Midterm Evaluation and Replication Analysis of the Project "Micro-credit programme for the disadvantaged groups in Hungary – with the special focus on the Roma population HUN/00042644"

Report for the UNDP Bratislava

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Budapest, September 2006

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Table of Contents

Acknowledgement

The evaluation team would like to extend its warm gratitude to the organizations implementing the programs, the Autonomia Foundation and Mikrohitel Rt., and would like to thank their staff and management for their assistance during the evaluation.

Thank you.

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Executive Summary

The microfinance situation in Hungary can be defined as the “missing middle MSE (micro- and small enterprise) market” with few real initiatives to correct the status quo. The operations of the two extreme service providers (LEA system and Provident) are in contradiction to the best practice in the Region. From this perspective the Autonomia Foundation micro-credit program through Mikrohitel Rt. is a very useful initiative to validate the potential for microfinance in the country, especially with the focus on the low income clients such as Roma.

Lending to vulnerable clients poses numerous challenges which must be taken into account in the design and implementation of a micro-lending project. Credit for Roma is considered very risky and labor intensive therefore not profitable for financial institutions. At the same time banks have many other profitable opportunities and do not need to enter more difficult markets yet. The credit gap for micro-enterprises and Roma prevails and is expected to continue in the years to come.

The UNDP project approach to fill in this gap is found to be too broad and not focused enough on developing an appropriate microfinance product and supporting the newly created microfinance institution (Mikrohitel Rt.). During the project implementation it became clear that offering vocational and business training should not be provided and that the focus should be on the product development and viability of the lending methodology.

The results of the projects thus far are disappointing. The initial individual lending approach failed early on and the group lending introduced to replace the individual loans did not bring the expected high repayment rates. Also, lending to the first time poor borrowers proved to be largely unsuccessful. Most borrowers and all groups have repayment problems and a good portion of the loans outstanding need to be rescheduled.

The MFI (Mikrohitel Rt,) is in an early stage of development and is not likely to be sustainable by the end of the UNDP project. The capital base of the organization is too small and must be at least doubled to break even. The development of a Roma group lending product can potentially offer the institution a new product but Mikrohitel needs to find additional resources to finance its growth.

Going forward, the project needs to focus solely on microlending and developing a viable product. Specifically, it should eliminate some of the constraining features of the current offer and test a more flexible group approach.

Replication of the Autonomia approach is not advised in Slovakia. Rather, a microfinance institution approach would be a more appropriate in a country where there is no viable experience in microfinance.

1. Micro-lending in Hungary

1.1 Overview of micro-lending in Hungary

Micro-lending in Hungary is somewhat different than in the less developed countries. Access to credit and other financial services shares more common problems with the **developed** economies than with the developing countries where microfinance has originally emerged.

The banking sector is well developed and in principle the majority of the population has **access** to financial services. Many people effectively use banking services, voluntarily and involuntarily because salary and welfare payments are made through bank transfers into individual accounts. The banking penetration rates are still much lower than in the West and financial services market is expected to grow fast in the next few years. With the expansion of services and entry of new financial institutions, consumers should expect an improved quality and access to financial services.

However, banks are not extending sufficient **credit to the micro-enterprise sector** in general and even less so to Roma owned and operated enterprises. One of the reasons for this is that financing of small-sized companies is perceived to be risky and banks do not have adequate systems to assess such risks. In addition, in a growing market there are many other lucrative opportunities and the micro-enterprise segment, which is difficult and costly to enter, is not yet of interest to banks.

There are two major **official channels** through which micro-enterprises can obtain credit in Hungary today:

- loans provided by commercial banks, and
- micro-credit program operated by the Hungarian Business Development Foundation.

The banking offer is still limited even though almost every retail bank claims to offer small business products. Microenterpise lending in Hungary is **dominated** by Local Enterprise Agencies (LEA) System, a network of quasi-financial support institutions that operate on a subsidized basis and maintain that market-based microcredit operations is not possible. LEA's are strong and well organized with own association (Hungarian Microfinance Association[1]) and have developed a strong political lobby to secure continued government support.

On the other end of the microlending spectrum there is Provident[2], a subsidiary of the UK based Provident financial company which provides "home" credit to over 200,000

[1] http://www.hungarian-microfinance.hu/
[2] Provident Pénzügyi Zrt. offers home collected credit from local offices situated throughout the country. A subsidiary of the British sub-prime lender Provident Financial plc, the company has rapidly expanded and now provides home collected credit to its customers via 120 offices throughout Hungary

individuals all over the country. The effective rates are high and quoted to be around 200-300% and potentially more because the terms and conditions of a loan are flexible with frequent refinancing. The reported loss rate of Provident loans is around 7-8% which is a useful empirical data on the performance of sub-prime micro-loans in the Hungarian economy[3].

There are also numerous **pawn shops** (for example, the often quoted pawn shop in Szeged that lends to Roma) which also apply usurious rates difficult to quantify in a precise way.

Last but not least, as in every country there are private **money lenders** who provide cash loans at very high rates. The village of Perkupa that we visited in the Borsod County in the North-East claims to have three money lenders.

Beside these, there are several small foundations and individual projects which offer loans from their own funds through a bank but they are limited to the target groups of their own financing projects and they are largely insignificant for the overall microfinance system. In addition there are **special government initiatives** and programs that come and go but in general do not show much in terms of results, and are often politically motivated. In particular they do not create better and more effective institutional arrangements for micro and small enterprises (MSE) to access finance.

The prevalent **focus**, if at all, is on lending which is but one form of financing for micro and small businesses. Other forms of financing such as leasing, factoring or trade credit are not yet well developed for the micro- and small business market.

1.2 Access to credit for the disadvantaged groups in Hungary

Credit for entrepreneurs from vulnerable groups is both risky and expensive from a lender's perspective, and at present the existing channels for microcredit and SMEs support in Hungary do not reach Roma.

Paradoxically, Roma are "banked" (have bank accounts, ATM cards and potentially savings accounts) but not "bankable" in terms of access to credit, in particular enterprise credit. In this respect Hungary poses a unique situation which also confirms that having a bank account does not necessarily induce banks to develop other financial products for low income clients.

At the same time, Roma in general do not believe that banks can provide credit and therefore they use them to access cash, often withdrawing all account balances at one time. This does not allow banks to establish cash flow patterns (with larger and

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[3] However, there are concerns about the methods of collection which are rumored to be overly strict and unfair.

infrequent withdrawals) and create products that would fit the economic situation of Roma. [4]

This leaves Roma with few sources for credit and often fall prey to local money lenders and predatory lenders like Provident or pawn shops.

Mikrohitel Rt is a unique and very much needed initiative to fill in the huge gap in lower end enterprise credit in Hungary. If it works, it could:

- demonstrate that low income individuals could access credit on near-market non-predatory terms, reduce their dependency on money lenders, and smooth out their cash flows across periods of low and high cash inflows

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- by showing that this is a viable market segment, create a stimulus for formal banking institutions to enter as it is happening in other countries.

1.3 Micro-lending for Roma: key challenges and opportunities

Lending to Roma suffers from several problems mostly driven by unfounded and empirically untested assumptions stating that Roma cannot repay loans or are unwilling to repay loans and expect only to receive grants. For these and other important reasons such as widespread racial discrimination and socio-economic segregation of many Roma communities and settlements, providing loans to Roma has never been taken seriously nor applied on any reasonable scale that would have had any impact on the Roma communities and individuals.

Apart from isolated small project-based approaches, the only serious effort was the micro-credit program operated for several years by the Autonomia Foundation. The drawback of this approach was that it lacked legal authorization and therefore it was organized as a partial grant program with a flexible loan component administered through partner NGO network. The repayment rate was initially low but it grew to reasonable rates at the end of the program.

The current approach through Mikrohitel Rt. as a regulated non-banking financial institution is an important improvement in that it overcomes the limitations of the previous system and meets the requirements of financial regulation in Hungary which allows only regulated institutions to disburse credits.

Roma communities simultaneously belong to two distinct realities – that of developed industrialized “first world” societies and marginalized “third world” type poverty pockets. This contradiction is the major mismatch making some instruments (perfectly working elsewhere, like microloans) extremely difficult to apply. In addition many Roma

[4] Review of cash patterns in accounts held by Roma clients in banks would be an interesting topic for future research which could confirm or disprove this conjecture, and shed light on the development of appropriate financial products.

communities operate in solidarity barter-type economies favoring in-kind trades over scarce cash.

There are several challenges to Roma micro-lending:

- Low income Roma borrowers suffer from multiple problems and their socio-economic situation is generally very precarious but Romas as a group are not homogenous – careful segmentation and economic analysis is needed to precisely identify the borrowers who can benefit from credit for productive use.[5]

- Racial discrimination is very strong and determines available economic opportunities for starting and operating businesses – specific efforts and support is in order to identify and take advantage of potential business opportunities which can be financed.

- Many Romas are too poor to borrow – they need other type of assistance first which may lead later to self-employment and credit.

- The majority of Roma (about 60%) live in communities and settlements less than 2,000 inhabitants spread throughout the country,

There are also opportunities:[6]

- Romas constitute largely unexplored market that offers growth opportunities for financial institutions (so far only Provident is taking advantage of it).

- They are segregated therefore easily identifiable and accessible – they may easier to identify than other poor individuals in Hungary.

- They have few options and microfinance methodologies like group-based lending could work well if proper incentives are offered and members understand the need for such an approach.

- They rely on internal social networks more than on external networks and therefore groups can be formed along the lines of their current social networks.

[5] This is a general comment not to suggest that Autonomia did not do that. In fact, the project team selected the vulnerable clients as the project requested. However, it is the view of the evaluators that they should have started with stronger economically active borrowers to build their customer base. Sequencing is important for institution building.

[6] Autonomia is well aware of these opportunities and builds upon them.

2. Report Methodology

The methodology used for the evaluation and replication analysis reflects the specific questions asked by the Terms of Reference, and was a mix of (a) data analysis and direct feedback through face to face interviews with the borrowers, and assessment of business growth/expansion as a result of access to micro-credit; and (b) an examination of policies and strategies employed by the project team to reach out to the designated target groups; (c) institutional analysis of the design of the organization.

The consultants used the following methods of obtaining information about the project:

- Desk review of relevant documents;
    - Study the project document and other relevant UNDP project and programme documents including narrative and financial project reports.
    - Study relevant research on the economic, social, political, banking, and legal situation in and Slovakia;
    - Study the previously undertaken "Risk Assessment and Mitigation Analysis"
- Country visits to the actual and prospective borrowers, and consultations with key experts in the country relevant to the microfinance development in Hungary.
- In-depth interviews by consultants with all stakeholders of the project, beneficiaries, Project Manager of the Autonomia Foundation, management of the MFI, members of the steering committee, Project Manager of UNDP.

3. Goals and Objectives of the Program: Progress Assessment

With the exception of vocational education, most of the stated goals of the project have been accomplished within the time frame of the mid-term evaluation. It must be noted that the project implementation deviates from the original design both in terms of specific activities and quantifiable outputs.

Here are the key goals and objectives of the project as defined in the project documents:

- In order to make the micro-finance institution operational:
    - All available loan products will be defined.
    - The exact nature of the target group to be served will be specified.
    - Lending procedures will be clarified.
    - Operational funding will be obtained.
    - Legal permission to open a lending institution will be secured.

At the time of the project the microfinance institution was operational: it was legally registered and supervised by PSAF, the Financial Regulator in Hungary.

- In order to ensure awareness of the new micro-finance institution:
    - A referral system linking existing financial institutions and the new micro-finance program will be established.
    - A referral system linking local employment offices to the new micro-finance program will be established.
    - The NGO network will be notified of the existence of the micro-finance institution through advertisements in trade journals, the Internet, and personal communications.

The project team advertised the program in the locations selected for the pilot program (Tolna and Borsod counties) and have established links with the other relevant institutions that may be a source of referrals for the program. It is difficult to assess how effective such a referral system has been because the size of the pilot program is very small and there are many interested potential clients who want to participate in the loan program.

- In order to increase the level of business skills present within Roma communities:

    - Vocational training will be conducted for 100 participants in year 1, 75 participants in year 2, and 50 participants in year 3
    - Business development training will be executed for 100 participants in year 1, 75 participants in year 2, and 50 participants in year 3.

- Microcredit training programs will also be held for 12 Roma NGOs in year 1.

Vocation education was abandoned because Roma have other better opportunities to get trade skills (for example through Equal Program). The Steering Committee decided to allocate the vocational education funds to the credit fund pool.

Business training was applied as designed in the first year but substantially changed in the second year when the training was integrated into the group formation process. Microcredit training was offered to fewer NGO's than expected (9 not 12) because it became clear in the process that Roma NGO's will not be appropriate reference partners to recommend potential borrowers in a microfinance project.

- In order to increase the <u>amount of credit</u> available to micro-enterprises, 30 micro-loans (of approximately 5000 USD) will be provided in the first year, 50 loans in year two, and 100 loans in year three. To accomplish this:

  - Loan applicants will be recruited through the referral systems.
  - Training program graduates will be requested to submit funding applications.
  - Loan applications will be evaluated.
  - Detailed feedback will be provided to those submitting failed applications, in order to educate them on how to submit a successful proposal in the future.
  - Funding will be issued to successful applicants.

Within the 18 months of the project credit was extended to more clients than expected in the project design and with much lower average credit amounts. The average loan amount in Roma borrowing groups is about 311,000 Ft or $1,480 disbursed to 129 borrowers (as opposed to 30 borrowers with average $5,000 per loan).

- In order to support the <u>successful development of micro-enterprise</u>s:

  - Regular monitoring of all borrowers will be conducted
  - Technical support will be provided to borrowers on an as-needed basis.

Borrowers and loans are regularly monitored and technical support is offered as needed and requested by the borrowers.

4. MFI (Mikrohitel) Operations

4.1 General description of the micro-lending institution and program

Mikrohitel Rt[7]. is the only microcredit operations that is established solely for providing loans to vulnerable individuals in Hungary and which resembles microfinance institutions in the rest of the world, even though it is at an early stage of organizational development.

The overall vision of the organization is to become a lender for the social economy and provide financial services for the non-profit and for-profit entities that cannot access finance in the mainstream institutions.

As for market positioning Mikrohitel is in the middle of the microenterprise finance market between subsidized LEA system and the sub-prime lenders. With time and expanded capacity, the institution has a chance to become a specialized lender for the social economy with a number of specific products and target client groups.

At present the product offer is limited to two: non-profit loans (mostly bridge loans for non-profits to operate until sponsor funding is paid out) and small business enterprise loans (individual loans to small businesses in the Greater Budapest area). Both programs are continuation of earlier experimentation within the BB Foundation. The UNDP-Autonomia project can potentially add a third product (a group lending product) if it is successfully developed and tested.

4.2 Assessment of Mikrohitel's capacity and operations

Capacity of Mikrohitel and its lending operations are limited and need to expand in the near future if the organization wants to establish itself on the market as a sustainable institution.

The organization was created on a shoestring budget with the support from Open Society Institute which provided the initial minimum capitalization required by the PSAF (Financial regulator in Hungary). The two sponsoring organizations that co-created Mikrohitel Rt, the Autonomia Foundation and the BB Foundation, have both provided additional capital in a form of an interest free loan, but the equity remains on the minimum required level. This is not enough for the organization to grow and become sustainable.

The staff of Mikrohitel is partially hired and paid by Mikrohitel and partially paid by the BB Foundation. This arrangement, useful for starting a new institution, obscures the real costs and needs of the organization. At present Mikrohitel operates at a break even point but this is so only because some of the costs are externalized to the BB

[7] http://www.mikrohitelrt.hu/

Foundation. The costs of the pilot Roma lending are borne by the Autonomia Foundation project and not registered on the Mikrohitel's books. In order to be able to operate longer term, Mikrohitel needs to become sustainable, either by increasing loan capital to earn sufficient income or by securing additional donor funding, which at this point is not very likely (with the exception of EU funds). Whichever way Mikrohitel becomes operationally self-sufficient, it is important that the organization recognizes the full real cost of operating their programs.

One of the major issues is lack of an appropriate loan management system which would produce at any given time a summary of the portfolio quality and help to quickly identify key problem areas. This is equally important for managing individual loans as it is for the overall financial institution. The number of loans is small and it is not yet necessary (or cost effective) to purchase specialized software; a properly designed and programmed Excel spreadsheet will be sufficient for the organization's needs.

4.3 Credit for Roma Borrowers

Credit for the target group (vulnerable individuals with a particular focus on Roma) is a relatively small part of the overall lending activity in terms of amount of loans outstanding (about 16% of the amount outstanding) but about 60% in terms of the number of loans outstanding. The remaining portion of the loan portfolio goes to individual small enterprise loans and NGO loans.

The data related to the Roma group loans are summarized in Table 4.1. The data is not very revealing and does not render any particular information on its own except for one obvious observation that the loan repayment is weak. Despite the group lending methodology which usually delivers high on-time repayment rates, the performance of the pilot groups is very disappointing. Each group has a repayment problem and groups, despite (or maybe because of) the written joint liability rule, do not create social pressure that would be conducive to timely and full repayment.

There are several potential explanations for this situation but it is difficult to point one single key reason:

- A group loan is not yet fully develop and tested as a financial product: it has been applied with certain unpopular features such as joint group responsibility and minimum borrowing amount,

- Groups are created in the locations where other projects are operated by Autonomia, and potentially borrowers may participate in other (grant-funded) programs, which may create a perception that loans do not have to be repaid.

- Loans have flexible repayment terms, some with long grace periods and bullet repayments at the end of the term, which may signal that borrowers have cash problems and cannot repay loans.

- Borrowers may treat the loans as a unique opportunity to receive a large cash amount and treat the lending program as all other short term projects that were temporarily available. They may not believe (quite rationally) that there will be an opportunity for another loan cycle when they repay the first one.

- Borrowers may be too weak economically and may lack the entrepreneurial drive to survive in a business against their highly disadvantaged position.

The groups are located in two parts of the country: Tolna county in the South and Borsod county in the North-East (and one group in Budapest organized on a pilot basis for the refugees from Africa).

- The groups in Tolna county are doing better and have a better chance to repay (with an exception of the first two groups which were created at the beginning of the project). Some borrowers have already economic activities and only a portion of them started new activities.

- The groups in Borsod county are composed of very poor borrowers who wanted to start independent economic activities: all groups and almost all individuals have repayment problems. All loans need to be rescheduled and some losses are to be expected.

From the discussions and site visits it is clear that all these conditions play a role to some degree and both the product and the process need to be substantially redefined for the rest of the pilot project.

Table 4.1 ROMA GROUP LOANS SUMMARY

	Portfolio Data						Portfolio Quality				
Group	Total Disbursed	Total Outstanding	Overdue more than 1 day	Overdue 30 days or more	Balance of Principal due on Late Loans more than 1 day	Balance of Principal due on Late Loans more than 30 days	On time Repayment	Total Overdue 1 day	Total Overdue 30 days	Portfolio at Risk 1 day (PAR 1)	Portfolio at Risk 30 days (PAR 30)
B1	8,950,000	4,335,500	2,198,361	2,045,300	4,239,824	2,855,000	12.5%	50.7%	47.2%	97.8%	65.9%
EE	5,200,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000		100.0%	100.0%	100.0%	100.0%
CS1	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000		100.0%	100.0%	100.0%	100.0%
AA4	1,500,000	-	-	-	-	-					
B2	2,650,000	2,125,002	1,552,500	1,202,500	2,125,002	2,125,002	0.0%	73.1%	56.6%	100.0%	100.0%
B3	900,000	562,500	340,000	115,000	562,500	262,500	0.0%	60.4%	20.4%	100.0%	46.7%
B4	1,850,000	1,019,500	804,500	529,500	1,019,500	932,000	0.0%	78.9%	51.9%	100.0%	91.4%
AA6	1,700,000	1,050,012	141,665	-	1,050,012	-	5.9%	13.5%	0.0%	100.0%	0.0%
AA7	1,020,000	700,000	287,000	202,000	700,000	700,000	0.0%	41.0%	28.9%	100.0%	100.0%
AA8	968,000	699,878	224,000	136,000	624,878	549,878	28.4%	32.0%	19.4%	89.3%	78.6%
AA9	700,000	437,491	127,000	69,000	437,491	362,491	71.4%	29.0%	15.8%	100.0%	82.9%
P4	1,600,000	1,108,332	212,000	79,000	933,332	483,332	18.7%	19.1%	7.1%	84.2%	43.6%
AA10	850,000	762,500	364,000	285,000	762,500	762,500	0.0%	47.7%	37.4%	100.0%	100.0%
AA12	2,000,000	1,762,500	451,000	285,000	1,675,000	1,575,000	7.5%	25.6%	16.2%	95.0%	89.4%
M	2,130,000	2,096,700	1,054,000	876,500	2,096,700	2,096,700	0.0%	50.3%	41.8%	100.0%	100.0%
Men	1,620,000	1,620,000	552,000	405,000	1,620,000	1,620,000	0.0%	34.1%	25.0%	100.0%	100.0%
DSz	2,200,000	1,200,000	100,000	-	500,000	-		8.3%	0.0%	41.7%	0.0%
SzL	1,200,000	1,000,000	125,000	25,000	1,000,000	250,000	0.0%	12.5%	2.5%	100.0%	25.0%
DE	800,000	800,000	133,332	66,666	800,000	800,000	0.0%	16.7%	8.3%	100.0%	100.0%
SZLN	890,000	786,662	14,167	-	170,000	-	80.9%	1.8%	0.0%	21.6%	0.0%
Ma	200,000	200,000	8,333	-	100,000	-	50.0%	4.2%	0.0%	50.0%	0.0%
SSZP	750,000	750,000	-	-	-	-		0.0%	0.0%	0.0%	0.0%
TOTAL	**41,578,000**	**25,916,577**	**11,588,858**	**9,221,466**	**23,316,739**	**18,274,403**					

4.4 Prospects for sustainability and growth of outreach

To assess the prospects for sustainability, the evaluation team analyzed the current structure and operations of the organization and developed a few scenarios for the future that shed light on its future potential. The decision variables and bottom line results are summarized in the following table:

Table 4.2 Scenarios of Mikrohitel Cost Recovery and Sustainability

	Base Case	*Scenario 1*	*Scenario 2*	*Scenario 3*
	Current Situation under UNDP Project	*Current Situation Full Cost Allocated to Mikrohitel*	*Full Cost with Expanded NGO Lending (+$500K)*	*Full Cost with Expanded NGO (+$500K) and Enterprise (+$500K) Lending*
NGO Own Capital	80,000,000 Ft	80,000,000 Ft	80,000,000 Ft	80,000,000 Ft
LOAN_NGO	0 Ft		100,000,000 Ft	140,000,000 Ft
Individual Cap	50,000,000 Ft	50,000,000 Ft	50,000,000 Ft	50,000,000 Ft
LOAN_Individual	0 Ft			50,000,000 Ft
Groups Capital	30,000,000 Ft	30,000,000 Ft	30,000,000 Ft	30,000,000 Ft
LOAN_Group	0 Ft			50,000,000 Ft
Income Adj	30%	30%	20%	20%
Management	500,000 Ft	660,000 Ft	660,000 Ft	660,000 Ft
Gen Manager	1	1	1	1
Support Staff	1	1	1	1
Prog Mgr NGO		1	1	1
Prog Mgr IND	0			0
Prog Mgr GROUP		1	1	1
Coordinator NGO	0	0	0	0
Coordinator IND				
Coordinator Group	1	2	2	2
Loss Provision	0.25%	0.25%	0.25%	0.25%
Travel	0.75%	0.75%	0.75%	0.75%
Collection Costs	0.50%	0.50%	0.25%	0.25%
Net income (EBIT)	(36,167)	(1,086,167)	(628,833)	61,833
	Fake Break-Even (Externalized Costs of Roma Lending)	*Operational Shortfall with Full Cost Allocation*	*May Break-Even Without Costs of Administering Roma Loans*	*Actual Break-Even with Roma Lending*

The institution is in its early stage of development and it is neither sustainable operationally nor financially even though it shows minimal accounting profit on its books. This is because some of the costs are externalized: some salaries are paid by the BB Foundation (related to the operations of the NGO lending program) and only a small fraction of expenses related to group lending (one local coordinator and some communication costs) are borne by Mikrohitel.

The scenarios 1 – 3 present a sequence of sustainability situations for Mikrohitel in the near future:

- Scenario 1 reflects the current operations (including Roma pilot) with full costs incurred directly by the organizations. it shows that the current operational shortfall is about $5,000 per month.

- Scenario 2 is the full cost operations with an additional loan capital for the NGO loans in the amount of $500,000 (reflecting the Mikrohitel's current discussion with OSI). The operational shortfall is about $3,000 per month in this situation but the organization might be able to break-even operationally if it did not incur the cost of pilot Roma lending.

- Scenario 3 is a full cost break-even scenario which requires an additional $1 million in loan capital. In relation to Scenario 2 it means additional $500,000 loan capital for Roma lending (individual and group loans)

It is difficult to assess the realistic chances of getting additional capital for lending. The microfinance funds and donors are unlikely candidates because Hungary is considered to be a middle income country (and such countries are not a priority for microfinance sponsors) and the institution is at an early stage of operations.

The only potential sources for Mikrohitel going forward are EU and Hungarian government sources (such as Jeremy program to become operational in 2007), and social finance institutions in Western Europe such as Banca Etica or Oikokredit. Another source of support that should be considered are local governments in the areas of program operations.

5. Key Findings

5.1 Microfinance for the poor in Hungary: assessment in relation to the regional best practice

At this point one cannot describe the microfinance development in Hungary as representative of the best (or good) practice as compared to the regional and global experience.

The overall situation in Hungary can be defined in short as the “missing middle MSE (micro- and lower end small enterprises) market” with few real initiatives to correct the status quo. The operations of the two extreme examples of available finance options mentioned earlier in the report, LEA system and Provident, are in stark contradiction to the provision of access to finance on realistic terms.

LEA are subsidized and bureaucratic: such a system does not benefit the poor enterprises which do not have the skills to break through the paperwork burdens and complicated procedures required by public sponsors. It confirms the widely known fact that subsidized credit benefits mostly better and stronger businesses which could in principle be financed by a banking system.

Provident is a predatory lender which extends flexible credit on terms which may impoverish the poor even more. The home credit, unlike LEA loans, is very accessible and therefore the poor and vulnerable borrowers can enroll easily, but the price of such an easy access is extremely high.

Neither system is an affordable access option for micro-enterprises and home-based income generating activities: one is too expensive in terms of entry barriers (ex ante) and the other is too expensive in terms of monetary cost of credit (ex post). In this respect, Hungary belongs to a group of Central European countries (including also Czech Republic, Slovakia and to some degree Poland) where microfinance has not developed to date and the adoption of pro-poor financial instruments and micro-enterprise friendly institutions has not gained much ground yet.

5.2 Credit for the disadvantaged groups: challenges and lessons learned from the field

As it follows from the previous discussion, access to credit for vulnerable individuals and their business operations is limited by the missing “middle range” of the enterprise finance spectrum. It is equally true for enterprise (or business purpose) credit as it is for other types of financing (for consumption, housing, land etc.).

Several general observations are in order:

- poor individuals and households are strapped for cash: although no one can estimate the number with any degree of certainly, many Roma families live and survive straddling the formal and the informal sector. They get some more or less regular cash (from wages or transfers) but rely to some degree on internal non-monetary trades and exchanges that may not be captured by cash flow estimates prepared by the loan officers. It is therefore important to analyze the household budget from the perspective of this dichotomy.

- Many households seem to be heavily indebted but again it is difficult to assess the depth (on a household level) and width (on the community level) of the debt problem. In the Perkupa village, all borrowers are in debt and buy (or rather acquire) goods and services on credit, a part of which they settle at the time when they have cash. In essence, the village seems to run an implicit local exchange trading system (LETS) where outstanding debt not cancelled through mutual exchanges is settled in cash. These exchanges are forced by shortage of cash. The program must pay special attention to the debt issue while assessing the creditworthiness of potential borrowers.

- Too much emphasis is put on the "enterprise" aspect of credit. Although it is desirable that the low income borrowers initiate and maintain income (and cash) generating activities, without which they would not be able to repay monetary credit, it should be expected that repayment will come from other sources as well. It depends on the availability of cash at the time of the repayment. Poor households create a portfolio of potential income sources as a risk mitigation strategy of which microenterprise finance through the Program's credit is one of them.

5.3 Key findings in project design and management

- **General Observations**

- The project may not be sufficiently signaling that it is a **long term initiative**: it is connected to other projects administered by Autonomia, operationally it is a separate initiative, and however in the mind of a Roma borrower it is like any other project with a short time horizon.

- The **roles** between implementing institutions are not assigned according to the core competencies and responsibilities of the implementing partners: groups are created and credit is arranged by Autonomia and only the loan contract is delivered by Mikrohitel. With the present design Autonomia is not responsible for repayment of loans and Mikrohitel remains a passive contracting agency (lender of record).

- **Community development** is too broad an approach to the project. Developing a microfinance institution is not necessarily a community development process.

- Borrowers in the North-East of the country are **too poor** and disenfranchised to be able use a loan in a productive way and repay it. [8]

- The majority of loans in the Perkupa village were used for **consumption** because borrowers need cash for basic (and not so basic) needs. The village economy depends to a large degree on **barter (non-cash) transfers** between the members of the village society as their principal method of survival. Households are indebted (both in terms of cash debt and in-kind barter trades) and it is difficult for them to get out of the vicious debt cycle without a specific targeted assistance. Repayment of credit is not a priority for the borrowers because they have other cash needs and the loan is the only source of substantial cash. In a situation like this, only households with stable cash flows (that is those that can meet their current cash needs with current cash income) can receive credit that will be used for productive use.

  - **Program design**

- The design of the project envisaged a **series of support activities** to potential borrowers including vocational education and business skills training in addition to credit, organized in a sequential way: voc ed training, business training, business plan, credit and follow-on business development. This approach may be appropriate for providing assistance to individuals needing hard skills in order to become employed and self-employed but it is not useful for developing a sustainable microfinance institution. Upfront training as a prerequisite to receive a loan creates an additional entry barrier to access to credit for economically active Roma who need funds to run and expand their businesses.

- This wide approach lacks **focus** that is required for developing appropriate microfinance products and a viable institution. This is particularly important if the purpose of the project was to pilot test a microfinance methodology in the context of Roma socio-economic situation.

- As a direct result of training approach to credit, only about 1/3 of the project **funding** went to the credit fund which may be insufficient, and may put the overall pilot initiative at risk. At this point, most of the funds available for credit have been disbursed but the program does not have as yet a formula for the financial product, and little money is now available to continue lending.

- Microfinance institution is expected to provide **assistance** and training to borrowers who received credit (p.10 point 4). This is however contrary to what normally financial institutions could or should do, and is not in line with the best practice experience in microfinance worldwide.

[8] Most borrowers who received credit have repayment problems (see table on page 15), but the ones in the North-East failed completely to start economic activities and most likely are not able to repay the loans.

- The project also envisaged extensive use of local Roma **NGO's** to promote credit and potentially screen clients, which is not the most appropriate role for such NGOs, and this idea was abandoned already by the project team.

- The expected **outputs** for credit seem to be relatively low (30 loans) to successfully test a new financial product.

- It seems that the design was skewed towards business **start-ups** but this is not neither clear from the documentation nor implementation. One of the documents (Risk Mitigation Analysis) argued against business start-ups in favor of established successful businesses.

- The project did not establish **reporting** expectations that would be appropriate for a microfinance program.

- **Stated goals of the project and accomplishments to date**

- With the exception of vocational education, most of the stated goals have been **accomplished** within the time frame of the mid-term evaluation. It must be noted that the project implementation deviates from the original design both in terms of specific activities and quantifiable outputs.

- **Vocation education** was abandoned because Roma have other better opportunities to get trade skills (for example through Equal Program). The Steering Committee decided to allocate the vocational education funds to the credit fund pool.

- **Business training** was applied as designed in the first year but substantially changed in the second year when the training was integrated into the group formation process.

- Within the 18 months of the project credit was extended to **more clients** than expected in the project design and with much lower average credit amounts. The average loan amount in Roma borrowing groups is about 311,000 Ft or $1,480 disbursed to 129 borrowers (as opposed to 30 borrowers with average $5,000 per loan). Increased number of loans through a group lending method did not have an adverse impact on the quality of loans.

- Microcredit training was offered to fewer NGO's than expected (9 not 12) because it became clear in the process that Roma NGO's will not be appropriate reference partners to recommend potential borrowers in a microfinance project.

- **Sustainability of the institution**

- Mikrohitel is unlikely to be **profitable** by the end of 2007, and if it becomes profitable it will not necessarily be so because of the UNDP project. UNDP project may contribute to the development of a microfinance product which will help the organization to be profitable in the future.

- Mikrohitel can be profitable **without Roma** microlending focusing on two other products: individual lending to entrepreneurs and NGO lending. This would require substantial addition of financial resources, which the organization may not be able to secure: funding may not be available to them and the organization is very small and young to be attractive for market or quasi-market sources of funding.

- UNDP project is administered through Autonomia Foundation, which contributes its staff and other operational costs (looks like an **in-kind contribution** (donated services) to Mikrohitel), and the true costs of Roma group lending are not reflected in the financial statements of Mikrohitel. This puts Mikrohitel artificially at a break-even position based on their other activities but if the full costs were to be borne by Mikrohitel, the monthly shortfall would be at present about 1 million Ft or $5,000.

- The **full cost break-even** point for Mikrohitel is estimated at 400 million Ft ($2 million) of loan capital which calls for 250% increase of its current capital of 160 million Ft.

- **Product development**

- Product development does not seem to be the explicit **goal** of the project as defined by the documents but it is a necessary condition for successful wider application of microfinance among the vulnerable individuals.

- Skepticism on the part of Autonomia about acceptance of **group lending** in Hungary led to the initial application of individual lending which quickly proved to be very costly in terms of transaction costs and default rates. The majority of such loans defaulted and they were discontinued as not feasible.

- Group lending was introduced in 2005 as an **alternative** and now there are 21 groups with about 130 members. With the exception of one group which is larger (24 members), all groups are small with 5-9 members per group.

- The group methodology (product) is being tested although it is not done in a systematic or planned way: it is difficult to determine what we know and what we still need to learn or define, and the lack of a **systematic approach** does not help the product development process.

- The group methodology introduced by Autonomia suffers from two fundamental **design problems**: joint responsibility and minimum loan amount. The initial loan amount of 300,000 Ft ($1,500) was too high for the target group and has been lowered to 100,000 ($500) which is more acceptable but still may force some of the clients to over-borrow beyond their capacity to repay. The joint liability is still contractually in force and causes tension at least in the large group.

- Groups do not have **written rules** or policies which may lead to internal conflicts or misunderstanding.

- **Repayment Rate**

- Lack of current data on the **outstanding** amounts and portfolio quality is most disappointing aspect of the project, and both Autonomia and Mikrohitel are equally at default.

- The overall repayment rates are low but it is difficult to point to one particular reason for this (see Table 4.1).

    - Groups seems to be repaying in the first 3-4 months more or less on after which period most of them run into payment problems which cannot be tracked down to one particular event (such seasonality of a business). Two major needs that the borrowers cited as preventing them from payment are the need to purchase fuel for the winter period and the need to buy school materials.

- Several factors contribute to the low repayment rates but the key issues seem to be:

    - Choice of location where Autonomia already has other activities underway: the key criterion in selecting a location is not the level of economic activity but presence of other social programs operated by Autonomia. Although this may save costs, it does not guarantee success in lending operations.

    - Joint liability for groups: groups in microfinance are used mostly for screening and monitoring purposes, using social capital and social networks as a vehicle to exert social pressure and elicit on-time repayment. Joint liability is difficult to enforce in practice and in most studies has not been found to have real impact.[9]

    - Focus on very poor borrowers with weak economic activities: not all poor individuals will benefit from credit in a productive way, only those who are able and willing to engage in individual economic activities with profit. The very poor may be too vulnerable to start and main such activities because other life events may interfere or prevent it from happening. Credit for the very poor increases not decreases the overall vulnerability, and should be applied with great caution after careful assessment of an individual household's situation and ability to cope with risks.

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[9] For discussion see for example Ahlin and Townsend (2004) http://www.cid.harvard.edu/bread/papers/041604_Conference/Ahlin%20Townsend.pdf and Kaboski and Townsend (2005) http://www.mitpressjournals.org/doi/abs/10.1162/1542476053295331?prevSearch=allfield%3A%28kaboski%29

- The majority of the very poor who were very eager (not to say desperate) to start economic activities failed within a very short period of time. They do not seem to have received adequate advice because the ideas and implementation were unprepared. After one short trial and quick failure, many turned to another idea, mostly unrelated to the previous one, which also failed. This is a typical unprepared start-up situation which is doomed to fail. However, the evaluation team does not think that the current project was properly equipped to address the start-ups need by vulnerable individuals.

- There is also a lot of copy-cat effect: clothes buying and selling is a common example of activity that failed. Interestingly, the individuals who tried trading did not think about cooperating and creating a larger and stronger joint (or group) enterprise operation which could have had a better chance to succeed. Again, this approach would require specific business assistance over an extended period of time which the current project cannot provide.

- **Target Group**

- Thanks for Autonomia's long standing relations with the Roma communities the project had an initial easy **access** to Roma communities and Roma borrowers.

- What is an advantage for other programs may be a disadvantage for developing a microfinance product or MFI. The knowledge of Autonomia staff may be **too deep** to develop a product that would apply uniformly and flexibly to a larger population of potential borrowers. Too much information may increase risk aversion on the part of Autonomia which does not help with product development.

- The poor may be too poor to use credit productively, as was mentioned earlier, which makes the project even more difficult when the microfinance institution itself is at an early stage of development and needs to build its capacity.

- **Business Training**

- Business training in a classic way is not a critical component for success of the project. The team used a **minimalist** approach by providing simple cash flow training for household budgets and business enterprise and incorporated the business training into the **group** formation process.

- **Funding**

- It is now time to start thinking about the **future** funding for the expansion of the microlending activities for Roma borrowers. It may not be easy to raise funds for microcredit for Roma – EU is the best and most likely source.

6. Conclusions and Recommendations

6.1 Conclusions

The program funded by UNDP is a good opportunity to develop and test an appropriate lending methodology for low income borrowers in Hungary, especially Roma, which is not known or applied in the country. However, the overall approach taken by the project is too broad and lacks focus on the product development as a prerequisite for any successful and profitable lending activity.

Paradoxically, the project delivered what UNDP asked for (micro-loans disbursed to the poor borrowers with a focus on start-up activities) but the evaluation team does not consider these accomplishments as valid in view of the overall performance of the borrowing groups and progress made by individual clients.

A number of lessons have been learned and the project can be refocused on the development of a financial product based on these experiences. However, it will require more efforts and careful redesign of the group lending methodology because groups are already operating and loans are outstanding.

6.2 Recommendations

- **Overall Observations**

- At all possible opportunities remind the borrowers and local staff that the overall goal is to build a **lasting system** for credit delivery. Without this borrowers will behave strategically with negative repayment consequences.

- In the second part of the project start transferring the product **knowledge** and the accumulated learning about credit methodology (in particular group formation) from Autonomia Foundation to Mikrohitel so that by the end of 2007 Mikrohitel is able to implement the credit with own knowledge and skills. This is critical for the future application and expansion of access to credit for the vulnerable individuals. This requires:

    - Hiring at least two people by Mikrohitel (product manager and one local coordinator Tolna County), and
    - Clear timetable and strategy for the knowledge transfer.

  UNDP is advised to provide additional resources for Mikrohitel Rt. to hire the Product Manager which will help the product development and transfer of knowledge.

- Although it is in the interest of both organizations to develop a sustainable product, the current **division of labor** does not lead to any one partner to push for larger scale and application unless their roles are clarified and clear economic incentives built into the design of the program.

- Microcredit makes sense only if borrowers are **economically active**: have operational micro-enterprise or home-based economic activity. The program therefore must select locations and individuals that are **not** extremely poor and vulnerable because credit is not going to improve their situation, and more likely than not, it may deteriorate their overall situation.

- **Credit funds** need to be transferred to Mikrohitel as permanent capital at the end of the project so that it can be used as risk capital to continue lending to the target group and as leverage for future borrowings.

- Assistance **other than credit** need to be considered in cash-poor areas with little or no economic opportunities. For example, projects that induce joint economic activities (a group of people may stand a better chance in clothes selling business than one person), canceling reciprocal debt in the village (using local exchange trading system or community money approaches), funding travel costs for the villagers to seek jobs outside of their place of living, bringing a few publicly funded jobs with cash payments that can inject cash into the local economy, etc.). Also business training alone will not give any results to improve the living situation of the village if economic opportunities are not present.

- At the end of the project the implementing team may want to consider reviewing the **impact** of the program on the borrowers in terms of the following criteria:

    - Asset growth
    - Consumption smoothing
    - Self-employment mobility
    - Dependence on money-lenders

  This can be done in a form of focus groups and mini case studies which can be shared as project learning and used for future fundraising.

• **Program design**

- Update the **tasks** for the remaining time of the project so that it is clear what each partner of the project is expected to do and what the measures of success are. Focus these tasks on developing a loan product and its delivery.

- Establish reasonable **targets** and create clear incentives for each implementing organization to meet such targets.

- Outcomes of the project are in fact outputs defined in a very crude way, not in an incentive compatible (performance) way (e.g., loans disbursed as opposed to quality of outstanding portfolio, number of groups that received a repeat loan) – need better **indicators**.

- Need to track and analyze the **full cost** of extending the loans in the Roma communities to make sure that it would be possible to administer and implement a larger project in the future when substantial subsidy may not be available. The current project does not track costs ex post, only reports on expenditures against the pre-approved budget.

- Eliminate **pre-borrowing training** as unnecessary entry barrier to access credit.

- As a general matter, do not provide loans for **start-ups** but rather develop a product on the basis of existing and operating businesses. Start-ups assistance requires a sustainable institution and a more comprehensive approach than the project or partner organizations can provide on a meaningful scale.

- Establish **reporting** requirements that are customarily used in microfinance, in particular portfolio quality measures.

  • **Stated goals of the project**

- If the goal of the project is to **test** a financial product, this has to be made explicitly known to the implementing organizations and clearly defined as a target or measure of success.

  • **Sustainability of the institution**

- Mikrohitel needs to expand and strengthen its **internal capacity** using its current products, in particular the NGO loan, which is an established product, and to develop appropriate policies and reporting systems to be ready for external funding when the Roma loan product is developed. This requires, among other things, hiring professional **staff** (Roma product manager and one local coordinator) and obtaining advice from an experienced professional to develop the financial product. Knowledge of Roma communities alone, however helpful for entering the communities, is neither a necessary and nor a sufficient condition for developing a financial product and implementing it with success.

  • **Product development**

- Only the **beginning of a product** development can be seen but the final outcome is still uncertain. We need to better understand where the organization(s) stand(s) in the product development.

- Product must be **defined** by its terms and conditions which are:

- Relatively stable so that repeat loans are possible on similar terms
- Acceptable by large numbers of customers (potential for mass market)
- Comparable to other financial products offered on the market
- Reasonably priced in relation to its nearest available alternative (predatory loans from moneylenders)

- **Individual loans** may have been abandoned too early -- there are alternative approaches to individual loans that could have been tested, for example making loans to successful larger Roma enterprises who then can become agents and/or referrals or guarantors for smaller Roma businesses. Individual loans may be also considered for larger businesses that could extend trade credit to smaller businesses, for example paint store selling paint on credit to Roma who may not afford the full price of materials upfront.

- Current **large group** in Bonyhad requires modification. One option is to offer, on a trial basis, two groups: larger and smaller with different features to address key issues of the group members and to sort them into groups appropriate to their situation[10]. Alternatively, you may combine the small and the large group into one group, abandon the joint liability and introduce new rules of the game in a written form that require group approval to be effective.

- As a general matter, **eliminate** joint responsibility and minimum loan amounts. They serve little, if any, purpose for screening and monitoring group members, which is the key reason for using group lending.

- Instead of joint liability groups may be encouraged to develop an internal **insurance system** (mutual guarantee) for their members in case of a default (for example through monthly contributions to a guarantee fund with a minimum contribution as an eligibility criterion for a loan). Also, the project may consider buying a partial insurance (max. 50%) from an insurance agency on loans issued as it is practiced by some projects in the Region. However, this may only be feasible until there are more loans outstanding and repayment rates are at acceptable levels.

- Introduce and enforce **written rules** and policies for group formation and credit disbursement.

- With regard to the **current groups**:

[10] The large group is unstable and does not provide client screening or peer support. Some people like to be in small (5-7 members) groups, other feel the bigger group is better for them. The program may experiment with these options. The evaluation team provided separately ideas how to redesign the group with different product features. However, our general advice is not to create small family-based groups as these more often than not lead to a default.

  - **Stop** lending in the Borsod County until all or majority of loans are repaid. Maintain the current groups for monitoring repayment and discipline. Write off the bad loans of these groups from the books of Mikrohitel, and if loans are repaid treat the proceeds as extra income. For those borrowers who failed in their attempt to start an independent income-generating activities, within next month offer business counseling to help the borrowers reflect on their experience and potentially start thinking about a business activity in a systematic way that may show reasonable potential for success.

  - **Redefine** the groups in Tolna County: combine one larger group in Bonyhad, eliminate joint responsibility, elect an internal credit review committee and introduce written rules acceptable to the group members. The current group is not stable and may break if joint liability continues. Do not issue new loans until all loans are on time. Eliminate bad borrowers from the group to offer a new start.

  - **Initiate** a new approach in a location that has operational economic activities, say at least 10-15 micro-businesses willing to create a borrowing group. Groups should be created in Roma and non-Roma areas to test the approach and the proposed methodology.

- Autonomia and Mikrohitel need to receive **professional assistance** in group formation in the rural and semi-rural areas (Romanian Rural Finance Program which is already known to the team is an obvious source of such expertise).

- **Repayment Rate**

- Mikrohitel needs to have data on **portfolio** available on a company and product basis monthly, and analyze the data on a monthly basis. Loan by loan analysis cannot substitute for the institution-wide analysis.

- The organization can use Excel for this purpose because the number of borrowers is still small. Mikrohitel needs to create a **management report** that may be different from an accounting report currently prepared.

- In the redefined and new groups the program should attain repayment rates comparable to microfinance projects (at least **95%** on-time repayment rate within 30 days).

- **Target Group**

- Need to expand the pilot group beyond **locations** already known to Autonomia from other projects. The product must be tried with groups with which Autonomia **never** worked before to test the group formation process and test the applicability of the product.

- **Business Training**

- Some simple business training may be useful to the extent that it is helpful for a group to be able to assess the **creditworthiness** of the borrower and for the borrower to fill in the loan application.

- Further microenterprise training can be done on as needed basis if demanded or needed by the client **after** (not before) a loan is disbursed

- **Funding**

- Mikrohitel should raise funds for its **current** products first (NGO loans and microenterprise individual loans) to strengthen its overall operational capacity.

- Autonomia and Mikrohitel could jointly fund raise for microlending because as a **partnership** they stand a better chance to secure larger resources.

7. Replication Potential in Slovakia

To the extent that it is legally possible to create a non-banking financial institution (for profit or not for profit), starting an organizational entity is a relatively simple exercise. However, before that happens leaders of such a project need to carefully study the market and develop a realistic plan to ensure that the proposed approach is economically viable. Any such effort should be approached “with an end in mind” not through a pilot initiative. Creating an MFI is already a well known process and there is enough knowledge, also in the immediate region, to draw on good experience.

There is too little experience accumulated in the Hungarian project to simply replicate the Autonomia project in Slovakia and any other location. The project so far did not develop a consistent credit methodology or a financial product. It also suffers from various design problems mentioned earlier in the report.

However, there are a number of useful lessons learned that would apply to Slovakia where there is very little micro-lending in general.

- Adopt an **institution building approach**: create a basis for a sustainable institution with a specific scale and scope of operations in mind.

- Focus on the provision of **financial services only** and create appropriate systems and processes for the microfinance institution. If target borrowers need other assistance (such as business development training and counseling), create a partnership with other appropriate service providers.

- Before an institution is launched, develop longer term vision based on the potential scenarios of financial sector development in the medium range in Slovakia. This should be accompanied by a **market research** study to identify the size of the potential market to be reached.

- The priority at the beginning should be the creation of a viable institution, therefore initially it should focus on **stronger and better borrowers** (within the identified target group of low income clients) to test the credit methodologies, refine the product offer and establish a group of anchor (or base) of clients for stable operations and cash flow.

- Only when the organization has reached a **stable level** of operations and has good prospects of sustainability (including viable financing options for future growth) should the MFI begin to service more vulnerable clients. Lending to the very poor borrowers in the North-East Hungary shows that it is extremely difficult for an institution to test products and become financially viable. Specifically, it would not be advantageous to start the project in the very poor areas of Presov or other similar areas in Eastern Slovakia.

- The MFI could use **agents** in the field to reduce transaction costs but the use of Roma NGOs in such capacity is not advised. Most Roma NGOs in Hungary proved to be biased towards their own members and they cannot serve as an impartial loan referral system.

- If creation of an MFI is seriously considered, the first step is to find an appropriate **leader** or champion for this project who has relevant skills and can lead the start-up and growth process.

- The launching team is advised to **learn** from the successful projects in the Region (such as Besa Foundation in Albania, Horizonti in Macedonia, Economic Development Center in Romania or one of the MFIs in Bosnia).

- In terms of structuring the project, it would be advisable to create a **public-private partnership** between the government or UNDP and local private sector (for example banks or leading international companies in Slovakia) to create an alternative financial institution that does not compete directly with the banks. Such an institution could relieve the banks from being accused of not lending to the lower end sector and would cushion them from potential failure.

- From the outset the project team should consider the use of information **technology** options for loan and cash management to reduce the transaction costs, for example use of ATM for cash disbursement or mobile phones for loan repayment. Creating a new institution offers opportunities to make a leap forward beyond the traditional MFI's in the Region.

Annexes

1. Consultants

Mr. Piotr Korynski (Team Leader) is a senior international expert in microfinance and economic development with over 15 years of practical experience and expertise in policies and programs to foster microfinance and MSME development, including financial, regulatory, institutional and capacity building programmes in different development contexts and multi-cultural environments. He has vast practical experience in developing and implementing MSME lending programmes and designing appropriate financial products, clear understanding of credit methodology and MSME needs for financial products. Mr. Korynski has excellent understanding of Roma business development needs: he worked with Roma enterprises and introduced microlending to Roma communities in Romania, Bulgaria. He was also instrumental in the early stages of the Autonomia's microcredit program. He worked in the majority of the Central and European countries including Hungary where he has worked on various micro-enterprise development, self-employment and microfinance projects since 1992.

Dr. Aniko Soltesz (Team Member) is nationally recognized expert in micro and small business development in Hungary with more than 15 years of experience in supporting the creation of MSME's in the country, including the Roma communities and women. In addition to her expertise in sector reviews and impact assessment studies, Dr. Soltesz brings a wealth of experience in understanding the success factors in micro- and small business development in Hungary. Dr. Soltesz participated in the design and implementation of many successful business development initiatives, served on boards of numerous institutions and has written extensively about small business development in Hungary.

2. Field Visits and people interviewed

Field Visits:

- Bratislava, UNDP Office (Monday, September 4)

- Tolna County (Thursday, September 7) – observed and participated in two group meetings in Bonyhad, discussed with the borrowers of the large group their experience and their concerns

- Borsad County (Thursday, September 14) – observed and participated in four group meetings in Perkupa village.

People Interviewed:

- Mikrohitel Rt.
  - Gabor Winkler, Executive Director
  - Tibor Klein, Program Associate
  - Nicoletta Gionczi, Local coordinator Miskolc

- Autonomia Foundation
  - Anna Csongor, Executive Director
  - Gyury Lukacs, Program Director
  - Tibor Beres, Program Associate
  - Vilmos Jakovics, Local Coordinator, Bonyhad
  - Csaba Boros, Local Coordinator, Bonyhad

- Ministry of Economy
  - Laszlo Kallay, Head of the newly created SME Finance Unit, member of the Steering Committee

- UNDP – Bratislava
  - Benjamin Kuschner, Program Analyst
  - Daniel Skobla, CST Poverty and Social Inclusion Officer
  - Daniela Gasparikova, Program Specialist/Team Leader
  - Juraj Zamkovsky, UNDP Consultant

3. Documents reviewed

- Project Document – Micro-credit Programme for Disadvantaged groups in Hungary – with a special focus on the Roma population. UNDP/Government of Hungary

- Risk Assessment and Mitigation Analysis: Micro-Credits fro Roma Communities in Hungary, prepared by Volodomyr Tounytsky and Zoltan Kristof

- Autonomia Foundation quarterly project progress reports to UNDP

- Minutes of the Steering Committee meetings

- Mikrohitel quarterly data reports to PSAF and sponsors

- Mikrohitel Rt. Group lending methodology description (in Hungarian)

- Context For Developing Proposal For Microfinance Scheme To Provide Support For Revenue-Generating Activities Of Roma In Presov Region (Eastern Slovakia) By Juraj Zamkovsky (Outline For Discussion)