO's are carrying on programs through the affiliated local agencies.

But, NGO's encountered great challenges in credit programs administration. Because they are programs of social assistance, just few of them possess the required professional level or the business culture in order to carry on effective credit operations. In fact, they must perform a substantial transformation, if they intent to become suppliers of specialised financial services. Instead of serving the "beneficiaries ", they should establish contract relations with clients.

Over twenty years, the NGO's are offering financial services. The NGO's of specialized microcredit has been in the first line of developing adequate organizational and institutional structures. They initiated designing of innovative microcredit technologies. Despite of significant advance in the field of microfinance, the most

NGO's are serving only a few thousand clients. The most of them is offering loans and usually, they have one or two credit products.

Although some of them require deposits from their clients which form a part of their borrowing collateral, just a few of them are mobilizing un compulsory savings. But, NGO's are involved, in general, in deposit formation. They are not under the incidence of formal banking regulations and monitoring system because they are working without a formal bank license.

Recently, this restriction has motivated some NGO's to transform them into formal regulated institution. This process, known as promoting or quality improvement is giving the liberty for the formal microfinance institution to expand their number of financial services. And also, it strengthens the NGO's access choices on financial markets for additional borrowing resources.

RESULTS AND DISCUSSIONS

From historically point of view, credit cooperatives usually served the population that was meeting difficulties in access to commercial banks. These tend to become more formal in their structure than NGO's, inclusively by setting up national and regional network.

Central financing facilities constitution is determining the reallocation of the cash excess between credit union members. In many countries, these have been included in a special category of the banking law and is representing subject of the separate regulation and monitoring mechanisms.

Most of the cooperatives and credit unions are limiting its services to own members, their savings offering the financial basis for their crediting actions. This is presenting the advantage that could better screen the potential debtor and to evaluate, to monitor and to recover borrowings. Like in the case of informal savings and crediting groups, the members are self selected, and it appears a pressure of realizing a complete repayment an on time of the loan. Social pressure and good information on member clients are very effective mechanisms.

Despite its advantages, the credit cooperatives are confronting with distinctive problems. The supply of financial services is restricted to its own members, and in this manner it's limited the availability (supply) of financial services, quantitative and qualitative, for clients with low income and growth potential.

Because the funds loanable are limited in general to the mobilized savings of its members, the credit cooperatives are restricted in their efforts to satisfy the credit request. The loans are granted, usually in smaller amounts than requested initially. These are available after the outstanding loans have been repaid. This is restricting loan opportunities and, therefore, their effectiveness. The lack of professional management can affect the quality of the loan portfolio

In Romania, starting with 1990 there was a growth of the number of credit cooperatives. Thus, in 1998 there were recorded a number of over 840 credit cooperatives. Starting 2000, the number decreased because of the new regulations imposed by the National Bank.

Today, there are a number of 124 credit cooperatives affiliated to a Central House organized in 19 agencies. This network covers the entire country and is called Creditcoop.

The object of activity, as stated in the statute, comprises the following domains:

- deposit acceptance;
- granting credit to people, other than own members and to the enterprise in the area;
- investments on interbank market;
- funds transferring;
- payments and settlements, inclusively of those between the affiliated credit cooperatives;
- consultancy concerning the activities carried on by the credit cooperatist organizations;
- factoring operations and commercial paper discounting;
- collateral issuing and pledge assuming;
- and it has treasury function.

If we take into account the operating environment of the credit cooperatives affiliated to the Creditcoop network, 65% of them are operating in rural area and 35 % in urban zone.

At 31 December 2005, the Creditcoop network was formed by Central House with 19 branches, and from a number of 130 credit cooperatives with 268 working points.

Moreover, the strategy of Creditcoop was to merge the credit cooperatives (the law allowed, in order to reach a minimum level of 3 billions lei of own funds).

At 25 of February 2004, the National Bank endorses the merging request made by a number of 504 cooperatives from which 406 absorbed by the 98 adsorbent.

Thereby, at 31 December 2004, Creditcoop was formed by a Central House and 16 branches. At the same period were affiliated 133 cooperatives which had 727 working points.

Besides the elements of the activity object presented by the Central House, the credit cooperatives are offering in addition:

- carrying on credits in behalf and in the name of the state from funds of the cooperatives members and for micro enterprise;
- issue and management of the credit and payment instruments;
- foreign currency operations;
- inter cooperatives credit and from commercial banks crediting;
- consultancy for own members and for micro enterprises;
- mandatory operations.

At the beginning of the 2006 year, Creditcoop recorded total assets of 132, 73 millions of euros, total income reached 45, 1 millions euros, liabilities of 88, 53 millions euros. Thus, the network recorded a gross profit of 4, 84 millions euros and net profit of 4,1 millions euros.

The involvement of the commercial banks in microfinance is relatively recently. Banks are appealing to a great variety of strategies to serve clients with low incomes,

which are regularly perceived as “non banking “. The microcredit can be granted direct and indirect.

The indirect ways through the commercial banks grants loans to the small clients and does comprise the so called “inked“ programs with NGO’s or other intermediary organizations. In these cases, banks offers loanable resources and intermediary organizations are granting (from other source – banks) to the members of the self-helping groups for micro enterprise activities. In this arrangement, banks have limited contacts with final debtors. These are not active involved in designing of the credit products or in credit administration. The NGO’s are taking into account all the evaluation aspects, monitoring and loan recovering.

While this model is enlarging the access for clients with low income to banking loans, it proved to be of fairly success in the supply of sustainable banking services. The bank disposes of few incentives in developing the adequate credit technologies and those of cost – effectiveness. They are supporting on a number of organizations, each of them following different objectives and standard activities.

CONCLUSIONS

More interestingly was the recent involvement of some commercial banks in direct crediting through conceiving of new loan products – the supply of services for low income clients. This means the creation of specialized microcredit department in bank. This approach is very attractive particularly in realizing the availability of the financial services, quantitative and qualitative to help clients with low incomes, and for financial survey carried on by commercial banks. Powerful financial institutions are enjoining the public trust, as long as the clients recognize and perceive banks as trustful and as stable organizations.

The involvement of the banks in microfinance means the availability of their intermediation potential amplified. But, if the banks activity are ineffective and the personnel is not capable to change its culture and traditional banking attitudes, before serving low income clients remain barriers. Indeed, in these cases, it could be preferred the creation a new microfinance institution with a definite task and follows a set of objectives. This is necessary where banks have a weak reputation because of the failure of direct credit programs or when their activities have been undermined by the interference of the government.

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