



BENCHMARKING MICROFINANCE IN ROMANIA

2019 – 2020

A report of the Romanian MicroFinance Association



PURPOSE OF THE STUDY MICROFINANCE IN ROMANIA BENCHMARKING

This is the fifth comparative evaluation study of the microfinance sector in Romania and it aims to achieve several objectives:

- To determine the trends of the evolution of the microfinance sector in Romania within the 2019-2020 period and the impact of the COVID-19 pandemic on the evolution of the main performance indicators of the Romanian microfinance sector;
- To compare the financial and social performance indicators of the Romanian microfinance sector with the European benchmarks;
- To promote the achievements of the Romanian microfinance sector, within the lobbying and promotion efforts, in front of regulatory authorities, investors, social partners and policy makers, for continued support to development of the Romanian microfinance industry.

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OVERVIEW OF BENCHMARKING AND PERFORMANCE MEASUREMENT

DEFINITION OF MICROFINANCE

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

“Microfinance” includes guarantees, microcredits / microloans, equity and quasi-equity, coupled with accompanying business start-up and development services, provided in the form of individual counseling, training and guidance, extended to individuals and micro-enterprises who have difficulty accessing financial services for professional purposes and / or for financing revenue-generating activities.

Previously, microcredit was limited to loans of up to EUR 25,000, but the new definition proposed by the Pan-European Microfinance Associations EMN and MFC under the European Social Fund Plus (ESF +), which will continue current microfinance programs in the next programming period, 2020- 2027, refers to a maximum loan amount of up to EUR 50,000. However, the average loan value of up to 150% of the Gross National Income per capita, accompanied by financial education and/or business development services is generally considered as a micro-loan with a notable impact on the social and financial inclusion of beneficiaries.

Based on the above definition, two main types of microcredits can be distinguished: (1) microcredit for personal use, which aims to improve the borrower’s employability, intended for financing education services, improving living conditions, access to medical services, etc., and (2) business microcredit, which finances revenue-generating activities, used for the creation and/or expansion of income-generating activities of individual entrepreneurs and small farmers or micro-enterprises, respectively financing investments in productive assets and/or working

capital and self-employment and/or job creation.

The microcredits for financing investments in productive assets include leasing financial products, and those for financing working capital include the financial products factoring and discounting.

SOCIO-ECONOMIC CONTEXT. THE EVOLUTION OF THE ROMANIAN MICROFINANCE SECTOR, DEVELOPMENT TRENDS AND STRATEGIES

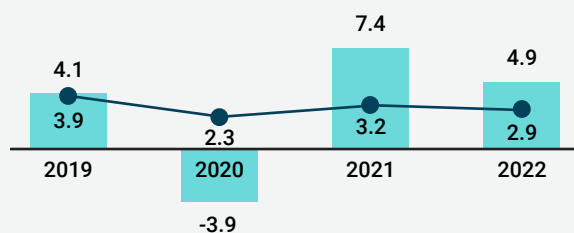
The COVID-19 pandemic triggered a more radical economic and social crisis than the financial crisis of 2008-2012, as it has a sudden effect and spreads very quickly, removing the real economy from action immediately and simultaneously affecting the market, supply and demand.

In the context of the March 2020 presidential decree, which established the state of emergency throughout the country and of the legislation on suspending the repayment of loans until the end of 2020, many economic agents, including customers of Microfinance Institutions (MFIs), have suspended or closed the economic activities, significantly affecting the revenues of companies and of their employees. These actions affected the microfinance institutions, which faced their own internal challenges in carrying out their lending activities. With the support of MFI investors and financiers, MFIs initiated measures aimed at maintaining and carrying out the financing activity safely and reducing the negative impact of the state of emergency on the customer segments served.

In 2020, Romania’s economy contracted by 3.9%, but it recovered strongly in the second quarter of 2021. Real GDP grew by 2.8% quarterly, supported mainly by private consumption and investment. Net exports, on the other hand, were significantly negative, reflecting weak external demand and supply chain disruptions. Annually, real GDP is forecasted to grow by 7.4% in 2021 and 4.9% in 2022. This is higher than expected

in the spring due to stronger economic performance than expected in the first half of 2021.

Supported by the lifting of restrictions, private consumption is expected to remain very robust, especially for the sectors severely affected by the pandemic, such as arts, entertainment, restaurants and hotels, as well as by relatively strong wage growth in the first months of the year. Investments are above the planned level, supported by both the private and public sectors. The growth of industrial activity is maintained in the next period, exports will improve in accordance with the continuous recovery of Romania's main trading partners, and economic growth is projected to continue in 2022, although at a somewhat slower pace due to the rising of energy prices, as a consequence of the liberalization of the domestic retail electricity market and rising international oil prices. Annual inflation has risen from 1.8% in December 2020 to around 2.7% in April 2021, and is projected to average 3.2% throughout 2021, before slowly declining to 2.9% in 2022¹.



THE EVOLUTION OF THE ROMANIAN MICROFINANCE SECTOR, DEVELOPMENT TRENDS AND STRATEGIES

Microfinance activities in Romania began over twenty-five years ago (1992-1995), when the first international microfinance institutions (IMFIs) launched programs aimed at supporting private sector development by financing the establishment and development of farms and micro and small enterprises in Romania.

The Romanian microfinance sector has evolved rapidly and became more productive and efficient in its mission to provide financial products and business development services to farmers and entrepreneurs with limited access to financial services tailored to their development needs and repayment capacity.

Fifteen of the main Romanian MF providers included in the comparative evaluation study are the founding members of the Romanian Microfinance Association (MFA), registered in December 2020 with assistance and support from the project "Networks of NGOs at European level active in social promotion and poverty reduction or microfinance and social enterprise financing", implemented by the European Microfinance Center (MFC).

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

By May 2021, ²10 microfinance institutions and 6 SMEs banks from Romania have had accessed financial resources under the financial component of the Employment and Social Innovation (EaSI) program, making available 475 Million Euros for the final beneficiaries of microfinance and business development services: start-up companies, farmers and self employed, micro and small enterprises.

Romanian microcredit providers are also among the main beneficiaries of European financial and technical assistance programs: JASMINE, Progress and EaSI, EFSI, COSME, and represent 37.5% of all European MFIs certified as complying with the European quality standard in microfinance: European Code of Good Conduct for the microcredit provision.

THE LEGAL FRAMEWORK FOR MICROFINANCE ACTIVITIES IN ROMANIA

In the period 2002-2006, the regulatory framework for non-banking financial institutions followed the

¹ Economic forecast for România | European Commission (europa.eu)

² EaSI WS "Lessons learned from access to finance and the relationship with the investors in the Romanian microfinance sector" – EIF presentation

rapid pace of change in the sector mainly due to the successful lobbying efforts of financial service providers and international aid programs, of the financiers and social investors.

In order to unify the specific legal framework created, the Ministry of Finance and the National Bank of Romania have created a complete legal environment, which regulates all non-banking financial institutions and their financial activities that accelerated the development and marketing of the non-banking financial sector in Romania.

Law on Non-Banking Financial Institutions (NFI) no. 93/2009, adopted by the Romanian Parliament in May 2009, together with the secondary legislation issued by the National Bank of Romania constitute the current legal framework for all financial activities of leasing, mortgage credit, consumer credit, factoring and microfinance, carried out by Non-Banking Financial Institutions in Romania.

The National Bank of Romania is the regulatory and supervisory authority of all NFIs. The regulatory framework is largely liberal; for example, it is not limited to geographical expansion or foreign investment, no interest ceilings are imposed, but no deposits are allowed, transparency is required in establishing costs and specific customer protection measures, etc. The minimum capital requirements for setting up microcredit NFIs are EUR 200,000.

In the current legal context, competition in the financial sector has increased for the benefit of

customers. So the full spectrum of financial services is offered to them, from long-term capital investments to short-term working capital credit lines, bridge loans to co-financing of development projects financed by grant schemes for start-up and micro companies, factoring, scouting and business development services, delivered traditionally or online through fintech financial institutions.

The current legal framework allows the implementation of modernization strategies of microfinance institutions, thus encouraging partnership and cooperation between microfinance financial institutions and banks for SMEs, transfer of bankable or non-bankable customers between non-bank financial institutions and partner banks, but also the availability of financial resources to finance the growing portfolio of start-ups, farmers and micro-enterprises of non-banking financial institutions. Starting with 2023, the NFIs registered in the special register of the NBR, will prepare the financial reports in International Financial Reporting Standards (IFRS) format.

This study presents the performance indicators of 15 Romanian Microfinance institutions, 14 Non-Bank financial Institutions registered as shareholding companies and the Credit Unions Association from Region West (UTCAR-RV³) and compare it with similar performance indicators from the EMN-MFC's Microfinance in Europe: Survey Report 2016-2017.

The data used to prepare this study refer to fiscal

³ Association of Credit Unions from region Vest is formed by 25 Credit Unions located the Western region of Romania and is registered as an Non-Government, Not for Profit Organisation

INTRODUCTION

This study presents the performance indicators of 41 Romanian microfinance institutions: 15 Non-Banking Financial Institutions (NFI), 25 Mutual Aid Houses (CAR) reunited in the Association of Credit Unions from the West Region (AsCAR-RV), and CAR CFR Ramnicu Valcea¹. It compares these indicators with similar performance indicators from the European Union published in the study “Microfinance in Europe: Survey report 2020 edition”, conducted by the two European microfinance associations, European Microfinance Network (EMN) and Microfinance Center (MFC).

The financial and social performance indicators included in the study comply with the European Code of Good Conduct for Microcredit and are part of the common European standards for reporting and disseminating financial and social performance indicators of microfinance institutions.

To provide a better understanding of the indicators presented in the study, comments are included along with tables and graphs, and the glossary section provides detailed information on the formulas and methodology used to perform the analysis.

The data collected for the study were self-reported in the Romanian currency (RON) by the 41 participating MFIs².

The exchange rate used to transform the data collected is the end of year exchange rate³ published by the National Bank of Romania.

Data was processed to allow the comparison referring to the microfinance activity carried out in the period 2019-2020 of the reference values of the organizations with other microfinance financial institutions that

¹ The 25 Mutual Aid Houses (CAR) members of the Association of Credit Unions from the West Region (AsCAR-RV) reported consolidated financial indicators. Therefore they were considered in the present study as one entity, which was included in the category of large MFI with over 20 years of activity.

² The number of 17 participant MFIs which is mentioned in the study includes: 15 NFIs, UTCAR-RV as a single entity, and CAR CFR Râmnicu Vâlcea.

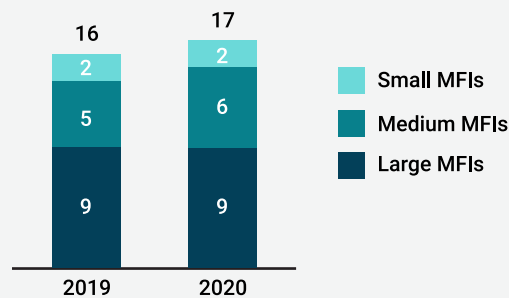
³ Romanian National Bank <https://bnr.ro/Cursul-de-schimb-3544.aspx>

have a similar operating history and size in terms of the portfolio of active microloans at the end of the reporting year.

To this end, the following segmentation of MFIs has been adopted:

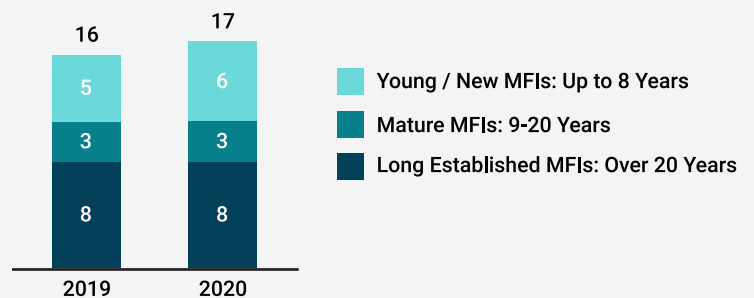
MFIs' segmentation by size:

- Small MFI: Gross portfolio of micro-loans under EUR 2 Million;
- Average MFI: Gross portfolio of micro-loans between EUR 2 and 8 million;
- Large MFI: Gross portfolio of micro-loans over EUR 8 Million.



MFIs' segmentation by length of operational activity:

- New / Young MFI: up to 8 years of operational activity in microfinance;
- Mature MFI: between 9 and 20 years of activity in the microfinance sector;
- Well-established MFI: 20+ years of operational activity in the microfinance sector.



Note: The 25 Credit Unions members of the CU's Association from Region Vest (AsCAR-RV) provided all data and indicators consolidated for all its members, therefore based on the segmentation criteria the AsCAR -RV's members were considered as one large, long established MFI.

1 OUTREACH INDICATORS

GEOGRAPHICAL COVERAGE

The table and the geographical coverage diagram allow the identification of the regions in Romania where the 17 MFIs participating in the study have 343 operational agencies that promote and distribute microcredits and financial education services in support of starting and developing businesses.

The eight Development regions of Romania are formed by the following counties:	Number of agencies at December 2020
Reg. South-East: Tulcea, Vrancea, Galați, Brăila, Buzău and Constanța.	9
Reg. North-East: Iași, Botoșani, Neamț, Suceava, Bacău and Vaslui.	12
Reg. Bucharest - Bucharest and Ilfov county.	15
Reg. South - Muntenia: Argeș, Dâmbovița, Prahova, Ialomița, Călărași, Giurgiu and Teleorman.	19
Reg. South-West Oltenia: Mehedinți, Gorj, Vâlcea, Olt and Dolj.	45
Reg. North-West: Bihor, Bistrița-Năsăud, Cluj, Maramureș, Satu-Mare and Sălaj.	46
Reg. Center: Alba, Sibiu, Mureș, Harghita, Covasna and Brașov.	48
Reg. West: Arad, Caraș-Severin, Hunedoara and Timiș.	149
Total	343

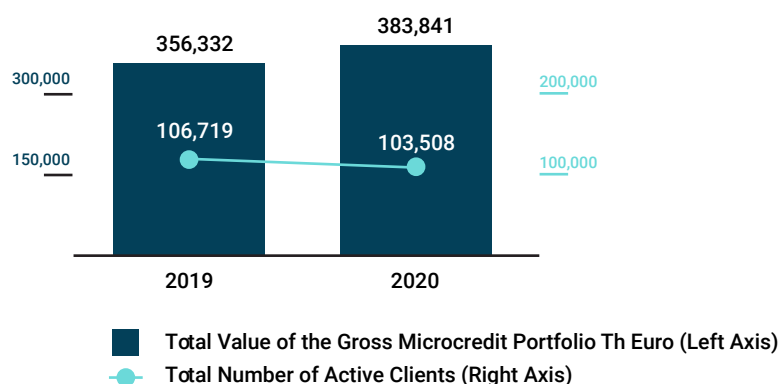


It is observed that the geographical distribution of the agencies of the microfinance institutions participating in the study is uneven, presenting a significant imbalance between the country's regions, with the western region (best covered), followed by the southwest, northwest and central regions, and, at long distance, by the poorest and least developed regions in the East and South of the country.

VALUE AND NUMBER OF THE GROSS LOAN PORTFOLIO AND ACTIVE BORROWERS BY DECEMBER 2019 AND 2020

The value of the gross microcredit portfolio at the end of 2020 registered an increase by 7.72% compared to December 2019, while the average value of the portfolio per active client increased by 11.06%. At the same time, the number of active clients decreased by 3%.

Indicator / Year	2019	2020
Total Value of Gross Microcredit Portfolio (Th. Euro)	356,332	383,841
Small MFI	3,679	3,589
Medium MFI	17,147	23,710
Large MFIs	335,505	356,542
Total Number of Active Clients	106,719	103,508
Small MFI	1,551	3,153
Medium MFI	4,166	2,087
Large MFIs	101,002	98,268
Average outstanding balance/client (Euro)	3.339	3.708



MICROFINANCE ACTIVITY INDICATORS FOR REVENUE GENERATING ACTIVITIES (RGA)

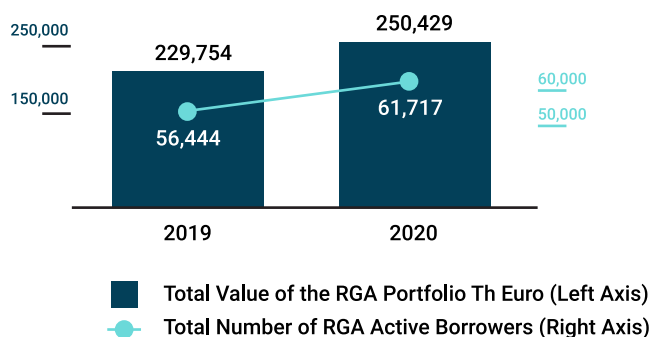
At the end of 2020, the microcredit portfolio granted to finance revenue-generating activities represents 66% of the total value of the portfolio of MFI participating in the study, and 60% of the total number of active clients.

It should be noted that during the pandemic (2020), the value of the portfolio for financing revenue-generating

activities increased by 8.7%, and the number of active customers in December 2020 was by 9.33% higher than in December 2019.

The average RGA balance per active client at the end of 2020, EUR 4,096 registered a decrease of 0.62% compared to 2019.

Indicator / Year	2019	2020
Value of the RGA Portfolio Th Euro	229,754	250,429
Number of RGA active borrowers	56,444	61,717
Average RGA balance/client (Euro)	4,121	4,096



CHAPTER 1. MAIN FINDINGS

The geographical distribution of the agencies of the Microfinance Institutions participating in the study is uneven, presenting a reduced coverage in the poorest and least developed regions in the South and South-East of the country.

In the period 2019-2020, the increase trend on the value of the gross loan portfolio diminished compared to the previous period 2016-2018, due mainly to the economic context and to the restrictions generated by the COVID 19 crisis. Thus we registered a modest increase of portfolio at the end of the year, by 7.72% in 2020 compared to 2019, and a decrease by 3% in the number of active customers. The average value of the portfolio per active client increased by 11.06%, from RON 3,339 in 2019 to RON 3,708 in 2020, due to the increase in the share of loans for income-generating activities.

At the end of 2020, the microcredit portfolio granted to finance revenue-generating activities represents 66% of the total value of the portfolio of MFIs participating in the study, and 60% of the total number of active clients.

It should be noted that during the pandemic (2020), the value of the portfolio for financing revenue-generating

activities increased by 8.7%, and the number of active customers was in December 2020 by 9.33% higher than in December 2019.

The average RGA balance per active client at the end of 2020, EUR 4,096 registered a minor decrease of 0.62% compared to 2019.

The increase of the gross outstanding portfolio was influenced by the legislation enacted during the state of emergency on suspending the repayment of loans until the end of 2020, many economic agents, including customers of Microfinance Institutions (MFIs), have suspended or closed the economic activities, thus significantly affecting the revenues of companies and of their employees.

The increase in RGA is mainly due to the increase in demand for short-term financial products, factoring, discounting to finance income-generating activities and to the availability of financial resources and guarantees from social investors, accessed through European Union microfinance programs through the European Investment Fund: Progress Microfinance and Employment and social innovation (EaSI).

2

ACTIVITY INDICATORS

VALUE AND NUMBER OF NEW LOANS GRANTED BETWEEN 2019 AND 2020

In 2019, MFIs participating in the study granted 85 thousand loans with a total value of almost EURO 300 Million.

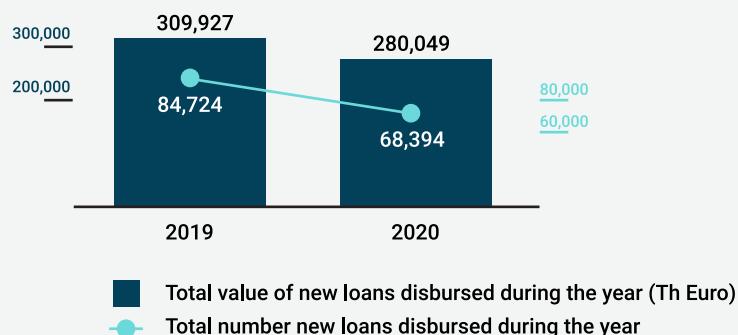
Influenced by the socio-economic context affected by the COVID-19 pandemic, due to the decrease of

demand for investment and development loans, both the total value and the number of loans granted by microfinance institutions participating in the study decreased in 2020 compared to 2019. The number of new loans granted in 2020 compared to 2019 decreased by 19,27%, with the total value decreasing by 9.64%.

The average value of microcredit (RGA and P) granted in 2020 is EUR 4,095, i.e. 11.93% higher than the average value in 2019.

Total value and number of new loans granted per year, by size of the microfinance organization:

Indicator/Year	2019	2020
Total Value of New microloans disbursed during the year (Th. Euro)	309,927	280,049
Small MFIs	9,612	11,282
Medium MFIs	16,576	26,604
Large MFIs	283,739	242,163
Total Number of New loans disbursed during the year	84,724	68,394
Small MFIs	4,225	1,859
Medium MFIs	2,633	5,888
Large MFIs	77,866	60,647
Average value of the microloan (EUR)	3,658	4,095

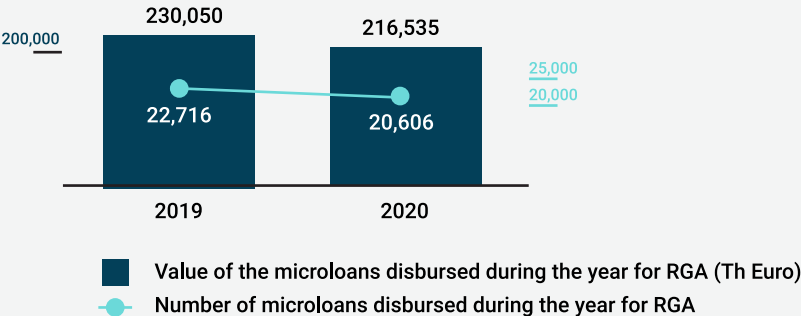


VALUE AND NUMBER OF NEW LOANS GRANTED IN THE PERIOD 2019 AND 2020 FOR FINANCING REVENUE GENERATING ACTIVITIES (RGA)

At the end of 2020, the value of new micro-loans intended to finance income-generating activities represents 77% of the total value of micro-loans granted during the year. The average value of new loans granted in 2020 for RGA, Eur 10,508, increased by 3.8% compared to 2019.

The number of these loans counts for 30% of the total number of new loans, i.e. a 3% increase compared to 2019.

Indicator/ Year	2019	2020
Value of the microloans disbursed during the year for revenue generating activities (Th Euro)	230,050	216,535
Number of the microloans disbursed during the year for revenue generating activities (Th Euro)	22,716	20,606
Average value of the microloan disbursed during the year (Eur)	10,127	10,508



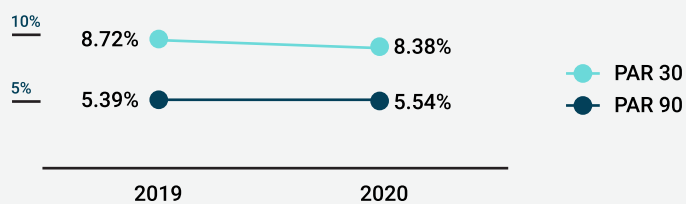
PORTFOLIO AT RISK AT 30 AND 90 DAYS FOR 2019 AND 2020 ON SMALL, MEDIUM AND LARGE MFIS

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 risk assessment measures taken by the Romanian MFIs during this period for the protection of organizations and customers.

Indicator / year	2019		2020	
	Value Th Eur	%	Value Th Eur	%
PAR 30				
MFI small	39	1.07%	49	1.37%
MFI medium	1,292	7.54%	1,268	5.35%
MFI large	31,272	8.87%	32,341	8.66%
Total PAR 30	32,604	8.72%	33,659	8.38%

Indicator / year	2019		2020	
	Value Th Eur	%	Value Th Eur	%
PAR 90				
MFI small	25	0.67%	3	0.09%
MFI medium	670	3.91%	848	3.58%
MFI large	19,943	5.52%	21,847	5.73%
Total PAR 90	20,638	5.39%	22,699	5.54%



OPERATIONAL SUSTAINABILITY INDICATOR (OSS) IN 2019 AND 2020

In order to allow a comparison of the operational sustainability of the Romanian Microfinance Institutions with similar organizations in the market, the following segmentation was adopted, based on the duration of MFI's operation:

- Newly established and 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;
- Long established MFIs: 20+ years of activity in the microfinance sector.

Caused by the increasing expenditures due to staff and customer protection measures during the pandemic, investment in the digitization of services and temporary or rotation homework of the MFIs' personnel, the indicator of operational sustainability decreased in 2020 by 2% compared to 2019 for MFIs with more than 9 years of operational activity. In the case of young and new MFIs, of fintech type, which were less affected during this period due to their business model, the operational sustainability increased by 6% in 2020 compared to 2019.

Indicator	Long established MFIs: 20+Years	Mature MFIs: 9-20 Years	Young and new MFIs: Up to 8 years
Operational self- sustainability in 2019 (%)	127	122	147
Operational self- sustainability in 2020 (%)	125	120	153

PRODUCTIVITY OF MICROFINANCE INSTITUTIONS IN 2019 AND 2020

The productivity indicator of the microfinance activity was calculated as the ratio between the number of active clients and the number of employees in full-time equivalent (FTE) of the microfinance organization.

Between 2019 and 2020, the number of employees of the MFIs participating in the study increased by 7.51%, and the number of active clients decreased (2020), therefore the productivity decreased by 9.78%.

Indicator/ Year	2019	2020
Number of Active Borrowers at the end of the year	106,719	103,508
Number of staff (full time equivalent)	879	945
Average productivity/year	121	110

CHAPTER 2: MAIN FINDINGS

In 2019, following the growth path from 2016-2018, the MFIs participating in the study granted 85 thousand loans with a total value of almost EURO 300 Million (RON 1.5 billion).

In 2020, influenced by the socio-economic context affected by the COVID 19 pandemic, the total value and number of loans granted decreased compared to 2019. The number of new loans granted in 2020 decreased by 19.27% compared to 2019, with a total value decreasing by 9.64%.

An important part of the new portfolio of micro-loans granted during the year consists of short-term loans, extended to finance working capital, as well as factoring and discounting financial services. 77% of the total value of loans granted in 2020 were financing income-generating activities, with an increase of 3% compared to 2019.

The average value of microcredit extended in 2020, EUR 4095, increased by 11.63% compared to 2019. The average RGA microcredit in 2020, EUR 10,508, increased by 3.8% compared to 2019.

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 only by 0.15%, which confirms the validity of the risk management measures taken during this period aimed for the protection of microfinance organizations and customers.

During the analysed period, there is an increase in the number of staff by 7%, but also a decrease of number and total value of loans, which resulted in a decrease of productivity by 10%. The coping strategy of MFIs to this situation was mainly the reorganisation of the internal analysis and monitoring processes through the digitization of services and the relationship with customers.

Mature financial institutions and those with more than 20 years of activity registered a minor decrease of 2% of the operational sustainability indicator. In the case of young and new MFIs, of fintech type, which were less affected during this period due to their business model, the operational sustainability increased by 6% in 2020 compared to 2019.

SOCIAL AND ECONOMIC INCLUSION OF MICROCREDIT BENEFICIARIES IN ROMANIA

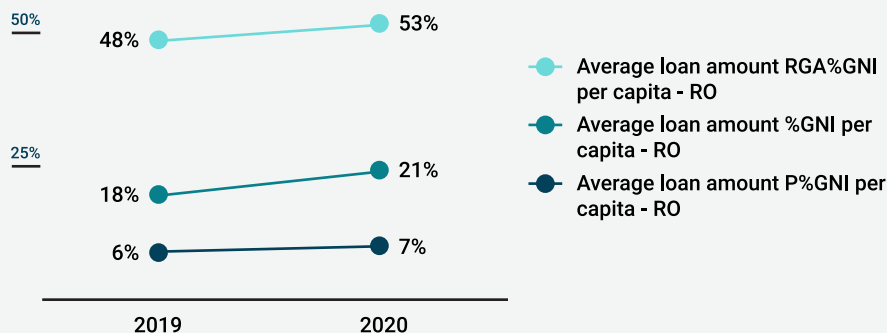
The social and economic inclusion indicator was calculated as the ratio between the average value of the loan and the value of Gross Domestic Income (GNI) per capita (Romania). In the current practice, the value of the microcredit less than 150% of the GNI /inhabitant is considered to have an impact of social and economic inclusion of the financed non-bank beneficiaries.

In 2020, the credit for financing RGA represents 53% of GNI / inhabitant, and the Professional loan used mainly to improve living conditions, education and health represents 7% of GNI / inhabitant. According to the indicator's definition, the microfinance activities in Romania has a pronounced character of social and economic inclusion of nonbankable beneficiaries financed.

The average values of loans granted to finance Revenue-generating activities and Professional micro-loans as a percentage of Romania's Gross Domestic Income per capita increased during the analyzed period.

Impact Indicator / Year ^{1 2}	2019	2020
Gross National Income (GNI)/capita EUR	20,895	19,770
Average Loan Amount (EUR)	3,658	4,094
Average loan amount Revenue generating activities (RGA) (EUR)	10,127	10,508
Average loan amount Professional(P) (EUR)	1,288	1,329
Average loan amount RGA%GNI per capita- RO	48%	53%
Average loan amount %GNI per capita- RO	18%	21%
Average loan amount P%GNI per capita- RO	6%	7%

1 <https://data.worldbank.org/indicator/NY.GNPPCAP.PPCD?locations=RO>
 2 <https://bnr.ro/Cursul-de-schimb-3544.aspx>

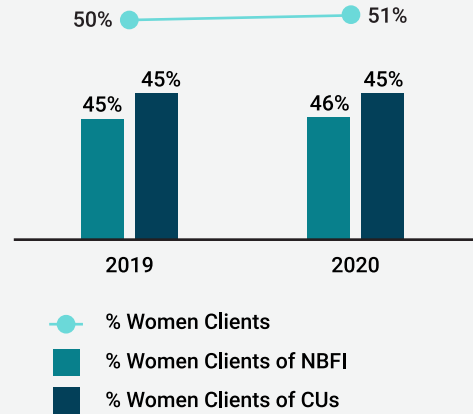


GENDER INCLUSION

The gender inclusion indicator is calculated as a percentage of female clients out of the total number of active clients at the end of each analysis year. During the period 2019-2020 the gender inclusion indicator

Impact Indicator / Year	2019	2020
% Women Clients	50%	51%
% Women Clients of the NBFIs	45%	46%
% Women Clients of CUs	55%	55%

improved slightly by 1%. The gender inclusion indicator is included in the social mission and reported by 34 of the 41 participants in the current evaluation study.

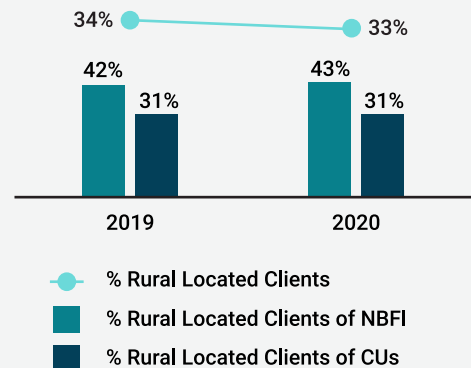


INCLUSION OF BENEFICIARIES IN RURAL AREAS

The indicator of inclusion of beneficiaries in rural areas is calculated as the percentage of customers located in rural areas out of the total number of active customers at the end of each year. During the period, the indicator slightly decreases by 1%.

Impact Indicator / Year	2019	2020
%Rural Located Clients	34%	33%
% Rural Located Clients of NBFIs	42%	43%
% Rural Located Clients of CUs	31%	31%

The Rural Clients Inclusion Indicator is included in the social mission and reported by 37 of the 41 participants in the current evaluation study.



INCLUSION OF START-UP ENTREPRENEURS

The indicator of start-up customers inclusion is calculated as a percentage of the number of microcredits granted for income-generating activities by entrepreneurs and micro-enterprises in the first 18 months of operation, from the total number of active customers at the end of each year. The interest of

the respondent MFIs to finance start-ups remains constant during the period, in 2020 up to 18% of microcredits were extended to start-ups.

The indicator is included in the social mission and reported by 6 out of 41 participants in the current study.

Impact Indicator / Year	2019	2020
% Start-up Clients	17.74%	17.99%

CHAPTER 3: MAIN FINDINGS

The main clients included in the mission statement of the microfinance institutions participating in the study are small farmers and rural entrepreneurs, authorized individual entrepreneurs, start-up entrepreneurs, micro-enterprises, and female entrepreneurs.

While in the period 2019-2020, in the socio-economic context of the pandemic, the microfinance sector in Romania registered a decrease in the number and value of microcredits granted during the year, an important part of the new microcredit portfolio is intended for 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 average value of loans granted as a percentage of Romania's Gross Domestic Income per capita increased by 3% during the period under review, with a value of 21% of GNI per capita, significantly below the 150% threshold. This proves that the microfinance institutions participating in this study finance the clients included in their mission statements and the financial sustainability of the sector is well balanced by the impact of social and economic inclusion of beneficiaries.

In 2020, the credit for financing RGA represents 53% of GNI / inhabitant, and the Professional loan used mainly to improve living conditions, education and health represents 7% of GNI / inhabitant. According to the indicator's definition, the microfinance activities in Romania have a pronounced character of social and economic inclusion of nonbankable beneficiaries financed.

4

IMPACT OF COVID-19 PANDEMIC

PORTFOLIO VALUE AND NUMBER OF CLIENTS WHO POSTPONED THE PAYMENT OF THE CONTRACTED CREDITS (GO 30 / PRIVATE MEMORANDUM, ETC);

In the context of the legislative measures to reduce the spread of SARS-COV2 virus in Romania adopted by the Romanian government between March 2020 and December 2020, aimed to reduce the negative impact on the various economic sectors, 4.55% of MFIs' clients participating in the study, representing 15.54% of the total value of the loan portfolio at December 2019,

requested to postpone reimbursement until the end of 2020. Out of these were RGA clients who benefited from the moratorium established by the new legislative framework, postponing the repayment of contacted microcredits until December 2020. They represented 8% of total active clients, counting for 23.25% of the loan portfolio for financing RGA.

Indicator / Year	Value	Number
% Total active clients benefiting of postponement of microcredit reimbursement until the end of 2020 (from Dec 2019)	15.54%	4.55%
% RGA clients benefiting of postponement of microcredit reimbursement until the end of 2020 (from Dec 2019)	23.25%	8%

PAR 30 – APRIL 2021 FOR THE DEFERRED PORTFOLIO

The quality of the loan portfolio that benefited from the legislative framework during the emergency period and postponed the repayment of microcredits is good, only 0.38% of clients representing 0.67% of the total value of the portfolio as of December 2020 had difficulties in repaying deferred loans and are included in the PAR 30 as of April 2021.

A higher percentage of loans in the PAR 30 was registered among the beneficiaries of loans for

financing income-generating activities, so 0.52% representing 0.96% of the RGA loan portfolio as of December 2020, are in the PAR30 of April 2021.

The deferred portfolio of loans in default (PAR 30 at April 2021) represents the MFIs clients severely affected during the crisis and therefore subject to continuous evaluation and targeted assistance to recovery.

Indicator / Year ¹	Value	Number
% Total deferred microcredits in PAR 30- April 2021 (reported to Dec 2020)	0.67%	0.38%
% RGA deferred microcredits in PAR 30- April 2021 (reported to Dec 2020)	0.96%	0.52%

¹ 15 MFIs provided answers on this topic; representing 25 CUs, AsCAR_RV's clients did not benefit from microcredit deferral during 2020.

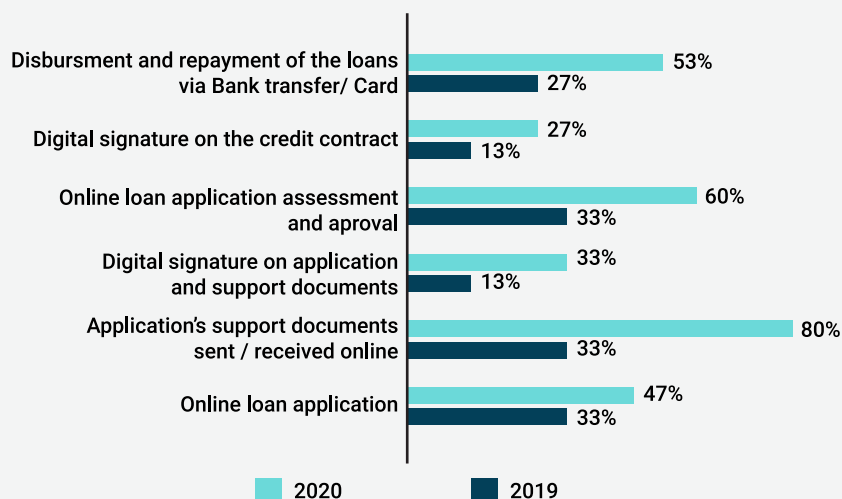
DIGITIZATION OF MFIS

The digitization process initiated by the Romanian MFI since 2016 has accelerated in 2020; in 2020, 80% of the MFIs participating in the study are sending and receiving credit application's support documents via email compared to 33% in 2019, and 60% digitalised the loan application's assessment, analysis and approval process compared to 33% in 2019.

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 2020 compared to 27% in 2019.

Indicator / Year ¹	2019	2019, % from total	2020	2020, % from total
Online Loan application	5	33%	7	47%
Application's support documents sent/ received online	5	33%	12	80%
Digital signature on application and support documents	2	13%	5	33%
Loan application assessment and approval online	5	33%	9	60%
Digital signature on the credit contract	2	13%	4	27%
Disbursement and repayment of the loans via bank transfer/ card	4	27%	8	53%

1 39 from 41 MFIs provided answers on this topic



POST PANDEMIC EXPECTATIONS OF MICROFINANCE INSTITUTIONS

Regarding the post-pandemic evolution of the microfinance sector and MFIs market, the MFIs participating in the study are optimistic; 93% of the MFIs believe that the microfinance market will grow

and develop-diversify, and all participants believe that the MFIs participating in the study will grow and develop in the post pandemic period.

Post Pandemic expectations ¹	Increase/development	stagnant	decrease / regress
Romania microfinance market	93%	0	7%
Microfinance institutions	100%	0	0

¹ 39 from 41 MFIs participating to the study provided answers on this topic

The European Code of Good Conduct for Microcredit is the quality standard of the Microcredit Institutions in Europe, the certification process is supported and financially assisted by the EC EaSI Program, it ensures access to financial resources through the EaSI microfinance program and technical assistance. 68% of the MFIs participating in the study are certified or in the process of certification, in fact 21 MFIs in Romania, the largest national group, have already

obtained the certificate of compliance with the Code clauses, representing 37.5% of the total European MFIs certified until June 2021.

The quality of the processes and operations of the Romanian MFIs is also confirmed by the ratings awarded by MFR to the Romanian MFIs classified as BB+ and B+ stable¹.

¹ Microfinanza Rating website: <https://www.mf-rating.com/reports/>

The Romanian MFIs 'stage of certification with the Code clauses (Total 41 MFIs).	Certified: 20	Enrolled in the certification process: 8	Not enrolled in the certification process: 13
	Aurora, BTMic, BCR SF, FAER, Mikrokapital, OMRO, Patria Credit, Romcom, AsCAR-RV (11), CAR CFR RV	Instant Factoring, Omnicredit, Ro Credit, AsCAR-RV(4), Simplu Credit	Advisers, Lam IFN, LAM Inv, AsCAR – RV (10)
% from Total	48.78%	19.51%	31.71%

COMPARATIVE BENCHMARK INDICATORS

5

Indicator	Benchmarking MF sector in Romania 2019-2020 (2019)	Microfinance in Europe: Survey report 2020 (2019) ¹
Average Revenue Generating activity (RGA) loan balance (Euro)/client – end of year	4,121	6,145
Average Personal loan balance (P) (Euro)/client – end of year	2,460	2,420
Average RGA loan value/GNI capita of Romania (%)	53%	43%
Average P loan value/GNI capita of Romania (%)	7%	22%
Portfolio at Risk 30 days (PAR 30)	8,72%	10,6%
Operational self- sustainability	132%	110%
% Women in Gross portfolio	50%	41%
% Rural clients	34%	41%

¹ Microfinance in Europe: Survey Report 2020 edition ; European Microfinance Network and Microfinance Centre

The 2019 performance indicators of the Romanian MFIs participating to the study compared with indicators of the European MFIs participating to the Survey report 2020 presented in the table are revealing the social and financial inclusion characteristics of the Romanian MF sector. The average RGA loan balance in Romania is 30% lower than the European average, and it represents 53% from GNI/capita in Romania.

The Personal loan balance per client is almost equal in Romania compared to Europe, but it represent only 7% from Romanian's GNI/capita, which is 3 times lower than in Europe. While the percentage of rural inclusion clients in Romanian is 7% lower than in Europe, the women microcredit clients represent 50% of the Gross loan portfolio, i.e. 9% higher than in the case of the Europeans peers.

Influenced by requirements of the investors and supported through the technical assistance implemented within EaSI programme, the portfolio quality and OSS indicators improved during the last years, reaching levels better than the European average. This improvement is due to the enrolment

in the process and certification as compliant with the Eu code. In fact, 21 MFIs from Romania, the largest national group, have already obtained the certificate of compliance with the Code clauses, representing 37.5% of the total European MFIs certified until June 2021. This positive trend is also confirmed by the ratings awarded by MFR¹ to the Romanian MFIs classified as BB+ and B+ stable.

In summary, we consider that the MFI sector in Romania registered a positive evolution, having a significant social impact, as in 5 of the 8 indicators compared, the performance of Romanian MFIs in 2020 is above the average level recorded in Europe during the difficult period of the pandemic year 2020 (indicators: Average value of the professional loan portfolio, Average value of the loan granted for RGA as% of Romania's GDP per capita, Portfolio at Risk (PAR 30), Operational Sustainability (SO) and % of client women in the portfolio). We also emphasize the increased quality and efficiency of the activity of the Romanian MFI sector, illustrated by the PAR30 and SO indicators, with a performance above the European average level.

¹ List of Eu Code awarded MFIs and MFR's ratings reports: <https://ec.europa.eu/social/BlobServlet?docId=21452&langId=en> & MFR Reports - Financial & Social Ratings & Assessments - MFR (mf-rating.com)

FINAL CONCLUSIONS OF THE BENCHMARKING STUDY OF THE ROMANIAN MICROFINANCE SECTOR IN 2019–2020

In the last year of the analyzed period (2020), due to 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 economic recovery.

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.

The major impact of the state of emergency and of the measures taken to prevent SARS COV 2 virus spreading on the performance of participating MFIs, that are representative for the microfinance sector in Romania, was felt at operational level through the decrease by 19.27% of the number and by 7.94% 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 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 increase of 3% compared to 2019. The average value of microcredit in 2020 increased by 5.7% compared to 2019.

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%. This 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. Only 0.38% of these clients, representing 0.67% of the total value of the portfolio, registered difficulties in repaying deferred loans and are found in the PAR30 as of April 2021. A higher percentage of loans in difficulty was registered among the beneficiaries of loans granted for revenue-generating activities; 0.52% of such clients, representing 0.96% of the RGA loan portfolio as of December 2020, are found in the PAR 30 as of April 2021. The deferred portfolio of loans in default (PAR 30 at April 2021) represents the MFIs clients severely affected during the crisis and therefore subject to continuous evaluation and targeted assistance to recovery.

In the period 2019-2020, in the socio-economic context of the pandemic, an important part of the new microcredits were 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).

Mature and long established MFIs with over 20 years of activity registered a minor 2% decrease of the operational sustainability indicator. In the case of young and new MFIs of fintech type, which were less affected during this period due to their business model, the operational sustainability increased by 6% in 2020 compared to 2019.

The MFIs participating in this study are providing finance to the vulnerable clients, women, rural based clients, start-ups, etc. that are included in their mission statements. Therefore, the financial sustainability of the sector is well balanced by the social impact. The average value of loans granted as a percentage of Romania's Gross Domestic Income per capita represents 21% of GNI per capita, significantly below the 150% threshold, proving that in 2020 the microfinance activity in Romania has a pronounced character of social and economic inclusion of nonbankable beneficiaries financed.

The digitization process initiated by the Romanian MFI since 2016 has accelerated during the period; in 2020, 80% of the MFIs participating in the study are sending and receiving credit application's support documents via email, 60% digitalised the loan application's assessment, analysis and approval process, and 33% 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 became the current practice of 53% of MFIs in 2020 compared to 27% in 2019.

68% of the MFIs participating in the study are certified or in the process of certification with the European code of good conduct for microcredit provision, the quality standard of European MFIs. In fact, 21 MFIs from Romania, the largest national group, have already obtained the certificate of compliance with the Code clauses, representing 37.5% of the total European MFIs certified until June 2021. The quality of the processes and operations of the Romanian MFIs is also confirmed by the ratings awarded by MFR to the Romanian MFIs classified as BB+ and B+ stable.

Regarding the post-pandemic evolution of the microfinance sector and MFIs market, the MFIs participating in the study are optimistic: 93% of the MFIs believe that the microfinance market will grow and develop/diversify, and all participants believe that the MFIs participating in the study will grow and develop in the post pandemic period.

The comparative analysis of the evolution of the Romanian MFI sector in the European context of the microfinance sector reveals a positive evolution and a significant social impact, illustrated by performances above the European average for 5 of the 8 indicators analyzed, as well as by increasing the quality and efficiency of the Romanian MFI sector.

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.

Indicator of social and economic inclusion

The average value of the loan granted for income-generating activities and of the professional microloan as a percentage of the Gross Domestic Income per capita of Romania

Risk portfolio at 30/90 days

The risk portfolio refers to the value of all outstanding loans for which one or more repayment payments are delayed by more than a certain number of days: 30/90

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. It is 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.

Value of microcredits disbursed

Value of microcredits disbursed during the year.

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