

**PRESENTATION FOR THE EMPL COMMITTEE  
OF THE EUROPEAN PARLIAMENT**

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In this presentation I intend to make the case for an MFI to extend microfinance facilities to impoverished Roma despite the fact that the MFI is not going to break even, let alone make a profit even on the long term, i.e. it will not become self sustaining. It is therefore probably not scalable, except to a certain extent. The question is whether it is replicable, and whether it is worth to replicate.

My experience comes from the planning and the first year of operation of Kiútprogram, a Hungarian MFI partially financed by the Roma Pilot of DG Regio.

The mission of KP is to help impoverished and marginalised people mainly Roma to improve their situation with dignity by providing them with financial services, information and social assistance.

The Roma in Hungary:

- 7-8% of the population
- The main losers of regime change
- Social exclusion
- Destroyed traditions
- Segregated ghetto living
- Segregated schools, inferior education
- 70 % in the bottom income quintile
- Employment rate 35% male and 20% female

As successive Governments proved rather clueless how to improve, apart from regularly changing and amending the benefit system private individuals propose at least partial relief through KP. The promoters of KP have mixed backgrounds: business, banking, social work, human rights. They intended to provide:

- uncollateralized loans
- of relatively small amounts
- for long term unemployed, uneducated, mainly Roma clients, preferably women
- for income generating only
- group lending – peer pressure instead of collateral
- sequential lending, weekly repayment
- encouraging saving
- 10% margin between lending and savings rate

In the particular context of heavily regulated and bureaucratic Hungary the promoters had to devise atypical solutions:

- dual corporate structure: (1) mainstream bank lending, (2) non profit MFI as delivering agent through highly trained and motivated field workers
- target: not business profit but social impact
- lending to legally registered micro businesses only (implications)
- targeting Roma ghettos
- combining self selection of group members with high quality social and business advisory work by field workers as well as free of charge administrative assistance
- heavy reliance on a welfare bridge ideally provided by Government
- success criteria: loan repayment, further loan applications, social impact, improved efficiency of field work
- monitoring of procedures, efficiency, and success by the WB and UNDP

KP field workers started in the communities in February this year so there is almost a year's experience to draw on. They found

- broken society, lack of trust, slow group formation
- target group already indebted, more exposed to previous lending than expected
- official red tape hampering to register as self employed, draw welfare bridge

but:

- many people want to legalise, formalise activities they do anyway
- they are motivated by the regular group meetings
- inspired to mobilize unknown, hidden ideas, resources

As a result KP has now about 46 clients (10 groups) and 29 loans disbursed and regularly serviced, which means it is on target for the first year of operation. It is also in the process to formalise and improve efficiency of outreach, group creation, business preparation, lending and follow up work.

It of course remains to be seen, whether

- a good enough proportion of clients repay (to avoid intolerable loan losses) and apply for a second loan
- the incomes generated on a social level and the saved social costs are larger than the costs of the program, the cost/loan ration is tolerable
- the expected improvements in the social status of the client's families as well as communities is materialising

However in case the answers to the above are positive I recommend starting planning for continuation and replication of the model:

- look for other banks to fund the loans and operate the procedure
- reduce red tape and ease the entry to legal micro businesses in cooperation with Government
- create other social enterprises prepared and capable of delivering the service
- continuous and reliable funding (by the EU, Government) of the operating costs for these enterprises

I hope I can persuade you to support financially and morally KP and others replicating the proposed structure subject of course a well researched recommendation of the WB.

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