

Open up
new economic
horizons

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*Open up new horizons for
C.A. Rosetti*

1 Introduction

1.1 Impressions of C.A. Rosetti

During our fieldtrip to the community of C.A. Rosetti, which is in the north-east of the Danube delta, I got a lot of impressions about the daily life of the inhabitants. This region is characterised by migration and so it is a region with a rapidly shrinking population. It is like in the other parts of the region, all of them are affected by migration. Only in Pardina the population is growing due to an economic upswing in the agriculture sector [cf. European Commission, 2010, p.7]. In the community of C.A. Rosetti particularly women and young people are leaving this area because of a limited perspective. Due to this shrinking processes nowadays only 839 people are living in the community in comparison to 1438 in the year 1990 [cf. Recensamantul populatiei si al locuintelor, 2014, online]. But not all villages in the community of C.A. Rosetti are affected by this trend in the same way. C.A. Rosetti itself, Periprava and Letea are still functional villages with many inhabitants. Sfiștofca on the other hand is a village with rarely children or young people, few residents, many degenerate or left buildings and a high rate of alcohol addicts.

Due to this fact the main target group for my project will be young people, women and people who have the motivation to upgrade the community of C.A. Rosetti through economic skills. The project "Open up new economic horizons" should help to get wealth in this remote area by empowering the people to utilize their economic skills.

1.2 Microfinance for the community

To gain economic growth, you have to invest money and if you do not own this money, you have to get a loan. So if you want to gain economic growth in the Danube Delta you have to support the (small) enterprises to satisfy their demand for (small) loans. A very good example for that is the story of Jeni and Dumitru Dimache. They are located in Sfântu Gheorghe and received a microloan from Rewilding Europe (<http://www.rewildingeurope.com>). With this loan they were able to improve their accommodation and purchase equipment for developing professional wildlife guiding as well as equipment for promoting their idea [cf. Rewilding Europe, 2014, online]. That's exactly one thing that the credits from the project "Open up new economic horizons" should enable.

As mentioned before this paper should have a focus on the community of C.A. Rosetti and according to our visit, there are no big enterprises so the

supporting loans do not have to be huge. Therefore small amounts like microcredits should fit perfectly. Currently there is a big market in Romania for micro-credits. 90% of the of the Romanian enterprises are micro-enterprises and because of their spread in the remote areas of Romania they are often not able to get a loan from a bank. According to some estimations there is a demand for about 700 million Euro [cf. Carboni, 2010, p. 306]. That is exactly where the project "Open up new economic horizons" should tie up.

2 Microfinance

Microfinance is not a very common term. In general linguistic use only the term microcredits is used. But microcredits are just one subsection of microfinance, next to microinsurance, microsavings and agricultural finance. The following sections should give an overview about the different types of microfinance.

2.1 Microcredits

According the Council of the European Union microcredits are a very good way to support or launch small and medium sized companies, help poor people, women and ethnic minorities [cf. Zdrahal-Urbánek, 2007, p 9.]. First forms of microcredits were established in Europe at the middle of the 19th century in Ireland as "loan funds" and in Germany by Raiffeisen. More famous became the version of Muhammad Yunus who founded the Grameen Bank in Bangladesh in 1976. For that he was awarded with Nobel Prize in 2006 [cf. Sütterlin, 2007, :39-42].

There are different ways how to manage microcredits. You can give money directly to individual people or manage the allocation via a group. These groups can be smaller, up to 5 or 10 people, or they could act like a community bank with more people. Group loans are easier to manage because people are responsible for the other members of the group. Due to this fact, the projects which are aided, have to be well designed, because all members want to minimize their risk of a credit non-payment. Also the interests for the loans are higher if they are just for a single person.

Usual terms for microcredits start at three months up to a year. There are also microcredits projects with terms up to three years, especially for agriculture or loans for housing projects. Therefore it would be nearly impossible to pay back the loan faster because of the high value of the credit [cf. Ledgerwood et al., 2013, p. 213]. How loans are paid back depends on the financial backers. There are models including interest with a payment every

week, fortnightly or monthly payment. Some Models offer an "all together" payment at the end of the repayment term.

2.2 Microinsurance

According to Ledgerwood et al. (2013) poor people are very often unprotected against risks like illness, crop failure, natural disasters or other perils. In the worst case these perils can destroy every prosperity which was created with the before mentioned microcredits. Of course the people could overbear the situation if they have savings but afterwards they would also lose them. Because of that people could act in a very careful way and try to avoid every kind of risk. To protect the people against these threats it is necessary to support the low-income people with the possibility of microinsurance. Hence some companies are offering this service for a few years. One of the major challenges to implement microinsurance is that a lot of people have to overbear the prejudice against this form of insurance. Many of them do not see any sense for paying for an intangible product which can not be claimed for sure [cf. Ledgerwood et al., 2013, p. 252]. Due to that reason some assurers made insurances obligatory if people want a microloan. By that approach the assurers want to ensure that their offer is profitable [cf. Ledgerwood et al., 2013, p.139f].

2.3 Microsavings

Microsaving is another way for poor people to get financial services. It is like a normal saving account but the people who use it, save usually less money. It could support people, together with microinsurance, for sudden threats like mentioned before, but it could also make people more independent in the future when they want to make major investments. Some financial backers also make the microsavings obligatory for people who get loans to minimize their risks. It could also be a possibility for the inhabitants to save money which could circulate as credit again [cf. Armendáriz and Morduch, 2005, 150f].



Easier access to financial support

3 The Project - Microfinance in Community of C.A. Rosetti

3.1 Target of the Project

The project should offer a perspective for the inhabitants of C.A. Rosetti by offering tools to improve their economic situation.

3.2 Financial Backers for the project

The main reason for the strong grow of the Romanian economy has been domestic consumption during transition of the Romanian economy. In some years the number of household loans increased by nearly 90%. At the start of the microcredit period in Romania all of the contributors were part of non-governmental organizations . Nowadays there are approximately over 20 companies (and still a fast growing market) which are offering microcredits, not all of them are NGOs. They have in common that their maximum loan is lower than 25.000 Euro. Microcredits in Romania are for everyone, not like in other parts of the world just for people who do not get a loan on a usual way. The only differences between the companies are how they offer their product: social oriented, social and commercial and just commercial oriented [cf. Carboni, 2010, p. 306f].

3.2.1 European Union

The European Union itself does not have a direct offer for microcredits for individuals or businesses. They just provide loans and guarantees for vendors. According to graphic 1 these loans and guarantees are used by banks, financial institutes and other providers for microcredits [cf. European Commission, 2014]. Hence the only way to finance new entrepreneurs in Romania with money from the EU is via other Romanian financial institutes. Among those are Banca Transilvania, UniCredit Leasing and others. A full list is available at: <http://europa.eu/youreurope/business/funding-grants/access-to-finance/>

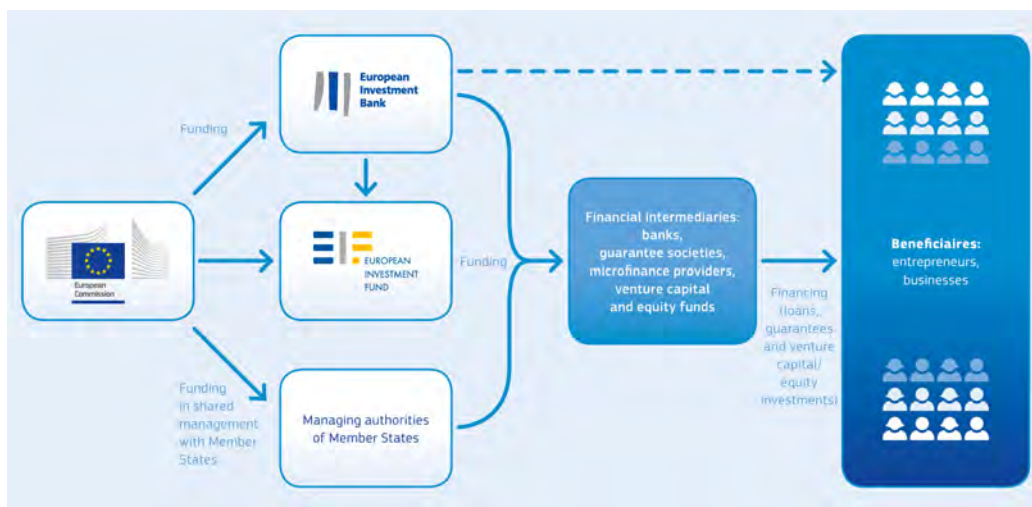


Figure 1: Model of the EU funding for microcredits (©<http://europa.eu/youreurope/business/funding-grants/access-to-finance/>)

3.2.2 State of Romania

The Romanian Government is supporting MFI (Micro Financial Institutes) through developing a legal framework for microfinance sources and assistance with law 240/2005 which should support SME (Small and Medium Entrepreneurs) Agencies. It was launched by the Romanian Government, the European Commission and the European Bank for Reconstruction and Development as well as local commercial banks. It was created to support people in remote areas with little access to finance [cf. Carboni, 2010, p.320].

3.3 Potential Partners for the project

3.3.1 Non-Governmental Organization

This chapter should show a short overview for potential partner who already have knowledge with microfinance. First section are NGOs who are working in Romania, the second section are crowd funding platforms.

OMRO - Opportunity Microfinance Romania is working in Romania since 1995. Nowadays they are funding projects mainly in the western and central parts of Romania but the Danube Delta



Figure 2: Opportunity Microfinance Romania
(©<http://opportunity.ro/en>)

could be a first step to the east of Romania. Currently they dispense 17.855 loans and created more than 22.000 jobs. Their main target is to empower people with services in agriculture and services which create an output. The range of the amount of credit is normally up to 18.000 RON (approx. 4000 Euro) [cf. Opportunity Microcredit Romania, 2014, online]. This amount for instance would be already enough for the two people in Periprava who are building a new house for accommodate tourists. We met them during our field trip.

Integra Romania is another NGO, which provides since 2000 support in microfinance. Their main focus is also on rural areas but especially women in rural areas. In Addition they are offering



Figure 3: Integra Romania
(©<http://www.integraromania.ro/>)

courses for financial education. By the gained knowledge in the scopes of business budget and/or family budget they want to fight financial and social exclusion of adults [cf. Integra Romania, 2014, online].

FAER - Foundation for the Promotion of Agriculture and Regional Economy is focusing on entrepreneurial development and education too. The target borrowers are rural farmsteads, small sized agricultural enterprises and rural tourism lodgings in regions with limited access to a banking system [cf. Post Privatisation Foundation,, 2014, online] and [cf. Carboni, 2010, p.314].



Figure 4: FAER - Romania
(©<http://www.postprivatizare.ro/english/>)

Rewilding Europe Capital is financing enterprises who are contribute in one or the other way rewilding. At the moment they are not only financing in Romania but as mentioned in chapter "1.2 Microfinance for the community" they did already some lending of credits in the Danube delta. Their Terms are between three and five years with an interest rate of 5%–8% [cf. Rewilding Europe, 2014, p.]. With their knowledge and their focus on rewilding, they seem to be a highly interesting partner for the project "Open up new economic horizons".



Figure 5: Rewilding Europa
(©<http://www.rewildingeurope.com>)

Other NGOs offering MFI-Services in Romania are:

- ROMCOM Microfinance - Target: Entrepreneurs and SMEs in rural areas; <http://www.romcom.ro/>
- LAM Foundation - Target: Loans for farmers or entrepreneurs in rural areas; <http://www.lamromania.ro>
- Open Society Foundation - Target: Micro business for small- and micro enterprises

3.3.2 Community Based Credits

For credit institutes, micro financing is quite risky. Because of that they lend the money sometimes only if the recipient can offer a guarantee of payment for the loan. Otherwise they will charge high interests to minimize their

venture [cf. Zdrahal-Urbanek, 2007, p. 10]. To offer a good financial solution for the community of C.A. Rosetti this project should also offer a second way to empower the inhabitants through microfinance: Community Based Credits.

There are a lot of different models for Community Based Credits, like peer-to-peer lending and social lending. This project should focus on the two mentioned models because they are the cheapest. In addition they could act as a social interface, so that people get to know more about the Danube delta. Both models is a direct way for people or groups to lend money. It is not very risky for the financier because it usually it is saved by a venture capital lender who is acting in the background.

To make sure that people in the Danube delta know about these possibilities, social lending organisations have to have "Field Partners" who inform the inhabitants. They maybe could choose the enterpriser or the borrower. Within this project the Community Learning Center or the Sfiștofca Art Association could handle the part of the Field Partner. Another peer-to-peer lending option could be a stake within the supported enterprise, so that people lend their money and become a stake holder of it afterwards.

3.4 Structure of the Project

3.4.1 Starting Time and Duration

The project could start immediately after a short preparation period which is caused by searching for partners, locations, financial backers and so on. If the project itself acts as financial supporter for other projects, like "Community learning center", "Productive Spaces", "C.A. Rosetti Herbs & Honey" it will depend on their start. As mentioned before it has to start before the other projects because of the longer lead time. The duration of the project is not limited. It should help the people in the region of C.A. Rosetti as long as possible or as long as they need it.



*Get ready to enter new markets
with unique products*

3.4.2 Strengthen the Community through microcredits

A positive output from the project should be a stronger and better educated community. The basis for this lies in the character how microcredits (and other products) are provided. To manage this it is necessary to explain the different way of organizing microcredits: individual, group of 5-10 people or community bank. The project should not aim for the individual microcredit version because they are risky for the defaulter and the bank. The defaulter could do with the money whatever he/she wants. He/she could spend it only for consumption or he/she could fail because he/she does not have enough knowledge for a good placement of the investment. Also the bank will demand higher interests for the loan because of the missing guarantee of payment.

In order to strengthen the community I would prefer the second or third way. These kinds of microcredit could strengthen the community through solidarity, responsibility and confidence. The first step for a group credit is to define how large a group should be. For this project it could be approximately five members for each group. Within this model all group members are liable for credits from the others, this increases the moral for paying back the money. Also projects have to be well elaborated to get an authorisation from the other bailsmen. To make sure that people understand this way of group loaning they should get a lot of information and training before. Therefore the project should use existing knowledge which is provided by one of the NGOs from chapter "3.3.1 Non-Governmental Organization" or by Karins project, the "Learning and Communication Center in C.A. Rosetti". Otherwise the training could take place in the community building in Sfiștofca or the uprising location of the Sfiștofca Art Association. If this version is not trustful enough or the inhabitants of C.A. Rosetti do not want it, it is possible to use the second version of group credits. It is a small community bank and usually it is also a good alternative for remote areas without a bank. To gain as much members as possible and provide a bank service to them, the community bank should act in the whole area of C.A. Rosetti. It should be managed by one of the social institutes from chapter 3.3.1 or other experts like bank managers, brokers or social workers. They should act as supervisor to teach and manage the other working groups. Afterwards the Community bank is launched together by all members (supported by experts, mentioned above). The hierarchy structure of the community bank has to be flat to minimize the risk of a concentration of power.



Figure 6: Function of Community Bank rotation cycle

All members should be part of a task force which have different duties and responsibilities. Groups for controlling, revision, bookkeeping, financial resources etc. are necessary. To empower people with different skills the members of the different groups have to rotate these functions regularly (as you can see in graphic 6).

3.5 Scope of Application

3.5.1 Agricultural Finance

Agriculture is a source of rural employment and is part of food security in C.A. Rosetti. Microcredits for this sector should increase the ratio of input to output. A higher ration should make the community more independent from foreign products. Usually they are more expensive because the price for the complicated transport is added. Another field for microloans is trying to widen the portfolio (organic honey and herbs, local food for restaurants,...) of agricultural products to utilize market niches. To facilitate that, also investments in storage possibilities are necessary because of market fluctuations. Credits should also support employees in agriculture sector facing price risks which are caused by a lack of market knowledge and limited market access.

3.5.2 Accommodation

Microfinancing should offer the people in C.A. Rosetti a possibility to get new financing opportunities for building up or upgrading guesthouses or other

touristic infrastructure. For this purpose the loans have to be designed for a long term because the value of the loans will be located in the higher sectors and the turnover is slower than in usual ventures.

For all kinds of credits its obligatory that the project is feasible. Furthermore the project needs a detailed formulation and the money should be used only for it. Loans can increase under certain circumstances. Before the group has to agree according to credit history of the recipient

*Create possibilities for
improving guest houses*



3.5.3 Insurance

Micorinsurance should protect the people in the community from unpredictable hazards. It should be optional for every inhabitant, but mandatory for all who get a microcredit. This obligation should minimize the risk of credit default by illness, crop failure or other hazards which would also harm the other members of the community. As mentioned before they act as a guarantor for the microcredits.

The project should offer different kinds of insurances like health insurance, household insurance, multi-peril crop insurance and others which are useful to minimize the risks and improve quality of life and standard of living.

3.5.4 Microsaving

Microsaving should access to a saving account for the inhabitants of C.A. Rosetti and the remote villages surrounding it. In the future it could support people to get more or less independent from credits which they have to pay back with interests. If the micorsaving project has a lot of consumer the community could get partly rid of financial backers because they could lend the money to each other (with lower interests).

3.5.5 Others

The project "Microfinance in Community of C.A. Rosetti" is not mentioned to be strictly managed like above mentioned. It should develop further and adapt to the needs of the inhabitants. The vision is that the idea spreads to other communities in de Danube delta and should be adapted if needed. It should support entrepreneurs to develop their ideas, to implement them and improve the lives of the people in the Danube delta.

3.6 Further action within this project

This project was created after three days in the affected area of C.A. Rosetti. Caused by that it is just a draft for a microfinancial project and have to be developed in many ways. I wish I could stay focused on this part and help my colleagues thereby building up their projects. First steps for finalising will be a clear information about the detailed legal situation in Romania and get inclusion of expert knowledge.

4 Register

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