



Guarantee agreement between AsCAR RV & EIF to empower Romanian microentrepreneurs

CATEGORY: PARTNERSHIP

Objective of Good Practice:

The EaSI Guarantee Instrument on which Asociatia C.A.R. REGIUNEA VEST (AsCAR RV) and the European Investment Fund (EIF) have agreed will allow credit unions to loosen credit granting conditions by accepting a lower number of guarantors and a range of incomes, thus facilitating the access of these people to funding in order to grow their businesses.

Year of Inception of Good Practice:

2020

Keywords:

EIF – EaSI Guarantee - European Code of Good Conduct

Overview of Good Practice

The affiliated Credit Unions (CU) are operating through 177 branches in 15 districts in the western part of Romania. The vast majority of their clients are unbanked low-income people living in small towns. Through their membership to a CU, they gain access to a reliable savings system, affordable loans, and a range of social aids. As of end of 2019, more than half of the members were women (83,863), 47,624 were living in rural areas, 49,239 had retired and 2,730 were unemployed.

Having a second source of income is of utmost importance for many of the members of the CUs as they turn to secondary income-generating activities to supplement their earnings. However, due to the lack of access to funding, mostly because of the difficulties they have in finding guarantors/collateral or even presenting proof of income, they cannot develop further.

Following their social mission, CUs operate where there is a greater need for financing, thus fighting poverty and improving the living conditions of its members. Keeping the operational costs low and working with volunteers helps the CUs succeed in opening sustainable branches in places where other types of institutions have failed: thus, their work is trusted within the local communities. Over a period of time the CUs collected supplementary data related to the loans and noticed that, especially in rural areas, members are borrowing money to support their small agricultural income-generating activities. Centralising the statistical data, AsCAR RV obtained an overview of the size of the phenomenon. After researching solutions, the Board of Directors realised that the EIF Guarantee Instrument was the best tool to help AsCAR RV tackle this market gap. Thanks to the risk-sharing mechanism between the financial institution and the European Commission, the EaSI Guarantee Instrument enables selected microcredit providers and social enterprises finance providers to expand their outreach to underserved micro and social enterprises, facilitating access to finance for target groups who have difficulty accessing the conventional credit market.

Innovativeness

AsCAR RV is the first member-based organisation to have investigated the market gap and how it can support these members. Through the intermediation of the European Microfinance Network (EMN), AsCAR RV learned about the EaSI Guarantee and created a team of CUs certified with the European Code of Good Conduct (ECoGC) to apply together for the Instrument. The loans included under the guarantee terms are specially tailored to serve the underserved entrepreneurs and to help them expand enough to become bankable and therefore gain access to the mainstream finance. The majority of members in CUs are part of the most disadvantaged layers of society in Romania: retired people from various sectors such as mining and the metallurgic industry; low-income, non-bankable employees; farmers; manufacturers and many others struggling to make their way and generally performing various income-generating activities in order to supplement their monthly income. Sadly, their access to funding instruments is drastically limited due to the credit policies imposed by the big players on the market. Even though the CUs are the only financial institutions to offer support, often due to the lack of guarantors, the amounts they are able to obtain and invest into their own businesses is insufficient.

Institutional profile

Asociatia C.A.R. REGIUNEA VEST (Credit Union Association – West Region) is representing a network of 25 Credit Unions (CARs) established in Hunedoara County, Romania. The main role of the association is to offer various services to its member organisations, such as: market studies, legal counselling, trainings, advertising services, financial audit, representation in relation with governmental institutions and services related to information technology.

Type of Organisation

NGO

Country

Romania

Products & Services provided

Non-financial and financial funding services for affiliated organisations.

Gross Loan Portfolio

Aggregated loan portfolio for all the CARs 2019:

€ 99.11 million

Number of clients

Aggregated loan portfolio for all the CARs 2019:

151,535

Target Audience

Affiliated CARs that in turn, target rural populations, women and people excluded from mainstream financial services

Organisation Website

www.asrv.ro

Outcomes

The financial products dispatched under the EaSI Guarantee will undeniably increase the access of the small microentrepreneurs to affordable financing and will strongly support entrepreneurial initiatives within the local communities. With this tool the Credit Unions can lower the interest rate by 0.5% from the traditional loan, making it one of the cheapest loan products available.

Efficiency and Sustainability

The EaSI Guarantee agreement comprises 10 ECoGC certified Credit Unions, working together under the AsCAR RV umbrella. None of them alone could qualify to apply for Guarantee Instrument, but together under one partnership, it was possible. AsCAR RV plays a double role in the given situation because on one side it has the responsibility of coordinating the participating CUs and on the other, it is responsible for submitting aggregated reports related to the loan portfolio included under the guarantee terms and in case of default it has to execute the guarantee and distribute the recovered amounts proportionally.

Lessons Learnt

Implementing the EaSI guarantee has allowed the CUs to build new internal tools, procedures, and workflows in order to improve their internal processes, for example:

- The CUs had to define a new type of client to better differentiate the members who are carrying out secondary income generating activities.
- New types of loans had to be tailored in order to meet the needs of this new business segment.
- New reporting tools and formats had to be implemented to directly target the loans provided under the EaSI Guarantee
- The Internal and External Auditors were notified, and the information related to the EaSI credit portfolio was included in their reports.

In Practice

Bogdan has been a member of CAR Unirea Deva since 2014. In 2015 he started a self-employed business working with marble in sculptures, construction, and arrangements. Over the years, he experienced continuous growth and now has 4 full time employees. As many other businesses, their operations were seriously affected by the COVID-19 crisis, yet they decided not to reduce the number of employees but to try to surpass the current market difficulties. For this, they asked for the help of a loan of 100.000 lei (approx. 20,500 Euros) and invested that amount into the business. The sum will be mainly used for buying raw material, new tools, and online advertising for the business, crucial steps in order to widen their market.

