PROFESSIONAL RECOMMENDATIONS FOR DECISION MAKERS IN HUNGARY REGARDING THE LEGISLATION OF MICROFINANCE

Foreword

*The participants of the international conference **INTERESTED PARTIES ON FINANCIAL INCLUSION (IPFI)** organized by the European Microfinance Network (EMN) to provide a platform for the consultation of the European microfinance networks have studied the situation of the Hungarian microfinance sector and unanimously define the international professional recommendations and directives drawn in this document, by taking the international professional experience into consideration.*

PROFESSIONAL RECOMMENDATIONS, DIRECTIVES

Legal and regulatory field

1. Directive: 'Non-bank' credit institutions should also be allowed to perform lending activities with the authorization defined in the Act.

1.1. Directive: The establishment of financial enterprises not taking deposits, entitled to pursue lending activities - providing microcredit not exceeding the individual microcredit limit specified by the nation state and/or the European Union per transactions – and specifically specialized in micro lending, fulfilling positive social purposes should have lower founding capital requirement and their records should be kept separately.

1.2. Directive: The pursuing of microlending activity should be made available for a particular group of non-profit foundations or foundations that do not take deposits and fulfil positive social purposes specifically from donations and public funds – providing microcredit not exceeding the individual microcredit limit specified by the nation state and/or the European Union per transactions –, which are prepared to pursue such an activity.

2. Directive: The opportunity to abuse the situation of the vulnerable social strata should also be limited with regulatory and financing instruments.
3. Directive: An 'entrepreneur friendly' regulatory system should be created.

Financing field

4. Directive: Microcredit schemes financed from public funds should be interpreted as assistance manifested as social solidarity, the result of which is the positive impact it has on society.

4.1. Directive: In case of microcredit schemes financed from public funds positive social impact should have priority over the 'maintenance' or increase of the funds at nominal value in the course of the implementation.

4.2. Directive: The sustainability requirement should primarily be interpreted and expected on the basis of the humane approach to sustainable society and not on the basis of absolute financial sustainability.

4.3. Directive: Time interval (short-term, medium-term or long-term sustainability) should be assigned to the expected financial sustainability, during which period the scheme must achieve or maintain the planned positive social impacts.

5. Directive: The involvement of non-profit funders in the arrangement of microcredit schemes financed from public funds should have priority over the profit-oriented creditors.
6. Directive: In order to reach the clients targeted by the microcredit scheme financed from public funds efficiently and to achieve the set social objectives, the credit risk should not be transferred to the intermediaries or, in an extreme case, should only be transferred thereto to a lesser extent.

6.1. Directive: The losses on loans should be able to be written off from the funds.

7. *Directive: The scheme should not put the people intended to be supported, having payment problems through no fault of their own, in a more difficult situation than what they were in prior to receiving the support.*
8. Directive: The social success of the scheme should be facilitated with advice and assistance provided to the target group intended to be supported.
9. Directive: The costs of central fund management and financial audit should not exceed 5% of the costs of the actual scheme implementation, and in case of financing start-up micro enterprises and micro enterprises younger than 3 years of age the operating costs should be able to be accounted for partly or wholly to the debit of the 'Credit Fund'.

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