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If you would like to send any information on legal initiatives in your country, please contact:
Agnieszka Talma: agnieszkat@mfc.org.pl

Perception of permissiveness of legal and regulatory environment in ECA

Justyna Pytkowska
Researcher, MFC
Marcin Rataj
Project Coordinator, MFC

The MFC in its 2007 annual mapping study surveyed the MFIs on their perception of legal and regulatory environment as a conducive factor for microfinance industry development.

The results show wide differences across the ECA region and within the subregions.

The highest satisfaction with legal and regulatory conditions for microfinance is seen in low-income countries thanks to intensive development efforts aimed at creating conditions for microfinance as a tool for poverty reduction. MFIs there enjoy higher profits as there are fewer restrictions affecting MFI operations. However, this comes at a cost of social performance – fewer women are served and the outreach is shallower among those MFIs which are satisfied with the legal and regulatory conditions for microfinance in their country. They tend to have a more commercial, profit-seeking approach rather than follow a development-oriented agenda. On the country level practitioners saw the least favourable environment in Croatia, Macedonia and Uzbekistan and the most favourable in Poland and Montenegro.

The main legal problem concerning the microfinance industry is the quality of the regulations.

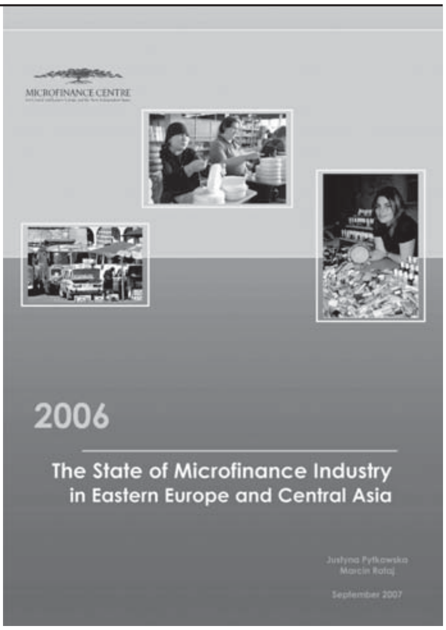
The main legal problem concerning the microfinance industry is the quality of the regulations. The regulations are perceived as unclear which leads to many different interpretations and do not provide sufficient protection of the credit provider. According to many MFIs the environment is overregulated (in particular in Tajikistan and Armenia): the main obstacles mentioned by practitioners include interest caps and the calculation of mortgage value.

The absence of the option to provide savings collection is perceived **as the most unfair regulation** for NGOs/NBFIs all over the region especially in view of increased competition coming from banks. In the opinion of many NGOs/NBFIs, especially in Bosnia and Herzegovina, Romania and Kazakhstan, they are subject to the same limitations as banks, but cannot benefit from the same privileges.

TABLE: PERCEPTION OF PERMISSIVENESS OF LEGAL ENVIRONMENT FOR MFI OPERATIONS

Balkans	2.9
CEE	3.3
Russia/Ukraine	2.5
Caucasus	3.6
Central Asia	3.2

1–5 scale: 1 – very difficult, restrictive environment to 5 – enabling, permissive



"The State of Microfinance Industry in Eastern Europe and Central Asia 2006" is now available on the MFC web page: www.mfc.org.pl/publications. This is the only existing analysis of performance, trends and issues of microfinance in the ECA region.

AZERBAIJAN

The new draft of Azerbaijani Law on Non-bank Credit Organizations (NBCOs)

INCLUDED INTO AN AGENDA OF THE AUTUMN PARLIAMENT SESSION OF AZERBAIJAN

TEYMURAZ AMIROV
AMFA WORKING GROUP TEAM LEADER ON LOBBYING AND ADVOCACY, LEGAL CONSULTANT, CREDAGRO LLC
JHALE HAJIYEVA
EXECUTIVE DIRECTOR, AMFA

Overall, it is hard to comment on the creation, development and operation of a legal framework for non-bank credit institutions (NBCO) in Azerbaijan separately from the legal framework for banks. NBCOs are authorized to conduct a limited scope of banking transactions (that is, to lend) and because there has been no special law to regulate NBCOs, issues related to them were covered in banking laws. The National Bank licenses and supervises NBCOs as well as banks.

Operations of NBCOs are mainly regulated by the Civil Code of the Azerbaijan Republic; the organizational and legal form of most such institutions was defined in accordance with the laws in the 1990s as limited liability companies. Restoration of the Azerbaijan Republic's independence in 1991 and adoption of the New Constitution indicates a new phase in the development of the state. As in all areas, the banking laws also needed reforms. In 1992 the Law of Azerbaijan Republic "On banks and banking activities" was passed. The Law was revised in 1996.

However, the legal regulations based on past experience and knowledge needed to be renewed to reflect the changing environment in Azerbaijan. A new Law "On Banks" was developed in 2002-2004 and took effect in 2004. It should be noted that although the said new law still does not relate directly to non-bank credit institutions, it covers NBCOs as legal entities engaged in the business of granting loans in cash funded by their own funds or attracted funds (except deposits) as well as members of the banking system. The only special law to regulate NBCOs is the Law "On credit unions" that was adopted in 2000.

Despite the limited regulatory attention NBCOs have received, they make up a large proportion of financial institutions. Currently, the banking system of the Azerbaijan Republic includes 91 non-bank institutions in addition to 44 banks (as of June 1, 2007). In this view, the National Bank of Azerbaijan, in conjunction with all concerned agencies and ministries as well as the Azerbaijan Micro-finance Association, drafted the Law "On non-bank credit organizations," which has been submitted to relevant state authorities for review and approval.

The new draft law is designed to ensure the ability of NBCOs to protect creditors' interests more effectively, and will allow for creating new opportunities for establishing and operating NBCOs based on existing international practices.

The draft law, composed of 6 chapters and 27 articles, defines NBCOs legal position, objectives, functions, and relations with state authorities (including supervisory authorities) as well as relevant mechanisms to ensure transparency of their operations. In addition to lending based on a special permit (license) NBCOs will be authorized to trade in debt liabilities (factoring, forfeiting); leasing; advisory services on financial, technical and management issues to borrowers; and insurance agency services. The draft law allows for establishing NBCOs in any organizational and legal form as stipulated by the Civil Code of Azerbaijan Republic for commercial entities. Azerbaijani or foreign individuals and legal entities, as well as international institutions, may establish NBCOs. The Civil Code of Azerbaijan Republic stipulates as constituency forms for businesses partnerships, limited liability and joint stock companies, and cooperatives. NBCO's established as non-profit organizations can only operate in the form of a Fund.

NBCO's will be divided in two kinds of institutions: entities authorized to accept security deposits and entities not authorized to do so. Entities authorized to accept security deposits shall have the minimum charter capital not less than AZN250.000 (approximately USD290.000), while entities not authorized to accept security deposits will have charter capital of no less than AZN25.000 (USD29.000). The draft law defines the security deposit as money paid fully or partially during the effective period of the loan agreement and securing the repayment of the loan.

The draft law defines requirements with respect to organizational structure and administrators of NBCOs. Regardless of organizational and legal form, such institutions shall have at least an executive director, accounting manager, lending expert and internal auditor. NBCO administrators must have higher education and at least one year of working experience. NBCO funding sources are defined as charter capital and revenues, grants of foreign governments and international institutions, loans from foreign and domestic banks, donations of individuals and legal entities, and other gratuitous aid. NBCO's will not be authorized to accept deposits from legal entities and individuals and use them as funding sources.

The National Bank will set prudential norms and requirements with respect to NBCOs authorized to take security deposits, such as: minimum charter capital; maximum exposure per borrower and requirements with respect to transactions with such persons; ratio of security deposits accepted to NBCO capital; and requirements with respect to possible loss provisioning depending on classification and evaluation of assets and off-balance sheet obligations.

Institutions not authorized to take security deposits or operating as non-profit organizations shall maintain the charter capital at a level not below the level defined by the National Bank. NBCOs shall submit prudential reports on their performance to the National Bank in the form, content and timeframes defined by the National Bank. The law enables the National Bank to use a supervisory mechanism of revoking the license if necessary. Such reasons will include false information that served as the basis for issuing the license, failure to start operating within 12 months from the issuance of the license, failure to act upon the National Bank's instructions to remedy breaches made during operations, failure to submit performance reports as required and within the prescribed timeframes to the National Bank, engagement in an unlicensed activity, and bankruptcy of the NBCO.

Another important aspect of the draft law is that NBCOs will submit to the Centralized Credit Register established at the National Bank information about each borrower in accordance with the National Bank's regulations. In addition, NBCO's shall maintain confidentiality of transactions with its customers, including security deposits, in accordance with the applicable laws and shall prevent any illegal disclosure of such information.

The draft law contains transitional provisions in order to fulfill the requirements set forth. NBCO's will improve their operations to compliance with the law over time:

- charter capital requirements – within 11 months.
- organizational structure and administrator requirements – within 6 months.

NBCO's operating as of the effective date of the Law will continue operating to the expiry dates of their licenses issued by the National Bank. Institutions willing to acquire the right to take security deposits may apply to the National Bank for an appropriate license.

In conclusion I would like to add that AMFA views the new law on NBCOs as a good start for positive changes in respect to improvement of the conducive environment for NBCO's activities. Though according to the current law NBCOs will not be allowed to make money transfers, open client accounts and take deposits, the discussion of the draft law within the working group experts of the Central Bank and consensus on necessity of development such a law paves the way for introducing such amendments in near future.

CROATIA

Update on Croatia

MICROFINANCE LEGAL FRAMEWORK

Zaklina Marta Bogdanic

Consultant, MFC

As reported in the January 2007 edition of Policy Monitor, the microfinance sector in Croatia was faced with yet another change of legal and regulatory framework. In late December 2006, the Croatian Parliament adopted a new law regulating the savings and loan cooperatives (SLC), the institutional form currently assumed by all Croatian MFIs.[1]

Even though the form of SLC was not ideal for housing the microfinance operations that began with technical assistance and funding of the international donor community, the direction for their further development mandated by the new law is two-fold: on one hand it opens the possibility for larger SLCs to become small scale banks (savings banks), and on the other it leaves the option to smaller SLCs to continue working under the name of credit unions. Both types of institutions will now be supervised by the Central Bank, as opposed to previous Minis-

The direction for further development of savings and loan cooperatives mandated by the new law is two-fold: on one hand it opens the possibility for larger SLCs to become small scale banks, and on the other it leaves the option to smaller SLCs to continue working under the name of credit unions.

try of Finance supervision. What may in this scenario be issues for the existing MFIs?

The credit union option provides a very limited operating field, narrower than for previous SLCs. Credit unions can start with a nominal seed capital of 500.000 Kuna (approximately 68.500 Euros). Their area of operations is limited to the boundaries of one geographic region, the largest of which is a county[2]. Existing MFIs operate throughout the country, although not every one of them covers all of the counties. Fulfilling this sole criterion would require each MFI to transform into as many credit unions as the number of counties they currently operate in. Another criterion that could be applied for the formation of credit unions is membership with a common link. This means that only people with the same profession or people working for the same employer can be members of one individual credit union. The attempt to offer micro entrepreneurs as the common denominator for the credit union membership was apparently turned down by the Central Bank. The same happened with the option to profile an MFI as a credit union lending to women only. These simple restrictions make it impossible to transform the MFI SLC operation into a credit union.

Savings banks on the other hand can start with the seed capital of 8 million Kuna (roughly 1.1 million Euros)[3]. They will have greater options than credit unions in terms of both clientele and the products they can provide. Savings banks are allowed to work with the general public and companies and can take deposits, grant loans (commercial, consumer, and mortgage loans), issue guarantees or other commitments, trade in securities and engage in money transmission services. This transformation option is interesting to larger SLCs for which the new legislation provides long-desired conditions for further development. If we disregard the credit union option as too narrow and limiting for the existing MFI SLCs in Croatia, the question is whether they have the capacity to become savings banks.

Supposing that existing MFIs are sufficiently funded to apply for a savings bank license, they will first have to obtain a response from the Central Bank on how to deal with the transformation of cooperative statutory reserve capital (donor funded capital base of the MFIs) to bank shares. In "real" savings and loan cooperatives this is not an issue, as their cooperative shares will be simply transformed into bank shares. MFIs that have equity in the form of statutory reserve capital, however, will have to wait for instructions from the Central Bank before proceeding.

Once this is dealt with, the next step possibly determining the ability of the MFIs to transform into a savings bank will be the capital adequacy ratio, which is prescribed at a minimum of 10%. Additionally, an SLC applying for the savings bank license has to provide proof of sufficient funding to finance the transformation itself.

In general, Central Bank supervision is applied to the savings banks without a phase in period for the new and smaller institutions yet having to learn many aspects of banking operations.

Besides the capital required for the formation of a savings bank, further potential issues for the MFIs wishing to transform are the inadequate skills and knowledge of current staff, and MFIs inability to attract professionals with a banking background into the new institutions. MFIs started as institutions concentrating on lending to low income entrepreneurs and their staff is skilled to work with this specific group of clients, rather than being versed in banking aspects of this business. MFIs lack internal rules, regulations and procedures that are appropriate for banking operations, which are also required as part of the application package for transformation. Capacity of the currently used IT and MIS in MFIs may be another bottleneck to transformation.

Supposing that existing MFIs are sufficiently funded to apply for a savings bank license, they will first have to obtain a response from the Central Bank on how to deal with the transformation of cooperative statutory reserve capital (donor funded capital base of the MFIs) to bank shares.

While there is nothing wrong with setting high standards for the stability of the financial sector of a country, the provisions of the new law indicate that no attention was devoted to understanding specific challenges of the existing non-profit micro credit ventures already serving a number of low income entrepreneurs in Croatia. Transformation of an institution is a serious step that needs to be carefully planned and executed if the core business is not to be disrupted. With as many unknowns as now facing the MFIs in Croatia, the only thing that is certain is a rocky road ahead.

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In retrospect, work on the regulatory framework for the MFIs in Croatia was never a unified effort of this small industry and it is now paying for its lack of comprehensive vision for its future development. On the other hand, while interest groups can legitimately promote and lobby for their interest, one can also wonder why the needs of the sector providing financial inclusion of marginalized populations have always been disregarded by the legislators. Given the fact that another law on credit institutions is already available in draft version on the web page of the Croatian Central Bank, it remains to be seen how long-lived the current reform will be.

1 Demos, MikroPlus, Noa.
2 Croatia has 21 counties and the city of Zagreb for 4.5 million people, which means that counties are too small for sustainable operation of an MFI.
3 The seed capital requirement is a straight forward amount only for the organizations starting from scratch. Those applying for the savings bank license as existing SLCs will have to factor in the required capital adequacy ratio in relation to the existing portfolio health.

ALBANIA

The Microfinance sector and fondiBESA activity as a lending Microfinance Institution in Albania

Dr. Bajram Muça
Executive Director
of fondiBESA
Dr. Altin Muça
Marketing Director
of fondiBESA

I – Overview of Microfinance sector in Albania.

The Microfinance sector in Albania is considered "pioneering" in the financial sector in Albania.

The beginning of 1994 marks the establishment of two micro-lending programs under ADF (Albanian Development Fund): Rural Credit Project (Rural Finance Fund) and Urban Credit Project (today fondiBESA).

The micro-lending market in Albania before 1996 can be categorized as very weak and undeveloped. The micro-lending market developed in a similar cycle as development and changes in the banking system.

The main features of micro-lending in Albania are:

- An increasing number of operators.
- An improving quality of services provided to small clientele, and diversification of products offered (mainly in applying the scaled interest rate) and kind of operators in Rural and Urban areas.
- A significant increase in competition which leads to the improvement of the quality of services.
- A significant presence of the Microfinance Institutions in the crediting of businesses.
- More attention paid by entrepreneurs to the Microfinance Institutions.

Two years before, AMA (Albania Microfinance Association) was established. The establishment of AMA comes as result of consolidation of the microfinance sector in Albania and the good condition and readiness of all Microfinance Institutions. All seven Microfinance Institutions are AMA members.

The years 2006 and 2007 were a period of consolidation of all Microfinance Institutions, improvement of all financial indicators and more complete extension of activity in all areas (rural; urban; semi-urban).

The microfinance sector in Albania is an integral and significant part of the financial sector that year after year is showing growth, consolidation and structural improvement.

Microfinance Institutions are helping the country with economic growth and poverty reduction in Urban and Rural areas by promoting the micro and small enterprise sector in Albania.

In this way, all Microfinance Institutions have been part of the Albania Government Strategy in the Reduction of Poverty, by creating thousands of new jobs.

Our institutions all together have outstanding more than US$100 million at the end of 2006 and have increased their activities year after year.

A challenge of AMA is establishing a Credit Bureau for all Microfinance Institutions to exchange information on clients of AMA members.

The year 2007 and forward will be a time of further consolidation of our Microfinance Institutions, and necessary legal changes to adapt better to the evolving Microfinance sector in Albania.

II – fondiBESA activity as a lending Microfinance Institution in Albania

The year 2006 and the first half of 2007, for fondiBESA as one of the first non-banking institutions in Albania, was a time of further institutional consolidation, improvement of all financial indicators and more complete extension to Urban areas. Financial sustainability was improved significantly.

Being the microfinance "pioneer" in Albania, fondiBESA has shown clearly how important and fruitful the role of these institutions is in the economic development of the country.

fondiBESA has helped many people who needed to expand their activities or to start up new ones.

In this way, this Foundation has been part of the Albanian Government Strategy in the Reduction of Poverty, by creating thousands of new jobs since the beginning of its activity.

COUNTRY HIGHLIGHT

Brief History of fondiBESA

The Urban Microcredit Project started its activity in February 1994 as Department of Albanian Development Fund. In May 1999 with the Decision of the Council of Ministers this project was transferred from Albanian Development Fund to fondiBESA with Soros Foundation as a founder.

Soros Foundation will supplement the existing loan funds to satisfy the increasing demand for credit among the growing Albanian micro and small entrepreneurs sector.

Today fondiBESA operates in 31 offices and covers more than 80% of all urban and semi-urban areas of Albania.

The main products offered are business loans (in Lek or foreign currency), youth loans and consumer loans.

Key performance indicators as of June 2007

- Cumulative Disbursed Amount (in Million US$)162
- Cumulative Loans (Number) 33,569
- Outstanding Balance (in Million US$) 32.4
- Active Loans (Number) 8,500

New agreement and financial partners of fondiBESA

Instituto de Credito Official

During October 2006, fondiBESA and "Instituto de Credito Official" signed a loan of 5 million euros. Thanks to this agreement fondiBESA will increase and expand its activities during 2007.

The strategic objective of the Spanish Cooperation in microfinance in the Republic of Albania is the fight against poverty through facilitating the access of micro entrepreneurs residing in the country to the formal financial system.

This strategic objective is accomplished through the expansion in the supply of financial services directed to micro enterprises.

Raiffeisen Bank

We signed an agreement with Raiffeisen Bank in Albania for 300,000,000 ALL (Albanian Lek) about US$3 million. We see this agreement as a starting point for further collaboration in the future.

Other partners

Since last year we are in negotiations with EFSE-EUROPEAN FUND SOUTH-EAST and other donors.

CEE / NIS NEWS AND VIEWS

ROMANIA

Does Romania's microfinance policy environment promote Roma access to credit?

Indications from an exploratory research study.[1]

Laura Brix

Independent Microfinance Consultant

In Romania, a large proportion of Roma (as well as non-Roma) are self-employed due to insufficient wage labor opportunities and to supplement household income, but their livelihoods are not adequately supported by the country's financial and entrepreneurial sectors. In fact, banks rarely lend to Roma or other impoverished groups. Are Romanian MFIs filling this gap? If not, how could policymakers and funders facilitate greater access?

Roma demand for credit

Of the estimated 2 million Roma living in Romania, many live in "third world" poverty and exclusion, and struggle to make ends meet through informal entrepreneurial activities. While Roma entrepreneurs could benefit from expanded access to capital, they rarely use mainstream financial services. Those who borrow rely mainly on family and friends.

Economically and socially vulnerable groups such as the Roma use credit, but have not gained from efforts to expand microfinance in CEE. Literature suggests that the Roma are good MFI customers when programs feature strong community relationships, training and business development services, clear differentiation between grant and loan programs, and personal investment (both financial and psychological) by participants.

Policy environment for microfinance

Romanian MFIs operated in uncertain legal territory until 2005, when the Romanian Parliament adopted a new regulatory framework, Law 240/2005, to create an enabling environment for MFIs. This law is only a framework for credit; other activities require separate companies. In addition, the law prohibits NGOs from extending credit unless they have a special exemption from Banca Nationala a Romaniei (BNR), Romania's central bank.

In 2006, Government Ordinance 28 (GO28, or "the NBFI law") was passed, which sets conditions for NBFIs to conduct different types of lending, including microcredit, mortgages, leasing, and consumer loans. Unlike the 2005 law, MFIs do not need a separate company for each activity. NBFIs covered by GO28 include not only

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MFIs, but leasing companies, mortgage companies, consumer credit companies, pawnshops, and non-deposit taking credit unions and cooperatives.[2] NBFIs above a certain asset size are regulated much like banks. Despite increased formalization, the microfinance policy environment remains unstable and continues to evolve.

Selected survey results

Legal and economic environment

The consensus among study participants was that the new microfinance laws and regulations may not be perfect but were far better than the gray area in which MFIs operated previously. Most agreed that the new laws had increased MFI stability and credibility. However, the NBFI ordinance in particular has reduced flexibility and increased costs due to more formal registration and reporting requirements. Most find the NBFI rules confusing and burdensome, so MFIs feel they "might as well convert to banks, they have all the problems and none of the advantages."

Predictably, smaller MFIs were having a harder time complying with new standards: one estimated increased compliance and administrative expenses at US$1300 per month. For larger MFIs, the cost of regulatory burden was offset by increased professionalism and transparency in the eyes of lenders, lowering their borrowing costs. For smaller MFIs that do not access commercial funding, this benefit is irrelevant.

MFIs' ability to influence policy is limited. One participant stated that MFIs were only 10 percent of all companies covered by the NBFI law and carried no weight when it came to regulatory issues. Two participants noted that BNR may ask for MFIs' input but does not seem to take it. One participant speculated that the current regulatory structure was designed to encourage NGOs to "disappear" and drive all MFIs to become banks.

Accession to the EU appeared to be a mixed blessing. A perceived benefit was that it would help stabilize the microfinance legal framework. One participant remarked "[Now that we are in the EU], we can't reinvent the wheel all the time like we used to." Another participant thought integration may help get money for rural development to the right places. On the other hand, EU membership had negatively affected access to donor funding. One grant-funded participant has had greater difficulty accessing grants and believed this was due to a mentality "you are in the EU now, you should be fine."

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The effect on MFI borrowers has been challenging. While access to new markets was a plus, integration was having a negative effect on small businesses due to increased competition and the cost of complying with new regulations. Those who were unable to comply would be crowded out, especially in the areas of food and agriculture. On the plus side, the EU has allocated money to microfinance, which could be used for capacity building, incubators, and business development.

Commercialization, sustainability, and commitment to the poor

Study participants emphasized that microfinance in Romania is geared to private sector growth and building financial institutions, not poverty alleviation. Most believed the future of small, credit-only institutions was limited; instead, the industry would see increasing consolidation and bank conversions. Larger MFIs in particular felt the current imperative to be financially sustainable meant those with a social focus would die, while competition with commercial banks would intensify.

Two MFIs said that when microfinance first started in Romania, client poverty was a priority but that changed with the sector's emphasis on commercial sustainability. As a result, there was no commitment to reaching the poor or marginalized. Rather, MFIs "pick easy targets," focusing on clients in wealthier Transylvania, not poorer Moldova. Small, socially-oriented MFIs have struggled to retain a niche in this environment because grant funds were dwindling and commercial borrowings were too costly or too large to absorb.

This is not to say that subsidized MFI programs are the solution to expanded outreach in Romania. More than one NGO participant observed that most of their EU-funded projects for Roma did not last beyond the grant period because there was no time to build capacity, cooperation, and leadership. Donors expected immediate change rather than investing in community relationships and trust over the long term. To that end, there was a need for pilot projects that established sound methodologies and best practices, especially in northeastern Romania, which has a higher concentration of the poorest Romanians but the least funding and support for microfinance.

Roma access to credit

Despite the less-than-welcoming climate for non-traditional client groups, all MFIs interviewed in this study had Roma clients. However, they did not collect data on borrowers' poverty or ethnicity[3], so it was impossible to know exactly how many were served. Coverage is believed thin, however. One study participant remarked that this was due to an absence of "risk capital;" that is, MFIs have failed to reach a significant number of Roma clients because "no one is willing to invest long term."

Study participants described lack of documentation (identity card, business registration, collateral documents) as a major barrier to working with Roma, whose higher degree of informality is difficult to reconcile with Romania's formal, highly-regulated financial and business sectors. The literature confirms that lack of identity documents is a serious barrier to both financial and non-financial (e.g. health, education) services for Roma throughout CEE.

> **Donors expected immediate change rather than investing in community relationships and trust over the long term.**

Whether the client is Roma or non-Roma, proving repayment ability is difficult for people who work informally, which makes access to formal credit nearly impossible. BNR requires regulated banks and MFIs to document borrowers' income and repayment ability, and comply with "know your customer" rules. Ironically, lack of identification can become a vicious circle for the Roma; for example, proof of a fixed address (lease or land title) requires proof of identity, but proof of identity requires having a documented address.

The Roma's lack of financial literacy is a problem for some, but not all, microfinance lenders. One participant said Roma needed

Lack of identity documents is a serious barrier to both financial and non-financial (e.g. health, education) services for Roma throughout CEE.

a higher level of monitoring and support due to their lower educational attainment, lack of familiarity with mainstream financial services, and exposure to grant-funded programs, where the mentality was "If you pay back great, if not, it's okay." However, another MFI said that labor intensity was not a barrier: even if a first-time Roma borrower needed more help to create a business plan, for example, it "balances out" because there are more seasoned borrowers who need little or no help.

While most MFIs viewed labor-intensive Roma customers as costly and unsustainable, none had noticed a difference in repayment rates between Roma and non-Roma customers. One MFI participant did a study of their Roma borrowers' performance and found no difference in delinquency overall. In fact, some Roma communities had 100 percent repayment rates.

Building a bridge to access

Within this complex legal and cultural environment, mutual trust emerged as the most basic barrier to expanded access to MFI services for the Roma. Romanian MFIs do not trust Roma to repay. Meanwhile, the Roma avoid formal, gadje institutions, which includes MFIs.

As the most fundamental element of a borrower-lender relationship, lack of trust is no small hurdle. However, there is substantial evidence from the literature and field interviews that Roma and non-Roma Romanians will do business together if it makes economic sense, regardless of how they feel about each other socially. In fact, bridging the gap has been relatively easy with more integrated or "high-strata" Roma; the challenge is reaching more isolated communities.

Participants in the field research suggested one possible way forward: strategic partnerships between NGOs that know how to work with Roma clients, and MFIs that would like to reach this largely untapped market segment.

While less common in microfinance, the value of strategic alliances in the business world is well established. Alliances are created to achieve common or complementary objectives that each partner would have trouble reaching alone. Through these linkages, institutions may improve their competitive position, access new markets, supplement or enhance services, and share the risks and costs of product development. Empirical evidence in countries as diverse as Bolivia (FIE-ProMujer) and India (ICICI Bank Linkage Program) has shown that partnerships between commercial microfinance providers and NGOs that work with non-traditional clients help reduce information asymmetries, lowering perceived risk and costs for MFIs while allowing NGOs to provide a wider range of products and services to their clients.

Roma and non-Roma Romanians will do business together if it makes economic sense, regardless of how they feel about each other socially.

Conclusions for policymakers, and microfinance donors and investors

Policymakers and funders have a critical role to play in facilitating market-driven solutions such as strategic alliances, by: (1) encouraging innovation and collaboration between commercial MFIs and NGOs through enabling regulations, smart subsidies, and technical assistance; and (2) expanding social services that will help bring Roma clients into the mainstream through documentation of identity, address, and assets.

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1 The author conducted exploratory research on practices used by Romanian MFIs to serve Roma clients, as well as barriers to access. The research findings are drawn from an extensive literature review and 24 in-depth interviews with established Romanian MFIs, donors, technical assistance providers, and industry experts. This article is derived from the findings of the research study, which was part of a master's degree thesis project for the School of Public Service at DePaul University, Chicago, Illinois, USA. The report is available on the Microfinance Gateway at http://www.microfinancegateway.com/content/article/detail/45382.

2 Only regulated commercial banks are permitted to take deposits in Romania.

3 Neither donors nor regulators require MFIs to report on these indicators.

KAZAKHSTAN

Association of Microfinance Organizations of Kazakhstan (AMFOK): Legislative initiatives affecting credit partnerships

Saltanat Igenbekova
Executive Director, AMFOK
Arman Kasym
Board member, AMFOK

In April 2007 we celebrated the 10th anniversary of the first legislative act regulating the activity of credit partnerships[1] in Kazakhstan. Considering that the history of such organizations in some countries is estimated in centuries, we may think that 10 years is not such a long time to analyze or project anything. The reason we do so in this article is the unique position of credit partnerships in the Kazakhstan financial sector.

In Kazakhstan, most people would agree that the financial sector of the Republic is one of the most developed sectors of the economy. Last November, during The Sixth Congress of Finance, the President of the Republic Mr. Nazarbaev said: «Our financial sector is our pride and our competitive advantage, created by joint efforts of private sector and the government». Hence, if everything is good as a whole for the financial sector, why should we examine its separate components?

Credit partnerships are a part of the financial sector of Kazakhstan and more specifically part of the credit system. When analyzing the current situation with Kazakhstan credit partnerships there can be an impression about pretty high rates of their development, which is true. In 1998, according to Agency of Regulation and Supervision of Financial Market and Financial Organizations (AFN) data, there was only one credit partnership in the country, while as of January 1, 2007, their number reached 193. Growth dynamics for this period are presented in Table 1.

From 1998 to January 1, 2006, assets grew from 10 016 000 tenge (EUR 57,000) to 34 351 779 000 tenge (EUR 196 million). Thus, there is a positive picture of growth of credit partnerships. However, according to well-known Kazakh financial expert Mr. Bainazarov, "… if we keep growing at the same speed, it will take us more than half a century to cover even one third of all farms."

In this article we will look at the trends in the development of credit partnerships in Kazakhstan from the point of view of their adequacy to accomplish those tasks

TABLE 1

Statistical data	01.01. 1999	01.01. 2000	01.01. 2001	01.01. 2002	01.01. 2003	01.01. 2004	01.01. 2005	01.01. 2006	01.01. 2007
# or partnerships registered	1	6	9	32	50	89	123	175	193
Including those registered in accordance with Government Act No 137, dated 25.01.2001	–	–	–	14	23	45	64	115	
Including those who haven't started their operations (newly registered, no reports presented)	–	–	3	18	20	36	26	49	34
Operating partnerships	–	5	5	11	25	47	79	107	130
No data on partnership	–	1	1	3	2	2	3	5	13

Credit partnerships represent the organizational form of mutual financial aid where businessmen with available resources (and not only businessmen) can deposit those resources, and those in need of these resources, accordingly, can receive them.

they are called to resolve. So, according to the Law of the Kazakhstan Republic «On credit partnerships» these institutions are intended to «satisfy the needs of its participants in credits and other finance services, including banking, by accumulating their funds and funds from other sources not forbidden by the legislation of Kazakhstan Republic». In other words, credit partnerships represent the organizational form of mutual financial aid where businessmen with available resources (and not only businessmen) can deposit those resources, and those in need of these resources, accordingly, can receive them.

It is important to note the fact that according to the aforementioned Law, one of the major sources of funding for credit partnerships should be members' money. But according to official data, resources of the overwhelming majority of Kazakhstan credit partnerships are provided by the state budget. For instance, as of January 1, 2007, out of 193 credit partnerships registered, 146 (or 75%) were founded with support from the Agricultural Credit Corporation, regulated by Government Act No 137, dated January 25, 2001 «On issues of providing credits to agricultural sector». And even if we ignore the fact that only 130 (or 67%) out of 193 are really operating, it's obvious that development of 75% of credit partnerships was possible due to government support. In fact, in 2005 the government share of total credit resources of these credit partnerships amounted from 75% to 90%.

Whether active government participation in the development of different organizations is positive or negative – taking into account goals, mechanisms and general efficiency of this participation – is not a subject of this article. Rather, the abovementioned examples illustrate the fact that but for government financing the general picture of development of credit partnerships would look much poorer. Such a situation should cause concern since it is obvious that the government cannot infinitely provide financial support to these organizations. At the same time they are potentially capable of developing sustainably without such support.

Sustainable development (that is, not dependent on sources of subsidized funding) of organizations of different types depends, first of all, on demand for services or products and, secondly, on legislation that creates a framework for optimal satisfaction of this demand. The fact that there is great demand for financial services in Kazakhstan, it appears, does not cause any doubts, as well as the fact that organizations of different types should provide those services so that the consumer wins due to their competition. At the meeting with country finance experts last November the President expressed his opinion on this occasion: «…we should develop consistently all segments of the financial system. Nonbank organizations should become effective financial intermediaries for providing credit resources to individuals and small and medium businesses».

As for legislation, in February the Association of Microfinance Organizations of Kazakhstan (AMFOK) had organized the Third Conference on development of the microfinance sector in Kazakhstan. Among the basic questions at the Conference, there were also issues of improving the legislation regulating the activity of credit partnerships. All speeches on the topic can be reduced to one main thesis – **the existing Law «On credit partnerships» does not promote development of these organizations.**

The mechanism of capitalization of credit partnerships stipulated by the Law through accumulation of members' funds for on-lending to the same members does not work in Kazakhstan.

For example, the mechanism of capitalization of credit partnerships stipulated by the Law through accumulation of members' funds for on-lending to the same members does not work in Kazakhstan. In particular, according to the Law, credit partnerships cannot provide compensation on money attracted from members, so members are not interested in investing additional money into capital beyond the required minimum.

Further, the Law provides that credit partnerships are commercial organizations, i.e. the main purpose of their activity is gaining profit. At the same time, according to the Law only its members can be clients, and these consumers themselves establish prices for these services. As a result, the size of the received income is strictly limited to the size of forthcoming charges, which actually deprives credit partnerships with an opportunity to earn additional incomes necessary for their development.

There are different visions of the future of credit partnerships in Kazakhstan and their place in the financial market of the country.

There is also a need to harmonize different laws affecting credit partnerships and provide clearer definitions about investments and taxation.

I think there are very few experts from the financial sector familiar with this kind of organization who would not consider that the legislation on credit partnerships requires revision. It was reflected in the Concept of the development of the financial sector of the Republic of Kazakhstan in 2007 – 2011, where a number of measures on development of nonbank credit institutions were stipulated, including – «stimulation of expansion of a range of services provided by credit partnerships». However, having consensus on the necessity of improvement of the legislation, participants of the market and authorized government bodies disagree how this improvement should occur. In other words, there are different visions of the future of credit partnerships in Kazakhstan and their place in the financial market of the country. So, for example, some people consider that the activity of credit partnerships should be focused exclusively on providing services to their members. Another point of view is that credit partnerships, keeping the focus on serving their members, could carry out a part of the operations outside of this limitation.

International experience provides us with a database for reflection and testifies that both the first and second options are valid. The choice depends on what form of financial intermediary is the most appropriate for Kazakhstan.

So, for example, today the credit system of Kazakhstan is represented by both banks and nonbanking credit organizations. The activity of nonbanking credit institutions is highly specialized:

- Pawnshops are providing individuals short-term personal consumer collateralized loans;
- The main activity of mortgage companies is providing hypothec loans;
- Microcredit institutions provide microloans;
- Credit partnerships provide financial services, including loans, only to its members.

Thus we can say that there are no loan product alternatives to banking focused on small and medium business.

The credit system is characterized by an obvious imbalance, considering the share of nonbanking credit organizations, by different estimations, does not exceed 3% of the cumulative credit portfolio of the country. In developed countries, the share of microcredits is 20-40%, and is even higher in countries with transition economies. As a result, there remain many Kazakhstan individuals and representatives of small business, especially in rural areas, who require credits and other financial services. However, only banks have the resources to fully satisfy this demand but because operational costs are high in rural areas, they slowly promote their services, preferring the nearest foreign countries instead.

AMFOK believes credit partnerships should have an opportunity to carry out some financial operations outside the circle of their members as part of a more structured, tiered system.

The question is: why limit the activity of organizations that are potentially capable of helping meet demand for credit with frameworks that limit services to only the narrow circle of its own members? AMFOK believes credit partnerships should have an opportunity to carry out some financial operations outside the circle of their members as part of a more structured, tiered system where (credit only) microcredit organizations and pawnshops with the least systemic risk carry out the simplest operations. At the other end are banks that provide the full range of financial services. In the second, middle tier would be credit partnerships that provide credit and some money transfer and currency exchange services. Each tier would have a level of regulation and supervision proportionate to the risks of these activities.

This would create a credit system that is more adequate to meet demand existing in the financial market, especially in rural areas where the greatest deficiency is observed. With the government examining the potential of nonbanking credit organizations and promoting a favorable framework for their development, there is an opportunity of creating a credit system in Kazakhstan which will be characterized by a high level of a competition, a degree of regulation at each level directly proportional to risks, and more stable and efficient credit partnerships that can expand credit in the rural areas.

1 Credit partnerships in Kazakhstan are similar to financial cooperatives or credit unions, i.e. individuals purchase shares, and the proceeds are used to make loans to members. However, Kazakhstan credit partnerships are not allowed to take deposits.

UN Advisors Group on Inclusive Financial Sectors: Key Messages for Governments and Regulators

In 2006 the UN appointed a group of experts to advise the United Nations system and member states on global issues relating to building inclusive finance. The Advisors Group consists of 25 individuals representing governments, central banks, regulatory agencies, private sector financial institutions, development agencies, microfinance institutions, international networks (including MFC) and academics from all over the world. Her Royal Highness, Princess Maxima of the Netherlands is also a member of the Group.

The Advisors Group works with key stakeholders (such as private sector, central banks, government, academia, etc.) to identify and define the key issues constraining access for financial services and advises the UN regarding strategies that can be undertaken to remove the constraints to building inclusive financial systems. As part of its mandate, the Group has drafted the following key messages regarding basic principles in building financial systems that include low-income people.

KEY MESSAGES FOR GOVERNMENTS AND REGULATORS

Target Audience:

Governments

- Inclusive financial sectors require building and supporting permanent, local financial institutions and embracing new technologies and systems that deliver a diverse range of financial products and services to the poor.
- Each government's vision for a well-functioning financial system should include access for all citizens to a broad range of financial products and services,including savings, credit, insurance, and money transfers.
- The role of government is to create a helpful policy environment that broadens access while protecting consumers. When the government itself provides financial services, politics almost always limit access.
- Governments should refrain from imposing interest rate ceilings, as they may limit credit expansion and shift the cost burden to hidden fees. The best way in which governments can encourage the lowering of interest rates is to promote transparent prices and an open, competitive market.
- Broadening access to financial services is an important policy goal, but will not in and of itself eliminate poverty.

Regulators

- Financial inclusion should be a major objective of financial regulation. The role of regulators is to establish environments that allow a diverse range of institutions to provide a wide variety of financial products and services.
- Regulators must be flexible in their approach; they must mitigate risks without limiting access to financial services.
- Regulators must assure appropriate supervision of both financial services providers and their supporting industries, such as telecommunications.
- Regulators must exercise caution that anti-money laundering and related regulations do not block access to financial transfers that are critical for poor people.
- Broad-based access to financial services requires an enabling regulatory environment for telecommunications and technology infrastructures.

Private Sector

- Providing financial products and services to poor people represents a large business opportunity for the private sector. Providers of financial products and services should use their strengths to develop a range of products that better serve the needs of the poor.
- The private sector has an important role to play in expanding access to financial services for poor people.
- Private sector participants in inclusive financial sectors should include not only direct providers of financial products and services, such as banks, insurers and money transfer companies, but also telecommunications and technology companies, credit bureaus, retailers and other private sector entities that support the financial services industry.
- For the private sector to realize the market opportunity of expanding access to financial services, it must be engaged in establishing appropriate enabling environments.
- The private sector can expand access to financial services in many ways. These include providing capital; building infrastructure; developing new products, services and technologies; and improving human and institutional capacity.

Development Partners

- For development partners, quality of funding for inclusive finance is at least as important as quantity. Good funding requires technical expertise and appropriate funding instruments.
- The key bottleneck for development partners supporting inclusive finance is the shortage of strong institutions and managers.
- Development assistance for inclusive finance should complement private sector activities, not compete with them.
- Better information on the performance of development partner investment portfolios is essential. What is not measured cannot be managed.
- For development partners, both an effective division of labor and coordination of efforts are needed for maximum efficiency and impact of development assistance on inclusive finance..

HUNGARY

Experience in Microcrediting in Hungary

Dr. Antal Szabó

UN ret. Regional Adviser,

Scientific Director of

ERENET

Introduction

The performance and economic growth of the 27 transition economies (CITs) is rather heterogeneous. Ten former centrally planned economies have successfully transformed to market economies, and as emerging market economies become full members of the European Union. Among Hungary's social problems, poverty is the most critical factor, amounting to 25-30% in Hungary.[1]

In Hungary the economic and political elite is paralyzed by their own interests. Policymakers can not see the forest for the trees and are not occupied to solve the problems of the society. This created a society where the major features of globalized capitalism are spreading in Hungary more rapidly than the people can adapt, widening the gap between the rich and the poor.

Micro-, small- and medium-sized enterprises (SMEs) play a significant role in the economy, because they produce products and provide services on spot, and by doing so, they create jobs, pay taxes, and generate growth.

Financing SMEs, especially in CITs, is one of the major obstacles in entrepreneurship development. Among the major problems is securing the initial capital and access to initial credit.

Microcrediting has a 15 years history in Hungary. Its practice developed at a time when a large number of enterprises were created with little experience and in an underdeveloped financial market, which was especially challenging for small and vulnerable start-ups.

The Beginning of Microcrediting – 1992-2000

Hungary was one of the earliest of reforming countries in Central and Eastern Europe (CEE). The transition to a market economy started already in the early 1960s with the New Economic Mechanism and continued through further economic reforms during the 1980s. Thus, Hungary was probably better prepared for political and economic changes than their neighbouring countries from 1989 onwards. However, as a consequence of deficient economic decisions by the first freely elected „kamikaze" Government, collapse of the state-owned enterprises, and refusal to trade with the succession states of the former Soviet Union led to significant industrial decline and a drastic rise in unemployment. Many hundred thousand people became self-employed overnight in order to survive and give food to their families. By 1992, the number of microenterprises in the sole proprietorship category amounted to 606,000 already. The financial sector for SMEs was very poor.

The Ministry of Industry, Trade and Tourism was responsible for national SME policy. In 1990, the Government established the **Hungarian Foundation for Enterprise Promotion (MVA)**, a National SME Support Agency[2]. The Government was the main shareholder with 71% of initial capital, while the Hungarian Credit Bank contributed 12%, the Hungarian Saving Bank 8%, and the rest by other institutions. MVA was nominated as the Programme Management Unit for PHARE financial support for the SME sector, but it coordinated other bilateral donor programmes as well. PHARE financial resources supported by 19 **Local Enterprise Agencies (LEAs)** established in each county, plus the Budapest LEA.

To overcome the shortage in financing SMEs, in 1992 the PHARE Micro-Credit Scheme (MCS) was established under FM HU 9006. Total PHARE input amounted at EUR 15.4 million between 1992 and 1997.[3] The aims of the MCS included:

- Providing a source of start-up and growth finance for micro enterprises;
- Beginning to develop the market for SME credit which commercial banks would be able to service;
- Developing a raft of credit-worthy SME clients with favorable credit repayment records suitable for obtaining larger sums of credit from the commercial banking system.

The MCS offered loans for a three-year period, with a six month grace period preceding the first payment. Repayment of the loan was to be over 30 monthly installments. MCS was administred by the LEA closest to the applicant, which received a funding tranche from the MVA center. LEAs imposed an administrative charge on MCS equivalent to 3% of the approved credit, and 10% of the interest paid by the recipient.

The maximum microcredit started at HUF 1 million (approx. EUR 5,000). After successful implementation of the MCS pilot phase the MCS II Program raised the upper loan limit to HUF 3 million (about EUR 15,000). The loan could be used to purchase machinery, equipment and other fixed assets. No more than 30% of the loan could be used to finance current assets. By mid 1997 almost 8,000 such micro loans had been disbursed for a total of HUF 4.7 billion (USD 2.25 million – average loan size USD 2,810.[4]

In the mid-1990s, the Hungarian MCS was an advanced financial support mechanism. According to the Bannock Consulting Co. study prepared for the UNECE, the Hungarian microcredit scheme was considered as the best one in CEE.[5] This is why it was highly appreciated that on 10-13 September 1997, MVA jointly with the UNECE organized a Training Course on microcredit facilities, loan appraisal and small business financial counselling in Budapest within the framework of the Southeast European Cooperative Initiative – SECI.

In June 1999, the Government established a **State Microcredit Committee** (in Hungarian: Országos Mikrohitel Bizottság – OMB) aimed at reviewing the microcredit programme mechanism. In accordance with the new Government strategy, the Parliament adopted the Act XCV (XI. 13.) on the Small and Medium-sized Enterprises and the Promotion of their Development, effective on 1 January 2000.

The primary aim of the new programme was financing purchase of machinery and infrastructure development. The programme also allowed financing current assets as well, up to 50% of the loan. The upper limit of the credit was EUR 12,000, while in the case of financing current assets the limit was EUR 6,000. In a significant tightening up measure, the applicant had to contribute 20% of its own capital, as well. The earlier scheme requested 10% of its own capital. The credit could be disbursed only with 100% guarantee/collateral.

Between 1992 and the end of 2002, 21,186 entrepreneurs received microcredit totalling HUF 27.7 billion. This number is very modest as compared to the large number of SMEs in Hungary; however, for these companies it was of great importance to start with their operations.[6]

Consortium of Hungarian Enterprise Promotion Network

A Consortium Agreement was signed by all LEAs in April 2000. The form of consortium was reinforced also by international experiences by international DFC Group consulting company. The Consortium was established by 20 LEAs, in each county as well as in Budapest. The Consortium has over 100 offices in country-wide. The aim of this initiative is to serve the SME development. In order to strengthen the synergic effect, on 18 December 2002, the Hungarian Enterprise Promotion Network signed a basic contract with the Ministry of Economy and Transport and its new governmental programme centre Hungarian Enterprise Development Public Company – MVf Kht.[7,8]

Establishment of Multi-state SME Financing Scheme – Activities During The Orbán Government

In 2000, the Ministry of Economy, the EU Delegation in Hungary and the MVA signed a contract aimed at creation of a revolving State Microcredit Fund administered by the MVA. According to this contract the only owner of this resource was the Hungarian Government and the MVA would operate it. Those resources prior to May 2000 owned by the LEAs remained further in their hands, but funds established after May 2000 would be transferred to MVA. In this programme the former independent county LEAs served as business dealers for a certain fee, while commercial banks technically allocated the loans. This created a very inefficient and bureaucratic system.

The conditions of microcrediting were modified during autumn 2001 and spring 2002. The upper limit of the loan was increased to HUF 6 million and the repayment time increased from 3 to 5 years. The eligibility criteria for a micro loan was expanded for SMEs up to HUF 200 million of net sales return (the earlier limit was HUF 100 million only). Limits concerning financing of current assets were removed, so the total amount could be used for financing current assets. Previously only half of the loan could be used for this purpose. As a consequence of these changes the demand for microcredit increased substantially. In 2002, 4,343 loan disbursements were lent in a sum of HUF 9.39 billion.[9]

On 27 August 2002, the microcredit loan programme was suspended. The Government Decree 1213/2002 (XII.23) on Széchenyi Enterprise Development Programme decided to build the microcredit scheme on resources of commercial banks and saving cooperatives in that manner, which could safeguard its sustainability.

In July 2003, the Government decided to change the conditions of the microcredit scheme again. In accordance with the Government Decree 1065/2003 (VII.15) a four-stage lending system was developed. From October 2003, all stages of this scheme were operating.[10] The elements of four-stage SME financing programme include the following:

Stage 1: Micro Credit
Stage 2: Széchenyi Card
Stage 3: Medium-Size Loan (Midi-Loan)
Stage 4: Europe Loan

In accordance with the Government Decree 1065/2003 (VII.15) the eligibility criteria was set as the following:[11]

- Maximum amount of credit HUF 3 million (instead of HUF 6 million);
- Financing of current assets: only up to 20% of the loan (instead of earlier 100%);
- Term of credit: maximum 3 years (instead of 5 years);
- Interest: Variable during the repayment period in accordance with the base rate of the central bank (instead of fixed interest rate valid at the time of concluding the loan contract).

Microcrediting from Autumn 2003 – during the Medgyessy and Gyurcsány Governments

In autumn 2003, the National Microcredit Committee suggested a review of the microcredit programme's conditions. On October 2003, the State Microcredit Committee with its 11/2003. (X.16.) OMB decision obliged the MVA and the LEAs to elaborate suggestions to modify the procedure of the microcredit scheme.

In January 2004, the Consortium of Hungarian Enterprises Promotion Network made a proposal to the Government on modernisation of the microcredit scheme based on the following principles:

(i) microfinance is not a commercial banking operation;
(ii) the operation should be decentralized; and
(iii) there is a need to establish a unified recording and monitoring system.

At the end of January 2004, MVA invited the Hungarian Association of Craftmen's Corporation (IPOSZ) and the Confederation Representing the Interest of Tradesmen and Catering (KISOSZ) to discuss the new modalities of the microcredit operation. They agreed on the following:

- To increase the upper limit of the applicable credit to HUF 5-6 million instead of the existing HUF 3 million;
- To set the repayment period to a maximum 3 years in the case of a credit up-to HUF 3 million and 5 years in case of HUF 5-6 million;
- The current assests in connection with the investment could be financed up to 30% of the credit instead of the exising 20%.

According to the Government Decision in April 2004, the Hungarian Development Bank was nominated as administrator and trustee of the microcredit fund.

In consequence of the modified new microcredit terms, the demand for microcredit significantly increased. According to the MVA Press Release on 6 June 2005, within a few months the fund received HUF 900 million credit application and out of this HUF 500 million was disbursed.[12]

According to current practice in 2007[13] the targets of a microcredit are:

- financing purchase of machinery, equipment and other appliances needed for an investment;
- enlarging of existing owned property or hired infrastructure; and
- financing of current assets in connection with the investment.

The upper limit of the microcredit is HUF 6.35 million (around EUR 25,000). Repayment period is a maximum of 8 years, except in the case of current assets which is 3 years. The applicant's own resources must be a minimum of 20%. Getting credit in advance is possible up to 50% of the credit. The grace period before repayment begins is 6 months. Interest follows the basic principles of the central bank, which is currently 8%. Interest should be paid every month.

Microcredit Plusz

At the end of 2005, the Hungarian Development Bank elaborated a special microcredit scheme called Microcredit Plusz, which directly provides microcredit to microentrepreneurs. The loan is available through selected LEAs, which acts as agent of the Development Bank and are involved in pre-selection and screening of the activities of these enterprises. The loan is guaranteed up to 80% by a partially state-owned guarantee company, Hitelgarancia Zrt. Micro Plusz companies could get credit up to HUF 15 million (EUR 60,000) for their investments. As of March 2007, 241 microenterprises had received EUR 9.3 million.[14]

Future Action through Jeremie Program

Danuta Hübner, Member of the European Commission responsible for Regional Policy, outlined the Microcredit strategy for Europe at the EUROFI Conference on Retail Financial Services held on 7 June 2006 at the European Parliament in Brussels[15]. She has launched a new credit facility called Joint European Resources for Micro to Medium Enterprises, known by the acronym JEREMIE (Joint European REsources for MIcro-to-Medium Enterprises), enabling Member States and Regions to use part of their structural funds to obtain a set of financial instruments that are specifically designed to support micro, small and medium enterprises.

JEREMIE provides HUF 175 billion (approximately EUR 700 million) for financing SMEs, including HUF 55 million for microcrediting. The Hungarian Government through the Hungarian Investment and Development Bank created the Hungarian Enterprise Financing Exclusive Shareholding Company with HUF 1 billion (around EUR 4 million) capital. This new entity will act as a holding company and the entrepreneurs respectively the SMEs could not directly access to financial resources from this organization, but only through financial intermediaries.

Conclusion

Microcredit programmes have existed in Hungary since 1992, and in the course of its history has undergone several changes. These changes reflect the confused and sometimes ill-advised attitudes of the five outgoing Governments plus the current one. During the past 15 years, 25,400 microentrepreneurs received microcredit in amount of HUF 42.6 billion (around to EUR 185 million). This amount is very modest as compared to the 850,000 SMEs that exist. The situation is worse if we consider that 80% of the Hungarian SMEs are operating without any credit, compared to 20% of SMEs in advanced economies.

In Hungary, 2.7 million are living below the poverty line. This is severe poverty that can kill: the number of homeless exceeds 100,000, and each year 100 homeless people freeze to death. Nearly one half million people are undernourished, including 300,000 children. At the end of 2006, the number of unemployed amounted to 312,000 (in absolute terms 16,000 more than a year ago) and the unemployment rate is 7.5%.[16]

Micro and small enterprises could play a significant role in confronting these problems, because they produce products and provide services that create jobs, pay taxes and generate growth. Microcrediting in accordance with the EU policy line might be a good tool to reduce poverty and to. Government policy-makers and the financial elite do not understand the importance of fighting against poverty and social exclusion by creating jobs and self-employment through proper use of microcredit facilities.

While microcrediting through non-commercial financial intermediaries was introduced in over 100 countries – recently also in Austria – the Hungarian financial elite declared that microcrediting according to the pattern by Muhammad Yunus has no raison d'être in Hungary. This is a great mistake, and NGOs and opposition policy-makers are debaiting ways to change current government policy toward being more supportive of poverty alleviation through self-employment creation.

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MICROFINANCE CENTRE
for Central and Eastern Europe and the New Independent States
ul. Koszykowa 60/62 m. 52
00-673 Warsaw, Poland
tel: (48-22) 622 34 65, fax: (48-22) 622 34 85
e-mail: microfinance@mfc.org.pl
http://www.mfc.org.pl