

Original Research Paper

Contextualizing Microcredit in Bosnia-Herzegovina and Hungary: A Focus Group Exploration

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Abstract: Microfinance is gaining importance as a tool to reduce poverty and promote financial and social inclusion. The main goal of the paper is to analyze the role of microcredit to solve the problem of the credit access to vulnerable people. The paper focuses on the direct experience of people who have used microcredit living in Bosnia-Herzegovina and Hungary to analyze the use of microcredit in these areas. From the methodological point of view, the research uses focus groups to investigate on customer relations with the banking system, microcredit, social and financial exclusion, and possible alternatives to microcredit. In this way, it is possible to analyze mechanisms through which the involvement in microcredit operations results in positive (and negative) effects on people's lives. Results show that microcredit is a great opportunity to facilitate employment, create jobs, increase productivity, improve living conditions promote social integration. Results show that services of mentoring and coaching improve entrepreneurship skills or vocational (technical) know-how. These services help to improve access to finance for vulnerable individuals and to support better living conditions. We identify current good practices among microfinance services to understand the future potential role of microcredit propose concrete in particular areas.

Keywords: Microcredit, Vulnerability, Focus Group, Bosnia-Herzegovina, Hungary

Introduction

In the last years, microfinance has become a growing sector of activity in Europe (Drexler *et al.*, 2020). It still carries an important growth potential considering the impacts of the current low economic growth on disadvantaged and impoverished populations and the need to ensure their social and financial inclusion (Gloukoviezoff, 2016; Molenaar and Lehmann, 2016; Tomilova and Dokle, 2019). Microfinance provides financial and supports services to micro-enterprises and vulnerable people who cannot access traditional sources of financing (Diriker *et al.*, 2018).

In some countries, microfinance has also been seen as part of a post-conflict reconstruction strategy (Bruhn-Leon *et al.*, 2012; Banerjee *et al.*, 2019; Meager, 2019).

The recent development of microfinance in Europe hints that this sector is increasingly addressing the needs of self-employed individuals and existing

microenterprises that are still excluded from traditional banking services (Unterberg, 2017).

This study aims to analyze critically the role of microcredit in two European countries with different socioeconomic characteristics: Bosnia-Herzegovina (BiH), a candidate for membership to the European Union, and Hungary, a Central European country not adopting Euro. For each country, we selected one partner institution as a case study and conducted focus groups with a small sample of customers.

The microfinance institutions analyzed are very different. The institution in BiH offers a wide range of products to customers, in competition with mainstream banks on some customer segments. It is a large financially self-sustainable institution with more than 21,000 clients. On the contrary, in Hungary, the non-profit institution analyzed is an agency relying on public funds. It provides only business loans to a smaller number of customers (about 400), only partially in competition with banks.

From the methodological point of view, the research uses focus groups to identify the main changes occurring to borrowers. Interviews with the institutions' staff members complete the focus group analysis. This analysis is part of the project "Measuring Microfinance Impact in the EU: Policy Recommendations for Financial and Social Inclusion" (funded by the Eiburs).

In the two countries, microcredit is considered an alternative to welfare tools that are totally lacking (BiH) and seriously insufficient (Hungary). Since the two territorial case studies differ in terms of targets and operational characteristics, specific results emerge for each country. In BiH, the institution has traditionally targeted mainly Muslim women. The changes in the personal and social sphere relate mainly to higher income available for the household, self-esteem, independence better-recognized role in society. In Hungary, since the institution has a long-term relationship with its borrowers, microcredit is the tool that in the past allowed to reach an acceptable living standard (through a new enterprise) and that today is necessary to preserve it.

The paper is organized as follows. Paragraphs 2 and 3 provide a brief overview of the role of microcredit respectively in BiH and Hungary. Paragraph 4 describes the methodology of focus groups and the principal research questions. Paragraphs 5 and 6 describe the fieldwork in BiH and Hungary, highlighting the main findings arising from the focus groups. Conclusions summarize the main results and discuss how these can be used to draft policy recommendations.

Contextualizing Microcredit in Bosnia and Herzegovina

The Microfinance sector in BiH was launched in 1996 with the support of the World Bank (WB) and international Non-Governmental Organizations (NGO)s. In this post-war critical context, international relief and development agencies advocated microfinance as a way to contribute to the livelihoods of a largely unemployed, displaced population without access to a functioning social welfare system (Augsburg *et al.*, 2015; Dunn, 2005; Welle-Strand *et al.*, 2010). In particular, "investment in microenterprises with the weak presence of Microfinance Institutions (MFIs) is more financially constrained depends to a larger extent on the availability of internal funds than the investment of microenterprises in municipalities with strong presence of MFIs" (Hartarska and Nadolnyak, 2008).

WB (2015) shows that "financial inclusion in Bosnia and Herzegovina (BiH) performs relatively well compared to peers, but over 40 percent of adults did not have an account at a formal financial institution. The percent of adults who have accounts at a formal financial institution stood at 56.2 percent in 2011, above the developing Europe and Central Asia (ECA) average of 44.9 percent".

The bulk of the initial funds to the sector was channelled through the World Bank-financed Local Initiatives Projects (LIP) which were registered as NGOs. The LIP provided resources, technical knowledge, and a unified strategy for creating a functioning microfinance sector in BiH. As the sector grew and developed, international and local practitioners pushed for a new legal form called Microcredit Organization (MCO). The existence of MCOs was formalized in the first Law on MCO, a version which was passed in the Federation BiH (FBH) in 2000 and the Republika Srpska (RS) in 2001. MCOs would be non-profit legal entities set up exclusively for microlending. This new type of entity would be easier to regulate and would form the basis to develop the microfinance sector. After 2002 several international investors provided technical assistance and funded MCOs. The largest MCOs have adopted industry best practices and have been among the strongest MFIs in Eastern Europe (Matul and Tsilikounas, 2004).

The most important microfinance law was adopted in 2006. According to this new regulation framework, former MCOs (originally 35) had to transfer into either Microcredit Foundation (MCF) or Microcredit Companies (MCC). MCFs are legally authorized to dispense individual microcredits up to 10,000 km in value (Euro 5,1) while MCCs are legally authorized to dispense individual microcredits up to 50,000 km in value (Euro 25,5). Both options are non-deposit taking. MCOs in both RS and FBH are required to hold mandatory reserves for the coverage of credit losses. Both MCO laws state that "a microcredit organization is obliged to disclose the effective interest rate on microcredits". The Banking Agency of the two entities (RS or FBH) regulates the establishment, registration, activity, organizational form, business operations, management form, cessation, and supervision of business operations of MFIs. Agencies conduct the supervision of MCOs directly (on-site) and indirectly, i.e., by analysing statements/reports submitted to the Agency by MCOs (off-site) by the same Law on MCO and by-laws of the Agency. The implementation of the 2006 microfinance law had been much swifter in RS. In 2006, RS-based MCOs were already operating as MCCs in RS and even in FBH. The principal difference is that in the Federation MCOs must register as foundations before becoming for-profit microcredit companies, whereas in the RS they may register directly as for-profit microcredit companies. FBH-based MCOs became MCFs but their applications to set up their MCC have been rejected (the Banking Agency required MCFs to continue with direct lending instead of transferring all the activities into the MCC) (Hamad and Duman, 2013). Operating since then as MCFs, they have not been able to grant loans above Euro 5 k and have lost some market share in this segment at the advantage of RS-based MCCs. To avoid losing market shares, some FBH-based MFIs had made a strong push to disburse loans over Euro 5 k before their

transformation into an MCF or did not respect the legally prescribed limit; this contributed to the deterioration of the sector's portfolio quality.

The microcredit sector in BiH is less than 3% of financial system assets in 2016 (BCB, 2016).

Despite the difficulties that occurred after the 2008 financial crisis, the microfinance sector in FBH registered few improvements in 2016, compared to the previous years. Some data from the 2016 official report of the Bank Agency of FBH show that the number of employees dropped by 30% compared to the level recorded at the end of 2009 when the total headcount of MCOs was 1,790. The balance sheet total of MCOs is lower by even 51% compared to the end of 2008. Long-term loans have dropped by even 76% compared to 2008 while short-term loans declined by 41% compared to 2008:

- The ten most significant creditors of MCOs were (31/12/2016)
- EFSE-European Fund for Southeast Europe, Luxembourg (Euro 23.5 million)
- Responsibility SICAV, Switzerland (Euro 8.3 million)
- ICO-Instituto de Credito Oficial, Spain (Euro 7.8 million)
- EBRD-European Bank for Reconstruction and Development, Great Britain (Euro 7.5 million)
- Vision Fund, USA (Euro 6.8 million)
- Oikokredit, Netherlands (Euro 6.3 million)
- KfW-Kreditanstalt für Wiederaufbau, Germany (Euro 5.9 million)
- Coopest, Netherlands (Euro 4 million)
- Triple Jump B.V. in Netherlands (Euro 3.9 million)
- Intesa Sanpaolo Bank (Euro 3.5 million)

Nevertheless, these data show a slight recovery compared to 2015 but also systemic problems such as the high-interest rate for clients; in fact, this level is much higher compared to the interest rate offered by the traditional banking system in the same area for similar financial products.

In terms of categories of beneficiaries it is important to observe that micro-lending is largely directed toward agriculture (34%), housing needs (20%) service activities (19%).

Although not explicitly addressing the issue of consumer protection, the entity-level MCO laws in BiH include provisions that address transparency (of pricing and borrowing conditions) and other issues of interest from a consumer protection perspective. In the last few years, some aspects have gradually changed and MCOs are more regularly using the Credit Registry (CRK).

The Banking Agency is trying to translate specific recommendations into actions to stabilize the sector:

- Reducing interest rates on microloans to support clients of microcredit organizations: The Agency particularly values and controls all types of operating

costs of MCOs that have a significant impact on the setting of interest rates and it assesses their necessity

- Negotiating on mergers and acquisitions for the MCOs which are performing loss in their portfolio
- Consolidating the medium size institutions to increase the economy of scope, improve the efficiency of business operations of MCOs through important cost savings, as well as increase the competence of the management boards, management, and other MCO staff. Consolidation would ensure the strengthening of the capital base of a small number of stronger and healthier MCOs
- Limiting credit exposure for client
- Reducing cross borrowing from multiple institutions

Contextualizing Microcredit in Hungary

Microfinance in Hungary has a history since 1992s and its practice developed at a time when a large number of very small enterprises were formed with little experience and even less equity (Szekfü and Göde, 2012; Nyikos, 2015; OECD, 2017).

The European Union (EU) was created to support programs to strengthen the Small and Medium Enterprises (SME) sector by supporting the shift from a centrally planned economy to a more liberalized market, pursued by the Hungarian government. This goal was hampered by the lack of entrepreneurial knowledge and experience by a severe undercapitalization of the sector (Kovacs, 2010).

The first kind of these promotion projects can be considered the Poland-Hungary Assistance for the Reconstruction of the Economy (PHARE) programmer, which aimed to support the economic development of the newly established democracies in Eastern Europe. The main objective of this programmer was to promote employment and economic reconstruction through the development of SMEs. In March 1990, the Hungarian Foundation for Enterprise Promotion (HFEP) was established with a capital of Euro 14 million, then entrusted with the implementation of the ECU 21 million PHARE aid program. One of the main targets of the HFEP was the creation of a Local Enterprise Agencies' (LEA) national network, whose basic activities were counseling, training, providing microcredit, and generating development programs.

In the first phase, LEAs covered six counties:

- Szolnok, with the Enterprise Agency of Jász-Miskolc, with the Enterprise Agency of Borsod-Abaúj-Zemplén
- Nagykanizsa-Szolnok
- Kaposvár, with the Enterprise Centre of Somogy County
- Nyíregyháza, with the PRIMOM Enterprise Agency of Szabolcs-Szatmár-Bereg

- Székesfehérvár, with the Fejér Enterprise Agency (FEA)
- Szekszárd, with the Enterprise Centre of Tolna County

As a result of successful operation, LEAs were established in all 19 counties and Budapest.

The idea of launching a Microcredit Scheme was set up in 1992, considering the scarce creditworthiness of micro and small-medium enterprises, in the sense of traditional profit-oriented credit institutions. ECU 1.15 million from the ECU 21 million PHARE budget were allocated to finance the start-up program: The first microcredit institution began in 1992 with the enterprise development LEAs, under the professional coordination and financial interposition of the Hungarian Foundation for Enterprise Promotion.

The development of the microfinance sector was fueled by the JEREMIE (Joint European Resources for Micro to Medium Enterprises) program, launched in 2007: In this case, for-profit institutions were included in the program implementation and received financial resources under the same conditions as the profit foundations.

Microfinance institutions represent a strong header to reach several important outcomes to boost financial inclusion and access to credit, meant as fundamental factors for social and economic development.

In particular, the microfinance sector aims to fight against poverty, strengthen self-employment, promote start-up enterprises aiming to create self-employment and increase job creation, and strengthen the micro-enterprise sector through access to long-term financial resources for investments in productive assets (to improve productivity, product quality and competitiveness of enterprises) improve access to financial resources for SMEs, by increasing the inflow of resources into the economy (Jayo *et al.*, 2010; Bendig *et al.*, 2012).

Different actors operate in the microfinance sector. The intervention of the government actors is evident, considering the interest of the national economy to promote the access of micro-enterprises, along with SMEs, to financial resources.

Besides that, we need to mention organizations with national authority, directly related to microfinance, such as:

- Hungarian enterprise promotion network consortium, a non-profit organization that led to the creation of the Hungarian microfinance network, member of the European microfinance network
- Hungarian Foundation for Enterprise Promotion (HFEP)
- Hungarian Development Bank (MFB), is entirely state-owned

- Credit Guarantee Ltd (HG Zrt)
- Hungarian Centre for Economic Development and Subsidy Intermediation Ltd (MAG Zrt)
- Hungarian Enterprise Finance Ltd
- Public employment service (AFSz)
- Banks, savings cooperatives, and other non-profit organizations

In addition, we have to refer to microfinance institutions operating at the local level, namely the already treated Enterprise development foundations in the counties and capital cities (LEAs).

Finally, it is important to mention the Carion Finanszírozási Centrum Zrt. (CFC), a private financing company, which plays a leading role in JEREMIE microcredit financing in Hungary.

The CFC is the first institution that signed the "Progress microfinance agreement" in the country, a loan arrangement with the European Investment Fund, aimed to support over 100 micro-enterprises in Hungary. In particular, this agreement allows CFC to provide enhanced access to finance to micro-entrepreneurs, with a strong focus on micro-entrepreneurs in urban areas in Hungary, many of whom face difficulties in accessing credit from traditional banking sources.

Methods: Design of Focus Groups

The research focuses on the mechanisms through which involvement in microcredit operations results in positive (and negative) effects on people's lives.

The methodology used is the "focus group", or a social research tool based on the interaction among experts on a particular problem (Morgan, 1988; Krueger and Casey, 2009). The interaction among the participants in the focus group and between them and the facilitator allows the most convincing ideas to be expressed and progressively strengthened concerning other interpretative hypotheses that end up being judged as unconvincing (Morgan, 1993).

This is a methodology suitable for constructing a theory based on the direct experience of people aware of specific dynamics but unable alone to create an effective and convincing wording of that theory. It is a qualitative methodology, which is carried out through an interview with a group of people informed about the topic being analysed and able to express meaningful opinions.

The focus group is a Dual Moderator, it is composed of 5 to 10 people who are clients, MFI's managerial team other stakeholders. People are differently informed and competent on the subject, either based on their professional activity or because they are clients who benefit from a microcredit operation, or because they have been in a position to ask for microcredit but could not receive the loan.

Table 1: Questions of focus groups

Question	Objects
What led you to the microfinance institution?	Understanding whether there have been previous contacts with the mainstream financial system
Can a microcredit operation solve a person's or a household's poverty situation?	Leading to the central topics, letting connections with poverty and social exclusion emerge
What are the changes in people's and their families' life after the loan is granted?	Identifying the changes to be measured through the questionnaire and let the most relevant aspects emerge, to focus the questions. Identifying aspects corresponding to negative impacts
Ask participants to write on a timeline, with the loan the middle, the situation before and after the loan, putting events and situations in chronological order	This question is useful to compare the situation before and after. The question should highlight: The chain of events and the moment from which (after the loan is received) the change occurs and for how long it lasts
What other conditions (different from the loan itself) have contributed to these changes?	Collecting information on how to measure attribution
What aspects can be improved in the relationship with of the microfinance institution?	Identifying how impact could be improved (capacity building, financial education)
What are the alternative tools that support people with the same results as a microcredit operation?	Identifying possible welfare tools comparable to microcredit or, anyway, possible alternatives to microcredit
What do you think the 3 main differences between this loan and a loan provided by other banks are?	Understanding whether they perceive microcredit as a "special" tool
After this loan, do you think you could access a loan from other financial institutions?	
Is there anything I forgot? Is there anything you think is relevant but we forgot to discuss?	

The main topics for discussion in the focus groups are centered on the following research questions:

- Research Question 1: What is the Customers' relationship with the banking system?
- Research Question 2: What are the effects of microcredit on social and financial exclusion?
- Research Question 3: What is the importance of support and technical assistance?
- Research Question 4: What is the role of credit appraisal and confidence building?
- Research Question 5: Which are the possible alternatives to microcredit?

The meeting lasted about 2 h. Focus groups were held in September 2017.

These questions are the baseline for the investigation. With minor changes they can be used for focus groups and individual interviews on microcredit (Table 1).

Data and Results of Focus Group in Bosnia and Herzegovina

Participants

The focus group on enterprises in BiH was organized in Tuzla in September 2017.

Firstly, participants are long-standing customers with a strong relationship with the microcredit

organization. All of them run a business activity, either formal or informal. Beneficiaries apply for credits for different purposes: Credits for launching business activities, revolving credits for consolidating the enterprise's credits for housebuilding. As a consequence, in the microcredit organization, these long-standing clients can find all kinds of tailored financial solutions. Beneficiaries are generally subject considered non-bankable by the traditional banking system because they do not have the requirements to access a loan (they usually lack collateral).

The second aspect to be considered is that, despite the support of the microcredit organization, all participants share a feeling of incertitude about the social and economic context in BiH. They try to adapt their business (formal or informal) to instability and precariousness. In some cases, starting up a business allows for employment not only the direct beneficiary of microcredit but also other family members. During the interviews, personal issues have taken a lot of space. Participants were talking extensively about family, life in general, and all the recent social and economic achievements of their life.

The main channel through which applicants came to know the microcredit organization was the solidarity group. Applicants had been invited by friends or parents to join a new or an already established group. Solidarity groups were the first business model of the microcredit organization, but in 2001 they changed to individual

loans. Almost all the interviewees clearly expressed their preference for the individual loan scheme.

Data Collection

The focus groups in BiH monitored the microcredit projects implemented by an important NGO, a non-regulated, non-bank Microcredit Organization based in Tuzla, operating on a commercial basis with a strong independent Board of Directors. It started its activity in 1996 with the solidarity group scheme. In 2001, this organization started providing also individual lending. The two schemes co-existed until 2009 when the microcredit organization decided to stop the solidarity group lending. It provides business, housing, and other types of loans. According to the US-based non-profit Microfinance Information Exchange (MIX), the microcredit organization had assets totalling Euro 24.9 million, a gross loan portfolio of USD 26.1 million, and 21,000 borrowers, at the end of 2016. The 2008 financial crisis strongly impacted Microfinance organizations. The number of borrowers decreased in two years from 23.000 (in 2009) to 13.000 in (2011) and the portfolio decreases from Euro 26 million (in 2009) to Euro 13 million (in 2011).

The microcredit organization believes that microcredit represents an important opportunity, especially for women. It started its microcredit program targeting displaced women, mostly beneficiaries of a psychosocial program. In the beginning, the microcredit organization made a deliberate decision to target only women. Targeting women is deemed to be both a good long-term strategy for growing a customer base and a way to help society by empowering women. Its experience with providing financial tools to low-income women generated a positive impact on the families, the financial institution, and the overall economy. The abovementioned gender gap in financial inclusion is an important issue in BiH, especially in credit activity and its strategy is to give more opportunities to females. Women face several difficulties when attempting to access credit because they do not own properties to put as a guarantee and because discriminations still exist. One type of discrimination that BiH women face in many credit markets is the requirement of a male family member's signature for opening a bank account or for getting credit (Demirgüç-Kunt and Klapper, 2012).

The gender gap is more significant among poorer members of the population and individuals living in rural areas.

The microcredit organization was also engaged in technical assistance supporting women's empowerment in the whole country with a project. The project was focused on the provision of non-financial service activities including financial education, business training seminars,

market connections within BiH for marketing, purchasing and/or selling services/products, advocacy activities, and delivery of information about incentives or subsidies. During the discussion in the Focus group, no evidence of this project and its impact emerged.

In 2012, the microcredit organization's strategy changed and also men could get credit. Currently, men represent around 30% of the total portfolio.

Survey Outcomes

Through focus groups and interviews, we have been able to gather useful information on different aspects of microcredit. The main results are summarized below divided by topic.

Customers' Relationships with the Banking System

Banks and MCOs employ persuasive sales techniques. Participants said that banks can disburse bigger amounts for long-term loans whereas MCOs disburse loans quicker after a shallower assessment of the repayment capacity. Furthermore, banks ask for more guarantees. MCOs are more expensive, but they ask for fewer documents. Microbusiness loan clients shift from the MCOs to the banking system when they can show credit history, whereas MCOs are focussed on a start-up business, always according to the opinion of the participants.

Microcredit, Social Exclusion and Financial Exclusion

In the focus group, participants are not in a situation of poverty or social exclusion. However, many of them can be considered at potential risk of poverty due to the difficult Bosnian socioeconomic context.

Some people started a business just to have a backup opportunity. They don't feel safe just because they can dispose of business activity; this feeling of insecurity very often arises in the discussion. All of them are long-term clients who were able to successfully set up and manage their own business growing gradually.

As mentioned above, the microloan seems to play a prominent role in the first step of the business activity when micro or small start-up enterprises (formal and informal) are considered not bankable by the traditional banking system, especially for those who can offer no valuable collateral, with no entrepreneurial past and no capital accumulation. Once they succeed in consolidating their business, they can either turn to MCOs or the banking system.

Credit seems to be even more important for women as a way to become independent economically, and to start playing a new role in the family and society. In BiH a difference in attitude in women's behavior as financial clients there is: Women tend to resort to family, friends, or private lenders for loans more than men, whereas men prefer to take out loans from a financial institution. Nevertheless, women

face several difficulties when they attempt to access credit. The global economic crisis' impact on banks in BiH has led to stricter rules when applying for loans, making credit access increasingly hard for women because they rarely own property or assets to provide as collateral. As a result, women usually take out loans that are smaller in size than those taken out by men (1,377 Euros compared to 1,732 Euros). Further, the time required to access loans is longer for women compared to men.

Around 65% of clients of the microcredit organization are women and supporting women as more vulnerable financial subjects increases the positive impact of the microcredit organization on financial exclusion. On the other hand, we observed, in two cases, that the wife signed the loan and the husband pays for it (this aspect is related to the fact that at the beginning the microcredit organization was only serving women). Generally, every member of the family seems to support each other to achieve a good position in society through small business activity.

The Role of Credit Appraisal and Confidence Building

Participants, in many cases, have a strong relationship with credit officers.

For all participants, this initial support emerges as crucial for the success of the business activity. The discussion with the loan officer during the application and the credit appraisal phase is appreciated by borrowers. Participants emphasize that these open discussions with the staff are an opportunity to widen their financial skills, to increase self-confidence to understand positive aspects, or vice-versa the reasons why the project cannot be viable.

For instance, the analysis of the household's financial situation and the business planning (when it exists) increase applicants' awareness and provide some tips for better financial behaviour and relationship with the MCO. The credit processing phase has therefore the effect of making people more aware of the feasibility of their project and the more appropriate solution for financial needs in general. This aspect arises from one participant.

On the other hand, customers tend to signal that the technical assistance provided during the loan term should be strengthened.

Finally, borrowers consider the loan application as an opportunity to be listened to. They perceive that their project has dignity.

Possible Alternatives to Microcredit

In general, participants interviewed perceive the welfare system as totally absent. Due to the lack of public resources, beneficiaries of social welfare instruments are only people in very difficult conditions: Orphans, educationally neglected children, disabled people and people with mental and physical developmental problems, those incapable of working and without any material

insurance, elderly people with no family care, people with anti-social behaviour as well as persons and families in social need due to special circumstances. Furthermore, since a large share of the population is engaged in informal activities, a payroll-based health and welfare system fails to cover all citizens.

According to some participants' opinions, policymakers should put in place a fairer system to have a higher contribution from those who have the means to pay. There is also uncertainty about the possibility to get a pension. That is why more efforts should be made to minimize the non-payment of health contributions by companies and institutions in the formal sector. In the case of agricultural workers and self-employed people, ways need to be found to develop arrangements to allow them to contribute and benefit from the system.

Many of our findings strengthen the evidence found on the economic impact of microfinance in BiH: The loans increased levels of business activity (Augsburg *et al.*, 2015). However, this did not translate into increased household income and a decreased unemployment rate. In particular, in Bosnia-Herzegovina the unemployment rate is one of the highest rates in Europe, recording the maximum in 2013 (46.1%). In 2019, the rate decreased from 34.78 to 32.71%, remaining a very negative figure (ETF, 2020). It's evidence also a decline in consumption and savings of the households that are still repaying their debt, as well as impede income growth (Bruhn *et al.*, 2010). Furthermore, the 2008-2009 financial crisis strongly affected BiH and after years of rapid credit expansion, various Bosnian MFIs experienced an increase in non-payment and late repayment (Maurer and Pytkowska, 2011).

Data and Results of Focus Groups in Hungary

Participants

In Hungary, two focus groups are organized with 10 customers of the Microfinance Institution contacted for the interview in September 2017. The focus groups have been followed by an interview with 4 staff members of the microfinance institution and a researcher, who supported the activity and the effective implementation of the focus group as a facilitator.

Customers pointed out the impact of changes, that happened in the early 1990 s in the country, with a lot of factories that closed down and a great number of people who became unemployed. People were willing to establish their businesses but had no entrepreneurial past and no capital accumulation. The creation of agencies, whose basic activities were, among others, providing microcredit and generating development programs, is seen as the opportunity to be supported not only from a

professional and entrepreneurial point of view but also from the personal one.

Firstly, in the majority of the cases, the entrepreneurs involved are regular and long-standing customers, except for a single case. Indeed, for several years, entrepreneurs have been preserving an intense collaboration with microfinance institutions.

It is relevant to notice how, overall, personal issues are rarely mentioned by beneficiaries even if stimulated. The economic and entrepreneurial aspects are only taken into account during the interview.

Customers do not talk much about their condition before the microloan and almost everybody says that it is too back through time. Word-of-mouth seems to be the main mechanism through which all of them came in touch with the financial agency. Applicants come to the microfinance institution also because they were addressed by other entrepreneurs who are already clients.

Data Collection

In focus groups conducted in Hungary, we focus on Székesfehérvár County where the main microfinance institution/program is active. The institution's gross microloan portfolio outstanding stands approximately at 400 clients. This Microfinance Institution is a non-profit organization established in 1991 in Székesfehérvár, aimed to encourage entrepreneurial development projects in the area (Micro Enterprises and SMEs), providing loans and non-financial services. The main beneficiaries are women, young people (under 30 years old), and people living in low-density areas.

Over time it has built a wide network of local agencies, all over the country, supported by European and National funds.

It is a deeply interesting fact that agencies are supported also by private companies. The microfinance institution signed an agreement aimed at the delivery of a loan addressed to the launch of enterprises created by unemployed people who lost their job.

Based on internal data, Microfinance Institution implemented a survey on the social impact in 2014 and 2015. Particularly, it provides figures for 407 clients in 2014 and 316 clients in 2015. It has provided an evaluation of the enhancement of life conditions and social returns of funded enterprises, in terms of job creation, job security, and new investments.

Survey Outcomes

The main results of focus groups in Hungary are summarized below divided by topic, too.

Before illustrating the main issues arisen, we would like to highlight an aspect that distinctly emerges. Microcredit customers point out that microfinance and traditional banking system are perceived basically as two alternative sources of funding, in strong competition. Customers

showed interest in the suitability and convenience features of microloans, in easier and faster processes, as well as in a stricter personal connection and a more familiar link with the microfinance institution and its staff. Furthermore, customers emphasized the difficulties of providing guarantees or collateral appropriate for a mainstream bank loan, showing they lack a strong economic familiar support or a satisfactory financial background.

Customers' Relationships with the Banking System and the Microfinance Sector

No particular complexities in the customers' relationship with the banking system emerged. As highlighted, the traditional banking system and the microfinance sector seem to be competing: Almost every customer points out the easiness and the quickness to have a loan application accepted by the microfinance institution, compared to traditional banking processes; furthermore, customers put in evidence lower interest rates condition and a more personal relationship with the institution.

Many of the interviewees told the researchers that they had previous relationships with banks, in some cases unsatisfactory, considering the time and costs of the appraisal. Some customers acknowledge that after the 2008 financial crisis some behaviours changed a lot: "Now traditional banks are jumping on SMEs", trying to show themselves "more specific, interested in people and not only in business". It emerges also from the latest analyses carried out by the Hungarian Central Bank (MNB, 2017) that "corporate credit conditions were eased in all enterprise categories, due to the improvement in general economic prospects and the intensification of bank competition". Two-thirds of the banks participating in the lending survey reported that the easing appeared in the decrease in the interest rate spreads, while more than 40% of them indicated that the fees charged for lending has decreased finally almost 20% of them mentioned the prolongation of the permitted maximum loan maturity. In particular, in 2017 Q2, lending to the narrow SME sector increased by 8,3%, while lending to the broad SME sector (self-employed included) grew by 13%.

In the later focus group with the staff, it emerged that usually especially some years ago, "banks do not even talk to small entrepreneurs unless you have at least 2 years of activity. There is no competition between banks and microfinance institutions: The bank sends the not served customers to the MFI. In many cases, there is a low level of consumption, no investments, and people have no savings to spend because taxes are too high. It is a very narrow channel. That is why there is no great demand for microcredit".

As mentioned, several participants have had or still have relationships with the traditional banking system. In most cases, they decided to return to the microfinance institution considering better credit conditions and much

quicker application processes. They said: "Microfinance is considered more personal, tailor-made, simple".

Only one of the clients says that it is her first approach with the microfinance institution.

Anyhow, since the customers involved in the two focus groups revealed a long-term and nearly personal relationship with the engaged institution, the improvable perception of traditional banks seems to be correlated with the strict connection with the specific institution. Trust in the institution is perceived as one of the most important issues. Participants underline the difficulty to provide appropriate guarantees and facing high-interest rates.

Microcredit, Social Exclusion and Financial Exclusion

Customers are rarely in a situation of poverty or social or financial exclusion. All of them are long-term clients who were able to successfully set up and manage their businesses. The microloan seems to play a prominent role in investing in specific equipment or enhancing and strengthening the business activity. Microcredit is seen as a boost to speed up the business, expand, move forward, to better negotiate with partners, and make the business more economically and financially sustainable. The emphasis is put on the business point of view: Unfortunately, customers' personal lives and feelings, as indeed impacts on their individual and social life and conditions, hardly came out. In this sense, clear differentiation of the perception of microfinance services emerges: While microfinance seems to be considered a key element for improving social and financial inclusion in Western European countries, in Hungary microfinance is treated as a source of funding that can help to set up and to improve a business. Still, there is no mention of an improvement in personal or social conditions of the subjects interviewed, but the opportunity to accumulate savings that have been converted into assets over time.

It is important to mention that microfinance is perceived as a tool that can "allow a positive change", which can "give the courage to start and build a project" and to achieve self-realization.

For some customers it can provide "financial security", for others it is a chance to "buy a particular equipment" or "obtain more money for supplies".

However, in the second session of the focus group, some beneficiaries talked about some negative aspects related to microloans: "If you get a microloan, you then have less time for yourself, you're busier because you have to work more to repay your debt". By the way, almost all the interviewed subjects agree about the fact that "microfinance does not change your life, but for sure it helps to solve some problems and gives you more flexibility". Microfinance is also seen as "a life jacket" in difficult times.

The possibility to innovate and to enhance the quality of the business and equipment are two of the most

important positive changes related to the microloan. Better quality services, and better equipment, combined with enhanced purchasing power and competitiveness seem to affect arising of microfinance.

Customers report a very difficult legal and fiscal environment, accompanied by a very competitive market. It emerges that entrepreneurs must be extremely conscious, aware, and ready to face hard challenges. Responsibility seems to be a key element for the success of the loan.

The Importance of Support and Technical Assistance

From all focus groups, initial support of the microloan emerges as crucial for the success of the business. Customers emphasize that assistance during the application phase and the loan could be a valuable asset to improve services provided and guarantee the success of microloans. Although the MFI provides the "Business Development Handbook", customers report the necessity to get the information needed in a faster and smoother way to be supported and educated on widening their knowledge and entrepreneurial competencies.

The assistance during the loan term is considered a key factor because:

- Entrepreneurs may be focused only on one specific economic field, but it would be essential to become aware of other connected aspects
- The Hungarian educational system is not perceived as sufficient and appropriate. Financial education and day-by-day training and support seem to be viewed as crucial

The operating staff admits that assistance is fundamental during the whole life of a business and they highlight the importance of internally developed tools and monitoring activities provided to increase the probability of the success of the microloan and reduce the risk of bankruptcy.

Another important aspect that is considered crucial and which should be improved, according to customers' point of view, is the networking and brainstorming activities.

Moreover, as mentioned before, the need for financial education emerges: Entrepreneurs need education for better management of business finances and to understand the functioning of the whole activity and surrounding market. In particular, entrepreneurs refer to the legal and fiscal aspects, besides advertising, marketing, and promotion activities.

In general, customers display low levels of education: In the majority of cases, they just speak their mother tongue and are not able to understand and speak English.

Some clients report that the institution can help from the legal, fiscal and commercial point of view, giving also

training and mentoring services. A customer displays the desirability of obtaining professional support in networking activities, in "sharing ideas, providing brainstorming sessions and making people talk about their personal experiences". Another one reveals some lack of support in advertising and promoting activities.

Possible Alternatives to Microcredit

In general, participants interviewed perceive a lack of an adequate welfare system in Hungary they believe that microfinance and microcredit may be the only kind of support in many cases.

However, it is fundamental that people, especially the younger ones, are willing to apply and use this kind of support. Customers display that in many cases "young people think they deserve to be employed in any case and wait for something to happen, standing without committing at all". Some customers agree on the fact that the "young generation is used to having everything ready", but the main topic that comes out is connected with the extremely complicated legal background and the necessity to fight for every single aspect of life, added to a very competitive economic field.

At the same time, too many requested guarantees, and too high-interest rates insufficient personal and direct contact with clients prevent people from accessing bank credit. Moreover, in many cases, customers could only rely on brief credit historical data and few collaterals, even if their business idea was pretty profitable and promising. Microfinance institutions interview and meet personally customers, but everyone must know what he/she wants to achieve the target.

In any case, credit customers do not identify alternatives to microcredit or credit in general. None mentioned welfare tools available in the Country.

Eventually, microcredit is perceived as a simpler alternative to traditional bank credit, more personal, less expensive, and complicated.

We conclude that microfinance has a positive economic impact in Hungary. Some studies arrive at the same considerations (Molnár and Havas, 2019). Indeed, some economic indicators show significant improvements in the Hungarian labour market. In 2017, the unemployment rate was 4.1% which is far below the European Union average (7.4%), and the youth unemployment rate is also lower than the EU average as it is 10.8% contrasting with 16.5%. Youth unemployment has hit especially girls (13.6%), whereas boys record a lower value (8.8%) (OECD, 2020). Furthermore, others studies suggest that women are the most likely to repay according to the agreed repayment schedule (WB, 2013).

Discussion

The main results of the focus groups are summarized below.

As for business loans, during the group discussion microcredit emerges as a positive instrument representing a great opportunity to allow people to find a form of employment. The credit seems to be even more important for women as a way to become independent economically and to start playing a new role in society, in particular in BiH.

However, the initial support and the following assistance during the loan term emerge as fundamental elements for the success of microloans, not only for the most vulnerable borrowers. The entrepreneur may face challenges when the first signs of a possible crisis appear, but also when strategic decisions during the life of the enterprise are necessary. Technical assistance is fundamental in these critical moments when the lack of support might lead to default, thereby leaving borrowers indebted and without income. These results suggest that effective microcredit policies should support the provision of non-financial services along with microcredit.

As for the individual countries, the main findings are the following.

From focus groups in BiH different aspects emerge.

A less demanding procedure and approach compared to the banking system was a key factor at the beginning of the relationship between the Microfinance institutions and their clients. Microfinance is generally considered more personal, tailor-made, fast, and simple. On the other hand, participants were not satisfied with the solidarity group, the original lending scheme of the Microfinance Institution. This methodology had been adopted until 2001 when the Microfinance Institution changed into individual loans. Only one participant considers a solidarity group as an opportunity to meet other people, to discuss and socialize. The problem with the solidarity group was the lack of mutual trust and confidence among members. One participant said clearly: "I was paying regularly and when emerged the first opportunity for me to get out from the group I did it". Another key factor for choosing the Microfinance Institution was the feeling of trust: The Microfinance Institution gained the trust of the clients through the ability to listen to their needs and to offer a good and fast service.

Microcredit is a great opportunity for a non-bankable subject, not only for starting or improving business activities but also for building and renovating a house and also to buy a new car. The credit was, for the majority of participants, like a "springboard" for a better life and better business. It is important to underline that the majority of participants applied for a loan just at the end of the war when everybody had to find the motivation to start from scratch. A "springboard" in such a condition has to be a real positive instrument.

The support of the institution during the discussion of the loan appraisal process is crucial, according to the opinion of the participants. Borrowers can find support to achieve their objectives, assess their repayment capacity, and find together with the institution the best financial solution for their needs. In the Bosnian extremely difficult context, managerial competencies, and commercial and administrative skills seem to be crucial and entrepreneurs have to be very prudent.

From the focus group in Hungary, the main findings are the following.

Almost all the participants in the focus groups perceive the microfinance sector as a competitor of the traditional banking system. Customers, who in most cases had previously applied for banking loans (also personal ones), report that the relationship with the traditional banking system could be untoward. Especially before the 2008 economic and financial crisis, banks were perceived as "impersonal, only interested in business and not in people". "Microfinance institutions pay more attention to microentrepreneurs and pay more attention to time spent on business planning". After the crisis, it came out that micro and SMEs "are the majority in Hungary and contribute a lot to the economy of the country: That's why banks are jumping on them quickly", "that's why they became more interested in people" now they report a "better experience with banks".

Despite an improbable range of services provided by the microfinance institution, correlated in particular to the necessity of getting information more easily and stronger support and training on legal and fiscal issues, along with providing financial education services, customers seem to be satisfied. Bank loans are "more expensive, more complicated" than microloans and they take more time and guarantees. Differences in collateral are evident. When customers approach the microfinance institution, they face shorter procedures and can count on more flexibility to have personal meetings with the staff. A microloan is considered a "way to improve the business and give the job. It helped to participate in conferences, to be interviewed and reported in a magazine", to "make a better strategic plan". A microloan can also help to "keep family economically safe, as well as support to do what you love, what you like to do". Moreover, it is necessary to consider that, in some cases, participants report that accessing microcredit represented a way to find a satisfactory job. Nevertheless, customers do not mention a remarkable improvement or increase in personal income after the loan. The emphasis is mainly put on the opportunity to renovate the business and the equipment. Some other aspects are pointed out, such as the fact that through microloans "entrepreneurs may have more bargaining power and provide better quality products", "compete in prices with competitors" and "develop the business".

We also observe that improving the business may allow for employment not only for the direct beneficiary but also for other subjects, in case a customer had the opportunity to work with her husband.

Other necessary conditions to ensure the proper functioning of the business come out. Customers mainly underline better conditions in feeling more responsible: In particular, some customers say that it is important to "operate more professionally" when a person gets a loan. Indeed, responsibility is a very important aspect.

All the subjects seem to have experienced critical phases during the loan.

Finally, volunteers signal a return in emotional terms and gratification felt by offering help to other people. They consider their activity as a life school that allows them to come closer to values such as relationship, solidarity, participation, resolution, and change of problems of their territory.

Conclusion

What is important to highlight for contextualizing correct results is that the two cases analyzed have different relationships with their respective territories. In Hungary, the institution analyzed operates in a specific county and belongs to a national network of local enterprise agencies. It relies mainly on public funds, but rarely on local volunteers. The institution in BiH operates in the North-East of the country, with 29 branches serving also remoted rural areas. Although its social mission is very committed to financial inclusion and client protection, its function in the financial system is more similar to that of a commercial bank. A stronger and personal relationship with borrowers is created not through volunteers, but by credit officers.

The focus groups were carried out before the Covid-19 pandemic and should be carried out again to allow understanding of the microfinance situation today in BiH and Hungary. It is important to consider that in the last years the delays of clients in the repayment of loans mainly resulted from the negative effects of the Covid-19 pandemic.

Observing the data made available by the Bosnian Central Bank, the total assets of the microcredit sector in BiH at the end of 2020 were higher by 9.0% compared to 2019. Indebtedness of households with microcredit organizations increased, i.e., by 7.9% compared to the end of 2019, while the debt of enterprises to microcredit organizations in 2020 increased by 26.5% according to the Central Registry of Credits (CRC) data (BCB, 2020). The upward trend in the last years of indebtedness with microcredit organizations indicates that a significant number of households were still unable to meet the conditions for borrowing from commercial banks.

Instead, microcredit organizations have more flexible credit approval policies.

Also, in Hungary, more than 70% of the clients of the Hungarian Microfinance Network are facing a difficult contest because of the consequences of the Covid crisis. These firms would obtain more microcredit programs, possibly combined with non-refundable subsidies. 45% of the firms needed to downsize and 65% can only finance the business for 1-2 months if the situation is not improving (EU, 2020).

Our study intends to contribute to the scientific debate on the relevance of microcredit. A comprehensive presentation of a set of barriers and problems to credit access for vulnerable people was highlighted. Furthermore, different persons perceive a strong need for assistance to face financial problems.

This initial exploratory research was designed to identify current good practices among microfinance services, understand the future potential role of microcredit propose concrete and practical steps to bring about more support for entrepreneurs and households. Future research could empirically test our findings on a wider and more heterogeneous sample considering the post-pandemic context.

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Author’s Contributions

Domenica Federico: Section “Contextualizing Microcredit in Bosnia and Herzegovina” and “Data and Results of Focus in Bosnia and Herzegovina: Survey Outcomes”.

Andrea Calzolari: Contributed to Sections “Data and Results of Focus Group in Bosnia and Herzegovina: Participants” and “Data and Results of Focus in Bosnia and Herzegovina: Data Collection”.

Antonella Notte: Section “Contextualizing Microcredit in Hungary” and “Data and Results of Focus in Hungary: Survey Outcomes”.

Lucia Poletti: Section “Methods: Design of focus groups”, “Discussion” and “Conclusion”.

Matteo Solivo: Section “Data and Results of Focus in Hungary: Participants” and “Data and Results of Focus in Hungary: Data Collection”.

Giulio Tagliavini: Section “Introduction”.

Ethics

This article is original and contains unpublished material. The corresponding author confirms that all of the other authors have read and approved the manuscript and no ethical issues involved.

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