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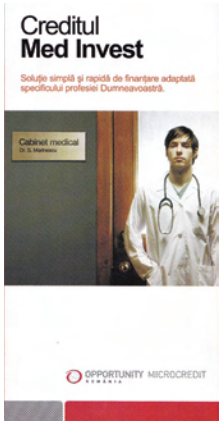
ROMANIA: MODELS FOR COMMERCIAL FINANCING OF AN EMERGING PRIVATE HEALTH SECTOR
THE BANKING ON HEALTH PROJECT



September 2009

The Banking on Health Project produced this publication for review by the United States Agency for International Development.

Banking on Health

Recommended Citation: Tarantino, Lisa, and Maria Doiciu. 2009. *Romania: Models for Commercial Financing of an Emerging Private Health Sector.* Bethesda, MD: Banking on Health, Abt Associates Inc.

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Contract/Project No.: GPO-I-00-04-00007-00

Submitted to: USAID
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Office of Population and Reproductive Health
United States Agency for International Development

Photos: Banking on Health, Libra Bank, Banca Transilvania, and Opportunity Microcredit Romania

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LIST OF ACRONYMS

BoH	Banking on Health
FP	Family Planning
GDP	Gross Domestic Product
MFI	Microfinance Institution
NHIH	National Health Insurance House
OMRO	Opportunity Microcredit Romania
RH	Reproductive Health
RON	Romanian New Lei
SME	Small and Medium Enterprises
USAID	United States Agency for International Development

ACKNOWLEDGEMENTS

The authors gratefully acknowledge Mr. Fady Chreih, director of the Healthcare Division of Banca Transilvania; Mr. Emil Bituleanu, president of Libra Bank; Ms. Virginia O'Neil, professionals project manager, Raiffeisen Bank; and Mr. Janos Berescki, director of credit, Opportunity Microcredit Romania for sharing time and information without which this study would not have been possible.

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INTRODUCTION

The private sector's role in providing reproductive health (RH) and voluntary family planning (FP) services has increased worldwide, and strengthening this often fledgling sector is a key strategy to improving health outcomes. Limited access to financing, however, has constrained the private health sector's development. Financing is an essential input that assists the private sector in expanding its range and types of services, entering underserved areas, and improving its quality.

To address this problem, the United States Agency for International Development (USAID) designed the global Banking on Health (BoH) project. BoH's two-pronged approach to increase access to financing includes working with local financial institutions to promote health sector lending and improving credit-readiness among private providers. Since 2004 BoH has worked in 12 countries in Europe and Eurasia, Africa, Latin America, Asia, and the Middle East to increase access to finance for private health care providers that offer reproductive health and family planning services.

This case study describes BoH's work in Romania in 2006 and 2007, the actions financial institutions made to increase their lending to the private health sector, and the results of those steps. The financial institutions' innovative marketing and product development led to an increase in lending of more than $170 million to 8,500 borrowers between 2007 and early 2009, and it can be an example to banks in other countries that are interested in expanding their lending to this sector. Romania entered the European Union in January 2007, and U.S. development assistance to it ended in April 2008. As the worldwide financial crisis gripped Romania in late 2008 and early 2009, the health sector portfolios of these banks continued to perform well, demonstrating the resilience of the sector even in hard economic times. This case study details lessons learned from this experience for banks, donors, and technical assistance providers working to achieve expanded and sustainable commercial financing for the private health sector.

BACKGROUND AND OBJECTIVE

Romania is a model in the Europe and Eurasia region for its tremendous gains in women's health since 1994. When USAID began working in Romania in 1990, the World Health Organization ranked women's health there as the poorest in the region. USAID supported family planning and reproductive health (RH/FP) programming from the early 1990s that contributed to the improvements in women's health. The nearly 11,000 family doctors operating throughout the country are a major factor in Romania's success. Their practices are contracted out to provide a basic package of health care, including FP, through a national health insurance scheme. USAID worked with the government of Romania to bring about health policy reform allowing family doctors to provide FP counselling and products; previously these products and services were available only from specialists in major urban areas, limiting access for women in poorer, rural regions.

In addition, the USAID-funded Romania Family Health Initiative provided clinical training in RH/FP to more than 5,000 of these family doctors, primarily ones in rural areas. Significantly, in Romania the abortion rate dropped from 4.1 abortions per woman on average in 1993 to an estimated 0.84 per woman in 2004. Total use of contraception increased from 41 percent of women of reproductive age

in 1993 to 58 percent in 2004. Many strategies and factors are responsible for these successes in RH, including:

- **provider training campaigns** USAID contracted local nongovernmental organizations to train doctors throughout the country in RH/FP, which improved the availability and acceptance of modern contraceptive methods
- **policy work** initiatives to decentralize and rationalize the health system, specifically policy changes allowing family doctors (often the first point of contact for the rural poor and others) to provide FP counselling, prescriptions, and products, broke barriers to access RH/FP for women
- **public awareness campaigns** the USAID-sponsored public awareness campaigns informed the public and corrected damaging misconceptions about the use of contraception
- **supply** USAID and the United Nations Population Fund assisted with purchasing and procurement systems for the Romania Ministry of Public Health
- **economic growth** as per capita income in Romania grew, so had women's ability to pay for FP products; by the end of 2004, 78 percent of women who used oral contraceptives obtained them in the private sector
- **cultural factors** Romanians do not face significant cultural pressures to have large families

A concurrent improvement in the Romanian economy, increasing business opportunities for local entrepreneurs, banks, and foreign investors mirrored advancements in health. Economic growth started at the beginning of 2000 and continued through 2008. At the same time, inflation and unemployment declined. In 2006, when BoH began working in Romania, the country had one of the fastest growing economies in Eastern Europe, with a per capita income of $5,232, yet there was disparity between the growing urban middle classes and rural populations, where 70 percent of Romania's poor were located.

In early 2006 BoH assessed the business-development needs and prospects for growth and viability of private RH/FP providers, particularly after the planned withdrawal of USAID's support in 2008.[1] Despite their strategic role in the provision of RH/FP services to underserved populations, family doctors were struggling within the capitated health system. Lack of access to financing and not owning their own facilities prevented them from expanding and improving their services. A recent policy announced that family doctors could purchase their facilities from municipalities for reduced prices. This law was not being followed, however, which caused insecurity among family doctors who otherwise would have invested in facility upgrades. Lack of access to working capital and a difficult business-operating environment also constrained another important access point for family planning: rural pharmacies.

A family doctor and her nurse in their practice in rural Romania, 2006.

As USAID prepared to end Population funding for Romania and close its mission in 2008, BoH designed technical assistance to improve access to financing and business-management support to boost the viability of family doctors and other private providers of RH/FP services. The objective was to help sustain the gains in women's health beyond USAID's support. BoH coordinated its work with the USAID-funded Romanian Family Health Initiative. From 2006 through the end of 2007, BoH conducted four main activities in Romania:

[1] "Romania Trip Report," Lisa Tarantino, The Banking on Health Project, February 17, 2006.

- **market research** on private providers and distributors of RH/FP
- **technical advice and training to the financial institutions** Libra Bank, Banca Transilvania, Raiffeisen Bank, Opportunity Microcredit Romania (OMRO), and CHF-Express Finance on marketing and product development for private providers
- **financial management training** for family doctors
- **policy advocacy** on behalf of providers of RH/FP to underserved populations

ROMANIA AT THE STARTING POINT (EARLY 2006)

In 2006 the Romanian economy was growing at an unprecedented rate of nearly 8 percent. The service, construction, and industry sectors were expanding rapidly, and overall consumption was increasing. Inflation was declining, and the value of the Romanian New Leu (RON) was appreciating as the government prepared for joining the euro zone.[2] The privatization and consolidation processes within the banking system resulted in 31 banks operating in the sector by May 2006, with most of them looking to expand their market share. Romania's financial sector already was diversified and developing. In addition to banks, 25 microfinance institutions (MFIs) also operated, serving microentrepreneurs and small business owners. The leasing market was growing, and a number of specialized companies served the market. Overall the Romanian economy was still fairly underfinanced, with room for growth at all financing levels and across sectors. More than 60 percent of all assets in the banking sector were foreign owned, and with inexpensive funding coming from parent banks in Western Europe, interest rates were becoming competitive. With interest rates declining, particularly for corporate clients, margins for banks were shrinking.[3] Thus, banks were interested in entering underserved sectors, such as small-business lending, where margins were more attractive.

Throughout 2006 most Romanian banks were focused on corporate clients and expanding retail services to individuals. Few banks served microenterprises and small businesses, including small-scale health care businesses, due to the high administrative costs of lending to this sector and the perceived risks. MFIs were increasing their lending to these sectors, however, with many beginning to access commercial financing to grow their portfolios.

In early 2006 BoH assessed the Romanian financial sector and found that while some banks and MFIs loaned money to health care providers for equipment acquisition, working capital, investments, and personal needs, they did so in small measure and with little specialization.[4] BoH found that the development of specialized banking products and services for the health care industry lagged behind the development of those products for other economic sectors, primarily due to the private health care sector's early stage of development and the lack of information about its financial needs. In general, family doctors, small practitioners, and rural pharmacies were underserved. BoH recognized that a confluence of policy and market forces created real opportunities for expanding commercial financing

[2] In 2006, industrial output increased by 7.1%. Industry and service sectors represented 37% and 56% of GDP respectively. By the end of 2006, inflation was 4.9% compared with 8.1% in 2005. (International Monetary Fund, 2007, www.imf.org)
[3] The average interest margin between loans and deposits narrowed to 10% in 2006, down from 15% in 2004. National Bank of Romania Website, www.bnro.ro.
[4] "Romania Trip Report," Mariana Folescu and Lisa Tarantino, Banking on Health Project, July 12, 2006.

for the private sector. The Romanian banking environment was competitive in 2006, and changes were anticipated in the health care legal system, allowing family doctors and other practitioners to acquire the offices where they practiced. The health sector was overlooked, and the opportunity for financial institutions to expand lending to this market with specialized products existed. BoH found most banks had limited health sector portfolios and yet there were a few with more developed strategies for targeting the sector. Because it was a new market segment for most institutions, however, even banks with experience in the health sector were looking for more market information, a better understanding of the risks and rewards of lending to the sector, and techniques for expanding lending to the sector. As in many Eastern Europe countries, the first medical-sector clients that banks served were dentists as they were the first providers to enter fully into the private provision of services. But even when financing dentists, banks relied heavily on collateral to make lending decisions, as opposed to having a specialized understanding of the business model and market. BoH responded to the financial institutions' interest in receiving more market information to expand their lending to the sector.

The Financial Institutions

BoH chose to work with **Banca Transilvania, Libra Bank, Raiffeisen Bank, Opportunity Microcredit (OMRO),** and **CHF-Express Finance.** These institutions were selected because they were the most advanced in marketing for the health care industry (in the cases of Libra Bank and OMRO), were interested in expanding lending to the health sector, and had a range of products and geographic coverage to meet the needs of the market.[5]

Banca Transilvania

Banca Transilvania is a midsized bank founded by local business people in Cluj, Transylvania in 1993. Unlike most banks in Romania, Banca Transilvania is private with majority Romanian ownership (the European Bank for Reconstruction and Development is its largest minority shareholder). In 2006 Banca Transilvania had a higher percentage of funding available in RON compared to some foreign-owned banks. At that time Banca Transilvania had 47 branches throughout the country. It had more than 570,000 active customers including individuals, small and medium enterprises (SMEs), and corporations. Share capital was more than $30 million and the bank had credit lines from international development banks totaling more than $30 million for SME lending. Banca Transilvania sought to expand its small business and microenterprise lending with active marketing campaigns, online business advisory services and business management training for SME owners, specialized trainings of loan officers, and introducing SME loan products every three months. Banca Transilvania is part of the Banca Transilvania Financial Group of companies, which includes Banca Transilvania Securities, Banca Transilvania Leasing, and others. Banca Transilvania did not have specialized marketing or products for the health sector in 2006, nor did it track lending to medical businesses as a standalone sector.

Libra Bank

Created in 1996, a group of companies owned by the American investment fund New Century Holdings purchased Libra Bank in 2005. It was a small bank in the Romanian market in early 2006, with a portfolio of only $59 million and 14 branches, one in each region of the country and the majority in Bucharest.

[5]CHF-Express Finance chose not to develop a specialized approach to the health care market and thus this MFI's portfolio in health did not grow during the period and results are not captured in this report.

With a higher cost of funds for lending compared to other foreign-owned banks, Libra Bank wanted to specialize in niche markets where interest rates traditionally are higher, such as financing small businesses and professionals, particularly medical professionals.

Libra Bank was the first bank to lend to doctors with a specialized division and products. The president of Libra Bank was involved personally and committed to initiatives to expand lending to the sector.

In 2004 Libra Bank established a mission to be the "financial partner of the medical sector" and launched a package of financial services dedicated to doctors and their families, technicians, companies in the field, private hospitals, and clinics. The bank's marketing strategy was to create specialized marketing plans for professionals, including medical professionals. Libra Bank was marketing directly to doctors by attending medical conferences, providing free workshops, and operating the Medical Page, a website with information dedicated to doctors, such as information on major medical events and links to relevant legislation and Libra Bank's financial services.[6] In 2005 the Romanian College of Physicians named Libra Bank "most important bank for the medical sector." The products it offered for health sector businesses at that time included the following:

- Working capital - Most of Libra Bank's portfolio for the health sector was in this product. Loan sizes ranged from $6,000 to $12,000 for as long as five years without a guarantee. Annual interest rates were 17 percent fixed and 19 percent variable and the commission was 2 percent.
- Investment loans - These loans were for as much as $12,000 with equipment as collateral and greater with a 120 percent collateral requirement. The terms were as long as 14 years with a three-month grace period and a 15 percent down payment, 17 percent fixed and 19 percent variable annual interest rates, and a 2 percent commission.
- Start-up loans - These loans were for as much as $950,000 with a 130 percent collateral requirement and as much as $2.25 million with 150 percent collateral for as long as three years with a three-month grace period and a 25 percent down payment, 19 to 23 percent interest rate, and a 3 percent commission.
- Commercial mortgage loans for purchasing facilities - These loans were for as much as $12,000 without a guarantee and greater amounts with the guarantee of the facility. No down payments on facilities were required. The terms were seven to 14 years, with a six-month grace period, 17 percent fixed and 19 percent variable annual interest rates, and a 2 percent commission.

In spite of its size relative to other banks in Romania, Libra Bank built an important portfolio during the first years of lending to the health sector. In 2006 it was the fourth most popular bank among family doctors who had taken a loan in the past, ranking higher than larger banks with greater branch networks.[7] Because the law allowing family doctors to purchase their facilities from municipalities was not being enforced in practice, Libra Bank was disappointed with the prospects for that subsector of the health market. Yet its loans to the health sector represented 25 to 30 percent of Libra Bank's total portfolio in 2006. At that time nearly 90 percent of that portfolio consisted of loans to dentists. The average delinquency of the health sector's portfolio was 2 to 3 percent—better than the rest of the liberal professions portfolio (including lawyers, accountants, and architects) for which delinquency was 5 to 6 percent in 2006.[8]

[6]See Evienmente Medici Comunitate, "Evenimente medicale," http://www.paginamedicala.ro

[7]Tarantino, Lisa, and Makaria Reynolds. 2007. Financing and Training Needs of Small-Scale Private Health Care Providers and Distributors in Romania: Market Research Report. Bethesda, MD: Banking on Health, Abt Associates Inc.

[8]Delinquency is defined as portfolio at risk for more than 30 days.

Raiffeisen Bank

Through a process of privatization, Austria's Raiffeisen Zentralbank Oesterreich acquired the former state agriculture bank of Romania in 2001. By 2006 Raiffeisen Bank was the third largest bank in Romania, holding 9 percent of the banking sector's assets, and it was using its large network of 220 branches to maintain significant market share in retail banking and small business lending, attract deposits, and expand corporate lending. In 2006 Raiffeisen Bank had a credit line from the German Development Bank of more than $45 million to provide small-business loans in rural communities. Raiffeisen Bank did not have specialized marketing or products for the health sector in 2006, nor did it track lending to medical businesses as a standalone sector.

Opportunity Microcredit Romania

This MFI, based in Tirgu Mures, Mures County, was founded in 1994 as the nonprofit Izvor Foundation as part of the Opportunity International network to serve microenterprises and small businesses with individual and group loans in urban and peri-urban areas. In addition to commercial objectives, OMRO has a social welfare mission to provide economic opportunities for people in need, in support of the economic development of the country. In early 2006 OMRO had six branches and a total loan portfolio of more than $3.5 million. It had credit lines from the Romanian-American Enterprise Fund and Oiko Credit of Holland.

OMRO was the only MFI with special products for doctors, specifically loans to finance the purchase of medical equipment or facilities. The chief executive officer of OMRO at the time was committed personally to expanding lending to the sector.

About the same period, OMRO launched a specialized product for doctors, technicians, and pharmacists, with a value of up to RON 150,000 (about $50,000.) OMRO also had a direct marketing campaign of sending letters to family doctors in its catchment area offering to help them finance the purchase of their facilities. These initiatives had limited success, however, and were under review in early 2006.

BANKING ON HEALTH ACTIVITIES (2006 TO 2007)

In early 2006 BoH assessed Romania's private providers of RH/FP. As the country faced graduation from USAID's Population funding, Banking on Health found there was a question of whether access to government-provided and low-cost FP counseling and services would be sustained among the traditionally underserved, particularly in rural areas where most of Romania's poor live. Family doctors, key to Romanian successes in RH/FP, were struggling to sustain their practices under the capitated system, due to lack of access to finance, weak financial-management skills and systems, and policy impediments. Banks were interested in expanding lending to the private health sector, but they needed market information and guidance on product development to do so effectively. BoH also found policy impediments inhibited rural pharmacies and family doctors' practices from expanding.

To sustain the gains in women's health beyond USAID's support, BoH designed technical assistance to improve access to financing and business-management support to boost the viability of family doctors and other private providers of RH/FP services. From 2006 through 2007, BoH conducted four main activities in Romania:

- **market research** on private providers and distributors of RH/FP
- **technical advice and training to financial institutions** on marketing and product development for private providers
- **financial management training** for family doctors
- **policy advocacy** on behalf of providers of RH/FP to underserved populations

In Banking on Health's research, 42 percent of family doctors were interested in borrowing, on average, $4,350, mainly to purchase medical equipment (70 percent), purchase their facilities (68 percent), and to expand or refurbish their facilities (54 percent). Combined with demographic details, this information provided lenders a clear picture of the borrower groups with which they were able to design customized products, credit-analysis procedures, and marketing campaigns.

During the period when BoH was implementing programming, the Romanian economy continued to grow rapidly. On January 1, 2007, Romania joined the European Union, and in the first half of 2007, the volume of foreign investments to Romania increased significantly, leading to further appreciation of the national currency and a decrease in inflation, but negatively impacting the external payments balance.

In 2006, responding to the needs identified in its assessment of the financial sector, BoH conducted **market research** that assessed the business-development needs, particularly financing and training, of private health care providers and distributors of RH/FP products and services in Romania. The study focused on family doctors, obstetrics and gynecology practices, rural pharmacies, distributors, and medical clinics. The research was conducted on a national basis with qualitative and quantitative components, in addition to desktop research and interviews with key stakeholders to gain an overview of the sector. The most detailed research was conducted on family doctors, with 1,215 of them surveyed throughout the country.

Also in 2006 BoH conducted **financial management training** for family doctors. The course, Enhancing the Financial Health of the Medical Practice, was designed to enable participants to assess the financial health of their medical practices and project future cash flow and income in order to make informed decisions for continued sustainability and profitability. The course also addressed some of bankers' concerns about the ability of providers to produce sound financial records and planning. Each course included guest speakers from BoH's partner financial institutions. In a follow-up survey of a sample of the 140 family doctors trained, 24 percent of them had obtained a loan since attending the training and the total financing received by those surveyed was $250,000. Loan purposes were most often clinic expansion or renovation (30 percent), purchasing equipment (20 percent), and purchasing products (17 percent).

In 2007 BoH **advised and trained financial institutions** on marketing and product development for private providers. In February 2007 BoH incorporated findings of the market research into bank training workshops entitled Marketing and Product Development for the Small-Scale Health Sector. Thirty-one executives, branch managers, credit officers, risk-management professionals, marketing professionals, and loan officers from the five financial institutions (Banca Transilvania, Libra Bank, Raiffeisen Bank,

CHF-Express Finance, and OMRO) participated in these workshops. The market research was an integral component of the training, as it provided up-to-date information that easily could be translated into loan products and marketing campaigns. Each workshop gave participants an opportunity to brainstorm about the best credit products for the target borrowers and effective marketing techniques. For example, several participants surmised that physicians are different from other business owners in that they are professionals first and business managers second. Therefore they have a deep dedication to their practice and emphasize their individual reputation. These factors weigh in their favor when assessing their credit risk and impact the credit requirements and credit analysis of financial institutions. In addition to conducting training, BoH facilitated meetings with stakeholders and provided financial institutions with updates on the medical sector, marketing ideas, and contacts.

BoH used the results of the market research to conduct policy advocacy involving stakeholders from the Ministry of Public Health, National Health Insurance House (NHIH), provider associations, donors, and financial institutions. Positive policy developments in late 2007 addressed some of the concerns the BoH research raised. Most importantly the NHIH increased the amount paid to family doctors for services provided under the basic government package by nearly 70 percent, resulting in a real income increase for family doctors.[9] This increase was the first significant one in years, and it was a driver in improving the financial viability of the family doctors' practices. The additional income also increased their opportunities for accessing finance. Another development that had the potential of transforming family doctors' practices was the clarification of the law on purchasing facilities. The long-ignored law allowing family doctors to buy their facilities from municipalities at reduced costs began to be administered more consistently, making it more likely for family doctors to invest in the refurbishment of their facilities.

CHANGES IN HEALTH SECTOR LENDING FOLLOWING BoH ASSISTANCE (2007 TO 2008)

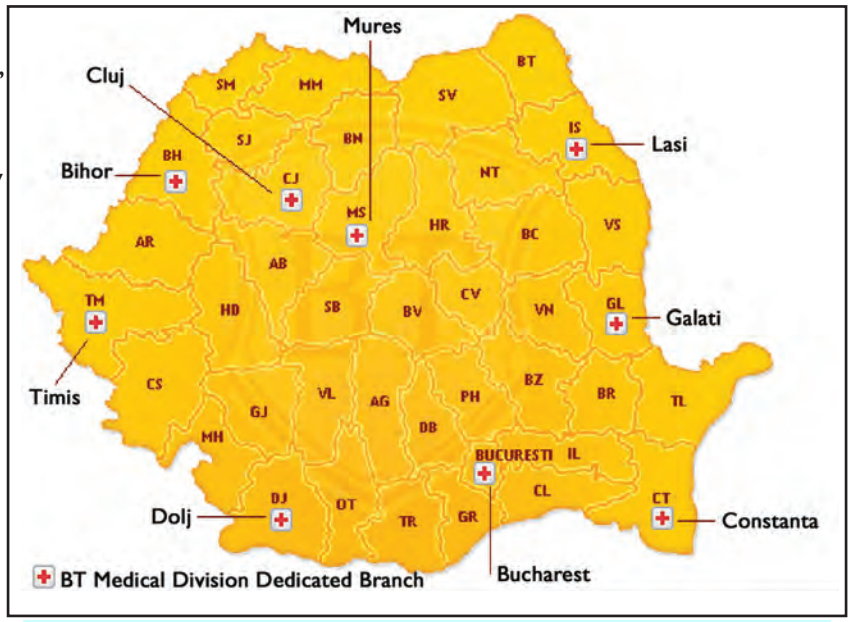
Banca Transilvania

After receiving BoH's market data, Banca Transilvania studied the health sector in more detail. Additional analysis Banca Transilvania conducted when it purchased Medicredit Leasing, a dedicated leasing company for the medical sector in 2007, confirmed BoH's finding that the medical sector was growing. When the bank looked closer at its current portfolio of loans, it discovered that it already had made loans to the private medical sector that it had categorized as service industry loans or commercial mortgage finance. When examining these loans as one borrower group, management realized it had a small base on which to build a specialized business, given that these loans were good performers (that is, the borrowers made timely payments). In addition, Banca Transilvania representatives attended the BoH training sessions organized for family doctors and marketed products in that forum. They found that the trainings improved credit-readiness among doctors who attended them.

Based on these findings, in October 2007 Banca Transilvania invested significantly in the health sector by establishing a Healthcare Division within the bank. Banca Transilvania's Healthcare Division is

[9] National Health Insurance House of Romania, "Valoarea definitiva a punctului," http://www.cnas.ro/?id=63.

characterized by standalone dedicated branches in nine regions of the country, staffed with professionals with financial training paired with employees with medical backgrounds with the medically trained staff serving as relationship managers for medical-sector clients. In addition to having specialized facilities and staff, the financial products offered are customized to the needs of medical professionals. Banca Transilvania took a whole-market approach to the health sector, designing loan and deposit products for students, professionals, entrepreneurs establishing private practices, medical professionals purchasing homes, and clinics already in business. Banca Transilvania installed ATMs in medical universities. While loan and deposit products for the medical sector are available at any Banca Transilvania branch, the dedicated branches were placed in the major commercial cities where medical centers and universities are located.



A map of Romania showing the location of Banca Transilvania's Healthcare Division dedicated branches (www.diviziapentrumedici.ro).

Other marketing strategies Banca Transilvania used to attract health sector clients include

- participation in national conferences and events
- customized promotional materials in the dedicated branches
- a dedicated credit card
- emphasis on non-financial services
- competitive product features

When Banca Transilvania launched its Healthcare Division, it had three groups of products (Resident, Specialist, and Practice) designed to reflect the professional qualifications and needs of the clients. Resident products are for medical school students and resident doctors who are yet to achieve the full status of medical doctors. Specialist refers to medical professionals with specialist training, such as obstetricians, gynecologists, or cardiologists. While Specialist products also may be used for business purposes, Practice products are designed to meet the needs of medical businesses, regardless of the borrowers' professional backgrounds. Banca Transilvania's products and services consist of loans, credit cards, deposits, and Internet banking. The loan products include mortgages, automobile financing, equipment loans, loans for other business needs, and

Banca Transilvania's Healthcare Division marketing materials, carrying the endorsement of the Romania College of Physicians.

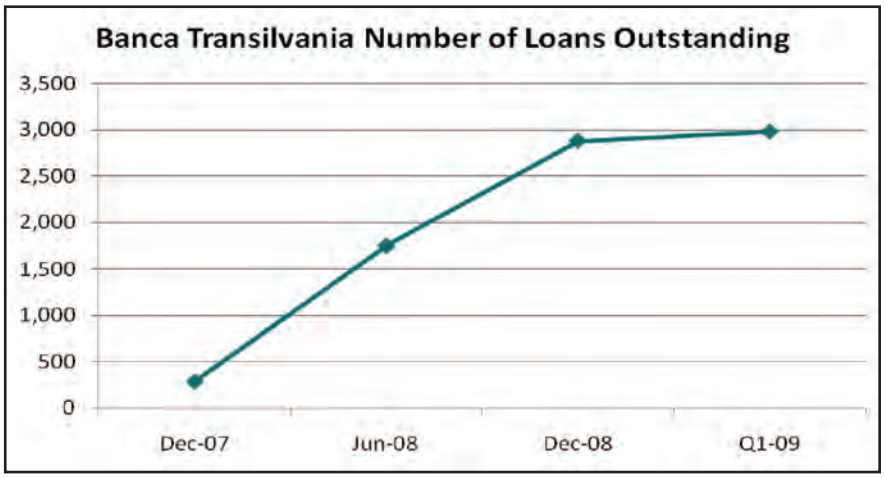
working capital. Early success was achieved with loans for medical providers in private practices and specialists establishing new businesses. By December 2007 the Healthcare Division had more than 275 loans disbursed with a value of more than $14 million. The medical residents' products had a slower uptake, because in Romania it was uncommon in 2007 for students to take on debt for mortgages or educational purposes. As Banca Transilvania built a reputation and continued to market specialized services to the medical sector through provider association events and publications, these products attained wider appeal. In 2008 a group of products were added for medical technicians and in September 2008, at the height of the global financial crisis when banks worldwide were restricting lending, Banca Transilvania launched a product for family doctors, the target group for BoH's assistance in Romania. Table 1 provides details on the terms of Banca Transilvania's Healthcare Division's loan products.

TABLE 1: BANCA TRANSILVANIA'S HEALTHCARE DIVISION'S LOAN PRODUCTS

	Resident	Specialist	Practice	Technician
Mortgage loan	≤ EUR 75,000 ≤ 25 years ≤ 2 years grace	≤ EUR 200,000 ≤ 20 years	≤ EUR 500,000 ≤ 25 years ≤ 2 years grace	≤ EUR 200,000 ≤ 25 years
Loan for medical equipment		≤ EUR 50,000 ≤ 5 years	≤ EUR 75,000 ≤ 5 years	≤ EUR 20,000 ≤ 5 years
Car loan		≤ EUR 30,000 ≤ 7 years	≤ EUR 30,000 ≤ 5 years ≤ 3 months grace	≤ EUR 30,000 ≤ 5 years
Loan for other business needs	≤ EUR 5,000	≤ EUR 20,000 ≤ 60 months	≤ EUR 20,000 ≤ 60 months	≤ EUR 15,000 ≤ 5 years

Banca Transilvania's Healthcare Division expanded lending to the sector, increasing its market share and likely increasing overall bank lending to the sector. Chart 1 depicts the growth in the number of loans from inception of the Healthcare Division through the first quarter of 2009, when the total number of loans reached 2,981. The value of the portfolio grew from $14.7 million after three months of lending (as of the end of December 2007) to a high of $119.8 million in December 2008 (see Chart 1 for details).

CHART 1: BANCA TRANSILVANIA'S HEALTHCARE DIVISION, NUMBER OF LOANS OUTSTANDING TO THE HEALTH SECTOR



Since 2006 Banca Transilvania has become one of the most important financial institutions in Romania, ranked among the top five banks by assets, and a blue chip on the Bucharest Stock Exchange. The bank aims to continuously improve its products and services, paying special attention to the professionalism of its employees. Banca Transilvania has grown to more than 400 branches and agencies and boasts more than 1 million customers. The four main business lines (retail, SMEs, corporate, and the Healthcare Division) rely on dedicated staff at the branches and headquarters, offering specialized products and services. These four business lines benefit from a centralized information technology system, with online connection throughout the network.

Libra Bank

The BoH market study and product development training motivated Libra Bank to adopt a new strategy to develop niche financial products and to reshape its overall product development tactics. Libra Bank rebranded itself as "the bank of the liberal professions" when management recognized the opportunities in this niche market of medical, legal, architectural, and accounting professionals. This strategy resulted in the bank's gradual but continuous increase in overall market share from mid-2007 through 2008.

An image from Libra Bank's rebranding campaign as the Bank of the Liberal Professions, 2007.

Building on its experience and using BoH's market research that indicated pharmacists needed working capital financing, Libra Bank developed new products for pharmacists and a credit card for the medical sector in 2007. It introduced both of them to the market in early 2008. In 2007 the bank began writing and publishing the Medical newsletter, which the Romania College of Physicians distributes to more than 30,000 members. Also the bank developed a new method for reaching clients, which it called mobile banking. For major medical fairs and exhibitions, Libra Bank created a system that allowed for rapid loan approval, so attendees at fairs could purchase inventory or equipment on the spot with loan funding.

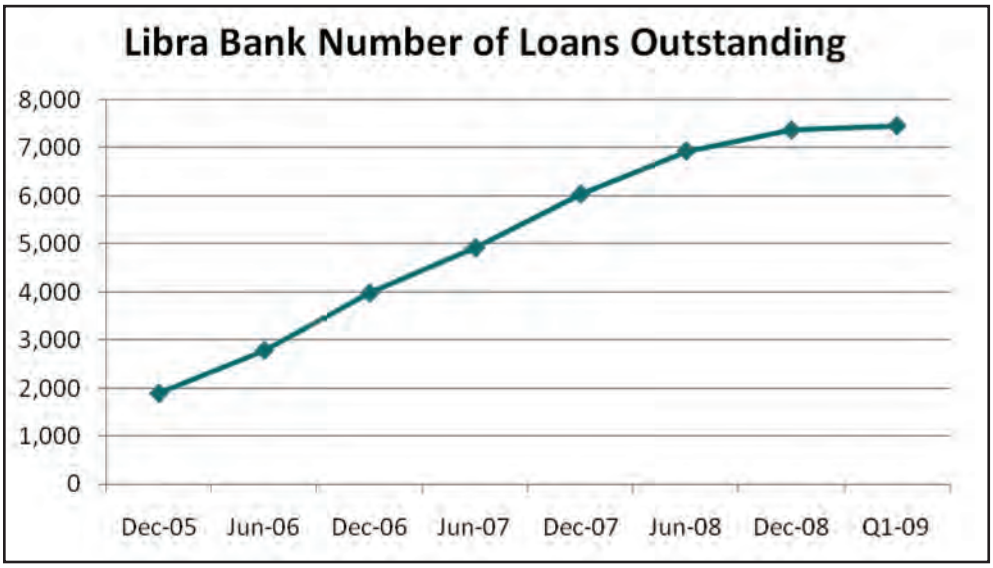
From January to December 2007 the value of Libra Bank's health sector portfolio nearly doubled from $40 million to $77.6 million. The composition of the portfolio changed as well; by the end of the year loans to dentists did not dominate the portfolio, rather other medical providers were responsible for the growth.

In 2008 Libra Bank's health sector product portfolio expanded to include a number of new products:

- business loans for start-ups
- consumer loans
- credit cards
- car loans

The refinements and introductions of some of these products, such as the start-up loans, probably can be attributed partially to the market for this sector becoming more competitive with the entrance of Banca Transilvania. Also, in this same period Libra Bank's interest rate for medical professionals was reduced to be more in line with what Banca Transilvania offered. Libra Bank's clients used credit lines for filling the gap of cash in their businesses due to late payments from the state health insurance house for payments of salaries, taxes, office materials, and small investments. Investment loans mainly were used for purchasing new equipment or replacing existing equipment. The start-up business loans enabled specialist doctors to open private practices. Chart 2 tracks Libra Bank's increase in the number of loans from the end of 2005 through the first quarter of 2009 when it reached 7,463 clients.

CHART 2: LIBRA BANK'S NUMBER OF HEALTH SECTOR LOANS OUTSTANDING[10]



Opportunity Microcredit Romania

In 2007 OMRO made minor adjustments to its products for the medical sector and personalized its approach to these borrowers by going directly to doctors and talking to them about their credit needs.

[10]The credit cards, personal accounts, and personal loans for the doctors offered to the health-sector clients are recorded separately in Libra Bank's consumer loan portfolio; thus the portfolio figures here only represent the business loans to the medical sector.

OMRO entered into an agreement with a medical equipment supplier to offer financing for equipment sold to doctors as a package of services for the client.

Simultaneously the overall organization went through a rebranding process and changed some of its products. In 2008 the product structure was changed as the organization was growing and focusing more on individual lending. OMRO's health portfolio grew, but not to the expected level. Its main problem was a lack of long-term financial resources, but the rebranding triggered other difficulties. In Romania financial institutions lending to the health sector benefit from a well-known brand. Medical professionals feel better about working with an institution with a brand that they recognize as strong, reputable, and, preferably, friendly to those in the medical field. OMRO—an MFI serving microenterprises and rural households, many of which may be informally employed—was at a disadvantage compared to banks with longer histories of serving formal, professional businesses. The rebranding process added to this challenge of marketing to the sector.

Creditul
Med Invest

Beneficiarii creditului: medici generaliști, specialiști, stomatologi, biologi, biochimiști, tehnicieni dentari, farmaciști.

Destinația creditului: achiziționarea de spații cu destinație cabinete medicale și/sau a spațiilor în care se desfășoară activități conexe actului medical (farmacii, laboratoare medicale, etc.); modernizarea cabinetelor medicale; dotarea cabinetelor cu aparatură medicală, mobilier, echipament informatic; alte investiții conexe.

Valoarea creditului: Între 1.000 și 150.000 RON.

Perioada de rambursare: Între 3 și 60 luni.

Perioda de grație: maximum 3 luni.

Evaluarea, aprobarea dosarului și viramentul creditului aprobat: maximum 7 zile de la depunerea dosarului complet.

Garanții: giranți, garanții reale mobiliare (gaj auto, echipamente), ipotecă, bilet la ordin, garanție personală.

Sume de plată lunare (sold + dobândă):

Perioada de rambursare	Sume (RON)		
	10000	30000	90000
12 luni	926	2777	8330
36 luni	371	1112	3337
60 luni	264	792	2376

Creditul
Med Invest

Soluție simplă și rapidă de finanțare adaptată specificului profesiei Dumneavoastră.

OPPORTUNITY MICROCREDIT ROMÂNIA

OMRO's brochure of financial products for medical professionals.

Raiffeisen Bank

During 2007, as a result of its participation in BoH activities, Raiffeisen Bank began considering a proposal for a pilot project aimed at developing financial products for the medical sector. While BoH's market research and training was valued, this bank had a more conservative approach to new market development at that time compared with the other three institutions. In 2007 Raiffeisen Bank researched the credit risk implications of lending to the business types of the liberal professions, including determining reasonable collateral requirements. Another difference between Raiffeisen Bank and the others in this time period was that there was no internal champion for the medical sector among its upper management, whereas Libra Bank's president, OMRO's chief executive officer, and Banca Transilvania's head of SME lending were all engaged in developing their approach to the medical sector.

The much-publicized entry of Banca Transilvania into specialized lending for the private health sector in late 2007 attracted not only the attention of potential clients, but also that of other financial institutions.

The much-publicized entry of Banca Transilvania into specialized lending for the private health sector coincided with Raiffeisen Bank's renewed interest in the sector after months of deliberation. The bank hired an internal champion from another financial institution who was known as an expert in health sector marketing and lending. In April 2008 Raiffeisen Bank initiated a pilot project to explore the potential for extending financial products and banking services to clients in the health sector. Unlike Banca Transilvania, the bank took a slow and steady approach that allowed it to evaluate not only

the potential in the market, but also the required investment, and to leverage the results of a pilot in Romania to other countries where the bank operates. It began with the creation of product prototypes using BoH's market information and the establishment of a liberal professions department, to encompass products, marketing campaigns, and credit-analysis techniques designed for lawyers, medical professionals, accountants, and others. For the health sector, the pilot testing process included the following staged approach:

Raiffeisen Bank's health sector team at the Romedica Medical Sector Fair, May 2008.

- Stage 1. Raiffeisen Bank selected and trained personnel specialized to sell financial products to the health sector, provide consulting to potential clients in the development of their business plans, and assess the credit worthiness of the applicants and the application. Eleven credit officers at several branches in Bucharest were trained to specialize in lending to the following sub-sectors: family doctors, dentists, medical technicians, laboratories, biochemistry technicians, and specialist physicians. Bucharest was chosen because of its proximity to the head office for ease of training and monitoring of results. (Early 2008)
- Stage 2. After a time marketing and selling the product prototypes, Raiffeisen Bank reviewed the design of the products and adapted them as necessary given feedback from clients and loan officers to create the package of credit products for this sector. (Mid 2008)
- Stage 3. Raiffeisen Bank promoted the new products to the health sector as part of the integrated marketing campaign of the liberal professions department. (July 2008)
- Stage 4. The banked assessed the pilot project's results. (April 2009)

Raiffeisen Bank designed three financial products for clients that belong to the liberal professions sector: very fast/flexi, term loan/invest, and start-up loans for businesses initiated by experienced specialists. The start-up loan is innovative as it was the first time any member of the Raiffeisen International group of banks had introduced a loan for start-up businesses, which generally are viewed as risky given the high incidence of failure of new businesses.

Raiffeisen Bank developed three techniques to assess the credit worthiness of medical sector applicants. The technique applied depends on the value of the loan request. Each credit analysis technique for working capital loans does not require collateral. For loans for investment, such as equipment purchases or facility renovation, collateral is required. The techniques include the following:

- **very fast or pre-approved credit facility** a qualitative assessment of the applicant's capacity to utilize the finds and to reimburse the loan; this approach is used for loans up to about $21,000
- **standard approach** a qualitative assessment of the applicant's capacity to manage the loan and an assessment of income from the medical activity within the last 12 months; this approach is used for loans between $28,000 and $57,000
- **business approach** based on a business plan for the investment that the applicant develops with support of the banks' personnel specialized in the medical sector; this approach is for loans from $57,000 to $285,000

Raiffeisen Bank's total portfolio for the health sector under this pilot is 22 loans and $385,000 as of the first quarter of 2009. While limited in scope, the results of the pilot project are good given that the borrowers gave positive feedback on the products and have a high repayment rate.

Raiffeisen Bank remains a large bank in Romania, providing a complete range of quality products and services to private individuals, SMEs, and large corporations via multiple distribution channels, including banking outlets (it has more than 500 throughout the country), ATM networks, phone banking, and mobile banking.

Small loans making a big difference in rural Romania…

Dr. Stefania Ciucu is a young family doctor whose practice offers primary family health care, FP counseling and products, well-baby visits, and vaccines to more than 400 families. The family doctor provides the initial health services, diagnostic and general consulting, and directs patients to hospitals or specialist clinics for further examination or testing if necessary. Her practice, staffed by one nurse, is in the rural Stolnici commune, a cluster of five villages in Arges County.

At a county doctors association meeting in 2008, she met representatives of Libra Bank and Raiffeisen Bank who were introducing their financial products for the medical sector. She applied for and received a loan of $11,500 from Libra Bank to purchase a new car to visit patients in the area she serves. Home visits are a requirement under her contract with the NHIH and are needed for the elderly and young children who live far from her clinic. Dr. Ciucu also received a loan of $14,300 from Raiffeisen Bank to purchase land where she plans to build a new practice in a larger space with offices for specialists and a laboratory for tests. The new space will allow her to diversify her range of services and will serve her patients in this poor rural community who currently have to travel far for such services, making them inaccessible for many.

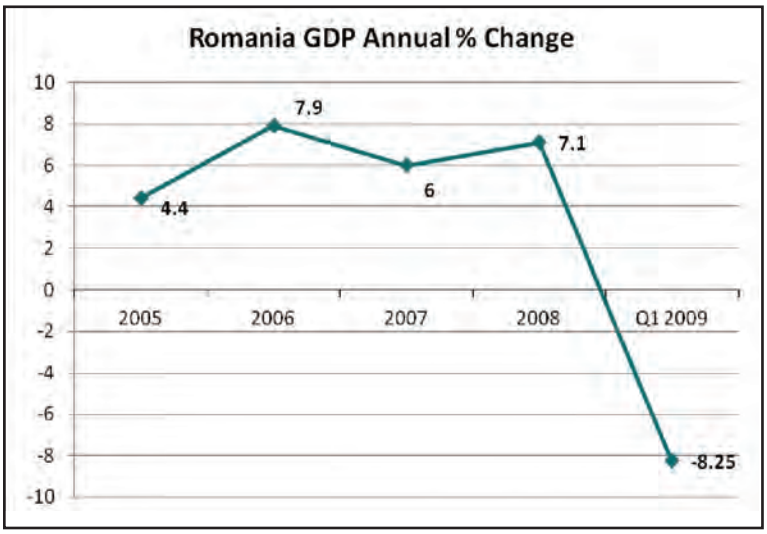
Dr. Ciucu believes that the association's meetings are a good opportunity for doctors to meet the financial institutions and learn about their products. Libra Bank and Raiffeisen Bank's financial products were complementary and met her practice's needs.

THE IMPACT OF THE FINANCIAL CRISIS (LATE 2008 TO EARLY 2009)

The financial sector and business environment

In late 2008 the impact of the global financial crisis in Romania was dramatic and characterized by a loss of trading partners in Europe, devaluation of the Romanian leu, and a rapid increase in inflation and interest rates. The banking sector, dominated by European-owned banks, responded to the crisis by tightening capital flows, increasing interest rates, and reducing lending. By early 2009 unemployment, which had been declining steadily over the past four years, had grown rapidly. Chart 3 maps the percentage changes in gross domestic product (GDP) year to year since 2005.

CHART 3: PERCENT GDP CHANGE IN ROMANIA 2005 TO 2009



Sources: Annual reports of the National Bank of Romania. The first quarter 2009 figure is the annualized estimation from the International Monetary Fund as of August 10, 2009.

Given the global economic downturn, investors' risk perception has worsened and there has been a marked decrease of liquidity. Rapid and significant exchange rate and interest rate increases at the end of 2008 triggered a moderate shock to financial stability. The decline in domestic demand from Romania's major external trading partners challenges the financial position of the local firms engaged in foreign trade.

Financial institutions' strategies in the new economic reality

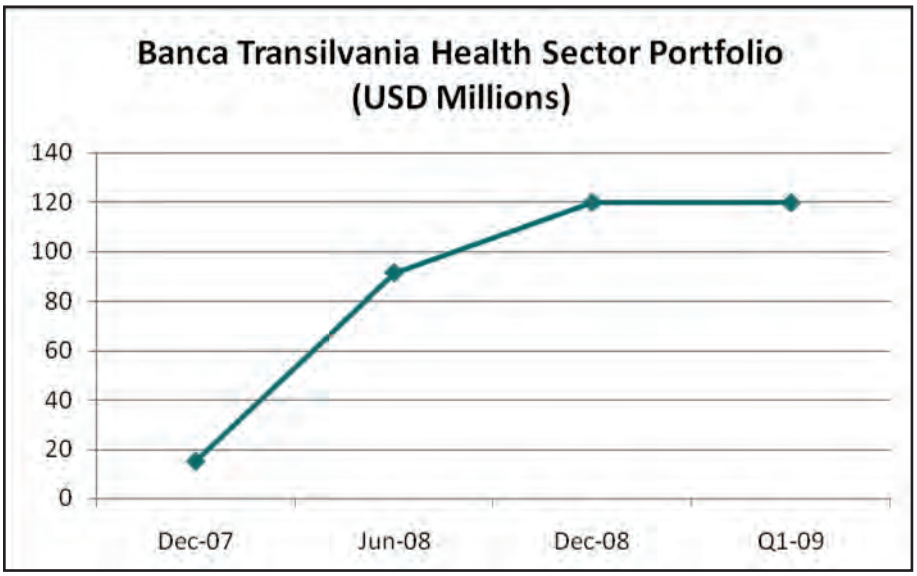
The depreciation of the Romanian Leu within the context of the financial crisis and increasing interbank interest rates led most banks to decide to extend all financing in local currencies to limit clients' exposure to exchange rate risk. Many borrowers with euro-denominated loans, particularly ones that had relied on trade or export markets, were having increased difficulty repaying loans in light of economic pressures and exchange rate changes. As of early 2009, all banks and MFIs in Romania were slowing or stopping lending to start-ups as a reaction to the overall market downturn, and they were being more conservative lending to new clients generally.

In spite of these challenges, the health sector portfolios of all four institutions continue to perform. Managers report that the rate of portfolio-at-risk is between 0 and 3 percent, less than the average of other sectors in their institutions' portfolios—despite that many health practices, which earn income in RON, service commercial mortgages denominated in euro, thus increasing the real cost of borrowing as the RON depreciated. Financial institutions now recognize the risk management benefits of having a sizable health sector portfolio in this 2009 economy that is so different from the one that motivated them to enter the sector. All four institutions plan to continue to lend and to expand their outreach to the health sector.

BANCA TRANSILVANIA

Because Banca Transilvania has a higher percentage of local currency funding compared to other institutions in the country, it can continue to expand lending to the health sector. In June 2009 the College of Physicians awarded Banca Transilvania the prize for Best Banking Initiative for Doctors. Yet portfolio growth of the Healthcare Division has slowed. In the second half of 2008 it grew by 65 percent; however in the first quarter of 2009 growth reached just 3 percent. Chart 4 tracks the rapid growth of Banca Transilvania's Healthcare Division portfolio since inception, reaching a high of $119.8 million in December 2008.

CHART 4: BANCA TRANSILVANIA'S HEALTHCARE DIVISION, VOLUME OF LOANS OUTSTANDING TO THE HEALTH SECTOR [11]

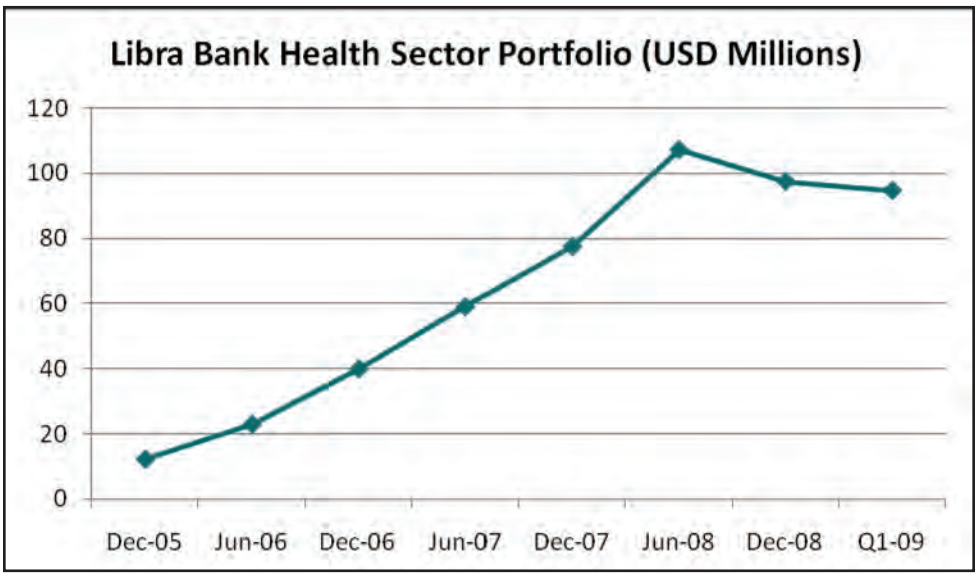


LIBRA BANK

Libra Bank remains a niche bank in the Romanian financial sector. Like Banca Transilvania, it has been shielded in part from the most devastating aspects of the financial crisis by its ownership and funding structures. In the first quarter of 2009, the lending strategy of Libra Bank was conservative as the bank sought to minimize risk. Only in April 2009 was lending activity relaunched, yet the volume of applications is lower than in the same period of 2008. Chart 5 details the change in health sector loan portfolio volume from the end of 2005 through the present.

[11] The RON value of the portfolio has increased slightly from December 2008 to the end of the first quarter of 2009, but the devaluation of the RON records this change as a slight decrease in terms of U.S. dollars.

CHART 5: LIBRA BANK'S OUTSTANDING VALUE OF HEALTH SECTOR PORTFOLIO



Libra Bank plans to introduce consumer credit cards designed for the health sector. Early this year the bank launched two packages of services aimed at reducing the effects of the financial crisis that impact the medical sector:

- for the medical sector, Libra Bank's First-Aid Banking Kit includes transfers, credit cards, Internet banking at lower costs, and savings products with higher interest rates
- for potential clients of the health sector, individuals affected by the financial crisis, and the unemployed, Libra Bank's Social Package includes financial products aimed to support these people and their families, such as free saving products with high interest rates, debit cards, and credit cards that come with discounts for the medical services purchased from the practices or clinics that are clients of Libra Bank

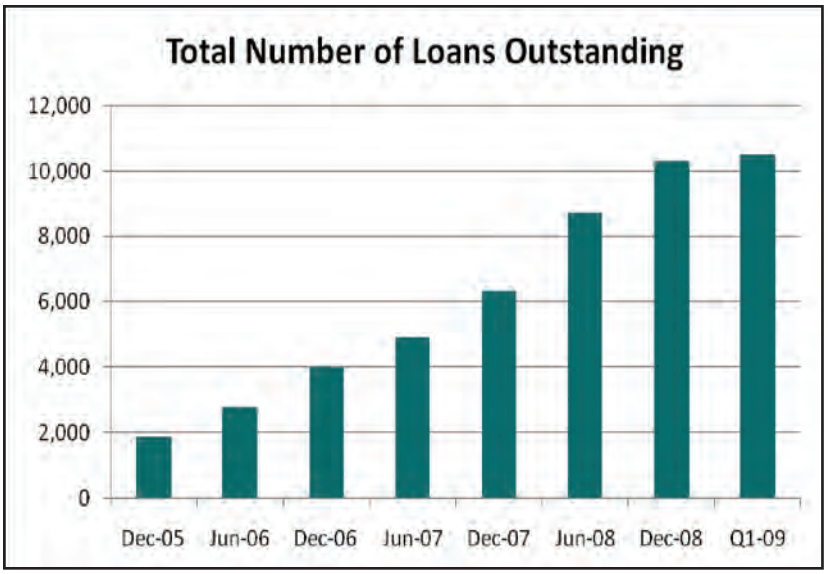
RAIFFEISEN BANK

The health sector portfolio value and number of loans extended is still low at $385,000 outstanding to 22 borrowers as of the first quarter of 2009. Yet the pilot product tests were a success given positive client responses and profitability factors. The initial plan was to roll out the products to the rest of the bank nationwide and to invest in specialized personnel, including relationship managers with backgrounds in selling techniques to the medical sector. The schedule had to be postponed due to the effects of the financial crisis. Raiffeisen International is considering extending this approach to its other Eastern European-based banks.

LESSONS LEARNED

Romania is an emerging economy that has been going through significant regulatory changes before and after accession to the European Union. Economic growth and development coincided with reform in the health sector allowing for greater private participation and the entrance of USAID's BoH project to assist financial institutions interested in expanding their lending to the health sector. These factors contributed to three banks and one MFI deciding to expand their lending to the health sector. Chart 6 tracks the number of loans all four institutions in Romania disbursed, which reached more than 10,500 in the first quarter of 2009. The total portfolio amounts from the inception of BoH's activities in Romania are represented in Chart 7, showing a total increase of $202.8 million outstanding. The bulk of this increase, over $174 million, occurred after Banking on Health assistance.

CHART 6: TOTAL NUMBER OF LOANS OUTSTANDING AMONG ALL FOUR INSTITUTIONS

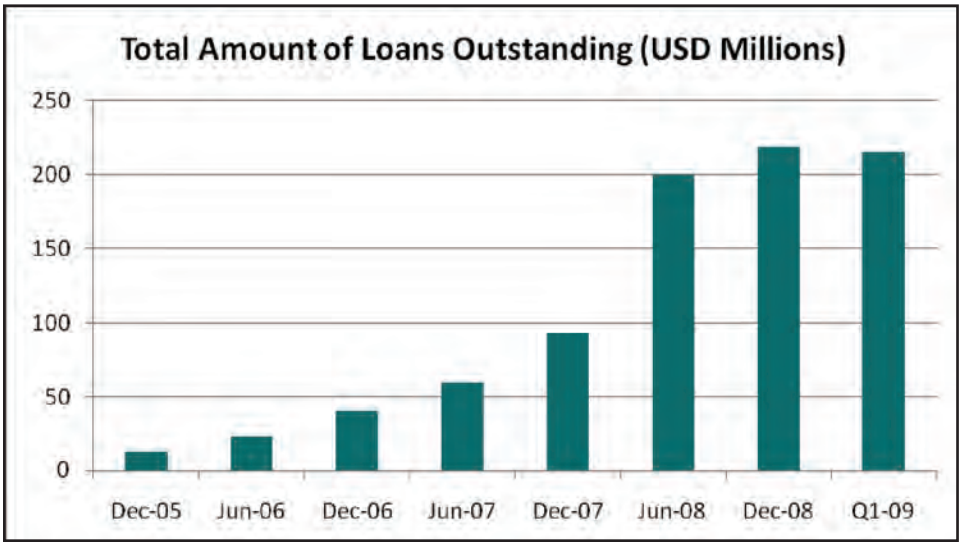


The four institutions in this case study are different: OMRO is a small non-bank financial institution, Libra Bank is a small specialized bank, Banca Transilvania is a middle-sized bank targeting SMEs, and Raiffeisen Bank is part of a large multinational bank. Thus each institution had its own method according to its size, organizational structure, and management priorities for addressing the health sector and seizing opportunities within the changes in legislation.

Banca Transilvania, as a recent actor on the market of financing for the health sector, attracted clients quickly and grew its portfolio in a short period through establishing a specialized Healthcare Division, training staff, customizing products and marketing, and partnering with medical associations. For example, Banca Transilvania is the official bank of the Romanian Cardiology Association, and the Romania College of Physicians has endorsed its marketing materials. The decision to establish a Healthcare Division was acted upon quickly. And aggressive marketing and product-development activities, building on a foundation of human resource development techniques and product-development experience, combined with the rapid ramp-up of loan and deposit product operations paid off as the bank achieved rapid market penetration.

In the case of **Libra Bank**, successful approaches included designing packages of financial products dedicated to certain professions. In terms of promotion, the bank succeeded by defining a visual identity for each package and by promoting it online and in professional publications. Also, an important method for reaching clients was the mobile banking organized during major medical exhibitions. This outreach allowed for rapid loan approval on the spot, so attendees at trade fairs could make purchases right there. As a small bank, it was the first one to make a dedicated outreach to the medical sector that customers responded to clearly. BoH found in surveys and interviews that doctors and other medical-sector stakeholders thought of Libra Bank as the bank most interested in serving the medical sector, and that many respondents felt that going to Libra Bank would produce more favorable terms for them as a result.

CHART 7: TOTAL AMOUNT OF PORTFOLIOS OF ALL FOUR INSTITUTIONS



Raiffeisen Bank's main strategy was to start a pilot project and test the market's potential and identify success factors. Thus the bank learned that an important determinant of efficiently servicing the health sector is to have specialized personnel. Raiffeisen Bank found that the relationship managers should have a background in the sector and be specialized in selling techniques to the medical sector. As Raiffeisen Bank took a slower approach to the market, it will remain to be seen how quickly the bank can penetrate it now that Banca Transilvania and Libra Bank have expanded so significantly in the sector.

OMRO learned that the medical sector is a competitive market for MFIs and requires a specialized approach, both in terms of product offerings and marketing techniques.

All four institutions agreed that these three factors were key to success when expanding into the market:

- **Market information for product and marketing design**—BoH's market research was rigorous and timely, and it helped the financial institutions to make good decisions developing approaches for expanding into the health sector.
- **The training and qualifications of lending personnel** employed to serve clients from the health sector—All four institutions identified the need to have specially trained and qualified staff with knowledge of medical language and the needs of doctors. The four institutions found that personnel in

the bank generally were not knowledgeable enough about the specifics of the health sector. Banca Transilvania went so far as to hire relationship managers with medical backgrounds and to create specialized branches for the health sector. It has since changed its strategy somewhat, using these medical professionals as trainers to educate loan officers with finance backgrounds about working with medical professionals and medical business models.

- **Specialized marketing methods and financial products**—Based on their structure and strategy, each financial institution approached the health sector using different methods, such as designing customized products, advertising using targeted channels, participating in events organized for professionals in the health sector, and establishing partnerships with provider associations. Both Libra Bank and Raiffeisen Bank learned that mass-media advertizing to the sector was less effective than marketing to it via specialized publications and forums. An institution having an image of being stable and strong and understanding the medical sector's needs also is important and valued by health professionals.

APPENDIX: COMMERCIAL FINANCING STRATEGIES AND RESULTS

Impact	Libra Bank	Banca Transilvania[12]	Raiffeisen Bank	OMRO
Increase in number of loans	5,564 more loans	2,981 new loans	22 new loans	30 more loans
Increase in amount of loans	$82.6 million increase	$119.7 million in new loans	$390,000 in new loans	$200,000 increase
Percent increase in amount of loans	677	Not available	Not available	411
New products	Credit cards, credit lines, products for pharmacies, start-up loans, credit cards for medical customers	Medical equipment leasing, numerous credit and savings products, accounts for medical professionals and businesses	Working capital credit lines, investment loans, start-up loan products	Equipment financing, working capital product, and investment loan product
New marketing techniques	Rebranded entire bank with new marketing materials and publications, and created a web page for the medical sector	Created a Healthcare Division with dedicated and trained staff, marketing through association events and publications	Marketing materials and messages targeted to the medical sector	Marketing materials and messages targeted to the medical sector, direct marketing with meetings with doctors
Loan purposes	Equipment, supplies, refurbishment, vehicles, personal, business start-up	Student loans, deposit and savings products, business start-up, equipment, working capital, mortgage, personal finance	Start-up of medical practice, working capital, mortgage	Equipment, working capital, facility purchase and refurbishment

[12] Banca Transilvania and Raiffeisen Bank had not tracked medical sector loans specifically as a portfolio segment before BoH interventions, thus percentage change figures are not available.