



SC. Eurom Consultancy and Studies SRL (Eurom)

Category of Good Practice: Advocacy

Good Practice's title

“How to lobby national government and public agencies
to improve the microfinance legal framework at the national level in Romania”

Main objective

To assist the Romanian Microfinance Sector and Romanian Government representatives in designing, drafting, promoting and implementing an enabling legal framework aiming to improve access to finance and development services for underserved entrepreneurs and micro and small enterprises in Romania.

Key words

Microfinance legal framework, access to finance of MSMEs

Type of organization:	Business Consulting Company
Country:	Romania
Year of inception of the good practice:	2004
Services and products provided:	Assessment of the existing legal framework for MF provision, draft of a revised legal framework, provision of technical assistance to the SME Agency and Ministry of Economy to promote the new MF legal framework, technical assistance to MFIs for the implementation process of the new legal framework.
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Institutional profile

The µfinance Romania programme was the financial component of the larger programme, Enterprise Development Strengthening - EDS. µfinance Romania aimed to support the development of the MF sector in Romania. EDS was implemented with the financial assistance of USAID during 2004 - 2006. At the end of the programme in 2006, Eurom Consultancy and Studies SRL was created to ensure the continuation of support and technical assistance to the microfinance sector in Romania and Eastern European countries. Eurom employs eight consultants and trainers.

Mission of the organization (EUROM)

Eurom specializes in providing technical assistance services for the microfinance sector in Romania and Eastern European countries. Eurom assists and supports its clients improve the performance of their business.

Governance structure

Eurom is a privately owned consulting company, specialised in the provision of technical assistance to the microfinance sector in Romania and Eastern European countries.

Good Practice

Introduction

Before 2004, the legal framework for microcredit in Romania focused on mutual credit institutions: credit unions and credit cooperatives. The new legal framework was needed to differentiate the microfinance activities from the initial microcredit and business development projects implemented by the international MFIs. It also unlocked access to additional external funds to finance unmet demand for microcredit and raised awareness among policy makers, mainly the Romanian Government and the SME Agency, to the MF sector and its impact on the country's economic development.

During 2004 - 2005, the legal and regulatory framework was re-defined. **Micro Credit Company Law 240** was adopted by the Romanian Parliament in June 2005. The law aimed to support the diversification of financial sources for the MFI's portfolio, enhance client protection, and promote clear governance and risk control mechanisms that would lead the sector towards sustainability and further development.

Main actors involved in the lobby effort were representatives of MFIs, SME associations and MF/SMEs development projects funded by international donors.

Methodology

The methodology to come up with a new legal framework proposal consisted of three stages:

- i) Research and financial gap assessment: The research phase assessed the relevant legal framework for microfinance: national legislation and EU legislation for non-bank financial activities and microfinance. The financial gap assessment references the process of determining the importance of the unbanked sector, in terms of the financing amount needed by microfinance beneficiaries that remain uncovered by the existing MFIs.
- ii) Draft the new legal framework proposal: The design of the new MF law was sub-contracted to a legal firm, specialised in drafting and amending financial legislation.

- iii) Approval and promotion of the new legal framework: Technical and legal experts assisted the SME Agency in meetings with Ministries and Central Bank representatives. During this stage of the process permanent communication with the sector's stakeholders ensured transparency.

The quantitative assessments of the financial gap and the potential impact of a new legal framework finally convinced the SME Agency and the Ministry of Economy to take over the legal framework's promotion, endorsement and approval process within the Parliamentary commissions.

Target group and accessibility

The Romanian Parliament foresees that the new legal framework will need to be promoted by the ministries in charge of the financial and SMEs sector: Ministry of SMEs and Ministry of Economy. Similarly, the Ministry of Justice, Ministry of Finance and the Romanian Central Bank must endorse the legal proposal.

Consequently, the lobbying activities were concentrated on the key ministries and government agencies to demonstrate the potential impact of the new legal framework on the final beneficiaries (e.g. improvement of access to credit for unbanked start-ups, micro- enterprises, small farmers, etc.).

Innovativeness

The proposed legal framework was drafted by a legal firm, in accordance with the recommendations of MFIs, SME associations and the Romanian Agency for SMEs. As such, the legal framework did not only focus on the interest of MF providers, but also on the protection of and benefits for the final beneficiaries.

In 2009, the Romanian legal framework for non-bank financial institutions (NBFIs), Law 93/2009, unified the legal and regulatory framework of all NBFIs under a single law. It regulates the registration and minimum capital requirements, conditions for granting loans, client protection, reporting requirements, governance mechanisms, etc. in attempts to achieve and maintain financial stability and the healthy development of the Romanian financial sector.

According to the new legal framework the Romanian Central Bank, National Bank of Romania (NBR), is the supervisory authority of all NBFIs: leasing companies, mortgage providers, credit unions, guarantee/counter-guarantee funds, pawn shops, and micro finance companies.

Relevance given the context

Thanks to the improvement of the legal framework, MFIs have enjoyed greater access to diversified funding sources from social lenders, investors and EU funds. In addition, MFIs have access to technical assistance provided by investors and which is available under EU programmes such as JASMINE. Consequently, the sector has developed rapidly and become more efficient and productive in achieving its mission of providing affordable financial services to underserved entrepreneurs.

Adaptability to other contexts

The development of the legal framework is quite specific to Romania and not easily replicable in other countries. However, at a national level, the achievement of the Microcredit Company Law (2004-2006) gives hope to other non-bank financial institutions, such as mortgage and leasing companies, credit unions, guarantee funds for SMEs and farmers, to employ the same approach in promoting their own specific legal framework.

The experience Eurom gathered during the promotion of the legal framework for the provision of MF services in Romania has parlayed into European relevance, given that Eurom has been actively involved in the elaboration process of the European Code of Good Conduct. In addition, the Romanian experience served as the model for developing the legal framework in Bulgaria, Croatia, Macedonia and recently Serbia.

Efficiency

Synergy with other components of the EDS programme contributed to a cost efficient lobby process.

The lobby process was particularly efficient in terms of time, as Law 240 regulating the microfinance sector in Romania was drafted and adapted by the MFIs and the main stakeholders of the sector, endorsed by the relevant ministries, discussed and approved by four parliamentary commissions, debated and approved by the Romanian Senate, debated and approved by the Deputies Chamber of the Romanian Parliament and promulgated by the President of Romania in less than two years.

Outcomes

Collaboration with the local parliamentarians, the ministries and the SME Agency was maintained throughout the process. Information relating to the sector's achievements is presented on a regular basis to these stakeholders.

During 2008-2011, the non-bank financial sector served one third of the Romanian financial market. According to the World Bank's "Doing Business Report 2013", access to finance for Romanian MSMEs, ranked 8 out of 183, among the best in Europe.

In terms of micro-credits extended (11.000), active clients (17.000) and microcredit portfolio (EUR 65 Million), the Romanian MF sector has become the fifth largest within the European Union¹.

Sustainability

To maintain good relations, MFIs and Eurom are involving the representatives of the Romanian government and state agencies in MF events and incorporating them into various initiatives developed at the national or regional level, keeping them informed on the newest developments and challenges the sector is facing.

As a consequence of the MF legal framework, many Romanian micro-credit providers have achieved financial and operational sustainability. The sector demonstrates increased geographical outreach, efficiency, productivity and profitability, since the process was first initiated in 2004.

Currently, the Romanian Microfinance sector is divided into two main segments. The first segment is rather mature nature in terms of efficiency and has reached operational and financial sustainability and is attractive to lenders and investors. The second segment, however, is composed of a large number of new MFIs registering after 2006. They are still immature and need specialized technical assistance and training in order to successfully integrate into the sector.

¹ EMN –Overview of the European Microfinance Sector (2010 -2011)

In practice

The process followed the legal procedures of the country.

First, a clear, coherent and supportive legal framework is necessary for the development of the microfinance sector. Prior to 2000, the Romanian microfinance sector was “**not regulated at all**”, “**well regulated**” for a short period in 2005 when the Micro-Credit Company Law was in force and, from 2006 onwards, as non-bank financial institution, the sector is “**overregulated.**” The industry is strictly supervised by the NBR and the Ministry of Finance, based on rules that were designed for the banking sector, rather than the microfinance sector, through the non- bank financial institution law.

The **Second** lesson learned is the importance of continuous lobbying efforts from stakeholders to reinforce the sector’s most important characteristic: the provision of efficient financial services with a positive social impact on the final beneficiaries.

The aggressive commercialization strategy pursued by most Romanian MFIs since 2004 has paid off, as most actors have achieved financial sustainability. However, given their motivations to become increasingly profitable, Romanian MFIs are struggling to maintain their social orientation. Therefore, the achievement of the triple bottom line through continuous quality improvement of services provided to target clients, social responsibility towards the staff, clients, community and the environment, remains a challenge that makes the Romanian microfinance sector European.

Further readings

Romania Central Bank – Law 93/2009 of the Non-Bank Financial Institutions

[EMN – Overview of the European Microfinance Sector \(2010 -2011\)](#)

[EUROM - Benchmarking MF sector in Romania 2008-2009](#)