

**ORGANIZATION
OF THE BLACK SEA
ECONOMIC
COOPERATION (BSEC)**

**KONRAD
ADENAUER
STIFTUNG
(KAS)**

**WORKSHOP ON
“MICROFINANCE FOR SMEs”**

Bucharest, 13-14 November 2014

Summary Proceedings

1. The Workshop on “Microfinance for SMEs” was held in Bucharest, Romania, on 13-14 November 2014. It was jointly organized by the Organization of the Black Sea Economic Cooperation Permanent International Secretariat (BSEC PERMIS) and the Konrad-Adenauer-Stiftung (KAS) in Turkey.

2. On the first day of the Workshop, welcoming statements were delivered by Ambassador Traian CHEBELEU, Deputy Secretary General of the BSEC PERMIS; Dr. Colin DÜRKOP, Head of the Konrad-Adenauer-Stiftung (KAS) for Turkey; and Dr. Antal SZABO, UNECE ret. Regional Adviser on Entrepreneurship and SMEs, Scientific Director of ERENET.

2.1. Ambassador T. CHEBELEU welcomed the participants of the Workshop on behalf of the BSEC PERMIS. He expressed thanks and appreciation to the KAS for its long-standing support to and cooperation with BSEC which has resulted in the organization of a series of workshops and seminars - over 40 workshops since 1997 - aimed at promoting SMEs in the BSEC Region. He took the opportunity to thank in particular Dr. Antal SZABO, Scientific Director of ERENET, for his outstanding contributions to the success of the exchanges which have taken place. Ambassador CHEBELEU pointed out that the Workshop focuses on a topic – Microfinance for SMEs – which represents a highly important tool to help start-ups or expand existing businesses. The SMEs play an important role in the economic, social and political development of the BSEC Member States and, therefore, the Organization endeavours to develop effective policies and concrete measures to support the sustainable development of the SME sector in our region, which is one of the goals of the BSEC Economic Agenda 2012.

The text of opening statement of Ambassador CHEBELEU is attached as Annex I.

2.2. Dr. C. DÜRKOP welcomed the participants of the Workshop on behalf of the KAS. He highlighted the continued cooperation with ERENET as well. Over the past 17 years, altogether 45 joint Workshops were realized successfully, aiming at providing dialogue between the stakeholders and decision-makers for SME policies in various BSEC Member States.

Pointing out some aspects of the Turkish situation concerning SME financing, Dr. DÜRKOP added that the Workshop findings, conclusions and recommendations will be submitted to the BSEC Working Group on SMEs for consideration during its next session on 5 December 2014.

2.3. Dr. A. SZABO pointed out that following the economic crisis, job creation, entrepreneurship development and fight against poverty are the most important issues. In the EU 28 countries, 27 million people are unemployed. In the BSEC Region, with a 350 million population, 27.7 million people were unemployed in 2011. Microcredit is an important means in job creation and poverty alleviation since it encourages new businesses, stimulate economic growth and counteract the effect of the economic crisis.

Dr. SZABO concluded that the BSEC-KAS Workshop is the first one in the BSEC Region which reviews the national policies and practices concerning microfinance.

3. The Workshop was co-chaired by Ambassador T. CHEBELEU, BSEC PERMIS Deputy Secretary General; Dr. C. DÜRKOP, Head of the Konrad-Adenauer-Stiftung (KAS) for Turkey; Dr. Antal SZABO, UNECE ret. Regional Adviser, Scientific Director of ERENET; Ms. Meltem GÜNEY, Executive Manager of the BSEC PERMIS; and Ms. Maria DOICIU, Senior Consultant on SMEs and Microfinance, EUROM Consultancy and Studies, Bucharest.

4. The Workshop was attended by the representatives of the following BSEC Member States:

Republic of Albania
Republic of Armenia
Republic of Azerbaijan
Republic of Bulgaria
Georgia
Hellenic Republic
Republic of Moldova
Romania
Russian Federation
Republic of Serbia
Ukraine

The list of participants is attached as Annex II and the Program of the Workshop is attached as Annex III.

5. Professor Dr. Ovidiu NICOLESCU, President of National Council of Romanian Private SMEs, Professor of Management Faculty at the Economic University of Bucharest; Ms. Silke MÜFFELMANN, Senior Project Manager, International Advisory Services, Microbanking Competence Center, Frankfurt School of Finance & Management, Bankakademie HfB; and Dr. Antal SZABO, addressed the Workshop as lead speakers and delivered keynote presentations on “Entrepreneurship Development, Job Creation, Poverty Alleviation in Romania and in the EU by Microcrediting Policy and Program for Entrepreneurship”.

5.1. Professor Dr. NICOLESCU, in his presentation, focused on the finance problems faced by the Romanian SMEs, sharing results of interviews with entrepreneurs. The objective of the presentation was to highlight the main problems faced by the Romanian SMEs and formulate a set of recommendations aimed at financial improvements regarding SMEs. The principal sources of information used were the research conducted by the National Council of Romanian SMEs – through interviews with 1568 entrepreneurs – and the Romanian Scientific Management Society. The presentation was structured in four points: a) presentation of the entrepreneurs' activities and their evaluation of the Romanian business environment in 2013 and 2014; b) major characteristics of SMEs finance in Romanian sources (differentiation of SMEs financial methods, future objectives, etc.) and their share – in enterprise size, area of activity and region; c) recommendations concerning the improvement of the SMEs finance in three parts – increased transparency and competition in the banking system, reducing the credit costs, and stimulating funding through alternative instruments; d) situation of the entrepreneurial environment in Romania and its perspectives.

5.2. Ms. S. MÜFFELMANN presented the summary of the German Experience of Microfinance.

She stated that today the two large networks comprising *Sparkassen*, and the *Volksbanken* and *Raiffeisenkassen* function, which have continued serving MSMEs and households with a share of 44% of all banking assets and still financing $\frac{3}{4}$ of all SMEs and 80% of business start-ups in Germany.

In Germany, the German Banking Act does neither make a difference between providing standard loans or microcredits nor has created some legal framework that includes non-bank institutions allowed to provide specialised loans as these are microcredits. MSMEs are being financed (*linkage banking*) based on the House Bank Principle. SME clients usually establish a close relationship with a particular House Bank and bankable SMEs are financed usually by banks.

The most prominent promotional program is the Microcredit Fund Germany with a volume of EUR 100 million. It is as well a guarantee scheme.

There is also a three levelled German Public Promotional Banking System (mostly operating as second tier) supporting the Microfinance Sector with KfW as National Promotional Bank, 15 Regional Promotional Banks and Regional Guarantee Banks.

House Banks have access to guarantee schemes in two ways: either to build it into the loan programs as default guarantees/exemptions from liabilities or through access to separate guarantees issued by the Regional Guarantee Banks or other specialized programs. In Germany 35 MFIs are operating as of 2014.

The conditions for providing a microcredit can be summarized as follows: a business loan of a maximum amount EUR 20,000 with an 8.9% interest rate for a maximum period of 36 months.

Ms. S. MÜFFELMANN concluded her presentation by listing the lessons learned from the German microfinance experience:

- The general macroeconomic conditions heavily influence the positive development of microfinance; they can prevent or foster its evolution.
- A sustainable development of the SME sector, which is usually the backbone of the economy, is only possible with reliable access to finance and a solid business, tax and labour regulation.
- Strong banks with orientation towards small transactions with retail and SME customers are important for inclusive financial systems.
- In case only banks can issue loans, a first step in direction to microfinance can be the so-called “linkage banking” model where MFIs fulfil the front-end function.
- Credit guarantee schemes can work well when a developed banking system exists and thus will not have a strong impact in increasing the costs of a credit for SMEs.
- The more developed the economy, the less important is “commercial” microfinance, since the conventional financial system takes over that role and leaves “social” microfinance for closing the financial gap for marginalized groups such as the unemployed, women, young or entrepreneurs with migrant roots.

5.3. Dr. A. SZABO, in his presentation, highlighted that microcredit addresses the need for access to credit to self-employed, business start-ups and small enterprises. It has a particular focus on groups with limited access to the conventional credit market. The European Commission (EC) announced its initiative for development of microcredit in support of growth and employment in November 2007. In 2010, the EC launched the European Progress Microfinance Facility for setting up micro- and small enterprises by providing microcredit, respectively loans up to 25,000 Euros. In consequence of the European initiative, two technical assistance and financial engineering programs were set:

- JASMINE (Joint Action to Support Microfinance Institutions in Europe) to provide technical assistance to microcredit providers;
- JEREMIE (Joint European Resources for Micro to Medium Enterprises) which promotes access of SMEs to finance.

In the second part of the presentation, various types of microcredit providers called as Microfinance Institutions and several European examples were presented.

Last but not least, Dr. SZABO highlighted the new EU Program for Employment and Social Innovation for the 2014-2020 period.

6. An exchange of country experiences concerning microfinance for SMEs took place. The representatives of the BSEC Member States made presentations which addressed:

- (i) legislative framework of microcrediting;
- (ii) eligibility criteria and modalities of operation of microcredit lines;
- (iii) public and private microcredit financial institutions;
- (iv) effects of microcrediting on job creation;
- (v) programs for poverty alleviation by microcrediting; and
- (vi) does the Government support microfinance?

Question and answer sessions were held after the presentations.

7. On the second day of the Workshop, presentations on “Best Practice in Microfinance in Romania” were made by Ms. Maria DOICIU, Senior Consultant on SMEs and Microfinance EUROM Consultancy and Studies, Bucharest; Mr. Simon-Piers O’MAHONY, General Manager, Opportunity Microcredit Romania (OMRO); Mr. Bogdan MERFEA, CEO of Patria Credit NFI; and Ms. Florentina IONESCU, National Credit Guarantee Fund for Small and Medium Enterprises (FNGCIMM).

Final Discussions and Conclusions

8. The following points were made in conclusion:

8.1. Microcredit addresses the need to credit to the unemployed, self-employed, business start-ups, micro- and small scale enterprises.

8.2. Microcredit is a key policy tool for job creation, for employment creation and poverty reduction through the provision of loans and business development services to those entrepreneurs that have the capacity to benefit from them.

8.3. Microcredit is an instrument of democratization, economic development, allowing people to manage their destiny.

8.4. Microcredit is a “bottom-up” approach of local economic development process assisted by special microfinance intermediary institutions.

8.5. Commercial banks are reluctant to give a loan to the poor, because they believe that they are not bankable and will not return the loan.

8.6. There is a paradigm change in economic and social activities: unemployed and poor people become creditable. To these people, credit can create economic power; it could generate income and lift them out of poverty.

8.7. Specialized financial intermediaries were created by private investors and charity organizations, socially committed help desks, group banking corporations, ethical banks, non-bank financial institutions which finance the unemployed to become self-employed, business starters and microenterprises.

8.8. There is no single policy model for microfinance promotion.

8.9. In some BSEC Member States, there is no special law on microfinance. In others, it is just part of the nation-wide financial policy.

8.10. Microcredit is not a panacea for job creation and poverty alleviation.

Recommendations

9. The following recommendations were made:

9.1. Policymakers, especially members of the parliaments, high-level officials of government institutions and financial elite are urged to understand the importance of creating jobs and self-employment, income generation, with proper use of microfinance abilities.

9.2. Existing microfinance and micro-guarantee schemes should be better promoted by relevant government ministries and microcredit development agencies and information on them should be better disseminated.

9.3. Governments are urged to create transparent laws or regulations on micro-finance limiting the risk-taking by both the borrowers as well as by financial intermediaries.

9.4. The collection of micro-credit statistics are encouraged in each BSEC Member State with a view to having a basis for devising better microfinance support policies.

9.5. The exchange of best practices should be continued. This could include setting-up website data-bases on strategies, financial models and good practices from government institutions, MFIs and banks.

9.6. Banks should consider providing lending without collaterals related to microcredits, within the framework of their national banking regulations. For such loans, special comprehensive service supply should be organized in order to decrease the costs of managing the loan and monitoring the borrower.

9.7. Governments and banks should elaborate on the development of incentive programs and financial support on grant schemes for the self-employed, start-ups, young and women entrepreneurs as well as disabled persons.

9.8. The Konrad-Adenauer-Stiftung is requested to publish national policies and best practices in microfinance for SMEs in the BSEC region.

10. The participants to the Workshop expressed their deep gratitude to KAS for its support and financial contribution to the Workshop, and to the BSEC PERMIS for the warm hospitality extended to them during the meeting in Bucharest.