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# **Banking Financing for Romanian SMEs – Challenges and Opportunities**

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## **ABSTRACT**

Nowadays, the importance of the SME field becomes more and more a real basis for establishing and developing a modern, dynamic knowledge-based economy because their capacity to stimulate private ownership and entrepreneurial skills; to be flexible and to adapt quickly to a changing market; to generate new jobs. The accession of Romania to the European Union involve a lot of challenges and among them, the SME development plays a central role. So, the Romanian Government settled up the main priorities regarding the development of the small business sector: creating a business environment supportive of SME development and growth; developing SME competitiveness; improving SME access to financing; improving SME export performance; promoting an entrepreneurial culture and strengthening management performance.

An intrinsic constituent of this process is represented by the access of the companies to the financing which must be made in correlation with the adopted strategy of development, because this development needs time and, necessarily, the existence of the financing sources. The choice of these sources depends on the financial structure of the enterprise, on its financial situation. So, enterprises can choose between the internal sources and the external sources, the difference between these both being represented by their stability, their independence, their cost and the priority of the owners of capital in the situation of a bankruptcy.

Even if the internal sources are most often preferred by the managers because they assure the independence of the enterprise, these are not always sufficient. In that case, companies use the external financing sources which also have advantages as the deductibility of the expenses with the interests, what makes them less expensive.

**Key words: SMEs, financing, credit banking, risks, Romania**

**JEL Classification: G21, G32, O16**

## **1. INTRODUCTION**

One of the most serious economic problems that Eastern European countries faced during the period of transition to the market economy was the lack of a microfinancing system, a system of analysis and credit granting to microenterprises, and small and medium enterprises. Not only was the situation of Romania an exception, but it was also much more difficult because the commercial banks existing in Romania at the beginning of the 1990s were exclusively specialized in the financing of economic units of large dimensions, which were specific to centralized economy.

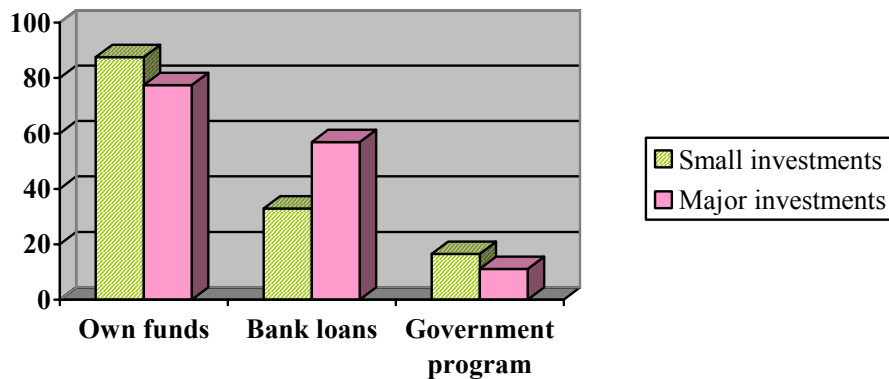
Under the pressure of the market factors, the banking system started the process of adjustment to the demands of microfinancing. Thus, commercial banks also started to include in their portfolio credits for SME. The completion of the commercial legislation in general and of the banking legislation in particular created the premises of the appearance on the market of more and more banks, among which the majority also had in their options small and medium enterprises which proved to represent a more and more dynamic component of the Romanian economy.

The lack of capital and of specialists in microfinancing was characteristic to all the European countries that were in the period of transition to the market economy. In this situation, the international financial organisms on the one hand, and the large banking groups on the other hand started a kind of offensive that still continues in the present, in order to develop systems of microfinancing in the former socialist countries. The unstable and incomplete legal system in our country, the bureaucracy in all the state structures delayed the implementation of some efficient and competitive systems in the field of microfinancing in Romania. This aspect, joined with the insufficiency of investment resources of banks directed credits towards the large enterprises, thus depriving microenterprises and SMEs of sources of enterprises financing. In contrast to Romania, in other former socialist countries in Eastern Europe, microfinancing started to develop immediately after 1990; the comparisons that can be made today show the fact that Romania is the least banked country in Eastern Europe in the field of the microfinancing of the small and medium enterprises.

## **2. THE BANKING CREDIT SYSTEM FOR ROMANIAN SMEs**

For the enterprisers to record economic performances that would ensure competitiveness and longevity on the communitarian market, they should benefit of a financial support that would allow them to train their personnel, to make investments for the purpose of modernization and retechnologization of the equipment, to have access to last minute information from all the areas of interest. The access to finances sources represents a major factor of development and growth for the SMEs sector because it influences their capacity to invest.

Despite the Government's and Ministry for SMEs, Trade, Tourism and Liberal Professions (the former National Agency for Small and Medium Enterprises and Cooperations) measures to generate a favorable background for the development of the SMEs and to improve their access to financing sources, still many deficiencies are recorded on the financing market. Hereby, the largest part of the planned investments is done on the basis of their own funds (87% for the small investments and 77.4% for the large investments). The bank loans follow, at a distance and especially for small investments, while the governmental sources of financing represent only a supplementary source (Popa, Giurcă, 2006).



**Figure no. 1. The financing sources for SMEs' investments**

Source: National Agency of SMEs and Cooperatives, *Annual Report on the SME Sector in Romania (2005)*

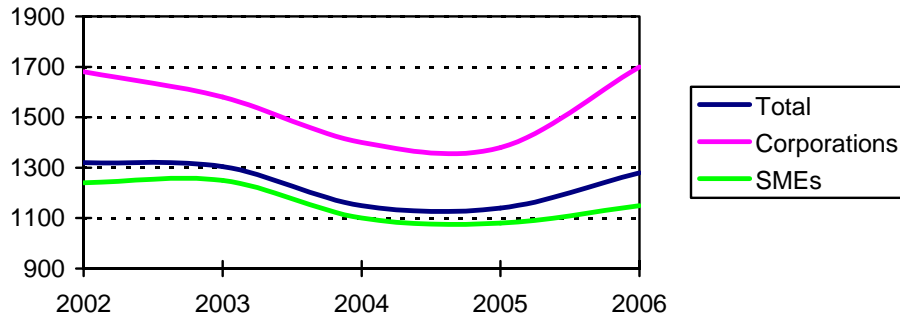
The capacity of the SMEs to use more diversified financing sources is still very low (4.9%) and there are not financed investments on the capital market.

Due to the liquidation and privatization of the most powerful banks belonging to the state, and also following the continuous growth of the number of banks with private funds, private investors, most of them foreigners, took over more and more the place of the state as a dominant force on the capital market in Romania. The stability of the banking sector is supported by much more clear legislation and by tighter supervision from the part of the National Bank. The quality of the credit portfolio, the rates of capital and the profits of the banking sector rose, and the risk that the problems of the banking system might be the main cause of the monetary instability was reduced.

Accordingly to the governmental reports of the National Bank of Romania and of the international financial organisms – especially the International Monetary Fund and the European Bank for Reconstruction and Development – the ratio between the volume of credits granted to enterprises by the Romanian commercial banks and the Gross Domestic Product is inferior to that of other countries in the period of transition.

Out of the analysis of statistic data and of other data referring to the general level of development as the inflation rate, unemployment, the living standard etc. in other countries in Eastern Europe, it follows that, on the one hand, the level of quantitative and qualitative parameters of the financing activities in the economy is correlated to the level of the macroeconomic indicators of development of a country. Where the volume of credits granted to firms is high, the level of performance indicators of the national economy is high. This is the case of such countries as the Czech Republic, Slovenia, and Estonia.

On the other hand, the volume of credits oriented towards enterprises is conditioned by the existence of a well-articulated banking system, with clear prudentiality and surveillance rules. The Herfindahl index indicate that the bank loans are more concentrated in case of corporations relative to small- and medium-sized enterprises (SMEs) (figure 2).



**Figure 2. Concentration of total loans to Romanian companies as measured by Herfindahl index**

*Source: National Bank of Romania, Financial Stability Report 2007*

During the period 2000-2006, there was registered a low quality of the credit portfolio granted to enterprises, which can also be explained, in a large measure, by the low level of the quantitative indicators and those of work productivity realized by the Romanian enterprises, especially the SMEs (table nr. 1).

**Table 1. Evolutions of the profitability indicators for companies (by size)**

Types of Companies	ROA (%)			ROE (%)			Cost of Debt (%)			Financial Leverage (%)		
	2003	2004	2005	2003	2004	2005	2003	2004	2005	2003	2004	2005
Corporations	0.74	3.49	4.11	-0.29	6.85	8.94	1.68	1.54	1.33	1.10	1.73	1.74
SMEs	6.35	8.38	6.64	25.11	33.39	23.39	1.86	1.92	1.86	4.17	3.88	3.51
Total Companies	2.32	5.04	4.97	3.20	12.31	12.37	1.75	1.68	1.54	1.52	2.17	2.16

*Source: National Bank of Romania, Report on Financial Stability, 2006*

Even the corporations' profitability registered a slightly increase caused mainly by a better resources management, in the same time, the SMEs registered a decrease of the production factors' efficiency and therefore of the profitability indicators which could affect their capacity to reimburse the credits and interest rates on the long term.

Keeping in mind that the problems appeared during the execution of contracts and the collecting of installments, reflected in the high level of the due credits and the uncollected credits, recorded both in the state-owned banks and in the private ones, are not more serious than in other East-European countries, the conclusion is that the Romanian banks are, on the one hand, with insufficient capital, and reluctant to granting credits on the other hand.

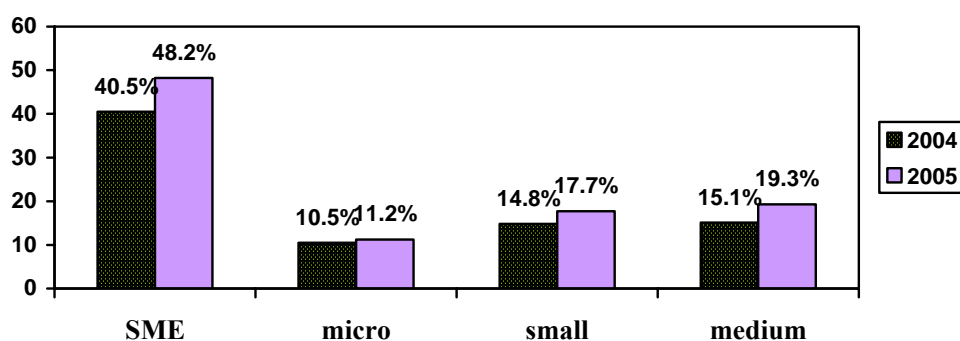
Starting from the dynamics and the role of the SME sector in the entirety of the national economy, the market analysis of the credits granted to this category of enterprises needs to take into consideration both the numeric and structural evolution in the period after 1990, and the participation of this sector in the formation of macroeconomic indicators. Concerning this last aspect, the fact that the SME sector contributed in a substantially greater proportion to the formation of the GDP, compared to the credits they took benefit of, is a notable fact. This fact is also doubled by a decrease in the frequency of the loans granted to the SME sector in the total of credits contracted by the active enterprises in the economy.

Regarding the index of the raise in volume of the analyzed credits, although it recorded a superior value in the last period, the rise that is mentioned has not the necessary quality to satisfy the existent demand on the market. Thus, according to a survey realized by the

PHARE consultants, out of the total SMEs eligible for the programs of bank financing (20% of the total SMEs), only half of them had access to this form of financing. This percentage is inferior to the share of the active enterprises in the economy, that were financed through bank loans.

Concerning the distribution of credits according to classes of size of SMEs, one can notice a reorientation of banks, from the medium enterprises, towards microenterprises, which become the main beneficiaries of bank financing programs in this field (figure 3).

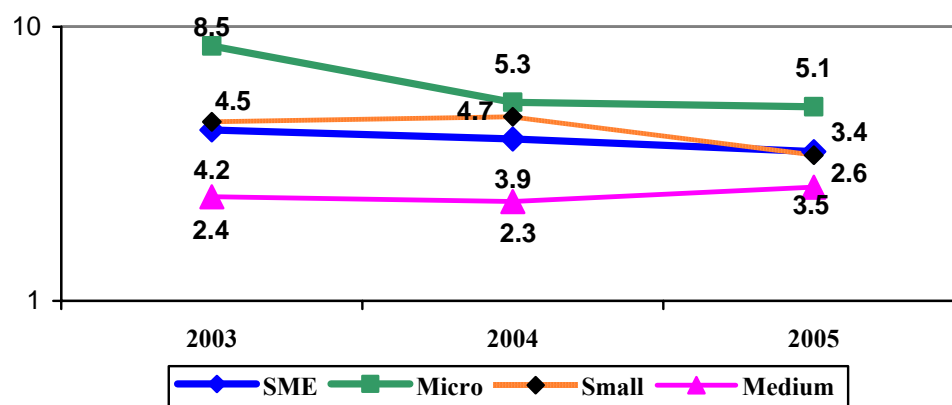
Regarding the installments of interest practiced by banks when granting loans to the SME sector, out of the data provided by two commercial banks, it follows that these are situated on the general decreasing trend of the interest rate in the system. But related to the rates of interest practiced for the other types of credits, the average rates of interest for the SME were among the highest ones (for example, in the case of one of the examined banks, the difference between the interest rate for the credits in RON for the SME and the one for the credits in RON for investments was of 3.41%, and in the case of another commercial bank, the difference between the interest rate for the credits in RON for the SME and the one for mortgage credits in RON was of 6.37%) (NIS - Annual Report, 2006; 98)



**Figure 3. The weight of the banking credits of SMEs in the total banking credits for companies**

*Source: Ministry of Public Finance*

Regarding the implications of the banking financing, the debt level of the SMEs is decreasing, but it is still much higher than the total company's debt level (figure 4). This fact imposes a control of the financing sources for SMEs in order to insure the financial stability.



**Figure 4. The evolution of the debt level for Romanian SMEs**

*Source: National Bank of Romania, Report on Financial Stability, 2006*

Regarding the destination of the credits granted to small and medium enterprises, one can notice the fact that the data provided by two of the analyzed banks show a greater share of the *credits destined to the financing of work capital related to those for investment* (58.6% compared to 40.3% in the case of the data provided by one of the examined banks).

Moreover, one can notice the fact that not all the banks include in their crediting portfolio the SME sector. Lacking external financing lines that could allow high interest margins, which means very high risk bonuses, banks are reluctant to the financing of the SME sector, for reasons that are related to one of its characteristics (the lack of history in the relationships with banks, the low credibility of the accounting status realized by these enterprises, the lack of pertinent sources of information regarding their activity etc.), which can induce to the financing activity a high uncontrollable risk.

The European Commission, the Member States and the public and private financing professionals recently examined the best modalities to improve the microfinancing of SMEs.

The new Basel II agreement relating to the demands and work standards of banks relating to the financing of SMEs imposed an extension and improvement of the procedures to use the banks rating and scoring system, a fact that had obvious effects over the clients from the SME sector (Dumitru, 2006). In order to get a good rating and a final score in the analysis of their financing and assessment file, SME need to improve the quality of information that they provide for the banks, allowing an as adequate as possible image of their financial status, of their capacity of financial and technical management of the financial capital requested from the bank, and of the capacity of future development of the business, on the short, medium and long terms. As a consequence, the increase in the transparency of the reciprocal information and the improvement of the constructive dialogue are essential elements to realize the improvement of the access to financing. Banks should initiate the dialogue with the representative organizations of the entrepreneurial field, at national level, supported by the representatives of the local and central public authorities. On the other hand, SME should improve their internal working instruments for the transmission of adequate information towards banks and other social actors. In order to do that, SME need adequate instruction in order to understand the financial terminology of banks and of their work concepts. The combination of loans with the integration of several shareholders in an SME, shareholders who bring, on their own, a financial capital for the development of the enterprise, often contribute to the substantial support of small enterprises that are at the start-up level, or of the SMEs that are at a full expansion level. Banks are encouraged to develop specific microcrediting instruments, to which access should be guaranteed by a constant legislative effort from the part of the political government system. It is recommended to involve banks, financial institutions and the financial and technical consultants of enterprises, in the development of programs of information that could educate the potential SME client regarding the innovative financing instruments.

The venture type capital is essential for the financing of the growth of an innovative SME. It has also the advantage of being an instrument that can be accessed at global level, and of involving itself in the best conditions, which is the duty of an extremely competitive environment of the market. It answers the needs of the SME by providing the best financing terms. In order to enter the competition, the venture capital markets must increase their efficiency and profitability, also taking the opportunity, in this sense, of the advantages of the unique European market system. One of the main obstacles that the new report evinces is the difficulty of the creation of national structures that should assure the operability of joint-venture companies in each country. The report recommends the elimination of the duplication of the structure at national level, through the mutual recognition among states of an actor that operates in several states of the European territory. Many businesses at the start-up level need loans, and their dimension is situated, most of the times, at low and very low levels, whose

administration costs go over the level of profitability of the financing institutions. This renders the access to loans for juridical persons difficult, with credits that are lower than 25,000 euros. The European Union recommends that the microcrediting policies should be different from the general regulations and demands for the financing of companies and from those concerning the functioning of the banking system, so that the possibility of microcrediting in non-banking institutions could be realized. At present, only two countries have a different regulating system for the non-banking institutions: France and Romania.

In this context, Romanian banks reoriented themselves, so that at present, they offer a wide range of banking products and services for the SMEs. The main categories of credits destined to SMEs (Giurca, 2005) are:

- *Investment credits*, which are granted for a short, medium or long term. Through these credits, the realization of new production capacities is realized, the development or maintenance of optimum parameters of the existing production capacities, the modernization and retechnologisation of the production capacities, tools, buildings etc. The maximum credit ceiling is of about 80% of the total value of the investment and has a warranty period of 1-3 years, according to the investment type. The necessary warranties can be real estate, movables, personal or other warranties accepted by the bank.

- *Credits for financial investment* are meant for the acquisition of nominal shares and can be used for the refinancing of share purchasing transactions.

- *Credits for real estate financing* are also granted to new founded enterprises or to those that had no activity till the date of the credit demand. It is granted on the basis of a short, medium, or long term contract (25 years maximum) in order to cover the expenses included in the real estate project. As a rule, the maximum ceiling of the credit is 85% of the value of the investment estimate. The necessary warranties can be real estate, movables, personal or other warranties accepted by the bank.

- *Loans on mortgage* are for juridical persons who want to make real estate investment or in order to repay a loan on mortgage that was previously contracted. Through these credits, expenses linked to real estate investment can be financed. As a rule, the credit level is of maximum 85% of the real estate value or of the value of the estimate. The warranties requested by the bank are: the mortgage on the real estate for which the credit is granted. When it is considered necessary, the bank can accept for completion other real estate or personal warranties.

- *Credits for the payment of budgetary liabilities* are granted to those applicants that are not bankrupt or during the procedure of enforcement. The maximum volume of the credit is established at the level of all liabilities due to the consolidated budget, at the analysis date, determined on the basis of the fiscal certificate. The loan grant is conditioned by the existence of repayment capacity of the credit and of the adjacent interest, determined following the cash-flow. The credit will be used entirely, to the extent that the payment due to the consolidated budget are discharged.

### **3. CHALLENGES AND OPPORTUNITIES ON SMES' BANKING FINANCING**

The analysis of data provided by the banks which offer financing products that are specific to SME, as well as the results of the market studies regarding the problems of SME, show more factors that hinder the development of the credit market for microentreprises and SME in Romania.

The economic potential of the SME sector, despite its important contribution to the GDP formation, is not yet perceived by the banking sector as a real economic potential in which the investment is justified and from where profit can result. The alternatives that banks have for the investment of the available funds and which they can take benefit from, given the low



level of competition in the system, can benefit in the conditions of low costs, they offer a much higher attraction to the financing of the SME sector. Moreover, there are also risks associated to it, which banks are not ready to identify and manage.

Due to this fact, in the period 2000-2006, a more accentuated increase in the GDP share of the credits granted to the population was recorded, compared to the credits that were granted to the private sector. The investment alternative of the banks funds inside retail banking offers, in relation to the SME financing, the advantage of some lower risks and costs. Regarding this last aspect, one must mention the fact that the inappropriacy of the mechanisms used by banks in the analysis and monitoring of the credits granted to the SME sector determines, on the one hand, very high operational costs, and on the other hand, high expenses with the provisions. Thus, the framing of a credit granted to a newly founded SME depends both on quantitative and qualitative factors. If banks do not have informational systems and systems of assistance of the adequate decision, they will frame the client not only according to a prudential approach, but also as a consequence of the impossibility to determine an as real as possible risk category, thus generating a maximum cost determined by the constitution of provisions. At the other extreme, there is the situation when, in an unjustified manner, the client who has been framed in a superior category does not generate any regulation cost at first, but, afterwards, due to his financial incapacity affects the bank's profitability. Therefore, it follows that the development by banks of the SME financing needs from their part, first of all, the bearing of initial operational costs generated by the implementation of some information systems and systems of assistance of the competitive decision and adapted to the specific of the SME sector. The bearing of these costs is accompanied by the widening of the client portfolio in order for the profitability level to be surpassed and to generate additional profits, profits that should match the risks that have been taken. There is an insufficient awareness from the part of SME of the financing offers of banks, following the latter's low level of transparency, therefore the improvement of the information flow between the market participants being imposed (the creation of information centers for SME, the increase in the degree of promotion by banks of the offered products, the creation of a virtual database including all the available financing programs etc.).

Banks are confronted with a lack of information concerning the business behavior of their clients, a situation mainly generated by the inexistence of a history of the relationships they had with different creditors. In order to avert this impediment, the modernization of the Center of Banking Risks from The National Bank of Romania (the extension of reporting requests for the financial institutions, the inclusion of information regarding debtors groups involved in economic relationships, the provision of consolidated information concerning the history of the credits and the payment incidents of the debtors, information regarding the frauds of credit cards) on the one hand, and the development of the activity of the newly established Credit Bureau, that is the inclusion in its data base of all information regarding the history of the SMEs relationships with banks, on the other hand, are taken into consideration.

The advantages of the Private Credit Bureau are multiple, the beneficiaries of this institution being found not only inside the credit institutions (the reduction of operation costs, the decreasing of the losses caused by the non-reimbursed credits, the possibility of a better trust of credit risk) but also inside the SMEs (the reduction of formalities requested by creditors, the diminishing of loan cost, the reduction of answering time for the crediting requests, the diminishing of the value of requested guarantees). Moreover, the data base of such a credit bureau is much more comprising compared to the one administered by the Center of Banking Risks, the participants to this entity not being limited to the crediting institutions. Therefore, based on the principle of reciprocity (imposed by the international practice), according to which, only those who supply information to the bureau may benefit from the offered services, *leasing* companies, companies of financial investments, insurance companies,

utilities suppliers, traders, companies of fix and mobile telephones, etc., are expected to participate in this system. At the same time, the data base will comprise information related to the credits whose value is situated under the existing minimum limit of the reports made towards the Center of Banking Risks (200 million lei).

Banks do not hold a sufficiently developed territorial network, aggravating the SME access to this financing modality. Moreover, the crediting programs for the SME are not unreeled through all branches of a bank. For example, one of the analyzed banks which has benefited from a BERD financing line for the SME crediting, with a value of 10 million euro, has a network of branches with a relatively reduced degree of territorial covering. These limitations of the banking infrastructure generate, in many geographical areas, a lack of competition between tenderers, with direct implications on the crediting costs bore by the SME.

The SME faces difficulties when presenting guarantees at the levels asked by the banks (usually situated between 150% and 200% compared to the level of the requested credit), a fact which determines their orientation towards other financing sources (the commercial credit, for example). This aspect is generated by the fact that, since the vast majority of SMEs activate in areas such as commerce and other services (over 80%), they have a relatively reduced number of fixed assets, not being able to offer the requested guarantees.

The setting up of the guarantee funds of the credits that the SMEs may use represents a first step in the solving of this situation. The most important funds of this type are: The National Fund for the Credits Guarantee for the Small and Middle Enterprises (NFCGSME), the Fund for the Guarantee of Rural Credit and the Romanian Fund of Credit Guarantee for Private Enterprising. Further measures are necessary so that the guarantee system should become fully functional; therefore, concerning the NFCGSME, it is necessary to take into consideration the raising of the taking degree for banks, for the offered guarantees, that is the extension of the guarantees on the interest as well, the existence of an explicit warrant from the state, which would have as effect the diminishing of bank's exposure from the credits and the modification of the present way in which the fund bears possible losses. Concerning this last aspect, we should mention the fact that the existing variant is not favorable to the banks, determining a difficult and long-term process of capitalization of fund's guarantees, which takes place after all the other approaches a bank makes in order to recover the credits (the capitalization of other warrants).

At the same time, from the SME point of view, the use of such guarantees involves the increasing of financing costs, since the commissions of NFCGSME vary between 2.5% and 3.5%, related to the reimbursement term of the credit (National Bank of Romania, 2003).

At present, one can observe the inexistence, in the Romanian banks' portfolio, of the credits granted to the newly-formed SMEs or to those which have not started their activity but take into consideration the beginning of an investment, though the eligibility criteria stipulated by some of the financing programs of external funds do not exclude this category of beneficiaries (for example, the BERD financing programs). The causes which have led to this situation are multiple. One of these causes is represented by the reduced level of the owned properties which may be considered a warrant for credits (taking into consideration the fact that, at least in this crediting sector, a preference of the banks for the tangible guarantees is obvious). Other causes would be the enterprisers' lack of knowledge concerning the elaboration of a business plan and of the documents requested by the bank as well as the difficulties banks face when evaluating the crediting files since they do not have a functioning history of those commercial companies.

From the banks' point of view, the crediting of the new-formed SMEs assumes a high cost of opportunity. Therefore, this category of enterprises, due to its limited capacity of generating short-term and medium-term financing flows, finds itself in the impossibility of contracting

loans of superior values to the profitability level of the funds allocated by the banks for the SME crediting (Pîrvu et al , 2007). This situation directly influences the interests' rates where the crediting may take place, not allowing banks to supply some accessible products to the newly-formed SMEs.

A solution to this problem may be the funding of interests by the Government or the use of external funds (BERD, PHARE, KFW, etc.). Concerning the governmental funds, though, generally, this support form is to be avoided in order not to change the competition on the credit market, they may be used for a strictly limited category of beneficiaries, as the newly-formed SMEs. An example in this case is formed by the "Start" program which took place in the Czech Republic through Czech-Moravian Guarantee and Development Bank, through which, as a result of the governmental funds, credits are given to the new SMEs without any interests.

Such programs do not solve the problem of the further financing of the newly-formed enterprises, since the appearance of new factors which restrict their access to the bank credits may cancel the positive effects of the support granted during the first steps of the SME development.

Another problem, situated at the level of the request, is represented by the fact that, the micro enterprises are in fact the majority of SMEs and their reduced volume of activity determines an orientation of the financing request, not only for the sustaining of current activity (treasury credits) but also for investments, towards the credits with reduced value, under the profitability level of the banks. Therefore, the credit need of SME can only be partially satisfied by the banks because of the fact that they have to create a portfolio which would insure their profitability on the whole of the crediting activity in this area.

Besides the general causes which restrict the crediting market for the SME (the high level of interest rates and of requested guarantees, lack of training of the grantees, etc.), in the case of micro financing, there are also specific breaking factors, as the asymmetry of information. This aspect refers to the impossibility of micro enterprises to be perceived as solvable potential clients by the credit institutions, because of their reduced dimensions as well as because of the traditional techniques of evaluating crediting files used by the banks. This situation may be solved by the use of some specific devices of micro financing analysis, as the evaluation based on the forecast of cash flow. From the point of view of the bank, a profitable activity in this domain assumes the creation of a portfolio of high dimensions and the establishment of a critical level, which would generate high operational costs. These may be diminished by the use of some packets of performance software applications by the banks (management information system) (Mehediñu, 2008).

At the same time, the development of micro financing banks may establish the connection of the supply to the request for the financing of micro enterprises. This process represents one of the methods used by the European Bank for Reconstruction and Development for the financing support of SMEs. In addition, these institutions may impel the competition on the micro financing market.

The weak representation of the long-term credits offered to the SMEs is obvious in the offer of the banks, having as possible causes the macro-economic instability (the inflation rate), the high uncertainty degree concerning the life span of the SMEs and the lack of long-term financing sources. Related to this aspect, a solution may be represented by the establishing of some specialized organisms which would purchase the credit portfolio given to the SMEs by the banks, which would offer the advantage of avoiding the problems related to liquidity. In addition, in order to be able to use this system, the banks would be stimulated to carefully fund the portfolio of credits granted to SMEs, to ensure a proper quality.

Taking into consideration the fact that an important part of the external funds for the financing of the SMEs are unreel through Agencies of Regional Development (especially

grants), the giving up to this system, at the same time with the increase of the implication degree of the commercial banks, especially of those of micro financing, for such funds, would have benefic results for the development of credit market. Therefore, a form of implementation of programs would be represented by the grants accompanied by credits from the own sources of the bank, which would also determine an adequate allocation of external funds.

#### 4. CONCLUSIONS

The analysis of data concerning the credits offered by the Romanian banking system and of the information from the SME area indicates an obvious discrepancy: banks mainly offer credits to big enterprises which hold enough fixed assets for the guarantee of the credits. By contrast, the micro enterprises and the small and medium enterprises have limited access to the financing sources offered by the commercial banks specialized in the “corporate” type crediting for powerful enterprises or industrial groups with private or state capital.

The reasons of the limited access of SMEs to the banking credits are the difficult legislative environment, the bureaucracy from the banking structures, a lack of interest from the banks to get involved in serious commitments for the small credits and micro-credits and – in some cases - the designing of some credit lines without taking into account the specific of small and middle enterprises.

In order to attenuate the financing constraints which the Romanian SMEs are confronted to, the international community has started numerous programs focused on this type of enterprises. The majority of programs are designed under the shape of credit lines supplied for the partner selected banks or other institutions, accompanied by the technical assistance.

The experience from other transition countries show that the setting up of a bank oriented towards a target group formed of micro enterprises and small and medium enterprises may help the attenuation of the constraints in their financing of resources needs.

The micro financing banks are distinguished through characteristics which significantly differentiates them from the universal commercial banks. The target group of the financial services, and especially of the credits, is the segment formed of micro-enterprises, small and medium enterprises and family associations. The analysis of credit requests is made through the consolidation of the positions from the active balance of the firm with the own assets of the enterpriser seen as a physical person; this concept is exclusively specific to the micro financing banks, the only ones which conceptualize the indissoluble bounding between the micro enterpriser as physical person and the firm he manages in his quality of stockholder-manager.

The micro financing banks operate in accordance with the principles of private enterprises. As a consequence, they will be interested in attracting as many clients as possible, in placing as much capital as possible with a high rotation speed, under the conditions of maximum prudential. They will lead pragmatic politics for the selection of clients and monitoring of credits with benefic effects on the quality of their assets as well as on the activity of the loaned firms. From the experience of some micro financing banks which operate in neighbor countries, a very good quality of the micro-credits portfolio is resulted.

The comparative analysis of data and information concerning the structure of the sector of small and medium enterprises from Romania and from other European transition countries, the favorable effects generated by the financing programs for SMEs in our country and in other countries from the Eastern Europe, allows the conclusion that in Romania we really need the development of an articulated system of micro-financing of small and medium enterprises.

This system may be accomplished taking into consideration the fact that the legislation which governs the functioning of the banking system in Romania allows the establishment and functioning of the banks specialized in micro financing activities. Therefore, The National Bank of Romania has established by the banking law the role of authority in the field of authorization and controlling in the Romanian banking system and it has established own rules and norms concerning the setting up of commercial banks and credit operations.

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