



Challenges of local currency financing

An MFI viewpoint

EFSE Annual Meeting 2007 Budva, Montenegro



Microfinance in Romania

- Started 13 years ago
- Potential demand 570 million EURO
- Potential market 120,000 Micro and Small Enterprises
- Highly commercialized



Regulatory environment

- 1994 – 2000 no regulatory framework
- 2000 - G.O. no. 40 licenses NGOs to administer public funds
- 2005 – Microfinance Company Law creates the legal framework for MFIs
- 2006 – G.O. no.28 puts MFIs under the National Bank's authority
- Liberal regulatory framework for foreign/local currency financing



Opportunity Microcredit Romania

- One of the first MFIs in Romania
- Active in the Transylvania region
- Over 2,400 active loans
- Loan portfolio over 12 million EURO

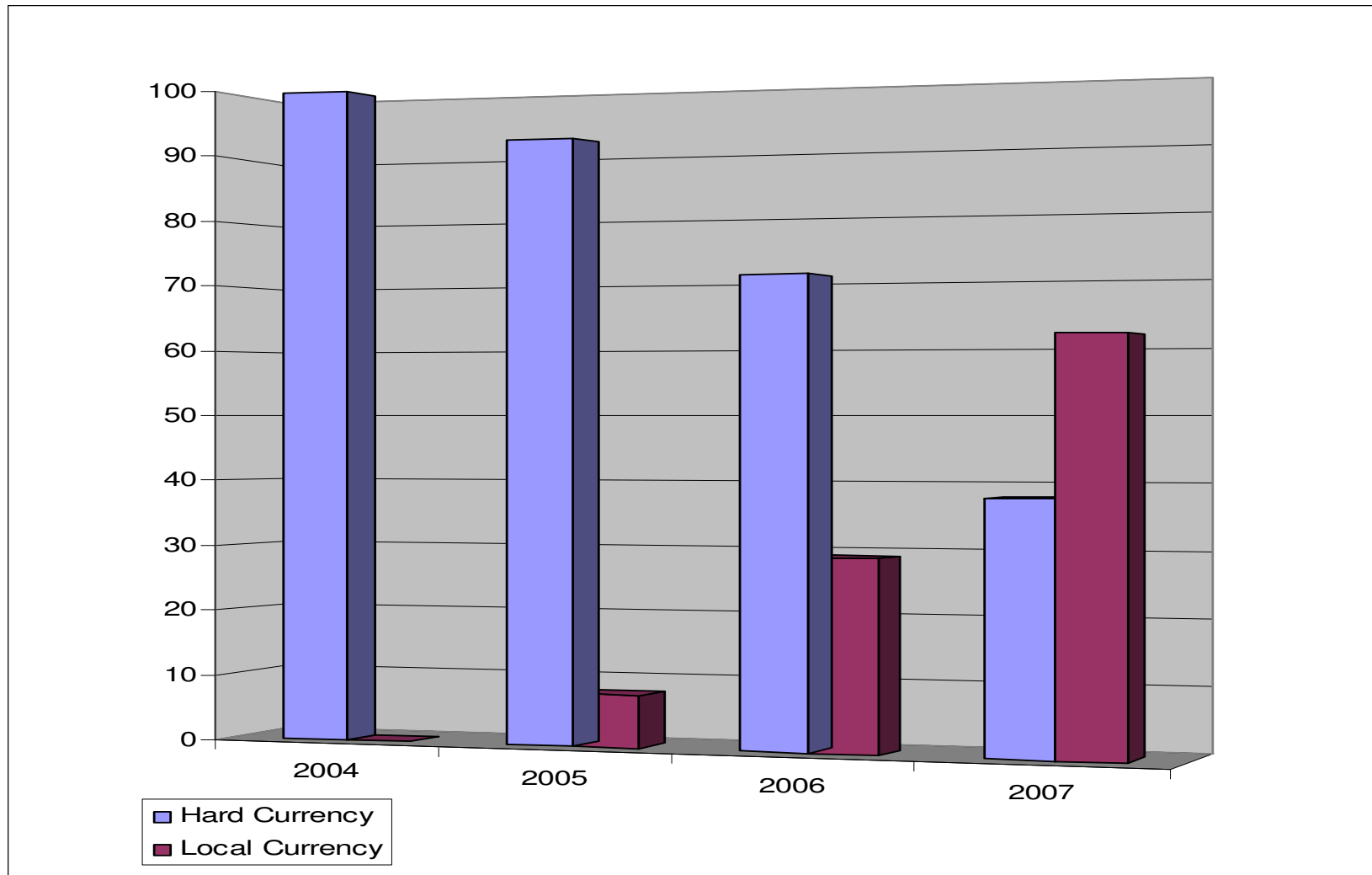


Conditions for local currency financing

- Country Stability
- Sustainability/Profitability
- Efficiency
- Quality portfolio
- Transparency



Borrowing history





Experiences and Obstacles

Investors providing loans in local currency

•Interest pricing include the currency risk component

International Funders covenants

- Must hedge
- Must maintain key ratios (Foreign Currency/Capital)



Challenges

- Predictability of the Romanian financial market
- To secure the necessary funds for growth
- Bargaining power
- Competition



Alternatives/Recommendations

- Negotiate back to back loans
- Arrange a loan participation
- Establish a quasi-guaranty fund that is formed in order to mitigate and absorb currency risks in developing economies