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Commercial banks' contribution to rural development in Romania: an overview

Abstract: *This paper represents a modest initial attempt to assess the involvement of the banking sector in the development of the rural sector in Romania during this country's first year as an EU member state. In theory, there should be at least two main reasons to make the rural sector an interesting proposition from the banks' perspective: the beginning of the disbursement of European funds, under the Common Agricultural Policy (C.A.P.), and the remittances of Romanians working abroad, the majority of which come from the rural sector. In practice, however, this interest has failed, so far, to materialize: the banks have increased very marginally (or even decreased) their presence in the countryside. One aspect worth considering at this stage is, therefore, if the banking infrastructure has the characteristics of a public service, whether the state should sustain a (non-profit oriented) bank to supply the much needed services, until the private sector funds it worthwhile to get fully involved in activities that today are not very profitable. The paper is organized as follows: the first chapter looks at the supply of banking services, the second chapter tries to assess potential demand for such services and the final chapter draws some conclusions.*

Keywords: *banking services, rural sector, Romania*

Supply of banking services in the rural sector of Romania

During 2006, the last pre-accession year, the commercial banks present in Romania have expanded aggressively, in their quest for a larger market share: from some 3,300 units at the beginning of that year, to some 4,400 units by the year-end. However, very little (if any) of that expansion has occurred in the rural sector. The causes of this phenomenon are manifold:

- (i) – there is still huge potential for credit growth in the cities, not only in corporate and retail banking, but also in housing and infrastructure. It seems that until this potential is exhausted, banks will not turn their eyes to other, less profitable, activities;
- (ii) – the rural sector in Romania suffers from a huge under-investment in utilities (water, sewerage, gas, paved roads), which makes it difficult for non-agri-

cultural activities (such as small industry or services) to start a business there; in turn, this diminishes the appetite of banks to lend in the rural areas;

(iii) – so far, Romanians working abroad have developed informal ways of transferring money earned abroad or ways which bypass the banking system (through firms like Western Union, Money Gram etc.).

(iv) – because Romania was not an EU member, it was not eligible, so far, for CAP policies.

For all these reasons, the presence of commercial banks in the rural sector in Romania has been modest. In fact, as Table 1 shows, more than 85% of the banking units in the countryside belong to the Savings Bank (CEC = Casa de Economii si Consemnatiuni), a state-owned bank set back in 1864 but used dur-

Table 1. Banking units in the rural area as of December 31, 2006

No.	County	Number of units	of which:			No.	County	Number of units	of which:		
			CEC	Top 5*)	Others				CEC	Top 5*)	Others
1.	Alba	13	13	0	0	22.	Hunedoara	4	4	0	0
2.	Arad	30	25	3	2	23.	Ialomița	24	23	1	0
3.	Argeș	33	27	6	0	24.	Iași	22	13	8	1
4.	Bacău	26	22	1	3	25.	Ilfov	35	13	10	12
5.	Bihor	34	26	1	7	26.	Maramureș	19	14	4	1
6.	Bistrița-Năs.	24	21	3	0	27.	Mehedinți	15	15	0	0
7.	Botoșani	37	28	3	6	28.	Mureș	32	28	2	0
8.	Brăila	23	21	2	0	29.	Neamț	33	29	2	2
9.	Brașov	22	20	2	0	30.	Olt	27	26	0	1
10.	Buzău	46	42	1	3	31.	Prahova	25	21	3	1
11.	Călărași	18	16	1	1	32.	Sălaj	30	28	2	0
12.	Caraș-Sev.	5	4	0	1	33.	Satu Mare	15	14	0	1
13.	Cluj	23	19	3	1	34.	Sibiu	16	15	0	1
14.	Constanța	13	9	3	1	35.	Suceava	45	41	4	0
15.	Covasna	13	13	0	0	36.	Teleorman	37	31	4	2
16.	Dâmbovița	17	16	0	1	37.	Timiș	30	26	2	2
17.	Dolj	42	39	1	2	38.	Tulcea	18	18	0	0
18.	Galați	28	22	2	4	39.	Valcea	25	23	1	1
19.	Giurgiu	25	23	1	1	40.	Vaslui	13	13	0	0
20.	Gorj	12	12	0	0	41.	Vrancea	28	27	1	0
21.	Harghita	29	27	0	2	Total		1006	867	77	62

Note: *) BCR, BRD, Raiffeisen, HVB Țiriac + Unicredito, Transylvania

Source: BNR

ing the Communist regime to channel the individuals' savings into the economy. Due to its former role, CEC has inherited not only the largest network, but also a good reputation with the ordinary Romanian (to which has contributed, until recently, the full coverage by the state of the deposits, before the bank became subject to the same deposit guaranteeing rules as the rest of the banks).

Of the top five Romanian banks by assets, three (BCR, BRD and Raiffeisen) are former Romanian state-owned banks, which have been privatized with foreign investors: BCR with Erste Bank, BRD with Soci t  Generale, and Banca Agricola with Raiffeisen. What is really striking is that, after acquiring Banca Agricola in 2001, Raiffeisen has closed most of its rural outlets, so that the bank had, by end-2006, only 7 units in the countryside. All in all, the top 5 largest banks had only 77 units in the rural sector, by end-2006, which is less than one-tenth of the number of units of CEC.

In this context, a very important issue needs to be raised: if the private sector is not yet interested in the rural sector of Romania, would it be advisable to privatize CEC with a profit-maximizer (Romanian or foreign) that would close the vast majority of units and, by doing this, deprive many rural inhabitants of banking services? Or does it make more sense to keep CEC in the state's property and accept some less viable units just in order to ensure a wider coverage of the country with financial infrastructure? This is not a merely theoretical question, having in view that CEC has been twice offered for privatization (in 2002 and 2006) and both times, the Romanian state rejected the received bids.

One aspect is certain: there is huge under-supply of banking services in the rural sector of Romania and this under-supply risks widening if CEC is privatized with a profit-maximizer. Given this, it seems to us that the best attitude would be for the state to keep CEC (and its present network) for a few more years, until the private banks become interested in the rural sector.

This brings us to our next topic, namely the concentration of banking units by regions and counties. We try to analyze if individual banks have pursued a strategy (or not) when expanding into the countryside. The situation is presented in Table 2.

As one can see, out of the top 5 banks, only BCR and BRD have a sufficient number of units that would justify a "territorial strategy": 22 and 33, respectively. In the case of BCR, one third of the rural units (7) are located in the poorest, North-East region, which should not be surprising, given the large number of migrants originating from this area. Another 5 units are concentrated in the North-West region, which is the closest to the Western border. Also, in the case of BRD, the North-West region seems to be favored (with 6 units out of 33) but also the South region (with 9 units).

From the other 35 banks, only two have a significant rural presence: Carpatica and Creditcoop. Carpatica is a privately owned Romanian bank, with its headquarters in Sibiu, in the Center Region. In the last couple of years, it has

Table 2. Concentration of rural banking units by bank and by region^{*)}

Region	Top 5					LEUMI	CARP	FIRENZE	BPOST	CRCOOP	PROC	PIR	OTP	City	RIB
	BCR	BRD	RFZ	HVB+ UNI	TRL										
North-East															
1. Bacău	-	-	-	1	-	-	2	-	-	1	-	-	-	-	-
2. Botoșani	3	-	-	-	-	-	1	-	-	5	-	-	-	-	-
3. Iași	1	5	-	1	1	-	-	-	-	1	-	-	-	-	-
4. Neamț	-	1	1	-	-	-	2	-	-	-	-	-	-	-	-
5. Suceava	3	1	-	-	-	-	-	-	-	-	-	-	-	-	-
6. Vaslui	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
South-East															
7. Brăila	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8. Buzău	-	1	-	-	-	-	2	-	-	1	-	-	-	-	-
9. Constanța	-	2	1	-	-	-	1	-	-	-	-	-	-	-	-
10. Galați	-	-	1	1	-	-	4	-	-	-	-	-	-	-	-
11. Tulcea	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12. Vrancea	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
South															
13. Argeș	-	3	2	1	-	-	-	-	-	-	-	-	-	-	-
14. Călărași	-	-	1	-	-	-	-	-	-	1	-	-	-	-	-
15. Dâmbovița	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-
16. Giurgiu	1	-	-	-	-	-	1	-	-	-	-	-	-	-	-
17. Ialomița	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18. Prahova	-	2	-	1	-	-	-	-	1	-	-	-	-	-	-
19. Teleorman	-	4	-	-	-	-	-	-	-	2	-	-	-	-	-
South-West															
20. Dolj	-	1	-	-	-	-	-	-	-	1	1	-	-	-	-
21. Gorj	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
22. Mehedinți	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
23. Olt	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-
24. Vâlcea	-	1	-	-	-	-	-	-	-	1	-	-	-	-	-
West															
25. Arad	2	-	-	-	1	-	-	-	-	2	-	-	-	-	-
26. Caraș-Severin	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-
27. Hunedoara	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
28. Timiș	-	2	-	-	-	-	1	-	1	-	-	-	-	-	-
North-West															
29. Bihor	1	-	-	-	-	-	1	-	-	6	-	-	-	-	-

30. Bistrița-Năsăud	2	1	-	-	-	-	-	-	-	-	-	-	-	-	-
31. Cluj	-	1	-	1	1	-	-	-	-	1	-	-	-	-	-
32. Maramureș	-	4	-	-	-	-	1	-	-	-	-	-	-	-	-
33. Satu Mare	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-
34. Sălaj	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Center															
35. Alba	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
36. Brașov	-	2	-	-	-	-	-	-	-	-	-	-	-	-	-
37. Covasna	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
38. Harghita	-	-	-	-	-	-	1	-	1	-	-	-	-	-	-
39. Mureș	-	-	-	-	-	-	2	-	-	-	-	-	-	-	-
40. Sibiu	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-
Bucharest-Ilfov															
41. Ilfov	3	2	1	2	2	1	1	1	3	2	-	2	-	1	1
Total	22	33	7	8	3	1	23	1	6	25	1	2	1	1	1

Note: *) excepting CEC units

expanded aggressively in the rural area, citing as reasons the large numbers of Romanians working abroad and the CAP funds that will come after accession. However, this is an isolated case and it remains to be seen if the general reluctance of the private sector to invest in the Romanian countryside will pay off or not. Creditcoop is a network of mutual-type banks, with a national coverage (the only one of 10 similar network that has received NBR's authorization). Their strategy is less clear, because they should cater specifically for the needs of rural dwellers, where they have a niche and a comparative advantage; instead, Creditcoop has chosen to have most of its outlets in towns and cities, where it can hardly compete with commercial banks.

Another bank worth mentioning at this point is Bancpost, a bank that could have used the postal network (with a national coverage) to provide banking services and to compete with CEC. Instead, it chose to restrict itself to postal services and its 6 rural units are a mere remainder of what this bank could have achieved with a bolder approach.

Potential demand for banking services in the rural sector

Romania is organized in 41 counties (judete), plus the capital city of Bucharest. The latter, together with the Ilfov County, represents a development region, while the other 40 counties are grouped in 7 development regions, of around 2.5 million inhabitants each (see map).

Romania preserved, through much of the 20th century, the characteristics of a backward, rural society, with more than 50% of the population living in the countryside. It was as late as the '80es that the share of urban dwellers sur-

passed, for the first time, 50% of the population. The country lives until today with this terrible legacy, because more than 45% of its population is still living in the countryside. If the country was a developed one, like Belgium or the Netherlands, this would not make a big difference, because country-side dwellers would enjoy living conditions that are similar (or better) than city – dwellers. In the case of Romania, however, life in the countryside means, most of the times, lack of even the most elementary infrastructure (water, sewerage, gas, paved roads). The only infrastructure that covers virtually all of the country is the electricity network. Under these circumstances, when almost half of the population lives in XIX century conditions, while the other half lives in XXI century conditions, the question about banking services availability becomes very acute.

Table 3 shows the potential demand for banking services in the rural sector of Romania. What is striking from this table is that there exists not only a historical legacy to be overcome, but also a geographical one: while from the 16 countries of Transylvania and Banat only 4 have a predominantly rural population, in the rest of the country (“the Old Kingdom“), out of 25 countries, 20 are predominantly rural. The Communist regime’s attempt to heavily industrialize mainly the south and the east of the country has yielded only limited results concerning the urbanization of the population, many of the first-generation city inhabitants returning to the countryside after 1989, when their obsolete factories were closed. If it were not for the massive temporary migration (especially after 2002), which involves 1.5–2 million Romanians, one could argue that Romania could have become, again, a predominantly rural country (if migrants were to be counted by their place of living).

The administrative units at the rural level, the communes (comune), which are 2851 in total (by mid 2006) are only sparsely covered with banking units (897, which means less than one commune in three). Again, given the large share held by CEC, its privatization, followed by a closure of most of its units would make this poor indicator even poorer.

Another striking fact that emerges from Table 3 is the fact that 2 counties which are not among the poorest (Caras-Severin and Hunedoara), and which, moreover, are located close to the Western border, have a banking coverage of their communes of less than 10 percent. This is contrasting with the situation of much

Table 3. Potential demand for banking services in the rural area

No	County	Number of inhabitants (rural)	% in total number of county inhabitants	Number of rural inhabitants/ banking unit	Total number of communes	Number of communes with banking units	Degree of rural coverage (%)
1.	Alba	158297	41,8	12176	66	13	19,7
2.	Arad	204062	44,5	6802	68	26	38,2
3.	Argeş	334440	51,9	10134	95	29	30,5

4.	Bacău	389745	54,0	14990	85	23	27,0
5.	Bihor	294919	49,6	8674	90	27	30,0
6.	Bistrița-Năs.	201480	63,4	8395	58	21	36,2
7.	Botoșani	266156	58,3	7193	71	30	42,2
8.	Brăila	128051	34,8	5567	40	22	55,0
9.	Brașov	151505	25,4	6886	48	20	41,7
10.	Buzău	287350	58,5	6246	82	43	52,4
11.	Călărași	194560	61,5	10808	49	17	34,7
12.	Caraș-Sev.	143574	43,4	28715	69	4	5,8
13.	Cluj	228272	33,1	9924	75	20	26,7
14.	Constanța	209724	29,3	16133	58	10	17,2
15.	Covasna	111296	49,7	8561	40	13	32,5
16.	Dâmbovița	367904	68,7	21641	82	17	20,7
17.	Dolj	332237	46,4	7910	104	39	37,5
18.	Galați	267220	43,2	9543	60	23	38,3
19.	Giurgiu	195760	68,8	7830	51	23	45,1
20.	Gorj	203295	53,0	16941	61	12	19,7
21.	Harghita	182193	55,8	6282	58	27	46,5
22.	Hunedoara	110153	23,1	27538	55	4	7,3
23.	Ialomița	158035	54,3	6584	58	23	39,6
24.	Iași	429387	52,1	19517	93	16	17,2
25.	Iłfov	167394	58,0	4782	32	19	59,4
26.	Maramureș	212216	41,2	11169	63	15	23,8
27.	Mehedinți	154601	51,3	10306	61	15	24,6
28.	Mureș	276185	47,3	8630	91	28	30,8
29.	Neamț	349967	61,6	10605	78	30	38,4
30.	Olt	284687	59,4	10544	104	26	25,0
31.	Prahova	406142	49,3	16245	90	24	26,7
32.	Sălaj	144848	59,1	4828	57	28	49,1
33.	Satu Mare	198762	54,0	13250	59	14	23,7
34.	Sibiu	137672	32,5	8604	53	15	28,3
35.	Suceava	400225	56,7	8893	97	41	42,2
36.	Teleorman	276428	66,2	7471	92	32	34,8
37.	Timiș	245710	37,2	8190	85	26	30,6
38.	Tulcea	127736	50,7	7096	46	18	39,1
39.	Vâlcea	226153	54,7	9046	78	24	30,8
40.	Vaslui	267853	58,6	20604	81	13	16,0
41.	Vrancea	244233	62,1	8722	68	27	39,7
Total		9670427	49,2	9613	2851	897	31,5

Note: *) On June 30, 2006

Source: BNR

poorer and eastward-situated counties such as Botosani and Tulcea, where around 40 percent of the communes have a banking unit. The explanation, again, has to do with two aspects:

- (i) – The legacy of the Communist regime, which took care to spread banking (especially CEC) units mostly to the poorest areas;
- (ii) – The lack of a clear strategy from the private or privatized banks, after 1990.

One important source of demand for rural banking services will come, in the future, from the money disbursed by the European Union. According to the National Program for Rural Development (2007–2013), updated in June 2007 by the Romanian Government, the total public contribution under the European Fund for Agriculture and Rural Development would represent around EUR 9.97 billion for the seven-year period, out of which EUR 8.02 billion (or 80.4% of the total) would be European money and the remainder would be the Romanian public contribution. These funds cover all four axes of development and the measures established during previous negotiations. Obviously, such large amounts should be channeled in ways that are attractive to the end-users, i.e. through banks, which are located as closely as possible to them. It would be awkward to expect rural entrepreneurs to travel to the nearest city as often as they need a banking operation connected to the disbursement of European funds. Therefore, it is strange how slow commercial banks are to react to this new incentive to set units in the countryside. True, Romania has not performed impressively so far in attracting European money, but things are likely to change dramatically in the future and banks that will move quickly will tap an important source of revenues.

Another important potential source of income for banks are the remittances of Romanians working abroad. A previous study, by Diminescu, Dumitru and Lazea (2004) has estimated at 80% the proportion of Romanians working abroad originating from the countryside. On the other hand, estimates by the National Bank of Romania put the private remittance for 2007 at more than EUR 5.3 billion. Even allowing for a diminishing share for those with rural origins, more than EUR 3 billion would enter Romania on a yearly basis having as destination families living in rural areas. This amount is nearly three times larger than the potential European funds for rural development, and should constitute, indeed, the main target of banks. This is especially true for banks with headquarters in Spain, Italy, and Portugal, where the bulk of Romanian workers are located. So far, there has been little evidence of banks developing a particular strategy in this direction. In fact, there is no Spanish bank operating in Romania and the first Portuguese bank, Millennium b.p.c., will only start operating by end-2007.

There are specialists that describe the future of rural banking as a huge leap-frogging to the digital era, whereby farmers will perform banking operations through

their cellular phones or other similar devices. Without being specialists in this field, we doubt that this will happen, given the computer literacy that one needs to have and which is currently unavailable.

Conclusions

The data presented point to the fact that potential demand for banking services by far exceeds the supply of such services. So far, banks have been slow to respond, mainly due to the very profitable lines of business developed in the cities. However, with competition quickly eroding the profit margins, there will be an incentive to move to other, untapped, businesses, such as rural financing.

Below is a list of steps that commercial banks might want to consider, in order to increase their presence in the rural area:

- (i) – Start with mobile units, which can move from one commune to the other; this would decrease costs (both fixed and wage-related), while ensuring that rural dwellers have access to banking services;
- (ii) – Concentrate upon the counties (județe) with the lowest rural banking coverage, such as Caraș-Severin, Hunedoara, Vaslui, Iași, Constanța, Alba;
- (iii) – Concentrate upon large communes (comune), with more than 10000 inhabitants, that do not have any bank units;
- (iv) – For banks with headquarters in cities other than Bucharest (Cluj-Napoca, Târgu Mureș, Sibiu, Arad), concentrate on expanding in the region they know best;
- (v) – For banks with headquarters in Italy, Portugal and other countries with a large Romanian working force, devise strategies to attract those people's remittances. In this respect, a diminishing of the fees associated with money transfer would help greatly;
- (vi) – For credit co-operatives, concentrate upon the rural area, where they have a comparative advantage and where the principle of mutualism can be easier applied;
- (vii) – Last but not least, CEC should remain in state hands, at least until the moment when private banks expand significantly into the rural area.

This paper represents a very modest initial attempt to assess banks' presence in the countryside. More in-depth studies are needed to document the efficiency of such a presence. However, data point to the fact that there will be growing incentives to move to this area, and that the first movers will have most to gain.

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