

## Immigrants/ethnic minorities

### **Microcredit Foundation Horizonti – Innovative approaches for providing sustainable financial services to the Roma community - Republic of Macedonia**



**Objective:** *provide sustainable financial services*

**Target Group:** *women micro-entrepreneurs and small businesses active in trade, small production and service provision from the Roma community*

**Key words:** *Immigrants/ethnic minorities; financing; BDS; financial education*

#### **IMPLEMENTING ORGANISATION**

Foundation Horizonti is a poverty-focused MFI created in 2000 as the Microcredit programme of the Catholic Relief Service – USSC in Macedonia. The primary goal of the project was to provide access to finance to low-income women entrepreneurs. In addition, the project's long-term goal was to create a professional and locally-registered microfinance institution. In July 2005, the programme was spun off from CRS by registering a local NGO (Foundation) under the Law on Citizen's Associations and Foundations in the Republic of Macedonia.

The programme started operations in the greater Skopje area, and eventually expanded its operations to seven other cities throughout the country, having 65-70% Roma population coverage. At present, Horizonti has 39 staff members.

#### **GOOD PRACTICE**

As a poverty-focused MFI, from the very beginning Horizonti identified the Roma community as a potential market to serve, which is in line with the organization's mission and its social goals. Horizonti provides sustainable financial services to the Roma community, the most vulnerable, marginalized and socially excluded group in the Republic of Macedonia.

Through the researches conducted in this community and taking into consideration the nature of small Roma businesses and Roma women profile as client, Horizonti introduced the group lending model accommodate to their business needs and personal profiles,. It was introduced in order to prove that a solidarity guarantee among group members (4-8 people) ensures a good repayment rate, especially when offered to low-income and vulnerable people who can not access finance form traditional financial institutions. Before Horizonti, the main funding source for Roma entrepreneurs was the borrowings from family members or local money lenders.

Horizonti's financial services are short and long-term business loans to microentrepreneurs and small housing loans for reconstruction and repairs. In addition, Horizonti's activities include providing consultancy services to clients and access to non-financial services provided by its partner organizations.

Horizonti's loan products are divided into two categories: small business loans and housing loans. Loan amounts range from €250 up to €4,500. In terms of methodology, it offers group and individual loans. Horizonti delivers its microloans through bank intermediation.

## **TARGET GROUP**

In general, Horizonti's clients are microentrepreneurs with an existing business in the retail, services, small production and agriculture sectors, principally women. The clients are disadvantaged people with limited or no access to financial services. In terms of location, clients are divided into two categories, urban and rural. Urban clients are mainly people with small businesses in the retail, services and small production sectors; the main purpose of their loan is for working capital.

On the other hand, 100% of Horizonti's rural clients are individual farmers with small farming activities, cattle-breeding and crop production, whose needs are primarily for purchasing seeds, fertilizers and other materials as well as for buying additional cattle and purchasing equipment. In terms of the business status, only 50% of Horizonti's clients, excluding the farmers, have registered businesses according to the existing laws in Macedonia. This is not the case for Roma clients, approximately 90% of whose businesses are non-registered.

## **RELEVANCE**

The Roma community represents the most vulnerable, marginalized and socially excluded group in the Republic of Macedonia. The Roma population has peculiar and cultural characteristics that Horizonti has analysed in order to meet their needs, reduce poverty and increase their social inclusion. In particular, Horizonti is aware that there is a high level of gender discrimination in the Roma community as well as a high level of illiteracy among women. 90% of their businesses are not registered.

## **ACCESSIBILITY**

All Roma people with limited or no access to financial services who would like to start or develop business activities have access to Horizonti's services.

## **INNOVATIVENESS**

Horizonti's innovation lies in the specific approaches implemented to provide continuous access to finance for Roma women clients and to ensure a good client's loyalty. The innovative approach in reaching this target group consists of:

- locating operations in the Roma community; in this way Horizonti succeeded to overcome the suspicion among Roma about the long-term goals of this lending programme and its intentions. On the long run, the community has become aware that this is not a relief or humanitarian project but a financial programme with clear intention of establishing long-term sources for financing local populations.

- recruiting loan officers who are not prejudiced against Roma people and developing a specific method of communication; this approach was implemented considering the target group's low level of formal education and illiteracy: using specific methods and techniques in order to get the right information and ensure that the clients understand their rights and responsibilities.
- hiring Roma staff; who understand the nature of the community.

The introduction of the group lending product was not enough in itself to ensure a successful outreach within the Roma community.

## IMPROVEMENT

Horizonti's long-term experience shows that the staff, and loan officers in particular, are the key factor for success in this population outreach. Designing just the right loan product that suits the needs and repayment capacities of Roma clients' businesses is not sufficient to ensure a long-term relationship and sustainability.

## EFFECTIVENESS / EFFICIENCY

With this initiative, Horizonti succeeded in achieving its goals in the areas of poverty reduction and empowerment of women. The fact that 100% of Roma clients are women is one of the greatest achievements in this community, taking into account the dual discriminatory position of Roma women in the society, as a Roma and as a women. The programme's innovative concept proves that Roma women's inclusion in the household decision-making process is possible, and eventually one realizes how important this is for her personal status within the household and the business.

Another positive impact on this population is the improvement of literacy of Roma women through the assistance provided by loan officers so that they are able to sign loan contracts and other documents, and feel more comfortable with financial transaction records. The best evidence of the success of this initiative is the results achieved since the inception for the period March 2000 – June 2009.

**Table 1: Roma Community Outreach**

Roma Community Outreach	
No of Roma Clients Reached	2.834
% of Women Clients	100%
No of Loans Disbursed	11.610
Value of Loans Disbursed	€ 6.55 mil.
Average Loan Amount	€ 564
No of Active Roma Clients, June 2009	1.182
% of Roma Clients of Total Clients	39%

Source: Giordano Dell'Amore Microfinance Best Practices Award 2010

## **ADAPTABILITY / REPLICATION**

The replication of this model in programmes in other countries/regions is possible but with the following pre-conditions:

1. Making a quality assessment of the general position of Roma population within the country/community;
2. Need for strong commitment by the MFI's top management to serve this population;
3. Select, train and hire loan officers that can work and communicate with this population.

## **SUBSTAINABILITY**

Horizonti launched its microfinance programmes with the support of the Catholic Relief Service-USCC. The institutional capital (around €1.9 million as of December 2009), consisted of grants provided during the period 2000-2005 by the following main donors: Caritas Norway (€1.1 million), Catholic Relief Services (€400,000), Open Society Institute (OSI) and CEB (€400,000).

The remaining funding sources (around €1.6 million) are debt, financed through: €500,000 in commercial loans from local banks, €600,000 in soft loans (concessional rate) from local development organizations, and a €500,000 soft loan (concessional rate) from SEDF.

The sustainability of the initiative is determined by the number of potential Roma clients that join this programme (Horizonti has succeeded in reaching 35% of Roma households in the area where it operates), by the high retention rate of this group (41% of active Roma clients are above a sixth loan cycle or have been with Horizonti for at least 4 years, and 27% are above a 10th cycle or have been with Horizonti for at least 6 years, which is much more than other Horizonti clients), and by a good repayment rate (97-98% for the period 2000-2007, 93- 94% over the last two years due to the economic crisis).

The criteria for measuring sustainability, including financial sustainability, are verified through the client retention and repayment rates.

Roma clients have demonstrated a strong willingness to continue borrowing and to keep correct repayment records.

**Table 2: Financial Achievements**

Financial Achievements			
	Dec 07	Dec 08	Dec 09
Portfolio at Risk	4,71%	7,75%	15,6%
Write-off Ratio	1,75%	1,98%	2,3%
Portfolio Yield	31,77%	28,57%	23,77%
Debt to Equity Ratio	0,59%	1,07%	0,95%
Operating expense Ratio	21,37%	19,41%	19,56%
Cost per Borrower	€157	€141	€126
Staff Productivity	150	157	155
Return on Equity	5,57%	2,49%	2,4%
Return on Assets	3,57%	1,35%	1,2%
Operational Self-Sufficiency	120.8%	106%	102%

Source: Giordano Dell'Amore Microfinance Best Practices Award 2010

#### **USEFUL LESSONS**

- Designing only the right loan product that suits the needs and repayment capacities of Roma client's business is not sufficient to ensure long-term relationship and sustainability.
- For a successful implementation, a good knowledge of the target group's socio-cultural characteristics and its general position within the country are needed.
- Beside strong commitment by the MFI's top management, specific approaches such as field work, specialised staff and targeted communication are needed to ensure good repayment, high retention and thus the sustainability of such a programme.
- Complementary non-financial assistance makes clients more confident with financial transactions.

#### **Sources**

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- Giordano Dell'Amore Microfinance Best Practices Award 2010: The experiences of the 2010 finalists and 2009 winners