UNCARSR
Uniunea Naţională a Caselor de Ajutor Reciproc ale Salariaţilor din România

Credit union (CU)

Category of Good Practice: Community Saving, Community Microcredit

Good Practice's title:
Credit Union movement in Romania.

Main objective:
The aim of this good practice is to provide high quality financial services through a local institution. The main goal is to develop solidarity links that provide support and material help for members, by attracting social funds from members and granting loans.

Key words:
Credit Union, Savings, Lending.

Type of organization: Non-bank financial institutions
Country: Romania
Year of inception of the good practice: 1950
Services and products provided: Lending
Portfolio (€):€458,3M (at the end of 2013)
Avg loan size (€):€780
# of clients: a credit union has an average of 500 members
Website: http://www.uncar.ro/ce-este-o-car.aspx
Address: Calea Călăraşilor nr. 249, bloc 65, sc. 2, ap. 40, sector 3, Bucureşti, Romania

Institutional profile:
Mutual credit activity appeared in Romania in the late 19th century, driven by the need of various social groups to access loans and given that the banking sector was still emerging. Between the two World Wars, the Romanian financial market was in line with the most advanced financial systems in the world: savings, credit and assistance associations were providing important financial services to their members including long term loans for investment (housing, mortgages, etc.) and financial aid for illness, accidents, infirmity etc. In 1996, when the decree n° 358/1949 was no longer in place, the National Association of Credit Unions promoted the Law n°122 in order to provide adequate provisions for the credit unions. This change resulted in more autonomy for the credit unions (CUs), which transformed into politically independent entities and were no longer subordinate to state-controlled trade unions. Further, they organized themselves into territorial unions and into a national union, the National Association of Credit Unions (U.N.C.A.R.). Credit Unions mainly finance state-waged employees.

Mission of the organization:
Mutual financial support for CU's members.

Governance structure:
The decision making power within a Credit Union (CU) belongs to the General Assembly of members, which holds an annual meeting in which members vote on, the by-laws (and modifications) of the CU and elect the board of directors. The General Assembly delegates the power to the board of directors, elected to a 4-year term, which ensures the governance of the CU in accordance with the by-law provisions. The board of directors meets on a monthly basis and appoints an executive director for the daily management of the CU. The general governance structure allows the members to decide indirectly on polices and strategies through the Board of Directors.

Good Practice

Introduction:
The Credit Union (CU) movement in Romania is organized at two levels: vertical (UNCAR) and horizontal (TACU):

1. U.N.C.A.R. (National Association of Credit Unions): provides technical assistance, prudential supervision, financial reporting and representation at internal and external levels.
2. T.A.C.U. (Territorially Associations of Credit Unions): provides technical and financial assistance in case of liquidity constraints and/or solvency to affiliated CUs.

The CUs provide personal loans for consumption and microcredits for business or income generating activities. CUs are not allowed to take deposits from the public. This is forbidden by the law of credit institutions and aligned with the EU legislation. However, CUs are allowed to attract shares in the social fund of members as the main source of their lending activity. The social fund of members is remunerated by a percentage of the annual surplus, established by the General Assembly.

At the end of 2013, there were 1,950 Credit Unions registered in Romania providing loans to individuals and entrepreneurs for personal use and the financing of income generation activities.

Target group and accessibility:
The target group is low-income employees. They are associated to a CU by virtue of the common bond criteria, which might be territorial, occupational, industrial, confessional etc. According to the CU’s definition, “low-income people” refers to people whose income is between the poverty threshold in Romania (€150/month) and the average monthly salary in Romania (approximately €370). The target group is comprised of individual employees (with a salary as their primary income source) or professionals/self-employed and farmers (with the main source of income being the profits obtained by their activities). The average loan amount granted by CUs has increased 109% over the years from €373 in 2003 to €780 in 2012, which represents 17% of the 2012 Romania per capita GDP.

Innovativeness:
Given their long-standing presence within Romanian territory, the CUs employ a strong experience in the practice of ethics, solidarity finance and business. The innovativeness of the process was to operate under the concept of a local community. However, it is important to highlight the restriction of the services provided by a CU: according to the main legal document (Law no. 122/1996) that sets forth the principles under which Credit Unions conduct their activities, these institutions are not allowed to capture savings from their clients.

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Relevance given the context:
Most members of credit unions are un-bankable. They neither have access to the main system of banking services, nor do they have access to informal banking services to the extent they need. Therefore, the credit union movement arose in order to provide large numbers of citizens with general banking services, offering medium-term traditional loans (2-5 years with a guarantee by the social fund) and emergency loans (12-18 month term).

The financial products provided are short and medium term loans, basic financial education and technical assistance in the application process. So far, the purpose of the loan was not recorded, e.g. for personal use, construction/refurbishment, for business use, etc. New financial products adapted to specific needs of the members are in the pilot process.

Adaptability to other contexts:
A CU can be formed along sectorial lines or aim to serve a certain area: a village, a town, a zone of a town. However, there are even some CUs that serve several villages or towns. For instance, a CU of teachers could serve each school of a county. There are no limits on a CU to have branches in other territorial areas. Typically, operating constraints limit CUs at their initially defined common bond. A Romanian credit union does not operate abroad, but the concept of credit unions exists in other European countries such as Ireland (ILCU), United Kingdom (ABCUL), Lithuania (LCCU), Poland etc. More recently, the Netherlands (Dutch Association of Credit Unions) has seen the rise of credit unions.

Efficiency:
In Romania, the percentage of CU assets to total assets of financial institutions is below 2%. Further, the ROA ratio between the CUs and commercial banks in Romania highlights sector differences: CU ROA reaches was 1.70% in 2013 vs. 7.47% for banks. The traditional banking system has a higher financial leverage compared to the credit unions. However, it can be observed that CUs are increasing their presence (see “Outcomes” and “Relevance given the context”).

An average sized Credit Union typically has €300,000 in assets. The assets are mostly financed by institutional capital (i.e. mainly reserves and accumulated retained earnings.) of €47.000 and by shares of members - €244,000. The remaining €9,000 is borrowed from other CUs. Theoretically, a new CU needs a minimum of 3 members, but the capital required for loans and operating expenditures indicates that a CU forms with a much higher number of members. An estimation for the creation of a CU is a minimum of €10,000 and 30 members.

Outcomes:
Presently, the National Union (U.N.C.A.R.) is working to ensure that CUs can deliver microcredits to more self-employees in both urban and rural areas. In terms of outreach, CUs reach about 1 million people in Romania (5% of the total population).

The number of active borrowers grew by 38% in 2013 as compared to 2012, reaching up to 610,000 active borrowers: 24% (145,000) are new borrowers who took their first loan in 2013 and an estimated 10% of the loans provided in 2013 were used to finance income generating activities. At the end of 2013, the gross microloan portfolio of UNCAR’s credit unions reached €458,3M with a total value of the disbursed loans of €513M.

Sustainability:
Given the social inequalities and large number of low-income people in Romania, CUs will continue to exist. There is significant potential to expand CU services, perhaps another 20% of total assets due to the fact that low-income people are not sufficiently covered by mainstream banking services. A new law proposal is now at the Parliament permitting inclusion of independent micro-entrepreneurs to become members of CUs.

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Further readings:

- http://www.uncar.ro/despre-noi.aspx
- http://www.emnconference.org/archives/conference/data/file/conference2012/CU%20in%20Romania%20.pdf

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