



With support from the European Union

Social microcredit, self-employment and Roma inclusion

**Lessons of Kiútprogram, a social microcredit pilot and policy
recommendations for the new Structural Funds period**

2012

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Executive summary

In countries with significant Roma populations, especially in Central-Eastern Europe, the low employment rate of the Roma constitutes a serious social problem and a factor hindering economic growth. State measures regarding labour market have had no significant impact at all; spontaneous market events are even less likely to improve the situation. The most promising prospect for improving the employment status of the Roma seems to be the development of micro- and small businesses.

The pilot of Kiútprogram explored whether the practices of microcredit – applied in many countries – can be adapted for these purposes. If it can, would this improve the social and economic integration of the Roma in addition to improving employment figures? The pilot was implemented in Hungary; however, its findings are also relevant for other countries in the region.

During the pilot it became clear that numerous modifications must be made to microcredit practices to adapt to both local conditions and the specific situation of the Roma. The most important change was induced by the realisation that lending is not sufficient on its own; clients need to be mentored much more intensely than usual and the continued presence of well-trained field workers is indispensable. It is fundamentally essential that field workers unite the activities of social workers and loan agents within one person. Field workers also have an important role in counteracting discrimination against the Roma.

Microcredit is costly, and it should be benchmarked against employment generation programmes instead of market-based or self-sustaining microcredit programmes. This activity cannot be profitable in a market sense; however, it is profitable at social level. To distinguish this type of credit from regular microcredit, it is referred to as inclusive social microcredit (ISMC). ISMC generates not only financial but also social/networking capital, and under optimal operations, economic network building is also added to the mix.

It is important to clearly separate lending and mentoring financially; however, it is practical to run operations by either one microfinance institution, or by a not-for-profit organisation and a financial institution tied by a strong contractual relationship, where the financial institution conducts this activity on a not-for-profit basis. It is estimated that lending losses are likely to be about 20 to 30%, especially during a time of crisis, thus additional funds are needed to reimburse for capital loss. During the pilot period, anticipatory losses are even higher.

The operating costs and the amount of lending losses of ISMC do not exceed the costs of state-run public work programmes while its social benefits are incomparably higher. It is anticipated that at least half of the clients build sustainable businesses in the longer term. People living on welfare will become tax-paying citizens. The social and economic inclusive effect of ISMC is strong. It also contributes to the legalisation of the informal economy.

However, it is unrealistic to expect the ISMC to solve all problems related to structural deep poverty; it is only one of the options providing support and facilitating advancement.

The method of group lending without mutual financial responsibility (already tested and successful in several countries) proved to be useful, offering various benefits. However, it

must also be added that sequential lending is suitable only in places where a strong local Roma community exists. Otherwise, only a very constrained use of sequentiality is recommended, or it may be fully omitted.

To summarise, inclusive social microcredit is an adequate tool in fostering Roma integration and promoting self-employment. Because of the complex nature of this activity, both governments and the EU need to use a new approach. The following policy recommendations are made:

EU level

- A specific initiative for social microcredit should be implemented at EU-level. Social microcredit should be included in the Partnership Agreement. EU-level pressure and support is needed to include social microcredit in the national Operational Programmes.
- Social microcredit programmes should be multifaceted so that they can also provide social and networking capital in addition to traditional micro loans, including:
 - At least basic professional training opportunities;
 - Training in community development and networking;
 - Financial and business administration training;
 - Business network development;
 - Continuous support.
- Before implementing the programme in several countries, conducting pilot project is essential, for which the tender framework needs to be setup by the EU.
- European regulations must be modified in order to extend support for social inclusion / tax allowances to agricultural entrepreneurs (primary producers) as well, at least in disadvantaged regions.

National level

- Inclusive social microcredit should be included in the national Operational Programmes.
- Efficient social microcredit programmes can only be implemented with committed state involvement.
- Social microcredit programme requires a predictable regulatory environment.
- The provision of normative financial support is essential for the long-term unemployed to launch entrepreneurship.
- National regulations must be modified in order to extend support for social inclusion / tax allowances to agricultural entrepreneurs (primary producers) as well, at least in disadvantaged regions.
- It is necessary to provide tax benefits or other incentives to strengthen the employment of people with low educational level, including self-employment.
- Financial services provided by banks should be available for marginalised communities.
- National regulation should be harmonised with the legal and financial requirements of social microcredit.

- The national states must encourage large corporations to support social microcredit as part of their Corporate Social Responsibility (CSR) programmes.
- It would be necessary to further strengthen the organisational structures and tools that could secure efficient counteraction against discrimination of the Roma, paying special attention to employment and financial services.
- The administrative burdens of becoming an entrepreneur should be reduced; entrance barriers should be removed especially for micro- and small enterprises.

1. Introduction

The recommendations on introduction of a social microcredit programme, outlined in this paper are based on the experience of the project called Kiútprogram ("Way Out"), which is part of the Roma Pilot project¹. The project was managed by Polgár Foundation, the beneficiary of the Roma Pilot project.

Findings and recommendations are addressed to three groups. Firstly, to the experts of the European Commission who are involved in negotiations concerning the priorities of the new programming period, and those working in DG Employment, DG Regional Policy and in some respects also in DG Agriculture, directly responsible for regions concerned within the EU27. Secondly, it is addressed to the ministries in the Member States, as it is their responsibility to establish social microcredit programmes financed either by national funds or with ERDF /ESF And thirdly, this document may be used as a practical guide, a summary of good (and bad) practices, for those who intend to implement a similar programme.

This programme was a *real pilot* where the outcome of the project was not predictable in the least. The fundamental dilemmas of the pilot were the following in colloquial terms:

1. If people living in deep poverty, mostly of Roma origin, are granted unsecured loans, human support and trust, are they capable of building enterprises in the formal economy that can sustain their families under the current conditions of Hungary (in a wider sense, Central-Eastern Europe)?
2. Are they willing to and capable of repaying the loans?
3. How useable are the lessons learnt in developing countries, and how should their processes be modified in order to make them applicable in more developed countries, especially in Central-Eastern Europe?
4. If the adapted microlending process works, does it promote the social/economic integration of the Roma?

There had been several attempts in this area, with mixed results, at best. Some of these operate as successful microcredit programmes serving a target group of a somewhat higher social status – however, still ineligible for the requirements of the regular banking system – similar to our clients.² There are successful programmes focusing on a similar target group as ours, but – adjusting to the local circumstances – in the informal economy.³ Some other programmes were discontinued in their original form, but a large amount of knowledge has been accumulated.⁴ There do not appear to be any operating microcredit models in the region that would provide a positive answer to the first two questions with the main focus on

¹ *Kiútprogram Self-Employment and Microcredit Programme within the Pilot Project Pan-European Coordination of Roma Integration Methods - Roma Inclusion*. Further details:

http://ec.europa.eu/regional_policy/activity/roma/pilot_en.cfm

² For example Mikrofond in Bulgaria (www.mikrofond.bg).

³ For example Horizonti in Macedonia (horizonti.org.mk).

⁴ For example the pilot of the Autonomia Foundation between 2005 and 2007, from which we have learnt a lot (https://www.google.com/url?q=http://europeandcis.undp.org/uploads/public/File/Microfinance_risks_mitigation.doc&sa=U&ei=hsL-UKmPGKqF4gS4g4CoCQ&ved=0CAcQFjAA&client=internal-uds-cse&usg=AFQjCNFCsvzjSod2PO2RYmmGJPegQaGtqA)

marginalised Roma; this could have been the reason why the European Commission's Directorate-General for Regional Policy (DG Regio) published a call for tenders in this topic.

Since this study is not a mystery novel – although the pilot was more exciting than any thriller –short answers to the questions above are provided in advance.

1. More than 50% of our clients were able to establish a sustainable enterprise. Success rates improved as time passed: currently only 30% of the clients of the first wave are self-employed; this share is 80% of the clients in the second wave. Most of these enterprises are still younger than 1 year, but a success rate of 65-70% is expected in this group.
2. If appropriate selection methods are used, the vast majority makes an effort to repay the loan and most of them will be able to do so. The repayment of the loans and the establishment of sustainable businesses do not correlate fully, but their proportions are similar.
3. The lessons learnt in developing countries are applicable only to a small degree due to the significant difference in circumstances. The Programme managers of the Kiútprogram believe they have managed to identify the key components of successful adaptation through a number of failures. The most important requirement is to employ highly-qualified field workers.
4. The promotion of social/economic integration is definitely a strong impact of the programme.

In summary, the pilot was successful. At the same time the fact must not be withheld that some of the initial expectations were not met. The programme is not a universal solution to existing problems and is not inexpensive either. Successful implementation depends on many external and internal conditions. Still, it is believed that it would be worth continuing the programme, to move on to regular operations following the pilot, and also, to test the programme in other countries. For this, the support of the European Union is essential. In order to facilitate continuation, policy recommendations are made to capitalise on the experience during the new programming period of the Structural Funds. Successful implementation also has many conditions at the level of Member States, where numerous policy recommendations can be made, too.

In this document, an attempt will be made to perform the following rather diverse tasks:

- Summarising the programme's background and objectives.
- Describing the implementation of the programme.
- Experience gained during implementation, the major components of adaptation.
- Comparing expectations and results regarding the major aspects.
- Making policy recommendations at national and European level based on the experience of the Kiútprogram.
- Providing a practical guide for those who intend to launch a similar programme.

First an overview of the most important background information, conclusions and recommendations is provided for those who do not wish to go into deeper detail. The timeline of the implementation and other background information can be found in the Annexes.

2. Background

2.1. EU2020

One of the three priorities of the *Europe 2020 Strategy*⁵ is „inclusive growth: fostering a high-employment economy delivering social and territorial cohesion” (p5). All of the three factors in connection with this priority are equally important:

- High employment,
- Social cohesion, and
- Territorial cohesion.

The strategy states that “only two thirds of our working age population is currently employed compared to over 70% in the US and Japan... There is a strong risk that people away or poorly attached to the world of work lose ground from the labour market.” (p17-18).

The connecting target sets that “The employment rate of the population aged 20-64 should increase from the current 69% to at least 75%, including through the greater involvement of women, older workers and the better integration of migrants in the work force” (p10).

2.2. The state of the Roma population

However, the Strategy does not mention the situation of the Roma population. Their employment rates in the CEE countries are much lower. The Roma male employment rate within the population aged 15-64 is only 35% in Bulgaria, 55% in the Czech Republic, 35% in Hungary and 34% in Serbia. The female employment rates are much lower: 22% in Bulgaria, 25% in the Czech Republic, 24% in Hungary, 31% in Romania and 9% in Serbia.⁶

The exclusion of the Roma population from the labour market to such an extent is due to two fundamental factors. The first factor is the systemic presence of structural disadvantages, and the second is the social discrimination sustaining the structural disadvantages. Structural disadvantages constitute a complex system including the problems of low employment and low educational attainment; bad health and living conditions, social and territorial exclusion – all these are strongly interrelated. It is an extremely challenging task to break out of this circle.

⁵ Europe 2020. A strategy for smart, sustainable and inclusive growth. European Commission. Brussels, 3.3.2010. <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:2020:FIN:EN:PDF>

⁶ Sources: Kertesi-Kézdi: Roma employment in Hungary after the post-communist transition. *Economics of Transition*, Vol 19(3) 2011, 563-610. For the other countries: World Bank (2010): Roma Inclusion: An Economic Opportunity for Bulgaria, Czech Republic, Romania and Serbia. Policy Note.

The majority of the Roma population lives in urban or suburban ghettos in some countries (e.g. 95% in Macedonia⁷); in Hungary a large share of the Roma lives in remote, relatively underdeveloped areas⁸. The pilot of Kiútprogram was primarily implemented in these areas.

Regarding discrimination, an empirical study by a Hungarian author⁹ stated the following, among other findings:

- More than 80% of employers do not employ and do not wish to employ Roma, even if they are qualified.
- This aversion to employ the Roma is rooted in barely hidden anti-Roma attitudes.
- Businesses with Roma management/owners predominantly employ Roma employees. Businesses with Roma management pay average salaries to Roma employees, while businesses with non-Roma management pay less.

The situation is probably similar in other Central-Eastern European countries with significant Roma populations.

2.3. Some important characteristics of the post-communist countries

A short overview is provided on the characteristics of the Central-Eastern European post-communist countries that have a specific affect on the situation of the Roma and on the adaptability of microcredit programmes implemented in developing countries. In this, the focus is primarily on the Hungarian context – since there are no significant differences compared to other former socialist countries.

2. The most important characteristic differentiating the former socialist countries from both developing nations and developed market economies is the existence of a “*premature welfare state*”¹⁰. A welfare state sustains a benefit system that provides a safety net of some sort. The level of this “safety”, however, is very basic compared to developed market economies; it does not enable the reproduction of manpower at the level necessary to enable people receiving benefit to re-enter the labour market. Thus there is a double effect here: on one hand, welfare benefits have a counterproductive influence on finding employment, on the other hand, living on benefits long-term gradually makes the beneficiary more and more unfit for work. The amount of benefit does not allow for training, self-education, the maintenance of social relations, or the effective conservation of health. Long-term unemployment does not only damage one’s health, but also has a negative effect on the individual’s personality.

After the collapse of the large-scale industry of the socialist era, huge masses of Roma people – undereducated, mostly employed as physical workers – became part of the

⁷ Ministry of Labour and Social Policy: Strategy for Roma in the Republic of Macedonia. 2004. p. 23. http://www.mtsp.gov.mk/WBStorage/Files/roma_strategy.pdf

⁸ Kertesi - Kézdi: The Gypsy Population in Hungary. Documentation and Statistics, Soci-typo, Budapest, 1998.

⁹ Babusik: The Labour Market Discrimination of Roma. Results of an empirical research. Esély 2008/2. pp. 47-70.

¹⁰ Kornai, János (1992): The postsocialist transition and the state: Reflections in the light of Hungarian fiscal problems. *American Economic Review* 82(2):1-21

benefit system of the premature welfare state. As a result, those affected often started to show the symptoms of a condition known as “learned helplessness” in psychology.

2. The low development level of developing countries demands unqualified work at a large scale. The highly developed service sector of developed countries also offers many relatively unqualified jobs. Former socialist countries stand somewhere in the middle, since there is a *relatively low demand for unqualified work in the formal job market*. (There are significant differences among countries in this aspect though.) The Roma are in an even more disadvantaged situation since employment discrimination is a common phenomenon, especially in the service sector.
3. Due to the relatively developed status of the former socialist countries, *launching a new business requires more capital* than in the developing countries. If the aim of the program is job creation via self-employment, then a larger loan than the typical amount in a developing country should be provided.
4. Entrepreneurs face *bureaucracy* incomparably higher than in developing countries. Bureaucratic hurdles are almost impossible to overcome for people with low-level education without assistance. In administrative matters the Roma often face discrimination.
5. In the majority of the developing countries, taxation is inefficient in low-income brackets. In former socialist countries, this is less characteristic; however, the *presence of the informal – or “hidden” – economy* is also prevalent. Income generating microcredit often creates businesses operating in the informal sector. The authors are convinced that this method does not represent a real solution to break out of deep poverty.¹¹ It might be suitable to somewhat improve living standards, but unsuitable for breaking out of poverty. Often, working in the informal sector actually increases vulnerability and carries many risks. If social contributions are not paid, health risks become especially severe, furthermore, people working in the informal sector will not receive pension, either. However, operations in the formal economy carry an obligation to pay very high taxes and contributions. This requires different lending methods and higher amount of loans than in the original model.
6. The *density of the poor is notably lower* in former socialist countries than in developing ones; the quantity of the potential clients in one settlement is relatively smaller. This has a definite influence on the efficiency of operations. Furthermore, integration of the Roma as an important aspect might require a different approach to this type of microcredit than microcredit provided to the majority population.
7. Lessons in microcredit in the past decades gave way to the idea that it is also possible to base profitable service on lending to the poor. Similarly to developing countries, microcredit institutions emerged in former socialist countries, providing loans in small amounts mostly for consumer purposes at a high interest – albeit somewhat lower than

¹¹ These findings are supported by international experiences, for example, see Milford Bateman (2010): *Why Doesn't Microfinance Work?*, Zed Books, London, New York. Bateman challenges the notion that microcredit decreases poverty in other aspects, too; he is also critical of the current practices. The majority of his criticism does not apply to this present model.

local usurers. The operations of these financial institutions caused a high level of distrust towards any new lending institution.

3. Review of the pilot project 'Kiútprogram' – Way out of poverty

In this chapter, the motivation behind the programme and some of its fundamental characteristics are described. Additional details about the programme are included in Annex A.

3.1. The vision of the programme

The objective of Kiútprogram is to *enable people living in deep poverty – primarily Roma – to become self-employed* by providing them with social support, financial services and information; and as a result, *help them to improve their social status and make a living for themselves and their families*. The most important *tool* of our financial services is issuing group-based, unsecured micro loans.

The primary mission of Kiútprogram is to promote social mobility and integration of the Roma. The most important specific objective of the operation is to enable clients to establish sustainable businesses embedded in the local economy. At first, it may seem strange that repayment of the loans is not the most crucial aspect of a microcredit institution. Of course, a possible highest repayment rate is a vital factor; however, having a full repayment rate while the launched businesses fall short would be a definite failure.

For this reason, ***the programme should be benchmarked against job creation or employment expansion programmes*** instead of being compared to the activities, profitability or return rates of microcredit organisations. To actually serve the social advancement of the target group, several additional services need to be provided in addition to lending, and a continuous presence is necessary in the field. This is a costly operation that can never be profitable or break-even in a business sense. Business profit is not the goal of Kiútprogram, however, ***social profit*** is its long-term goal, i.e., the taxes and contributions paid by the clients, welfare benefit not paid and other costs not incurred as a result of the social disintegration of the target group would altogether outweigh the costs of the programme. Therefore, in order to differentiate Kiútprogram from businesslike microcredit, this model is described as ***inclusive social microcredit (ISMC)***.

3.2. Why social microcredit?

An important issue to clarify is why social microcredit was chosen as the tool of this mission, i.e. promoting employment, facilitating the social mobility of the poor and supporting the economic and social integration of the Roma.

Disadvantaged areas are characterised by a low density of businesses, underdeveloped infrastructure, weak ability to attract investments and low weight of the service industry. Attempts to generate employment opportunities have failed so far.

Considering the current situation, ***the hypothesis is that the development of micro- and small businesses could be a viable step forward.*** Becoming an entrepreneur is an option that has no real alternative in certain areas of the affected countries at the present – except for state-funded employment programmes. Another rationale for this idea is that the ratio of small businesses in the former socialist countries is relatively low compared to Western Europe where these entrepreneurial units have a fundamental role in employment. This especially applies for the majority of the Roma population whose traditions make it easier to become an entrepreneur or primary producer than becoming an employee.

Small- and micro enterprises have a particular role in creating employment opportunities. It is one of the seven flagship initiatives of the EU2020 strategy to "improve the business environment, notably for SMEs" (p6.). This role is especially important in the most disadvantaged areas because of the low ability to attract investments; small- and micro enterprises facilitating self-employment offer almost the option to generate employment opportunities in the short run.

The largest obstacle of launching small- and micro enterprises is the lack of financial and social capital. For the most deprived segment of the population in disadvantaged areas, ***unsecured microcredit in support of new enterprises that create employment opportunities could have a special significance.*** Providing networking capital is as important as financial capital, such as mentoring and other services related to the launch of new enterprises.

In non-depressed areas, social microcredit probably would not have an employment-expansion impact. Even so, the assumption is that it could be used to improve the living circumstances of disadvantaged population segments here, too, especially of the Roma, and to promote social and economic inclusion. Our sample testing this theory is very small, thus in this respect no conclusions can be drawn yet.

3.3. The concept

The concept of Kiútprogram was based on Muhammad Yunus' Grameen model operating in Bangladesh.¹² Muhammad Yunus launched his experiments in 1976, providing *unsecured* loans of relatively small amounts to people living in deep poverty in order to enable income generation. He established the Grameen Bank in 1983 after processing and assessing the results of early initiatives and considering the fact that traditional commercial or investment banks are not willing to serve the poor. During the years before establishing the Grameen Bank, he introduced another innovation, *group-based lending*.

The essence of the Grameen model is to provide financial services, fundamentally loans and information to those living in deep poverty in order to enable them to *utilise their own*

¹² See Yunus, M. (1999): Banker to the Poor. Micro-lending and the battle against world poverty. Public Affairs, New York.

resources to rise from their permanently disadvantaged living conditions. The primary prerequisite of success is mutual *trust* in addition to the loan provided in the form of financial *capital*. The core of the lending activity is a *voluntary, self-nominated* group of five loan recipients where the traditional safeguards required by banks are replaced by mutual ethical commitment. Lending is integrated with saving opportunities.

There is a preset upper income/property limit for being accepted into the programme. Regardless of ethnicity anyone can be accepted if he/she is under the poverty line. Lending is sequential; group members receive the loan one after the other. If instalments are paid as expected then finally the group leader receives the loan, too. If a member does not make a payment as agreed in the first 6 weeks, he/she is dropped from the group and the others must find someone else as a replacement. Loans will not be issued until the dropout member is replaced. If the first loan is repaid as agreed, the loan recipient may be granted another loan, which is larger in amount. An important characteristic of the model is that a definitive majority of participants is women (95% in Bangladesh).

A detailed description of the original Grameen model and a number of international accounts of experiences can be found in Annex A.

3.4. Adaptation of the programme – Establishing the institutional framework

The idea of adapting the Grameen model was brought up by the Polgár Foundation for Opportunities in 2008. The two central aims of the Foundation are to reduce prejudice and discrimination against the Roma, and to improve their life circumstances in the most disadvantaged areas. The risk factors were identified where adaptation is necessary (these are discussed in detail in the section *Previously identified risk factors* of Annex A) in a one-year preparation period coordinated by the Foundation (research, feasibility study). During this process, the whole procedure was mentally modelled in advance and critical issues were identified. *If the programme is adapted in other countries, this preliminary modelling must be carried out with consideration to the local regulations.*

The conclusion was drawn during the planning phase that due to local conditions of post-socialist countries (presented in Section 2.3), ***an institutional structure is required different from the Grameen model. In the case of the Kiútprogram, field workers should play a much bigger role***; they have more tasks (see their complete task list in Annex A). Unlike the original model, the Hungarian context makes it necessary to create thorough business plans; furthermore, the presence of a welfare bridge is also essential. Because of the intention to operate in the formal economy (see Section 2.3, item 5), it is crucial to provide new entrepreneurs with free bookkeeping services. Due to the scale of public charges and of the higher capital-intensity, it is necessary to issue larger loans.

The original model suggested that providing interest-free loans is inadvisable for psychological reasons - international and Hungarian experience also confirmed this notion. Hungarian regulations, however, set very complex rules for loans that are not interest-free. The following solution was found: loans were formally issued by a commercial bank

(Raiffeisen Bank in this case), and the non-profit organisation administered lending as its agent. Several other factors requiring adaptation were identified; these will be discussed later.

From other aspects, our plan followed the original Grameen model: forming groups with 5 members, sequential lending (first 2 members, then second 2 members, and finally the group leader receives the loan), the duration of the loans was 1 year with weakly repayments, and 5% of the loan amount must go to a common group fund. The maximum amount of loan was set to 1 million Forints (approximately 3 600 Euros¹³). Clients were recruited from a pool where income is less than 60% of the median of household income per consumption unit.

The operations of the programme are implemented with the involvement of several institutions. (See Figure 1).

Kiútprogram Microcredit Initiative Non-profit Ltd. – A not-for-profit shareholder group established by private shareholders. Kiútprogram is responsible for the implementation, management and operation of the programme; Kiútprogram is also entitled to “sell” the “microcredit product” as an agent; and it is also in charge of customer relations. The operational tasks of the organisation are the following:

- Training and managing field workers;
- Recruiting and training clients, business development and mentoring;
- Providing professional assistance to clients with creating their business plans; getting the business plans accepted;
- Preparing, evaluating and submitting loan contracts to the financial organisation; getting the contracts signed;
- Keeping contact with the bank starting from contracting to the repayment of the loans;
- Keeping contact with the employment centres, governmental and local governmental organisations;
- Monitoring and evaluations;
- Administration of the programme.

Raiffeisen Bank – The bank did not charge commission or other fees for its activities; they took on the applicable banking costs, expenditure, and losses resulting from lending up to 20 million Forints (about 70 000 Euros) within the framework of the corporate social responsibility programme of the bank. Their tasks included the following:

- Issuing loans to the banking accounts of the clients recommended by Kiútprogram (the accounts were maintained at no cost);
- Training the staff in the regionally designated local branches;
- Offering savings accounts;
- IT support (MIFOS);
- Cooperation with the Kiútprogram Non-profit Ltd.

Polgár Foundation for Equal Opportunities:

¹³ The HUF/EUR exchange rate varied in a relatively wide interval during this project. Throughout in this report we apply the 280 HUF/EUR rate.

- The main shareholder of the Kiútprogram Non-profit Ltd.;
- The primary partner of the agreement with the EU;
- Performing project management tasks;
- Research, impact evaluation and dissemination.

An important element of the agreement with the EU was the continuous monitoring of the pilot by the experts of the World Bank and the UNDP. In cooperation with the Program management, they conduct the impact assessment of the pilot and also assist in monitoring. This will be discussed later.

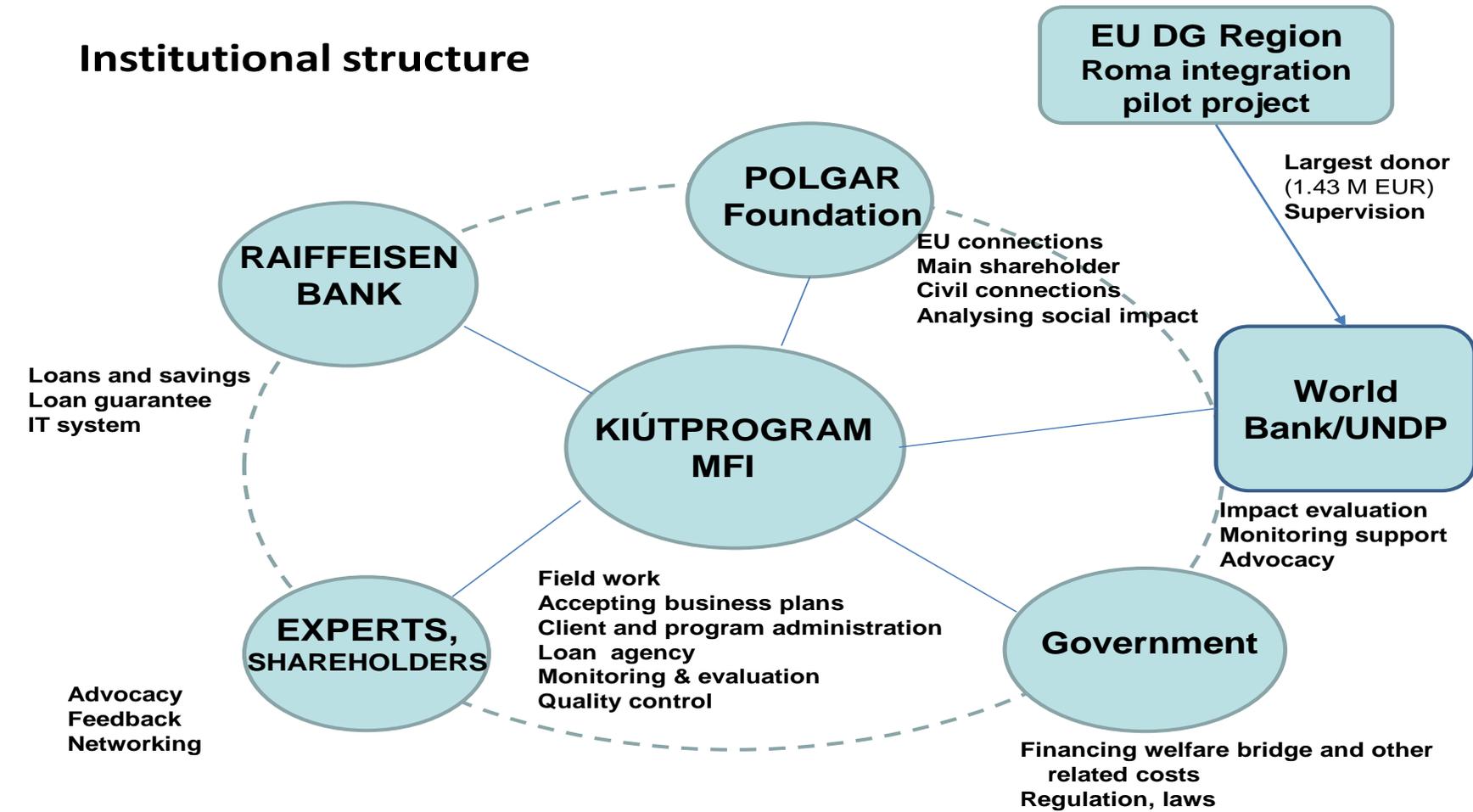
The **resources for the programme** are primarily provided by the EU project titled *Pan-European Coordination of Roma Integration Methods – Roma Inclusion: Self-employment and microcredit* in the amount of 1.425 million Euros granted by the agreement signed in June 2010. This amount was supplemented by private funds and support granted by the Hungarian government, the latter has been discontinued in the meantime. The feasibility study and the set-up of the Kiútprogram Ltd. were solely financed from private funds. The development of the data collection, as well as monitoring and evaluation methodology was financed by the *Pan-European Coordination of Roma Integration Methods – Roma Inclusion Pilot Project* and implemented by the World Bank and UNDP.

The duration of the EU programme is 2 years, which has been extended by 3 months at the request of the programme management. It was an important lesson that ***2 years are too short for a microcredit pilot considering that the duration of the loans is 1 year.*** The participation of the clients contracted during the 2nd year of the programme will be financed from private funds until the loans mature.

In addition to direct governmental support, there is another indirect source increasing the resources of the programme: new entrepreneurs can apply for state support. For new entrepreneurs, the most challenging issue is to pay social security contributions starting in the same month when they receive their licence and if income is generated, personal income tax also must be paid. Contributions applicable to the minimal wage must be paid even if the business had no income at all. The same goes for primary producers, too, in the first year of their operation; this absolutely contradicts with the seasonal nature of agricultural operations.

To counterbalance this effect and bridge the period without income, there is a state ***support to become an entrepreneur.*** In Hungary, this support can be received for 6 months, its maximal monthly amount equals to the minimal wage. This support must be paid back if the business closes within a year. When planning the programme, this support served as a fundamental base; it was ***obvious that the majority of new businesses could not be viable without it. In a country where similar support is missing, it is worth setting it up.***

Figure 1.



3.5. The process of fieldwork

During the implementation of Kiútprogram, field workers have the most important role. To support policy recommendations, it is essential to briefly summarise their activities. For a more detailed description, see the appropriate section of the Annex A.

3. Exploring the location. Field workers cover an area of approximately 80 kilometres around their residence, with the exception of their own towns/villages (this does not apply to Budapest). Field workers analyse the social and economic conditions of the selected settlement and approach institutional partners and appropriate contact persons.

For the locations of the pilot, 3 areas with different profiles were selected (these areas were expanded later). The fieldwork was started in settlements of the counties Borsod-Abaúj-Zemplén and Szabolcs-Szatmár-Bereg, as well as the 8th district of Budapest. Altogether 202 settlements; eventually, groups formed in 38 settlements, and 22 of them are located in Borsod County.

8. Organising a forum. The field worker organises a forum with the assistance of the contact person(s). The objective of the forum is to give a general idea about the goals of the programme, declare the most important rules and have enough interested participants meeting the criteria to start personal interactions.
9. Personal contact. Following the forum, the field worker meets with interested candidates in person. The ideal location for this is the home of the family. During the visit, the field worker completes an intake questionnaire, which clarifies if the candidate meets the income criteria, if the debt of the household is at a manageable level and if there is a willingness to become an entrepreneur. Based on the objective and subjective factors, the field worker must decide if the candidate is suitable for further cooperation. At least 8 to 9 suitable candidates must be identified at a location.

Since the launch of the programme, over 900 candidates were personally contacted.

10. Pre-group meetings. Community building - group meetings must be organised to explore if they are capable of working as a group and take responsibility for each other.
11. Filtering. The most important milestone of group preparations is the decision about the potential clients based on the filtering criteria. Those who meet the criteria will officially become group members. At the group and personal meetings the field worker pre-filters candidates by checking these four areas: Do they have any unpaid taxes? Do they have any unpaid loans to financial institutions? They must submit a simple business concept (on a piece of paper; so-called “checked paper”). They must complete and evaluate the scoring card. The Credit Committee (CC) decides about the feasibility of the idea.
12. Preparing a final business plan. The field worker must meet the group at least once a week and work with the clients individually, too. Final business plans follow a template; a cash flow plan for 13 months must also be submitted. The business plan must contain the reason for taking the loan, a detailed presentation on how the loan will be used, a budget

of planned investments, market connections of the planned business, potential partners, risk analysis, analysis of future outlook, and finally the assessment by the field worker. The business plan is recorded by the field worker based on the client's input, discussing every detail. While preparing the business plans, the field worker continuously trains the group members. Final business plans are approved by the CC.

13. Group formation. After the approval of the final business plans, the group takes an exam where the professional manager and other leaders of Kiútprogram are present. This ceremony is the official formation date of the group.

During the programme, altogether 44 groups were formed out of 60 pre-groups.

14. Preparing and issuing the loan. The first two recipients' enterprises must be formally founded and every effort must be made to finish registration process before the bank provides the loan. To launch operations in the formal segment of economy, even clients unfamiliar with official procedures must visit the appropriate offices – mayor's office, tax authorities – to obtain the required licences. Clients need to prove with official certificates that they do not have any public debt and they have the necessary professional qualifications. *At this point, the **entrepreneurial account, the security deposit account and the group fund account** are opened.* The security deposit works as a savings account with a 15% interest at sight. Savings and group fund can play an important role in smoothing out the income fluctuations.¹⁴

In connection with these steps, clients must also contact the bookkeeper. The clients must track payments of instalments, income and expenses in a dedicated notebook, a "certified book" on a daily basis.

15. Parallel to loan preparations, the field workers and the clients together prepare the application for the support to become an entrepreneur. The final business plan created for Kiútprogram can also be submitted with this application.

Altogether, loans were issued to 138 clients. The average loan amount was 1 800 Euros. 80% of the clients of Kiútprogram successfully obtained the support to become an entrepreneur.

16. Creating and maintaining the business. One-time investment elements and inventory must be bought from the loan. The field worker participates in this activity, accompanies the client and assists if needed. Field worker's cooperation is often necessary because of prejudices against the Roma; in these cases, field workers act as catalysts. During acquisitions, it is important to provide practical training about budgeting.

Depending on the type of activity, some kind of *licence* is almost always required. Depending on the nature of the business: operating licence, licence to use public premises, animal health control licence, food safety licence, fire safety licence, legacy protection licence, etc. The field worker assists in the official procedures.

¹⁴ On the importance of savings see also *World Bank (2012): Reducing vulnerability, and promoting self-employment of Roma in Eastern Europe through financial inclusion. p. 81.*
[http://siteresources.worldbank.org/INTECA/Resources/257896-1343320140846/Financial Inclusion of Roma 3Sept2012 final.pdf](http://siteresources.worldbank.org/INTECA/Resources/257896-1343320140846/Financial%20Inclusion%20of%20Roma%203Sept2012%20final.pdf)

There is a critical point in the cycle of the enterprises, about 6 months after the business was set up, when the client becomes insecure and shows signs of fatigue. This often coincides with the ending of the support to become an entrepreneur, suddenly adding to insecurity. Field workers must assist clients through this situation – which happens virtually to everyone – by paying more attention and encouraging them. The objective is to make clients become gradually independent as soon as possible; even in optimal cases, this process takes several months and a good deal of emotional intelligence on the field worker's part.

Of those who founded enterprises, 75 clients became individual entrepreneurs (mostly in retail trade), and 63 clients became primary producers operating animal husbandry or crop cultivation businesses.

17. Tasks connected to the repayment of loans. The field worker collects instalments of repayments at the group meetings every week. The group fund can be used if the group decides so; however, the field worker manages the fund. The group fund can only be used for minor liquidity problems. To handle arrears, individual agreements are made. Ideally, at the end of the duration of the loan, the client repays the debt and continues to run the business. Kiútprogram provides bookkeeping for free and pays the entrepreneur's contributions for 1 year. The field worker gradually withdraws from the maintenance of the business in cooperation with the client and helps him or her schedule upcoming tasks, thus making the process foreseeable.

As mentioned earlier, it was declared during the programme preparation period that field workers should play a more important role than usual in microcredit programmes. Some of the tasks listed above and the actual extent of the tasks became clear only during the implementation, and field workers' role became even more prominent than originally anticipated. ***The key element of the whole programme is the intense involvement of field workers.*** In the Annex, further issues regarding their operation are discussed, followed by a detailed description of the curriculum of the field workers' training. At this point two especially important issues are highlighted.

The summary above proves that it is essential for the ***field workers to unite the activities of social workers and loan agents within one person.*** If the two areas were divided, then field workers operating as social workers would slide into the role of advocates for the clients, regardless of the client's actual potential to create a successful enterprise. Field workers operating as loan agents would only be motivated to get the loans paid back while the purpose of creating sustainable businesses would be overshadowed. As an unavoidable result, the performance of the programme would either diminish or field workers would contract clients of ever-higher status. ***An important result of the programme is that a new profession was created that did not exist before.***

Secondly, field workers have an indispensable role in ***counteracting discrimination.*** Field workers reported that their clients faced discrimination in about half of the cases of administration that could have resulted in the failure of the procedure, had the field worker not intervened. These are cases when clients would have been able to carry out tasks independently, still, they would not have received the requested document/licence/service on

their own. Discrimination is not systematic on the administration/service providers' side, but depends on the individual person. However, those who discriminated were not withheld from this illegal behaviour by the risk of being held responsible for it. In the majority of the cases, the intervention of field workers could defy discrimination and also generated some sort of learning process on the administration/service providers' side. This experience proves that *consistent state action against discrimination could greatly improve the employment situation of the Roma, too.*

3.6. Results of lending

The recruitment of clients took off much slower than expected, and by early 2011, the programme was displaying several signs of crisis, most importantly the increase in the number of late- or non-payment of the loan instalments. Based on lessons learnt, changes were introduced to both the selection process of the clients, and to the implementation of the programme. *The most important modifications were the following:*

- During the selection process of the clients, more emphasis was put on personality traits, capabilities and motivation to become entrepreneurs, credit history, the supporting role of the family and any earlier experience.
- The loan product and group formation rules were made more flexible. (Further details about these topics will follow.)
- The training of field workers was improved and made more complex. New field workers were hired in several waves and also replacements were made.
- New regions were added to the target areas.
- In addition to targeting clients with wider net of relationships, *economic network building activities were added.*

These modifications are discussed in detail in Annex A.

Performance significantly improved after the modification of the model. Clients whose group was formed before the modification belong to the 1st batch; this classification is based on the time of selection instead of the time they received the loan. Because of sequential lending, there were a number of clients whose groups was formed before the modification of the model, but received the loans after the modifications.

Within the framework of economic networking, a trilateral agreement was successfully concluded between an entrepreneur coordinating cucumber-growers (so-called “integrator”), the Kiútprogram and 23 clients in a village in north-eastern Hungary. Individual contracts were signed at the end of June / early July this year. Since this is partly a different model, these clients are referred to as 3rd batch. (This project is also discussed in detail in Annex A.)

In Table 1 the base indicators are listed, and in Table 2 some of these indicators are further broken down by batches.

Table 1: Base performance indicators

Settlements screened	202
Persons screened (personal connection with field workers)	900
Number of intake questionnaires	447
Pre-groups	60
Groups formed	44
Settlements with formed groups	38
Group-members	192
Number of loan recipients (clients)	138
Entrepreneurs	75
Mobile retailers	33
Shopkeepers	14
Forestry, timbering	10
Other	18
Licensed primary producers	63
Animal husbandry	32
Plant cultivation	31
Number of loan disbursements ^a	153
Value of total portfolio	252 000 EUR ^b
Average loan per person	1 825 EUR

^a One person can get more than one loan

^b Calculated at 280 HUF/EUR exchange rate

Table 2: Performance indicators by batch

	1st batch	2nd batch	3rd batch	Total/average
Groups formed	12	26	6	44
Loan recipients	41	74	23	138
Currently still operates as entrepreneur	13	59	23	95
Loan disbursements	49	81	23	153
Average loan per person	2 528 EUR	1 832 EUR	550 EUR	1 825 EUR
Average duration	52 weeks	43 weeks	26 weeks	

In the 1st batch, all clients received loans with durations of 1 year; in the 2nd batch, 31 clients was awarded loans with durations shorter than 1 year, and the rest with duration of 1 year. Based on past experience, the loan amount in the 2nd batch was reduced; however, the approaching closure of the pilot also played a role in the reduction of the average amount and

duration of the loans. In the 3rd batch, due to the specific nature of the cucumber-growing project, all loans have a duration of 6 months, and there was only a small difference in the amounts of the loans.

The indicators of repayment are presented in Table 3. Only those clients are listed, who received loans before March 2012, thus only 46 people are included in the 2nd batch, while the 3rd batch is completely omitted. Little time has passed since March 2012, therefore, including the third batch would paint a more favourable picture than reality.

Table 3: Repayment indicators for clients who received loans before March 2012 (status on 31 October 2012)

	Persons	Currently still operates as entrepreneur	Loan totally repaid	Arrears per payments due at the 180 th day after borrowing (%)	Arrears per payments due on 31.10.2012 (%)
1st batch	41	13	0	33	62
2nd batch	46	31	7	20	44
Total	87	44 (95) ^a	7	27	54

^a All clients of the 2nd batch not listed here and clients of the 3rd batch still operate their businesses; if they were included, the full number of active entrepreneurs would be 95.

Information about arrears at the 180th days was added to the table. The comparison of these figures with the figures in the last column shows that the payback problems increase after the first half year. After analysing the individual situations of the businesses in question, the projection is that *at the maturity of the loans of 2nd batch clients listed in the above table, the average amount of arrears will be approximately 50%. The average amount of arrears are estimated to be approximately 30% for clients of the 2nd batch who received their loans after March 2012. In case of the cucumber-growing project (3rd batch) there is a very high probability that the arrears rate remains below 20 % this year.*¹⁵

From many aspects, it is more important to enable businesses to run rather than focusing on repayments. About one third of businesses of the 1st batch are still operating, while this figure is two thirds in the 2nd batch. ***About 60% of the older, and 70% of the newer businesses of the 2nd batch are estimated to remain sustainable.***

It is a smaller proportion of entrepreneurs who repay the instalments fully. During the pilot, it became obvious that the 1-year duration period of loans – partly chosen because of the length of the pilot, but the original Grameen model also played a role here – was too short; the realistic return time for most established businesses is longer. Therefore, 1 year is usually too short to yield a profit that covers the repayment of the loans. ***It is necessary to have a more flexible loan product and duration of over 1 year.***

¹⁵ Here is a very special problem. Because of the Hungarian regulation clients in the cucumber project have to pay monthly social security even after the production period. This is financed from the Kiútprogram loan and the clients can it repay only next year. (We continue the cucumber project after the pilot, using private sources.)

In most cases, entrepreneurs struggling with repayment difficulties do not lack the willingness, but the capability to pay. Disproportionately large instalments that cannot be covered from the profit have a paralysing effect; clients might decide not to pay at all. For this reason, agreements to pay on deferred terms were concluded with a group of clients who continue to operate their businesses, but have not paid for an extended period of time. An agreement was made with 4 clients of the 1st batch and 19 clients of the 2nd batch that they would pay a week's instalment every month. Everyone complies with this agreement, thus ***the extent of arrears will decrease even for the expired contracts compared to the present situation.***

Unfortunately, this option was not available earlier because of the inflexibility of the bank. This option became available because the bank dissolved contracts with arrears over 90 days. Lending loss was covered up to 70 000 Euros by the bank and the rest was paid from private funds; thus Kiútprogram was able to take over the handling of expired debt. This fact proves that flexible lending practices may significantly improve performance. For this, however, ***it would be necessary that microcredit institutions receive licence to issue loans directly.***

To evaluate the performance of the programme, it is important to compare results with the success criteria defined in the original tender document. Some of these can only be assessed after the 1-year duration is over and the follow-up questionnaires are processed. This question will be addressed in detail later in this document when discussing monitoring issues. However, it is already obvious that lower than expected performance was achieved in two areas: loans to only 138 clients were issued instead of 400, and the repayment rate did not reach 75%.

Following the correction of the model, the Budapest Institute, an independent research institute focusing on regulatory policies, was commissioned, to conduct an interim evaluation of the programme. They summarised their research in a thorough study¹⁶; we emphasise one of their findings here.

The project set over-ambitious goals that were realised too late. Tension between the goals and achieved results affected work of the programme management and the internal cohesion negatively. Based on international examples, the time and effectiveness needed for recruiting new clients was underestimated. In the beginning, distrust was high; potential clients did not know Kiútprogram, plus they were wary not to be deceived. Most of the serious candidates overestimated the risks. During the first times, it took several months for some field workers to form a single group; without doubt, lack of experience also played a role. By now, Kiútprogram has become more well-known among potential clients and there is a growing interest.

The description in Annex A gives a detailed analysis on the causes of lower repayment performance in the early period (lack of experience, loss of trust due to the delays of the banking system, inappropriately defined methods for selecting clients and the learning curve of the field workers). However, repayment indicators are also lower than expected under

¹⁶

http://www.budapestinstitute.eu/consultancy/prj/Evaluation_of_the_microcredit_programme_in_Hungary___Kiutprogramme

routine operating conditions. These indicators can be further improved by offering more flexible loan products and the partial dissolution of the requirements of sequential lending; however the repayment rate of 75% seems unrealistic for a clientele living in deep poverty, especially during the time of economic crisis.

Still, The Kiútprogram management became convinced that *it would be worth introducing the model of inclusive social microcredit at a larger scale*. The cost analysis explains the reasons.

3.7. Costs of the programme

The direct costs of the programme consist of three components:

- Operating costs: wages, contributions and expenses (travel and communications costs) incurred by the field workers and the central administrative staff.
- Lending losses.
- Taking on the obligations to be paid by the entrepreneurs: lacking state support, these costs make up 10% of the total budget.

Operating costs are very high in the pilot period; issuing 1,000 Euros in loans cost almost 6 000 Euros so far. The biggest share of costs is incurred by the field workers' wages and material expenditures. The wages of unsuccessful field workers are not counterbalanced by any issued loans. The learning curve of creating the central organisation also required extra costs at occasions; however, these lessons were valuable as an efficient team has been established by now. Further details are provided about this problem in Chapter A7 (Annex A).

The costs of continuous operation were calculated. In this case, a field worker can work with a maximum of 15 clients. For 20 field workers, 5 staff members are needed in the central office, including highly-qualified lending professionals. Continuous training, legal support, external communications, bookkeeping for the clients require further contractors. Serving 300 clients per month costs a gross amount of 62 000 Euros¹⁷. 22 000 Euros of this is paid back to the state budget as taxes and contributions (accumulated by the microcredit institution only, not considering the clients). ***In case of continuous operations at full capacity, the gross cost per client is estimated at approximately 210 Euros per month, and the net cost (without taxes and social contributions) 130 Euros per month.*** (Considering Hungarian prices.)

The calculation assumed a lending loss of approximately 30% under regular operating conditions. Calculating with an average loan amount of 1 800 Euros (as in the 2nd batch), the amount of lending loss would be 540 Euros/client/year; or 45 Euros per month. The operating costs of the lending activities are amply covered by the interest of the loans. ***The full net cost of regular operation is 175 Euros per client.*** If projects similar to the cucumber-growing venture at a larger scale were implemented, lending losses could be further reduced.

¹⁷ Calculated at 280 HUF/EUR exchange rate

The net wage paid to people with primary education employed in public work programmes in Hungary is currently 168 Euros (77% of the net amount of the minimal wage). Considering the costs of public work programmes, this amount must be supplemented by the costs of employing managers, the administrative costs and the costs of equipment.

The annual cost per client basically equals to the annual cost per person in the public work programme. An axiom of this profession is that public work programmes do not open doors to the labour market; rather, public work decreases the chance of getting employed. Contrarily, within the framework of the social microcredit programme, at least 60% of the clients establish a self-sustaining business, paying taxes and contributions in the long run. Therefore, ***the efficiency of social microcredit significantly exceeds public work programmes.***

One additional factor, the “support to become an entrepreneur” should be calculated with when considering the costs of the state. As mentioned earlier, this support can be received for 6 months in Hungary, and its maximum monthly amount equals to the minimal wage. It must be paid back if the business fails within a year. This support does not result in additional expenses. In Hungary, taxes and contributions paid by the entrepreneur exceed the support by 15 to 30% within a year. Moreover, the fact that Kiútprogram clients used to receive welfare benefits was not even considered.

The reasons listed above further increase the efficiency advantage of inclusive social microcredit compared to public work programmes.

3.8. Monitoring and impact assessment

As mentioned earlier, in cooperation with the Kiútprogram, the experts of the World Bank and the UNDP – also financed by the EU Pilot Project – conduct an impact assessment of the pilot and also assist in monitoring. During the cooperation, very good partnership was formed with contacts at World Bank; they intensely supported the programme. A survey was elaborated that is completed by all serious candidates and is repeated after a year. Monitoring is supported by the online database created by the WB where every field worker records his/her activities with the clients.

The monitoring and impact assessment activities far exceeded the original analytical purposes and due to the cooperation, they continuously supported the implementation of the project. The electronic monitoring of the field workers’ activities greatly supported the evaluation of their performance. The analysis of data also revealed that field workers spend a lot more time preparing business plans than originally anticipated. The methodology of business planning was corrected accordingly by providing more central support for this activity, furthermore, the content of the training was also modified.

The implementation of the improved version of the programme is recommended – mapped out for monitoring – for other social microcredit programmes, as well.

The questionnaire for the impact assessment was embedded into the operation procedures. It was used for double-checking the upper income limit during the screening of clients, to

examine the debt level of the clients and also to assess some subjective aspects. It proved to be a very efficient practice that field workers conducted the surveys, thus they obtained a deep insight in the income level and living conditions of the clients. Analysing the questionnaires by themselves without the follow-up questionnaires led to valuable findings; this is shown in Annex B.

The utilisation of the method of embedding the findings of monitoring and impact evaluation into procedures for other EU projects is recommended.

During the programme, at the time of the modification of the model it was also deemed necessary to have external, independent experts analyse the operations. They primarily evaluated Kiútprogram's internal documents and interviewed the management, field workers and clients. The importance of maintaining a high level of transparency at all levels of Kiútprogram activities was continuously stressed.

3.9. Key findings

In the Introduction some of key findings were discussed. This section provides a short summary.

1. The majority of the new enterprises of the poor Roma are able to survive after the first year using the assistance of the programme.

If the methodology developed during the pilot is applied and highly qualified fieldworkers are employed, then at least half of Kiútprogram clients can establish sustainable enterprises operating in the formal economy. During the last two years, a total of 138 clients living in deep poverty received unsecured loans to launch a business within the framework of Kiútprogram. 73 of the clients became individual entrepreneurs, and 65 clients became primary producers. Currently 95 of the newly launched businesses are still operating, or (in the case of plant cultivation) actively waiting for the new season. Due to the modification of the model, the performance of the 2nd year is significantly better than that of the first year.

2. A vast majority of clients want to repay the loan and most of them can do so.

Using the lessons learnt in the 1st batch, repayment willingness for the loans issued in the 2nd and 3rd batch is significantly higher. We expect that the repayment rate in the case of continuous operation can reach 70 %.

3. A programme such as this is impossible to be implemented without the intense, continuous presence of field workers.

The key player of the model is the fieldworker who should be a mixture of a social worker and a loan agent. In addition to searching for and identifying candidates, fieldworkers help with forming groups, assist with analysing business ideas and deciding if necessary conditions are present. They supervise transactions, facilitate the resolution of possible problems of the groups, and they are responsible for seeing that all loan instalments are paid regularly and on time. Field workers hold meetings for groups operating in the given location. Issuing and

repaying loans take place in public at the group meetings; emerging problems are discussed and results are also acknowledged here.

4. As a general rule, it is worth launching a social microcredit programme only if the regulatory circumstances are reliable and the burdens of new entrepreneurs are relatively moderate.

For new entrepreneurs and licensed primary producers, the biggest issue is that they have to pay social security contributions starting in the same month when they get their license and if there is an income, personal income tax also must be paid. To counterbalance this effect and bridge the period without income (because of the lost unemployment benefits), a state support is needed. Without this kind of welfare bridge (e.g. support to become an entrepreneur), most new enterprises would not be viable.

5. The social benefits of the programme are multi-faceted:

- It is an employment-generating programme with the equally important aspects of social, business, entrepreneurial, accounting factors and the especially essential humanitarian support provided by the ongoing presence of field workers.
- The programme is not inexpensive; however, it's already obvious that it is more efficient than public work programmes. Net costs in the short term are about the same, but this programme generates employment for the long run resulting in additional tax income and savings on welfare expenses.
- The programme promotes the inclusion of supported entrepreneurs into the labour market.
- Social mobility is enhanced by giving self-confidence to the Roma and decreasing discrimination simultaneously.

Local office managers and administrators of employment centres / banks admitted that they were surprised to see that these Roma clients could handle the administrative hurdles of the enterprises and repay the loans. Officials and administrators would not have thought that these people were willing take on such a huge risk if there is a slight chance of improving their own lives and their families' future.

4. Social microcredit – key elements and policy recommendations

Before unfolding the policy recommendations, a short description is given of the target group of social microcredit. After it the key elements of an inclusive social microcredit programme are summarised, and the main findings are presented. As mentioned in the introduction, these policy recommendations are addressed both to the EU and to the national governments. First, the possible role of the EU funds in launching social microcredit programmes is reviewed. After this, the policy recommendations for the EU and for the national governments are listed separately.

4.1. The target group

The authors do not claim that social microcredit is the answer to all problems connected with structural deep poverty or gives solutions to all families living in deep poverty; however, it can be an option for providing support and facilitating advancement.

The target group of social microcredit is people living under or close to the poverty line¹⁸, especially the Roma, and non-Roma living in an ethnically mixed (Roma and non-Roma) environment. It is helpful to target the Roma explicitly, however, not exclusively. Members of the target group usually live on casual or seasonal labour, day labour, or are informal entrepreneurs, unemployed, on welfare or inactive for some other reason.

As a result of explicit, though non-exclusive targeting, 80% of the clients were Roma, or more correctly, defined himself/herself as Roma. Two thirds of the clients were unemployed (see Annex B).

One of the most important traits of social microcredit is that it is based on activating the client. It is not a universal tool to break out of poverty; primarily, *it works for those who have entrepreneurial skills, concept and self-confidence*. These skills can and should be developed, and their presence should be assessed during the program.

When identifying potential clients, attention should be paid to entrepreneurial capabilities, such as:

- Is the candidate’s personality compatible to become an entrepreneur?
- Does the candidate have an “entrepreneurial dream”, something he/she wants to make come true?
- Does the candidate’s family support the enterprise?
- Is the business idea viable at the given location/environment?
- Is the candidate capable of dealing with administrative issues on his/her own?
- Can the candidate participate in regular activities, i.e. work regularly, every day?
- What does the candidate’s credit history look like?
- How did he/she handle earlier loans?

The newly established small- and micro enterprises themselves can generate further employment opportunities – this also includes those who do not wish to become entrepreneurs themselves.

After analysing the clients’ data, it was established that the modification of the model and the improvement of targeting did not change the ethnic composition or the income level of the clients. The only change was the clients’ attitudes. Clients of the 2nd batch had a higher risk-tolerating aptitude, were more independent and most importantly, had more optimistic personalities (see Annex B).

Having experience in the informal sector makes people very suitable candidates for social microcredit programmes. By moving into the formal economy, they will be less vulnerable, and their income becomes steadier and more predictable.

¹⁸ 60% of the median income.

4.2. Key elements of an inclusive social microcredit programme

Optimising social and financial tools

Besides the main mission of the social microcredit programme, its tools and invested resources show more resemblance to social rather than microcredit programmes. Unlike bank-centred microcredit programmes, the most important emphasis is given to business development by utilising a new development methodology focusing on people living in deep poverty. The applied methodology of this particular type differs from traditional business development (“incubators”). Social microcredit should not be benchmarked against regular microcredit, but active labour-generating programmes. The primary results are the new jobs created, mostly through self-employment and family enterprises.

The role of field workers – the importance of intense, ongoing field work

It is the special, complex role of field workers including “personal business development consulting” that enables the re-socialisation of the long-term unemployed lacking work experience into the labour market. On one hand, field workers are social workers with a specific mission, on the other hand, they function as specialised business development consultants. It is fundamentally essential that field workers unite the activities of social workers and loan agents *within one person*. Otherwise the subtle balance between the two types of activity would lurch. Continuous support by the field workers is also necessitated because of the discrimination against the Roma.

A first-rate training is required to help field workers navigate in this complex role. Field workers must learn about the target group, business and financial know-how. The training must be ongoing so that field workers become capable of processing and evaluating new challenges and learn new techniques.

Management

The areas of client-centred, specialised business development and lending preparations must be focused in one hand. Consistent, absolutely non-contradictory and transparent programme management is required and it should also be communicated accordingly.

Non-sustainability in business sense

Social microcredit cannot be self-sustaining. The costs of support activities (mostly the costs and wages of field workers) could never be recovered. Moreover, interest income probably may not cover lending losses, particularly in the period of slow economic growth. *Because of the relatively high default rate* (in comparison with “normal” microcredit), *special instrument securing lending losses is required*.

Sustainability in social sense

Social microcredit is *a profitable investment at the level of the national economy*. A considerable share of the costs is spent on taxes and contributions payable for the field workers’ wages. Clients previously living on benefits also pay taxes and contributions. Higher employment rates have a positive effect on GDP (see quoted study by the World Bank). Social microcredit is a significantly more efficient tool than public work programmes.

Social and economic integration

Social microcredit programmes should also *mediate networking capital* in addition to financial capital. Building networks and connecting new enterprises with the normal flow of economy is crucial.

Social microcredit – especially if connected with building social networks – is very apt for promoting the social integration of the Roma. It helps people of the majority society to directly experience the Roma’s commitment to work, their desire to break out of poverty and their performance. If applied to the Roma or other socially excluded groups, these types of programmes should be referred to as *inclusive* social microcredit.

Predictable entrepreneurial environment

Social microcredit programmes facilitate the legalisation of the informal economy, if the entrepreneurial environment is predictable and supportive. The common charges payable by new enterprises should be moderate. Free bookkeeping services and financial consulting should be provided in the first year. Providing a welfare bridge – support to become an entrepreneur – at least in the first 6 months, is essential.

Flexible lending options

Social microcredit requires flexible lending options allowing for a realistic time for return and the financing needs of the given enterprise (e.g. in addition to financing investments, it is necessary to finance current assets for retail businesses, or to counteract seasonal factors in agriculture). Providing an interest-free loan is impractical as it reduces willingness to repay the loan. It is recommended to set the level of real interest at approximately 5-10%.

Fast and reliable contracting and lending is essential; unforeseen obstacles in the lending process may destroy trust. A simple solution for cash transfer is necessary (banking branches, mobile banking). In connection with lending, it is a good idea to encourage savings. Savings can play an important role in smoothing out the income fluctuations of the start-up enterprises.

Possible institutional and financial structures

Different institutional structures can fit with the local regulation and other conditions.

1. Kiútprogram applied the model of *two organisations*. In this, the not-for-profit Microfinance Institution (MFI) is the agent of a bank, or other financial institution. Lending decision is made by the MFI, the bank/financial institution is responsible only for the banking back-office tasks, what is – in optimal case – performed in the framework of the bank’s corporate social responsibility (CSR) activity. The lending losses should be financed from external sources (including the bank’s CSR account).

Inclusive social microlending in this construction can only be successful if the financial institution in charge of the technical aspects of lending is wholly cooperative.

2. A more typical solution is to have one unified organisation, which can be a microfinance organisation having licence for lending, or a bank/financial institution dealing (also) with microcredit. The main danger of this solution is the possible conflict between the “normal” and inclusive social lending. It may cause serious inner tensions if the conditions are different for different groups of clients (the need of collateral, free of

charge book-keeping, permanent continuous help of the fieldworkers). These tensions may become serious if the “privileged” group is that of the poor Roma.

In both cases two types of activity should be financed: operational costs and lending losses, where the first one is much higher.

Ensuring the success of the enterprises

The most important tasks in this respect are the following:

- Identifying viable entrepreneurial activities and criteria by regions.
- Facilitating integration with production/sales chains.
- Specific professional consulting, especially in case of agricultural activities.
- Promoting competition – marketing is important in retail and service industries.
- Providing infrastructure at the launch of the enterprise – field workers help with buying goods, building a network and finding sales channels.
- Business and financial training.
- Ongoing monitoring of enterprises – evaluation and feedback at the levels of the individual and the programme.

The role of the group

Group-based lending is an efficient tool of social microcredit programmes. Group operations are more efficient; group work increases participants’ self-confidence and helps clients to learn the skills necessary for building a social network. Group-based, social microcredit programmes increase the participants’ self-worth and problem-solving skills, too. While launching their enterprises, clients acquire skills that may help to them find employment easier even if their businesses fail. (Further details on the possible role of the group can be found in section A.9.3).

At the same time, sequential lending used in developing countries can only be applied in communities with very strong internal cohesion. Otherwise, sequential lending becomes dysfunctional.

4.3. The possible role of the EU funds in launching social microcredit programmes in the new Structural Funds programming period 2014-2020

The recent draft regulation of the European Commission on the new programming period 2014-2020 (which is subject to negotiations in the European Council and the European Parliament) has introduced several new provisions which allow the use of Structural Funds for launching social microcredit programmes. As it has been shown before, Kiútprogram was supported by the Roma Pilot project primarily covering the technical assistance expenses, the capital was provided by the Raiffeisen Bank, and the lending losses were covered partly by the Bank and partly by other private sources. The technical assistance type of expenses of Kiútprogram, such as the training and employment of field workers, management costs, dissemination of results, etc. are all considered eligible by Structural Funds both in the current and in the new programming cycles.

There are some new elements in the future proposals (financial instruments, such as loan fund, access to capital market for public and private bodies, etc.), which can help to introduce social microcredit programs in the Member States.

The most important instrument in financing microlending activity is the **PROGRESS Microfinance Facility**. It enables selected microcredit providers to increase lending, by:

- issuing guarantees, thereby sharing the providers' potential risk of loss;
- providing funding to increase microcredit lending.

However, it is tailored for clients with higher social status than the clients of inclusive social microcredit. This can be demonstrated for example by the maximal loan size: it is 25 000 Euros in PROGRESS, while in social microcredit the typical loan size is less than one tenth of this amount (see Table 1). Another serious problem is the relatively high default rate. In this respect MFI's engaged in inclusive social microcredit are not competitive with the "normal" microfinance institutions. The problem of financing the relatively high lending losses is not addressed by PROGRESS. Therefore, the introduction of a specific initiative for inclusive social microcredit at EU-level is recommended. After reviewing the available EU-sources, this issue will be discussed with further arguments.

It is strongly recommended to consider the launch of social micro-credit programs in the new programming cycle under the employment or/and social inclusion thematic objectives, focusing on the marginalised Roma communities.

The following measures of the new regulatory package for 2014-2020 are directly or indirectly related to the social microcredit programs:

Common Provisions Regulation (ESF, ERDF, CF, EARDF, EMFF)¹⁹

Thematic objectives

- "Promoting employment and supporting labour mobility"
- "Promoting social inclusion and combating poverty"

Ex ante conditionality

- Active inclusion (national strategy for poverty reduction and national Roma inclusion strategy)

Financial instruments (TITLE 4) – scope, implementation, etc.

Funds-specific regulations - investment priorities related to self-employment and technical assistance^{20,21}

- Self-employment, entrepreneurship and business creation (ESF)
- Adaptation of workers, enterprises and entrepreneurs to change (ESF)
- Active inclusion (ESF)
- Integration of marginalised communities, such as Roma (ESF)

¹⁹ http://ec.europa.eu/regional_policy/sources/docoffic/official/regulation/pdf/2014/proposals/regulation/general/general_proposal_en.pdf

²⁰ http://ec.europa.eu/regional_policy/sources/docoffic/official/regulation/pdf/2014/proposals/regulation/esf/esf_proposal_en.pdf

²¹ http://ec.europa.eu/regional_policy/sources/docoffic/official/regulation/pdf/2014/proposals/regulation/erdf/erdf_proposal_en.pdf

- Promoting entrepreneurship, in particular by facilitating the economic exploitation of new ideas and fostering the creation of new firms (ERDF)
- Development of business incubators and investment support for self-employment and business creation (ERDF)

Further elements in the ESF regulation

- May support actions and policies falling within its scope through financial instruments, such as guarantee fund, loan fund
- May be used to enhance the access to capital market for public and private bodies at national and regional level
- Reinforcement of the non-discrimination principle
 - Mainstreaming in all Cohesion Policy
 - Obligation to implement positive actions to fight discrimination from ESF
- Earmarking for capacity building of social partners and NGOs
- Simplification to facilitate access to funding

Common Strategic Framework – key actions^{22,23}

- Support in particular for unemployed, disadvantaged and inactive people, to start and develop businesses in all sectors..... (ESF)
- Development of business incubators and investment support for self-employment and business creation..... (ERDF)
- Integration of marginalised communities such as the Roma inclusion - integrated pathways to the labour market, including individualised support, counselling, guidance and access to general and vocational education and training (ESF)

This review shows that there a wide range of possibilities to finance the implementation of the social microcredit programmes from EU sources. However, it is a relevant question, why EU funds should be used for this purpose, instead of national ones.

In section A3 an overview of the National Roma strategies of 5 post-communist countries with large Roma population is presented. All of them contain the idea of promoting self-employment, supporting starter-ups, encouraging business initiatives based on social responsibility amongst the Roma. In some of these strategies even the possibility of microcredit is mentioned. However, as the Slovakian strategy states, which can be applied also for the other countries: “Microcredit has a very limited role in facilitating Roma self-employment at the moment.”

²² http://ec.europa.eu/regional_policy/sources/docoffic/working/strategic_framework/csf_part1_en.pdf

²³ http://ec.europa.eu/regional_policy/sources/docoffic/working/strategic_framework/csf_part2_en.pdf

Strong commitment can be experienced in words and strategies, however, very few real actions. Expensive and complicated Roma programmes do not enjoy any social favour. Strong *external* directives and support – including financial support – are needed to overcome this situation, otherwise expensive Roma programmes would always remain displaced.

4.4. Legal conditions and the role of the public sector

Efficient social microcredit is infeasible without the *committed involvement of the state*. This participation is needed not only for financing, but to ensure appropriate regulatory environment. A component of this is mentioned in the strategy: “To review and regularly monitor the efficiency of tax and benefit systems in order to make work pay with a particular focus on the low skilled, whilst removing measures that discourage self-employment”.

Additionally, the following state measures are necessary:

- Inclusive social microcredit should be included into the national Operational Programmes.
- Social microcredit programmes requires predictable regulatory environment.
- The provision of normative financial support is essential for long-term unemployed to launch entrepreneurship.
- It is necessary to provide tax benefits or other incentives for strengthening the employment of people with low education level, including self-employment. In the most disadvantaged regions this allowance could be granted for a longer period of time.
- European and national regulations must be modified in order to extend support for social inclusion / tax allowance to agricultural entrepreneurs (primary producers) as well, at least in disadvantaged regions.
- In general, financial services provided by the banks available to the poor should be encouraged, and not only in connection with microcredit. Financial inclusion should involve the simplification of opening a bank account, encouraging savings and easier access to banking services (web- and mobile-based applications). The expansion of banking services to financially disadvantaged clients should also involve areas densely populated by the Roma.²⁴
- National regulation should be harmonised with the legal and financial requirements of social microcredit. In several countries, the same rules apply as for any other lending activities – which may not be suitable from every aspect (e.g. in case of social microcredit, we provide unsecured loans). There are two possible solutions to this problem:
 - All affected countries need to amend legal regulations for banks and financial institutions so that microcredit institutions can directly conduct microlending in ways partly different from conditions specified for regular financial institutions. This would require professional support at European level so that best practices can be disseminated.

²⁴ See also World Bank (2012) referred in footnote 14.

- Enable special regulations for banks providing services to organisations conducting social microcredit within a contractual framework and allow banks to handle microcredit losses separately.
- The efficiency of social microcredit is increased by the participation of private capital. The national states must encourage large corporations to support social microcredit as part of their corporate social responsibility (CSR) programmes. Efficiency is also increased if social microcredit closely connects with the system of local institutions (e.g. network of village social workers or other existing social services network).
- It would be necessary to further strengthen the organisational structures and tools that could secure efficient counteraction against discrimination of the Roma, taking special attention to employment and financial services.
- The administrative burdens of becoming an entrepreneur should be reduced; the entrance barriers should be removed especially for micro- and small enterprises. The practice of requiring individuals who want to become an entrepreneur to be free of any public debt should be discontinued.
- If social microcredit is introduced, a pilot and introductory phase is necessary in any country in order to adapt to local regulations and to train field workers. These pilots should not be shorter than 3 years.

4.5. European perspective of the social microcredit programmes

Currently there is no tool for supporting inclusive social microcredit in its full complexity in Europe. The prerequisite for existing microcredit tools is that microcredit institutions are sustainable. Their target group mostly includes already existing enterprises, or those who are very close to being bankable. If sustainability is insisted on, they will inevitably select clients of higher social status.

A specific initiative for inclusive social microcredit should be launched at EU-level considering the dual (both social and business) nature of this activity. The existing PROGRESS Microfinance Facility is tailored for “normal” microcredit activities and not for the needs of inclusive social microcredit, with higher default rate.

Social microcredit should be part also of Partnership Agreements. EU-level pressure and support is needed to include social microcredit into the national Operational Programmes.

The target group includes people – primarily, but not exclusively, the Roma – living in poverty with entrepreneurial skills and concepts, possibly experience in the informal business sector. Social microcredit does not serve already existing enterprises, however, it monitors businesses founded within its own framework for several years and further loans are issued if necessary. Social microcredit programmes should be multifaceted so that they can also provide social and networking capital in addition to traditional micro loans, including:

- At least basic professional training opportunities;
- Training in community development and networking;

- Financial and business administration training;
- Business network development; and
- Continuous support.

It would be necessary to build a tendering structure catering for all these functions simultaneously because it is impossible to establish a complex social microcredit system based on separate tenders.

The condition for efficient implementation of a social microcredit programme is the development of a training system for field workers. The practice of group-based microcredit improves the efficiency of inclusive microcredit, even if it is not connected with sequential lending and mutual responsibility. In the countries in question, social microcredit should have a focus on the Roma population.

Before the general introduction of the programme, a pilot period of at least 3 years is necessary in any country; this would be used for customising methodology to the local regulatory background and create a local framework of training for field workers and define selection criteria of clients. Monitoring and impact assessment built into operating procedures and supported / audited by an external organisation are necessary for both pilots and regular operations.

Annex A: Kiútprogram – a detailed project description

The aim of this Annex is to provide further information about the programme, firstly for those who are interested in the details of possible implementation.

A1. A schematic review of the original Grameen model

1. The essence of the Grameen model is to provide financial services, fundamentally loans and information to those living in deep poverty in order to enable them to *utilise their own resources* to rise from their permanently disadvantaged living conditions. The primary prerequisite of success is mutual *trust*, in addition to the loan given in the form of financial *capital*. Trust in the loan recipients, meaning that they will be able to reach their goal and building trust towards the loan provider so that it will not draw advantage from its partner's difficult situation.
2. The process starts when the field worker of Grameen Bank arrives at the settlement and searches for people of the applicable social group who are interested in the project. The core of the credit providing activity is a *voluntary, self-nominated* group of five loan recipients where the traditional safeguards required by banks are replaced by mutual ethical commitment. The inner group leader has a prominent role. He/she is usually the first of those actively interested. After he/she committed to the programme, the field worker often finds the other four group members by using his/her assistance.
3. In case of the first loan, credit can be used *solely* to finance income-generating activities, i.e. launching a business. The business idea comes from the credit recipients, in every case. The entrepreneurial activities of the group are independent from each other, however, each member should approve of each of the other members' business plan.
4. Loans are granted following a one-week course with the purpose of familiarising applicants with the entire process. There is a verbal exam to ensure that the applicant understands the process, conditions, and takes responsibility for meeting the conditions. Another objective of this is to filter out applicants who are not willing to make a real effort. The course is not a formal lecture but an interactive discussion of the whole process in a group setting. The exam is not formal either, rather a checkpoint to see if applicants really understand how the system works.
5. There is preset upper income/property limit of being accepted in the programme. The objective is to avoid accepting relatively less disadvantaged applicants who could take the places of those in deep poverty. Regardless of ethnicity or religion, anyone can be accepted if he/she is under the poverty line.
6. At start-up, two members of the group receive the loan. Repayment starts in the first week and the field worker meets the groups every week. If the first two loan recipients make the payments on time, loans will be granted to another two group members after 6 weeks, then the group leader gets the loan after another 6 weeks. If a member does not make a payment as approved in the first 6 weeks, he/she is dropped from the group and the others

must find someone else as a replacement. Loans will not be issued until the dropout member is replaced.

7. To ensure the simplicity and transparency of the system, the maturity of the loans is uniformly 50 weeks. If someone takes a loan of 1000 units, then he/she repays 22 units per week, i.e. repays 1100 units within 50 weeks, which is a little less than 20% annual interest rate. The amount of the loan is flexible within a pre-set upper limit. It is also possible to finance repayments in the first weeks if someone starts a business that is not profitable immediately.
8. Loan recipients must make a deposit of 5% of the received loan to the joint group fund. This serves as an emergency reserve in case of unexpected situations, which can be used at the group's discretion. In addition, the bank offers – specifically encourages – saving opportunities.
9. The field worker, a key player in the system, is a mix of a social worker and a credit advisor. In addition to searching for and identifying credit recipients, he/she also assists with the creation of the groups, the analysis of business ideas and helps evaluate whether necessary conditions are met. He/she checks if transactions are on the right track, helps groups to eliminate problems, and takes responsibility for the regular and timely repayment of the loan. He/she holds a meeting for the groups locally every week. Granting of the loan and repayments are conducted in public at the meeting as well as the discussion of issues that have emerged and the acknowledgement of results achieved.
10. An important goal of the meetings is to discuss certain commonly-accepted living guidelines, increasing self-confidence and acknowledging success.
11. If the first loan is repaid as agreed, the loan recipient may be granted a loan, which is larger in amount or is for a different purpose. Loans are still not granted for consumption and other prohibited purposes include the improvement of housing conditions and schooling of children, exclusively.
12. One of the most problematic points of the system is the situation when almost every group member has received the loan and one of the members does not repay. If there is an emergency situation, then the group fund can be used or another loan can be granted as a last resort. These solutions are for emergencies only. The group fund can also be used in case of a temporary halt in the operation of one of the businesses, provided that all other group members are convinced that this step will be helpful. This aid must later be repaid to the fund. Another purpose of the weekly meetings is the resolution of temporary hardships.
13. If a group member is not able to overcome difficulties in spite of receiving assistance, or does not want to make payments, and uses the loan for other purposes, then the other members of the group are given a restricted penalty: even if they meet their goals, they will not be able to enjoy the benefits granted for the next loan listed above under item 11. Besides, the ethical damage experienced at the group meetings will prompt group members to use social pressure to avoid such situations.

14. An important characteristic of the model is that a clear majority of participants is women (95% in Bangladesh). The original objective was to recruit women as at least half of the participants but women turned out to be much more suitable partners in the programme. The main reasons are the following: a) higher level of commitment towards the family and the well-being of children; b) partly due to this, they are less inclined to spend money for other purposes; c) less mobile, less likely to escape from repayments; d) less opportunity to earn money in alternative ways; e) finally, being suppressed by multiple forces, women display a higher desire to break out from their situation.

A2. Previously identified risk factors

Several *difficulties* have already been identified while working on the feasibility study that necessitated the modification of the original model. Now, further details are added.

Major risks of operating in the legal sector

Bureaucratic burdens

In the formal economic sector, the discrepancy between bureaucratic obligations and the clients' partial or full financial/administrative illiteracy must be resolved. The following is a list of some examples of the tasks a client has to accomplish when starting a business. These are just general requirements, for individual cases there are several additional requirements to meet:

- Check the validity of identity and residential cards and renew them if necessary.
- Request a so-called “clear bill” from the tax authority certifying that the person has no unpaid tax-related or other public debt. To do this, one has to complete any missed tax returns for the past 5 years, even if the person had no tax-bound income. If there is a debt, a payment agreement has to be signed.
- Another “clear bill” needs to be obtained from the local government certifying that there is no default payment on rent, dues, or fines. If needed, a payment agreement has to be signed.
- Apply for support to become an entrepreneur at the local employment centre (more details will follow).
- Open a business account.
- Obtain an entrepreneur's licence.
- Pay contributions, submit tax returns, fill out invoices, handle invoices and banking receipts, create financial balance. Find an appropriate bookkeeper for these tasks.

Obviously, potential clients could not deal with all these tasks on their own even if administrative offices and bank associates provided maximal support. However, this is not the case; what's more, in approximately half of the cases, clients reported that they had to overcome serious institutional resistance based on prejudices.

As a consequence, the job description of field workers is far longer and more complex than in developing countries. There is no point starting a similar programme without the ongoing,

intense presence of field workers. The situation is further complicated by the fact that the locations of offices are usually not easily accessible – even if not very far away, they are not easy to access because of transportation difficulties. Getting a certificate often takes a whole day. (Sometimes clients have had to return on two additional occasions, which adds up to 3 days – and this is not a rarity.) Field workers cannot work without a car and due to the reasons mentioned above, it also helps if the field worker accompanies the client to the given office.

The fact that being tax- and public debt free is a prerequisite of becoming an entrepreneur is a vicious circle, a “catch 22”. Public utility debts or fines for working in the informal sector qualify as public debt. In the case of Kiútprogram clients, these debts resulted from their status, i.e., not having a legal job. As long as these debts are not paid, however, they can’t make a living, because there are no legal employment opportunities, and they are not allowed to become entrepreneurs – thus they can’t pay their debt. In theory, it is possible to sign an agreement to pay in instalments, but getting through the administrative hurdles exceeds even an average citizen’s capabilities.

Efforts were made to account for these costs when working on the feasibility study. It is important to emphasise that the field workers’ working hours, transportation and telecommunications costs can’t be redeemed directly. Practice showed that field workers’ costs were underestimated during planning. The field worker’s biggest workload falls on the period following group formation, in the first couple of months after starting the business. A field worker has the capacity to work with one group in this phase at most.

Another significant modification to the model was that the Kiútprogram programme provides bookkeeping services to new entrepreneurs and primary producers for free. This is also considered a crucial condition.

Taxes and contribution-paying obligations

Another important consequence of working in the legal sector is that the tax and contribution rates are very high. For new entrepreneurs, the biggest issue is that they have to pay social security contributions starting in the same month when they get their licence and if there is an income, personal income tax also must be paid. Contributions applicable to the minimal wage must be paid even if the business had no income at all.

Since the majority of businesses – especially in the agricultural sector – do not generate any income for several months, this is a very heavy burden. To demonstrate the scale of costs, there follows a calculation assuming that the entrepreneur is really able to generate a net income equivalent to the minimal wage: at the time of planning and implementation of the programme, contributions payable made up 70% of the net minimal wage, and all public charges constituted 105% of the net minimal wage. Obviously, these new businesses are unable to generate such a big amount, thus due to the scale of public charges, it is necessary to issue bigger loans.

There was another factor that could not be taken into account, namely, that the already exceptionally high public charges were raised even higher. This year, contributions already

make up 87% of the net minimal wage, and the amount of public charges payable altogether rose to 113%. Business activities that require at least a high school diploma by the law are in an even worse situation: the assumed minimal wage is higher for this category, still, contributions payable make up 103% of the net income, and public charges altogether amount to 132% (!). Businesses in this category that were launched last year immediately went out of business this year. If we originally assumed this speed of increase in public charges, we might not have implemented the programme at all.

The regulation for social security contributions for primary producers is rather peculiar. According to the rules, primary producers must pay contributions in the year when their licence is issued, but not from the following year. The amount of the contributions is based upon the assumption that the producer will make at least the minimal wage. This amount must be paid even if no income was generated.

For foreigners, it might be irrelevant how this system came to life due to granting and withdrawing allowances. The point is that the system is rather absurd and dysfunctional since agricultural startups would need allowances the most. Some potential clients (not the cucumber growers) were deterred by the very fact that due to the obligations to pay contributions and repay the loan, they could not make any profit in the first year. Fortunately, field workers informed them that they should not give up their plans, just put them off a little. If they get their licence in December, they are required to pay contributions for only a month, and they will start the actual work – and take the loan – only the following spring.

Even if this regulation is a local peculiarity, probably there is some other type of inconsistency in the employment, taxing or business regulations of any country.

Early phases of the enterprises and the role of support

In relatively developed economies, there are very few businesses that generate profit – or even income – right away. The quickest return time, a couple of months, can be expected for retail activities in potential clients' case, but in case of agricultural activities, businesses must be kept afloat for several months. To counterbalance this effect and bridge the period without income, there is state support for becoming an entrepreneur. In Hungary, this support can be received for 6 months, its maximal monthly amount equals to the minimal wage. This support must be paid back if the business closes within a year. When planning the programme, we relied on this support and it was obvious that the majority of new businesses could not be viable without it. In a country where similar support is missing, it is worth establishing it.

This support does not result in additional expenses if the business really runs for at least 1 year. In Hungary, taxes and contributions paid by the entrepreneur exceed the support by 15 to 30%, depending on the length of time. And it has not been considered that earlier Kiútprogram clients used to receive welfare aid or worked in public work programmes, which have even higher costs. If the amount of support is defined at the appropriate level, significant state income can be generated without actual expenses. Of course, this assumption is valid only if the businesses are viable. A social microcredit programme has the potential to act as a significant contributor to the sustainability of the businesses.

This contribution can only be efficient if the rules of support are solid and normative. This condition was not met in this case. Getting the support depends on not only the quality of the business plans but also other, undeclared and non-normative conditions. The decision lies with the local employment centres and there is no opportunity to appeal against it. In some counties, 3 or 4 months support is provided instead of 6 months, and in other counties there is no support for agricultural activities, or it is not provided to the Roma (of course, inexplicitly). On several occasions, the office clerk was not even willing to accept the application if the field worker wasn't present. Unfortunately such issues were not foreseen.

However, we were aware that the support to become an entrepreneur further increases the workload of field workers because it requires a very thorough and detailed business plan. Of course, a business plan had to be completed for Kiútprogram loans, too, but with far fewer formal requirements.

There is an active workforce-strengthening tool in Hungary that helps the target group find employment, according to latest evaluations. People over 50 or people with elementary education at most may request the so-called START card. Once they find employment, by submitting the card, the employer will be exempt from paying social contribution for the employee. In certain cumulatively disadvantaged micro-regions, this exemption may last for 3 years. Unfortunately, it was not possible to make use of this card because self-employed people are ineligible. This issue was realised already at the time of planning of the programme, i.e., that the START card causes competitive disadvantage to the self-employed, and reported this problem to the government. The former administration had no intention of changing the regulation, but ensured the support covering the amount of contributions to clients for 1 year. The next administration promised to modify the regulation but this never happened and the support for 1 year ran out in the meantime.

The magnitude of the interest rate

The original model suggested that providing interest-free loans is not a good idea for psychological reasons - international and Hungarian experiences also confirmed this notion. Hungarian regulations, however, set very complex rules for loans that are not interest-free. (The details are not described, because regulations differ from country to country.) In Hungary, *businesslike* financial services can only be provided by financial institutions licensed by the banking supervisory authority (unless otherwise specified by another regulation). In general, separate regulations are needed for microcredit, especially social microcredit institutions if not during the pilot, at least in the medium term.

Finally the following solution was found: loans were formally issued by a commercial bank (Raiffeisen Bank in this case), and the non-profit organisation administered lending as its agent. The decision of granting a loan is made by the non-profit organisation; the commercial bank does the formal background tasks, within the framework of an appropriate contract. The bank provided the loans and undertook 20% of the lending losses within its CSR programme (later modified to a fixed amount of approximately 66 000 Euros), and they also took over back office functions. As the legal format for the actual micro-credit institution, we chose to

establish a non-profit corporation that can utilise private capital, thus the Kiútprogram Public Non-profit Ltd. (Kiútprogram Nonprofit Zrt.) was founded with Polgár Foundation as its majority owner. The company had altogether 20 stockholders, including several well-known intellectuals and business professionals, both Roma and non-Roma.

According to these present findings, this set-up works well as long as the bank remains engaged and maintains the necessary flexibility. This was not the case in this programme, which will be described later.

According to the results of econometric analyses of several large-scale programmes, the repayment ratio tends to increase depending on the interest rate at first, and then it tends to decrease when a certain maximum interest rate has been reached (in mathematical terms, it is a concave, or \cap shaped curve). The actual optimum interest rate was found to be around 15-20%. This interest rate level is much lower than that of personal or consumer loans and other market-based loans (not to mention loan sharks), however, it often exceeds the interest rates of entrepreneurial loans. Participants are supported not through a lower interest rate level, but additional services.

We decided to go with a 15% annual percentage rate. As a comparison, the interest rates of consumer loans are around 35%; interest rates for so-called personal loans are even higher. The interest rates for mortgage-based loans are between 12 to 20% on the free market, and secured business loans are also offered at 12 to 20%.

To encourage savings, we pay 15% interest for savings accumulated within the framework of the programme.

A3. Supplement: Support to become an entrepreneur in the national Roma strategies

Almost all national Roma strategies reached similar conclusions to those mentioned in the previous subsection of analysis, even if the clarification of requirements under the given circumstances is missing. This fact reinforces that this pilot can be useful for other countries, too.

In the Action plan for implementation of the National Roma Integration Strategy of the Republic of Bulgaria (2012-2020) and the Decade of Roma inclusion 2005-2015 (page 42)²⁵ the following points on this topic can be found:

- “3. Promoting entrepreneurship, own business starting and managing
 - 3.1. Raising the entrepreneurial culture of the Roma people
 - 3.1.1. Organizing motivational courses
 - 3.2. Support for new business starters
 - 3.2.1. Training in own business management”

²⁵ http://ec.europa.eu/justice/discrimination/files/roma_bg_strategy_annex2_en.pdf

The strategy describes the objectives and tasks only briefly at the level of generalities. Based on the strategy and the action plan, no additional details are given other than the section quoted above.

The already mentioned *Strategy for Roma in the Republic of Macedonia* (see footnote 4) explains the topic further:

„One of the most useful possible solutions for reducing unemployment is to create conditions for a more intensive development of small and medium size enterprises and stimulate and support in general the entrepreneurship (with accent on self-employment). Keeping in mind that the Roma, as a group are, in more than one aspect, in a less favourable position as far as starting their own business is concerned (they do not have the minimum start up capital, nor sufficient property to be mortgaged as a guarantee that the debt would be repaid), the conditions in these programmes should be adapted to their capacities.” (p35).

The strategy mentions the launch of microcredit programmes as a possible solution:

„enabling micro credit lines with low interest rate, to strengthen especially the vulnerable groups with prior established risk fund where resources would be supplemented from different sources (government, international or foreign partners, citizens organizations, Roma community, and so on);” (p35).

The national Roma strategy of Romania²⁶ titled *Strategy of the Government of Romania for the Inclusion of the Romanian Citizens belonging to Roma Minority for the Period 2012 – 2020* mentions support of the Roma to become entrepreneurs, and sets the following goals:

- “Promoting entrepreneurship among the local communities having a large percentage of population who belongs to the Roma minority, as a solution for activating local partnerships and for resolving the complex problems of local communities, including those inhabited by Roma, promoting citizens’ participation in the labour market and, in particular, the social integration of the Roma minority.” (p18)
- “Encouraging entrepreneurship among persons belonging to disadvantaged groups, focusing on women belonging to Roma minority.” (p19)
- “Organising courses teaching persons belonging to Roma minority how to elaborate a business plan and initiate a business, business management trainings, project management trainings, etc.” (p19)
- „Encouraging business initiatives based on social responsibility, by facilitating the access to information, together with providing assistance and counselling for attracting sources of financing / loaning and implementing business plans / projects.” (p19)

Several Roma organisations expressed dissatisfaction about the national Roma strategy, with special regards to the lessons of the previous, similar strategy (2001-2011). They stated that

²⁶ http://ec.europa.eu/justice/discrimination/files/roma_romania_strategy_en.pdf (pp.18-19)

the strategy is vague and it is unclear how results would be measured.²⁷ The position paper of the Roma Education Fund²⁸ is also highly critical of the strategy.

The *Roma strategy of Slovakia*²⁹ discusses why it is difficult for the Roma to become entrepreneurs, quote: “The household survey has also found that start-up Roma entrepreneurs are unlikely to qualify for a loan. As a result, microcredit has a very limited role in facilitating Roma self-employment at the moment. In Slovakia, prominent challenges are:

- the generally small importance of MSMEs [micro, small and medium enterprises] in the economy
- a virtually nonexistent microcredit sector
- a particularly low level of self-employment among the Roma.”(p40)

The strategy suggests that the accessibility of becoming an entrepreneur should be improved:

“The state intervention should be followed by addressing the issue of financial inclusion through low- or no-cost accounts and providing financial training in Roma communities. This requires a large-scale collaboration between financial institutions and nonprofits.

In order to enhance microcredit provision for Roma entrepreneurs, the potential of collaborative initiatives between NGOs and the private sector should be explored, along with a broader facilitation of MSME growth and increased use of EU instruments such as Jeremie, Jasmine and Progress. These initiatives require strong political commitment, leadership, along with potential legislative support.”(p40)

The strategy document of Hungary titled *National social inclusion strategy – extreme poverty, child poverty, the Roma – (2011–2020)*³⁰ mentions the Kiútprogram specifically: „We must launch projects and programmes for the development of the economy and businesses which expressly **support the self-employment of disadvantaged individuals, including Roma, and the entrepreneurial status amongst them.**

As regards micro-credit programmes, we must process, further improve and extend the experiences of the *Way Out Programme* which targeted Roma communities in Hungary and provided micro-credits, and must supplement them with **sub-programmes specifically targeting Roma women.** By drawing from multiple financial resources, subsidies combined with micro-credits enhance the sustainability of results.” (p85, emphasis in original document).

²⁷ <http://www.balkaninsight.com/en/article/bucharest-to-launch-new-strategy-for-roma-people>

²⁸

http://www.romaeducationfund.hu/sites/default/files/publications/ref_network_position_on_romanian_national_strategy_on_roma.doc

²⁹ http://ec.europa.eu/justice/discrimination/files/roma_slovakia_strategy_en.pdf

³⁰ http://ec.europa.eu/justice/discrimination/files/roma_hungary_strategy_en.pdf

In summary, it can be stated that the national Roma strategies of this region consider the development of small- and micro enterprises as an important way of increasing the employment rate among the Roma. At the same time it is clear that there is no toolkit yet efficiently promoting this objective. Thus the pilot certainly offers helpful lessons to both policy experts and non-governmental organisations of other countries – even if the pilot was conducted under circumstances particular to Hungary from several aspects.

A4. The creation and launch of Kiútprogram

The idea of adapting the Grameen model was brought up by the Polgár Foundation for Equal Opportunities in 2008. The two central aims of the Foundation are to decrease the level of prejudice and discrimination against the Roma, and to improve their living conditions in the most remote areas. The completion of the feasibility study took a year while 25 experts worked on it as volunteers. The preparation works included getting to know an earlier Hungarian pilot conducted by the Autonómia Foundation and a thorough field research financed by the Polgár Foundation.

When the feasibility study was completed, a fund-raising activity was initiated. In addition to private sponsors, an agreement was also signed securing government support. This is when the European Commission, Directorate General for Regional Policy (DG Regio) announced the call for proposal "Pan-European Coordination of Roma Integration Methods – Roma Inclusion" with one of its strands targeting self-employment and microcredit.

The ideas described in the feasibility study almost perfectly matched the conditions of the call for proposals. The only real difference was the length of the pilot: Kiútprogram had been considering a project period longer than 2 years.

The evaluation of the grant applications took rather a long time. Since it was intended to implement the programme anyway, based on existing private and Hungarian governmental resources, the training of train field workers was started in February 2010. (The essence of the training is summarised in a separate chapter because it is a crucial component – and it has gone through many improvements always building on earlier experiences.) In March 2010, notification of a successful EU grant was received and finally in June an agreement was signed in the amount of 1.425 million Euros – this secured almost 90% of the full budget. This is when the 2-year pilot summarised in this document was implemented. In the meantime, a favourable decision was delivered regarding the extension of the pilot by 3 months, with an unmodified grant amount.

As soon as the grant agreement was signed, 18 field workers started to work after taking successful exams. For the locations of the pilot, 3 areas with different profiles were selected (later we expanded these areas). Fieldwork was started in some settlements in the counties Borsod-Abaúj-Zemplén and Szabolcs-Szatmár-Bereg, as well as the 8th district of Budapest. The bulk of the work of the Kiútprogram was conducted in the rural areas of Borsod-Abaúj-Zemplén county.

Borsod is the northernmost county of Hungary, with Miskolc as its seat. Before the regime change, it was the centre of heavy industry in Hungary, and this county lost most jobs after the regime change. The target villages fell in the influence zone of the industrial cities, and a significant portion of the population – including the Roma – had previously worked in industry. Mass unemployment, however, seriously deteriorated the social structure of the affected villages. In most villages visited, the Roma lived separately in Roma settlements, or in streets with mostly Roma residents. Almost no one is legally employed.

Szabolcs-Szatmár-Bereg is the north-eastern county of Hungary, fundamentally of agricultural background. The proportion of the Roma among the population is the highest in these two counties. The 8th district of Budapest is mostly an ethnically mixed urban crisis area. This district has the highest share of Roma residents in Budapest and this is the most popular destination of Roma who move to the capital in the hope of finding employment.

A5. The detailed process of fieldwork

Field workers are crucial to the programme, thus the process is easiest to understand if viewed from their aspect. Through this, the tasks of other staff members will also be reviewed. From the first “release” of field workers, there is a continuous learning process going on, and their activities have also changed a lot in the meantime. Without going into too much detail, it is necessary to overview the process to understand the incidents of success and failure – unfortunately more of the latter were experienced. Fundamentally the series of steps to this point formed are described, and the modifications that took place since the launch of the project are also reviewed.

1. **Exploring the location.** Field workers always stay in the vicinity of the target location, but do not work in their place of residence – except for Budapest. (In the first phase, there were exceptions to both rules, but they did not work well.) There is an ideal territorial coverage that enables efficient travel, office routine and group formation. Within this coverage area they select locations in cooperation with the headquarters where groups could be formed. The field worker analyses the location, including its economic, social relations, potential clients, the status of local government, other potential partner organisations such as Roma Minority Self-Government, social services, foundations and other civil organisations. This research involves personal visits, getting familiar with local residents and finding contacts. A “contact” is a local resident who has an extensive web of relationships, can identify with the objective of the programme and is willing to help the field worker connect with interested candidates. The analysis then must be forwarded to the professional manager who will decide if the field worker should start the work based on the report. If the decision is negative, the field worker must move on to a new location. The activities of the field workers are coordinated and managed by the professional manager located in Budapest who frequently visits the field.
2. **Organising a forum.** The field worker organises a forum with the assistance of the contact person. Other methods were experimented with, including walking from door to door, but forums proved to be the most efficient ways to inform as many people as possible without

applying too much pressure to join. Before the forum, it is a good idea to inform the local government of Kiútprogram's presence, even if this has only symbolic value. It is the field worker's job to propagate the forum: distribute fliers, get an article published in the local newspaper, post announcements and secure appropriate location and timing. The field worker often organises this event connecting to another community occasion, thus reaching even more people. The objective of the forum is to give a general idea about the goals of the programme, to clarify that he or she is not representing Provident (a major provider in the market of personal loans), declare the most important rules (e.g. sequential lending to groups, weekly repayments) and have enough interested participants meeting the criteria to start personal contact.

Field workers conduct recruitment activities and organise forums usually in areas with higher density of Roma population, however, becoming a client is not subject to ethnicity. Only income above a certain threshold causes ineligibility. Nonetheless, the fact that primarily Roma clients are targeted inhibits the interest of the non-Roma. The proportion of the Roma is 80% among both serious candidates (who complete the questionnaire) and the actual clients.

3. Personal contact. Following the forum, the field worker meets with interested candidates in person. The ideal location for this is the home of the family. The "family visit" is a good occasion to get a real picture of the environment and the financial situation of the candidate. Mutual personal impressions are as important as rational considerations because working together is a long process and mutual trust is a necessity until the very end. During the visit, the field worker completes the intake questionnaire if the candidate has no objections.

The intake questionnaire clarifies if the candidate meets the income criteria, if the debt of the household is at a manageable level and if there is a willingness to become an entrepreneur. Unpaid taxes and loans should be examined separately, and it must also be clarified if there is unmanageable debt of public utilities or rent – these are reasons for exclusion. It was assumed and later verified that huge debts prevent candidates from becoming successful clients.

The goal of the first meeting is to explore personal possibilities. The field worker must find out if the candidate has a business idea, related experience and network. These three conditions are vital for the success of the business. Based on the objective and subjective factors, the field worker must decide if the candidate is suitable for further cooperation. If not, it must be communicated and the field worker must find other potential candidates. Existing candidates can be helpful with finding new candidates. Nevertheless, it is an important rule that close relatives cannot belong to the same group, because it significantly increases the risk of non-payment. At least 8 to 9 suitable candidates must be identified at a location to have a chance for a group, considering dropout rates.

4. Pre-group meetings. After identifying 8 to 9 candidates, group meetings must be organised to find out if they are capable of working as a group and take responsibility for each other. Before receiving the loan, people tend to present their favourable side. After

learning about the rules and during the filtering process the group may withdraw trust from someone or a candidate may decide to drop out because of the strict rules. During the pre-group meetings the entrepreneurial questionnaire is filled out that helps explore earlier business experience and material resources. Business experience is meant in a very vague sense, including business-like activities in the informal sector, too. Hardly any of the clients had managed a formal business.

It is the field worker's task to prepare and lead the group meetings. The group leader assists the field worker by taking over operative organisational tasks. The group leader is elected by the members of the pre-group because he or she must be someone who is accepted by everyone; nevertheless, the field worker has an important orientating role at this step. The best choice for the group leader's role is the most active, most motivated member. In the pre-group meetings, the field worker describes the details of the programme, talks about business administration and the group discusses each member's business ideas.

5. Filtering. The most important milestone of group preparations is the decision on the potential clients based on the filtering criteria. Those who meet the criteria will officially become group members. At the group and personal meetings the field worker pre-filters candidates by checking these four areas:

- Are there any unpaid taxes?
- Are there any unpaid loans to financial institutions?
- Submit a simple business draft (on a piece of paper; so-called “checked paper”);
- Complete and evaluate the scoring card.

As mentioned above accrued taxes somehow must be handled in order to get the business licence. Being in debt to a financial institution is not a reason for exclusion, but too much debt implies that the person would not take the loan seriously either. During these checks it also becomes obvious if the person was honest at the time of the first questionnaire. If he or she was not, then this is a warning sign. Raiffeisen Bank provides help in obtaining the credit reports of the clients.

The field worker helps with the settlement of tax backlog, public utilities debt and unpaid loans by rescheduling them, applying for partial remittal or paying in instalments. The field workers' knowledge has eased many clients' issues, but this involves tremendous work. If debt is overwhelming and cannot be settled, then the potential client must be excluded.

Owing to a loan shark (“usurer”) is the most dangerous type of debt, and information arises about these only informally. Some potential clients talk about smaller debts but do not mention larger ones. In this regard, the relationships of the group and the field worker in the area are very helpful while the field worker's people skills are also crucial. At the beginning some issues were encountered; the candidates did not want to start a business, but to pay back the debt to a loan shark. Selection by field workers

and getting more experience prevented this from happening in the second year of the project.

The member of the pre-group prepares a short draft about the planned business (on a piece of “checked paper”). The field worker gives hints about the topics to cover. The draft must contain rough income and cost figures and list potential customers and suppliers. Early in the programme, the field worker recorded these data based on the client’s explanations, but this was found not to be a favourable practice because it makes the client dependent. During this process, the field worker shares lots of financial and business information with the clients that they discuss at the pre-group meetings. The field worker also talks about the opportunities. If the client is registered as unemployed then he or she may apply for support to become an entrepreneur as described above.

The field worker fills out a *scoring card*. This is a Kiútprogram evaluation tool for objectively exploring the suitability of the candidate, summarising the information collected from the base questionnaire, the business draft and personal meetings. Subjective factors are also included such as the candidate’s motivation, communication skills, existing web of relationships, risk-taking and decision-making skills, family background, business experience, etc.

The field worker sends the business draft and the scoring card with his or her recommendation to the headquarters where the Credit Committee (CC) decides about the feasibility of the idea. The members of the CC include the professional manager, the financial manager at the bank (an employee of the Kiútprogram) and a dedicated expert member of the management board. If no agreement can be reached, another member of the management board is brought into the committee.

6. Preparing finalised business plans. After filtering, a decision is made about the group and if all goes well, the remaining group members create their finalised business plans. By this time, the ideal number of group members is 6.

The field worker must meet the group at least once a week and work with the clients individually, too. Finalised business plans follow a template; a cash flow plan for 13 months must also be created in Excel and submitted. The business plan must contain the reason for taking the loan, present in detail how the loan will be used, include a budget of planned investments, market connections of the planned business, potential partners, risk analysis, analysis of future outlook, and finally the assessment by the field worker. The business plan is recorded by the field worker based on the client’s input, discussing every detail.

Members of the pre-group discuss each business plan and approve of it before submission. While preparing the business plans, the field worker continuously trains the group members. Lending sequence is determined in this phase and a name is chosen for the group by the pre-group members.

Lending sequence is a crucial issue. Early in the programme it happened that a dominant member persuaded the others to let him or her get the loan first, leading to very harmful

consequences. Such an action surely implies that this person does not intend to repay the loan. Later on, it was firmly insisted that the group leader should be the last to get the loan.

Finalised business plans are approved by the CC similarly to the process described above. The procedure of filtering and planning gradually matured during the programme. At first it was insisted that the number in the group be 5, however the selection process may also result in a different group size.

As mentioned earlier, field workers record their activities with the clients in a database, including the amount of time. The analysis indicated that preparing the business plans took approximately half of the field worker's time dedicated to the groups.

7. Group formation. After the finalised business plans are approved, the group passes an exam where the professional manager and other leaders of Kiútprogram are present. This ceremony is the official formation date of the group. Members are awarded a certificate; they sign the group foundation document (includes lifestyle rules defined by the members); they also sign the certification of group membership and a client declaration. The group receives a Group Diary, which is written by the group leader under the field worker's supervision. The most important functions of the Group Diary include the documentation of the group meetings, recording repayments, taking and returning cash from/to the group fund.
8. Preparing and issuing the loans. Following the set sequence of loans, the first two recipients must start their businesses and every effort must be made to enable clients to get the loan from the bank as registered individual entrepreneurs or primary producers. At this step, business accounts are opened where the cash component of the loan is transferred to; security deposit accounts and group fund accounts are also opened. The security deposit account is a sub-account of the business account where safety repayment instalments are placed. This ensures that entrepreneurs can make repayments until the business generates an income. To avoid entrepreneurs incurring a loss due to the interest, the security deposit works as a savings account with a 15% sight interest rate. Additionally, a personal account is opened for the client, that is not connected to the loan. The client and the field worker have joint access to withdraw cash and make transfers.

Parallel to loan preparations, the applications are prepared for the support to become an entrepreneur. The finalised business plan created for Kiútprogram can also be submitted with this application. Accurate timing is very important because applicants must be unemployed, however, they must become entrepreneurs within 30 days after the support is granted.

Clients must also contact the bookkeeper. Kiútprogram sourced bookkeepers in each region who are willing to work with clients. Bookkeepers are paid by the programme.

Upon the receipt of the loan amount, the field worker hands over a so-called "loan recipient's booklet" to the client. This booklet was created so that the client can track repayments, income and expenses on a daily level.

9. Creating and maintaining the business. One-time investment elements and inventory must be bought from the loan. The field worker participates in this activity, accompanies the client and assists if needed. The participation of the field worker has several reasons. Very often, acquisition cannot be completed by public transportation, a vehicle is needed. (Early in the programme, loans were issued to retailers to purchase used cars, but this was unsuccessful.) The field worker's cooperation is necessary because of prejudices against the Roma and the poor; in these cases, field workers act as catalysts. During acquisitions, it is important to provide practical training about budgeting. Clients have rarely seen this much money before, and they might be prone to – for example – purchase higher quality, even prestigious products. This is perfectly understandable, however, the amount must cover current assets, utility and shipping costs, and so on.

While supporting the clients, they must be very carefully handled, so as not to hurt their independence. Too much interference may have a negative effect; the client may try to get things done by the field worker instead, and in case of difficulties may not make real efforts and may blame the field worker for problems. Leaving the client all alone is the other extreme, which is also not a suitable solution. The goal is to help clients become gradually independent as soon as possible, which takes several months even in optimal cases and requires high-level emotional intelligence on the field worker's part.

Most businesses can be categorised as either *retail or agricultural* ventures. A small group chose forestry; the others are scattered, unique activities. Depending on the type of activity, some kind of licence is almost always required. Just to mention a few, depending on the nature of the business: operating licence, licence to use public premises, animal health control licence, food safety licence, fire safety licence, legacy protection licence, etc. The field worker helps with official procedures. The approach of offices to Kiútprogram clients is very diverse. There are cases when they seem to appreciate the efforts made by clients to establish a living for their families and are very helpful. In other cases there is hostility and businesses are impeded wherever possible. In some cases, competition is the reason: the office clerk has good relations with the owner of the other shop in the village; in other cases, it is racism. Based on the field workers' subjective estimates, prejudices play a role in about half of the cases when interacting with offices, office clerks, less often business partners. At the same time, the field workers' and the clients' activities can decrease negative bias.

From this aspect, Roma field workers are in a special situation because during their work they also encounter bias personally, although – due to their education and self-assertion – to a lesser extent than their clients. They are prepared for these situations during the training; it is the professional manager's important task to help them process such incidents.

10. Tasks connected with the repayment of loans. Field workers must continuously track the repayment of instalments. The group fund can be used if the group decides to do so; however, management of the fund is the field worker's task. The group fund is only suitable for smaller liquidity problems. If the business is in serious trouble, then a separate procedure is necessary that exceeds the competencies of the group. The lack of income or

the disappearance of the resources for investments or current assets can endanger the existence of the whole business. In such a case, the field worker must indicate that external help is necessary. Kiútprogram sends a specialist in some cases to get information and recommend a solution using the field worker's input. The recommendation contains the material or financial requirements that might help the entrepreneur continue the business. The decision lies with the management board. Once the decision is made, the field worker participates in crisis management and accounting of resources used. The value of goods or financial resources received during crisis management must be reimbursed by a date defined in the agreement.

There is a critical point in the business cycle approximately half a year after the start-up when the client becomes insecure and gets exhausted. This often happens when the support for becoming an entrepreneur runs out, suddenly raising the sense of insecurity. At this time, the field worker must pay more attention to and reassure the client to help him or her get through this situation, which happens to almost everyone.

It was found that if a client starts to skip payments and this compounds into several weeks, the risk of business failure and becoming a defaulter increases significantly. Defaults mean that the group members in the lending sequence get the loan with a delay, or worse, not at all. As expected, this situation leads to serious tension that is sometimes helpful; however, if a business fails, the failing group member simply cannot pay.

The field worker receives late payment reports from the financial manager, and he or she also tracks payment balances. Late payments are categorised according to their seriousness, i.e., after 90 days' non-payment the bank dissolves the contract with the client.

There is a point when the programme and the field worker do everything for the group member and the business because there is still trust that the member acts in good faith despite all the problems. If someone is dishonest regarding the usage of the money or the income, withholds information, or breaks contact with the group and the field worker, then the field worker has no choice but to assume ill faith and report the issue. In this case, the group or Kiútprogram may decide to remove the member from the group and the programme. In case of ill faith (maliciousness), the bank puts a halt on lending and initiates collection of debt. Since the loans are unsecured, there is practically nothing to collect; this measure has only a psychological effect. The client is automatically added to the banking "black list".

Ideally, at the end of the duration of the loan, the client repays the loan and continues to run the business. Kiútprogram provides bookkeeping for free and pays the entrepreneur's contributions for 1 year. The field worker gradually withdraws from the maintenance of the business in cooperation with the client and helps him or her schedule upcoming tasks, thus making the process foreseeable.

Considering the special importance of field workers' tasks, the following section digresses to describe the training of field workers before returning to the subject of the program.

A6. The syllabus of the field workers' training³¹

Objectives, output requirements

The most important objective of the training programme is to train field workers who can take on a dual role and maintain the sensitive balance of Kiútprogram, namely, candidates who can work both as social workers and business developers. Social work focuses on the selection of clients and individual/group development in order to help clients become entrepreneurs. Within the framework of these activities, field workers must help participants modify their life styles regarding regularity and planning, and also develop clients' social competencies in areas such as running official errands. Business development activities include business planning, supporting decision making, and lending activities, as well: issuing loans and handling repayments.

Based on the list above, a field worker needs to meet the following requirements to pass the theoretical and practical exams:

- Know the situation of the Roma in Hungary and the difficulties of integration;
- Must be familiar with the model of social group-based microcredit, the milestones and documentation needs of the process;
- Know how to start a business and is familiar with the fundamentals of business planning;
- Must be capable to form and lead entrepreneurs' groups.

Two years – five training schedules

Hiring of field worker candidates has taken place five times so far, each time including training sessions integrating the experiences and modifications of the programme. Each time, the number of applicants was many times more than the number of positions available, thus careful selection was required in this phase. During selection, there was a focus on familiarity with the location, attitude, motivation and earlier work experience; altogether 57 people started the training programme, 48 people completed it and 37 passed the exam. The majority of the trainees were very committed, and they participated actively in the process. The training was modified based on the feedback and recommendations of the trainees. During the training, students formed a close bond within their groups, and during field practice, the various “generations” of field workers also became connected.

The high number of trainees shows that fluctuation was relatively high among field workers. The burden (primarily psychological) was too great for some field workers. Others had to be let go because their work did not meet expectations, or they could not perform at the expected level even with their best efforts. There are currently 12 field workers.

Training sessions lasted 4 to 5 weeks, and all consisted of two components: theoretical background and field practice. The former took about 50 to 60% of time, and the latter was 40 to 50%. The theoretical training was led by the experts of topics such as integration, microlending to groups, business development, banking processes and group management

³¹ This chapter was written by Péter Hann, the leader of the training programme.

techniques. Training was tailored to the specific content and the size of the groups. Thus besides theoretical presentations and lectures, problem solution in groups was emphasised. Practical training always took place in settlements that are relevant to the programme. These field practices gave opportunity to the candidates to learn about the processes, in an increasingly optimal way because earlier experiences were fully utilised. Experienced field workers had a major role in practical training.

The content of the theoretical module can be divided into two phases. The first phase included the first training course in January 2010, and the remaining four training courses starting in December 2010 belong to the second phase. The reason for the difference is that in January 2010 Not enough local experience had been gathered yet; the processes of practical microlending and the methodology of monitoring had not been completed either.

The composition and the content of the training

The fifth (most recent) training from mid-August to the end of September 2011 is considered worthy to be presented as “best practice” and used as a model. The most important novelty was that in earlier training courses, theoretical training had been followed by fieldwork; here the candidates participated in a short theoretical orientation followed by two weeks’ field practice, and then they continued with a thorough, detailed theoretical module building on the practical knowledge and experience. This change resulted in the increased share of practical component, but this notion is illusory, since candidates got thorough insight into the theory of group development and microcredit while participating in field practice.

Training Schedule (each lesson is 45 minutes long)

- Theoretical orientation (2 days, 20 lessons)
 - Team building activity (2 lessons).
 - The characteristics of Kiútprogram: duality and balance (social and business programme). Group dynamics, entrepreneurial objectives, the lack of collateral (i.e., unsecured loans), the technique of the lending process (3 lessons).
 - The status of the Roma, the difficulties of integration (4 lessons).
 - Organisational structure of the programme, tasks of the staff (4 lessons).
 - Micro financing, lending to groups (4 lessons).
 - The process of fieldwork, the tasks of a field worker (3 lessons).
- Field practice (10 days, 100 lessons)
- Theoretical module (5 days, 50 lessons)
 - Introduction, systematisation of field practice (2 lessons).
 - Overview of the milestones of fieldwork (6 lessons).
 - Introduction to business administration, business planning (4 lessons).
 - Preparation of lending: pre-filtering candidates, the business plan template, the concept of cash flow, typical business formats, and the decision process (6 lessons).

- Banking background: introduction, product information and the lending process (8 lessons)
- Database skills: theory and practice (8 lessons)
- Research, monitoring: theory and practice (6 lessons)
- Working with the group: principles and techniques (10 lessons)
- Individual learning, working on exam paper (2 days, 20 lessons)
- Verbal and written exam focusing on the complex understanding of practical tasks.

A7. The first crisis and the correction of the model

By early 2011, Kiútprogram had presented several signs of crisis, most importantly:

- The increase in the number of late- or non-payment of the loan instalments,
- Slowing down of the pace of new group formation and new lending,
- A deterioration of trust between the management and the field workers.

In the search for explanations, different angles were explored, gathering information from field workers, managers at various levels and areas, as well as information from clients. One of the most important conclusions was that *considering potential clients, more attention must be paid to their potential entrepreneurial capabilities than in the past:*

- Is the candidate’s personality compatible with becoming an entrepreneur?
- Does the candidate have an “entrepreneurial dream”, something he/she wants to come true? Is the candidate motivated enough?
- Is the candidate capable of running official errands on his/her own?
- Has the candidate ever operated a business or business-like activity, including informal entrepreneurship?
- Can the candidate participate in regular activities, i.e. work regularly, every day? Has he/she done any regular work earlier?
- Does the candidate have a social network that enables him/her to sell products (any products or services)?
- Does the candidate possess the capability to build new relationships?
- Is the candidate able to make plans? Good clients are those who can plan in advance.
- What does the candidate’s credit history look like? How did he/she handle earlier loans?

These realisations are reflected in the activities of the field workers as described in chapter 6. Theoretically Kiútprogram management were aware of these aspects, however, there was too little consistency. For example, it was realised that the amount of the loan (or its upper limit) should not be communicated at the first forum, because it attracts people who only go after the money. First it is important to learn about business dreams and assure people that the programme will try to support them with a loan.

The field workers work under double pressure. On one hand, they are expected to form groups as soon as possible, on the other hand the groups should operate well, i.e. the members should run viable businesses that enable them to repay the loans. These two objectives are often contradictory. In order to form groups, some groups had members who were not capable of becoming entrepreneurs.

Therefore, responsibility towards clients dictates that a group should only be formed if it is very likely that the members will be able to turn their intended businesses successful. This is the right course of action even if – hoping to get the loan – the greatest pressure to form the group comes from the clients themselves.

If the necessary efforts were made, the lack of group formation should not be considered the failure of the field worker. Generally more than five sincere candidates are required to form a group of five, as mentioned in the previous section. Places where first efforts to find enough candidates failed should be abandoned even if one or two promising candidates were identified. Staying at communities too long without forming a group is something to be avoided, because this will raise hopes in the clients which there will be an impulse to meet later on. It is important to avoid the feeling that one must persuade candidates to join the programme and that it's thus important that they become Kiútprogram clients.

According to this experience, the group size was modified and the rule of issuing the loan to the most influent member of the group *last*, who should also be the group leader, was more consistently applied. At the same time, *the waiting time between two loan placements was reduced from 6 weeks to 4 weeks in sequential lending.*

The amount of the loan was decreased and clients were urged to start smaller ventures. Before the correction of the model, *the average amount of the loans was 2 400 Euros, after the correction it changed to 1 900 Euros.* Efforts were made to issue the loans in parts instead of one amount provided that the type of the business made this possible. This solution lessened the risk of loss. During the programme, 89 clients received loans up to April 2012, 8 of them twice, and 3 additional clients three times. All these additional loans were issued after the correction of the model.

Efforts were made to make the duration of the loans more flexible. On one hand, durations of less than 1 year were made possible. Few clients made use of this change, however, the ones who did were successful according to experiences so far. On the other hand, in case of many projects it is obvious that the duration of 1 year is too short; no return is possible within that time. Therefore regularly paying clients were allowed to reschedule the instalments of outstanding debt for another 1 year. Generally it was found that the end of this support was a serious shock to both the business and the household, this is why the accumulation of savings was encouraged. However, this was not entirely successful: the costs of launching a new enterprise did not make it possible to accumulate savings.

In addition to targeting clients with a wider net of relationships, efforts were made to take on ***network building activities***. Since this is considered the most important direction of development, a case related to this issue will be described in detail in chapter 11.

Internal processes were also modified, making steps a lot more deliberate; initially, as with any new projects, the programme had too many incidental components. *The territorial target*

area was expanded, including further counties and looking for places where segregation is not too extreme and the local Roma have external connections. The function of regional coordinator (mid-level management) was introduced however, it did not prove to be a good idea and has been eliminated since.

It was already mentioned in section 3.6 that, following the correction of the model, the Budapest Institute, an independent research institute, was commissioned, to conduct an interim evaluation of the programme. One of their findings (on the over-ambitious goals of the programme) was already presented there.

Another important factor emphasised in their study was the role of the bank and related problems. Kiútprogram's compulsory relationship with the bank did not work well. There were some personal issues (change of top management at the bank), and banks were also hit by heavy extra taxes and burdens in the meantime. This changed the CSR willingness of the bank drastically and made operations a lot less flexible. Preparing lending administration took a lot longer than originally agreed by the bank. Because of this, first clients were kept waiting for the loans for many weeks, which caused severe loss of trust. This issue by itself led to cases of defaulting; when skipping payments, clients could bring up that Kiútprogram had not kept its promise either. The bank proved to be very inflexible afterwards, too; modifications took very long to take effect in the banking procedures, and the bank ended up being the barrier of several additional attempts at changes. The bank broke its promise to only act as an automatic administrator in the lending process – despite the fact that the costs of defaulted loans were continuously reimbursed from private funds. ***A fundamental lesson is that a similar project can only be successful if the institution technically administering the loans is fully cooperating.***

It must be mentioned that external circumstances also played a role in the initial difficulties. The incident with the biggest impact was that the government put a hold on public work programmes for the first 3 months of 2011, the most critical season for the subsistence of the poor. As a consequence, demand for the goods sold by clients suddenly and drastically fell, and all these retailers serving the local market almost immediately went broke. Due to the decreased demand, the group members started to compete with each other instead of cooperation and this further decreased performance.

When modifying the model, it was assumed correct to start by targeting people of a somewhat higher status. After evaluating the questionnaires this assumption was found to be false. The correction of the model did not increase the average household income of clients, did not include more non-Roma and the share of clients living in a mostly Roma environment did not shrink either. What really changed were the clients' subjective capabilities; Kiútprogram's new approach attracted serious candidates. Several questions in the questionnaire explored subjective factors, and it is clear that the self-confidence and risk tolerance, as well as optimism are higher among clients recruited after the correction of the model.

In the questionnaire candidates were also asked how satisfied they were with their lives and financial circumstances – before joining the programme. After the correction of the model, clients tended to be more satisfied with their lives than earlier clients, and the new clients had

a bigger difference between their satisfaction levels of life in general and their financial circumstances.

The correction of the model beneficially influenced the repayment of the loans, nonetheless, the repayment rate still does not meet original expectations, as described in the following chapter.

A8. Results of lending

Here an additional, detailed explanation is provided to supplement section 3.6. *Results of lending*.

Arrears start to accumulate when the support to become an entrepreneur runs out. This support has a dual effect: on one hand, it helps bridge the period when the business does not generate income by replacing the income from welfare aid or public work. On the other hand, it sets some clients at too much ease. They can complement the household budget, which is understandable as they lived in deep poverty, at the same time it only adds to the loss-of-income shock when the support ends. *Savings of a part of the support must be encouraged more intensely* because half a year is usually not enough to generate the level of income that could counterbalance the loss of the support. In connection with this issue, the process of business planning must also be improved.

This effect is further strengthened by two factors. The first is seasonality; both retail trade and agriculture is strongly seasonal and the situation can deteriorate if a bad season coincides with the ending of the support.

The second factor is external, something that cannot be influenced. The performance of the Hungarian economy, already problematic, has further declined with the GDP diminishing in the first quarter. Changes in conjuncture have a huge effect. The survival rate of businesses ran by individual entrepreneurs was less than 70% in 2009 and it further worsened during the crisis by all means. Several measures introduced by the government further deteriorated the living conditions of the most disadvantaged. The freeze on public work programmes has already been mentioned. Moreover, income from public work decreased by 40% between 2010 and 2011, and this process continues this year. Wages for public work were cut, as was the aid the local government pays if no public work is available. All these factors decreased additional income of clients and the spending capabilities of their customers, too. From 2012, individual entrepreneurs are hit by further charges, they have competitive disadvantage compared to other business formats.

It was also observed that successful clients get into a crisis pretty soon after taking the second loan. One reason is that the instalment increases because of the additional loan; another reason is the inflexibility of the loan product. Retailers would need classic current assets loans following the initial investment. Unfortunately, the deterioration of relationships with the bank prevented this, and lenders in the market do not serve entrepreneurs without collateral.

A fundamental problem is that many investments need a much longer time than 1 year to produce a return. Because of the duration of the pilot, this problem could not be fixed,

however, in longer projects *longer loans are absolutely necessary*. This is also necessitated by competition.

Besides the lack of capital, another serious issue is the lack of business and financial knowledge. As much know-how is passed on as possible, but *continuous training is vital*. Many promising businesses require an official certificate and education in addition to existing professional skills. The shortness of the pilot did not allow for this.

A9. Some specific findings of the programme

A9.1. Selection criteria of the target group and finding suitable clients

As described in the chapter regarding the correction of the model, a major finding was that much more attention should be paid to the entrepreneurial capabilities when selecting potential clients.

As the programme finishes, field workers are interviewed with open-ended questionnaires and also collect data through focus group discussions to accumulate their insights that further refine the entrepreneurial traits mentioned above. In the following, the findings of the programme in the field are summarised, which can be utilised for all similar programmes or target groups in the future. Below, the selection criteria described in chapter 8 are further specified.

Is the candidate's personality compatible with becoming an entrepreneur?

- Characteristics of the candidate's lifestyle and relationships with his/her parents and siblings. What is the level of their influence, is the candidate able to stand up to them? This is important because members of the extended family often arrive and ask for support when the enterprise generates its first income. If the candidate is unable to decline these requests then the enterprise is often endangered or it can even collapse.
- Does the candidate enjoy his/her family's support?
- Do peers consider the candidate as reliable, stable and genuine?
- Is the candidate resilient and persistent enough?
- Is the candidate able to learn new skills?
- Does the candidate show some level of creativity?

Does the candidate have an "entrepreneurial dream", something he/she wants to see come true?

- Is the candidate motivated?
- In addition to the "dream", are there realistic expectations regarding the major tasks, activities, costs, etc.?
- Is the candidate aware of the possible pitfalls, major risks, difficulties the business could face; is there a contingency plan in his/her mind?

- Is the business idea viable at the given location/environment?
- Are there any competitors? What is the effect of competition on the operations of the business?

Is the candidate capable of running official errands on his/her own?

- This is an important factor that can only be truly assessed during the actual cooperation with the client.
- Is the candidate capable of communicating effectively and running errands over the phone?
- In addition to being capable of conducting official business independently, it is also vital to know if there is any discrimination against the target group when running official errands in the given region. Clients are often anxious and insecure about official business; field workers have an important role in helping them overcome this fear.

Has the candidate ever operated a business or business-like activity, including informal entrepreneurship?

- Earlier work experience is crucial. Work activities with independent reliability may substitute for entrepreneurial background.
- A potential downside of merely informal business background is that the candidate never faced the obligations to pay taxes and contributions and the expectations of compliancy with applicable regulations, and the additional costs (bookkeeping, administrative costs, etc.). Understanding and being compliant with regulations may cause several problems; however, entrepreneurial background in any form – even informal – proved to be crucial.

Is the candidate able to participate in regular activities, i.e. work regularly, every day? Has he/she done any regular work earlier?

- It is important to know the amount of time that passed since the candidate participated in any work activity. Inactivity for several years has a deteriorating effect on skills.
- Is the candidate participating in any work activities currently?
- Is the candidate reliable and capable of working on a regular basis?

What does the candidate's credit history look like? How did he/she handle earlier loans?

- It is necessary to explore the credit history of the family.
- Credit history should include public debt and late payments on rent, etc.
- What is the level of indebtedness in the family and among close relatives? If the individual were financially solvent, the needs of relatives could hold back the financial stability of the business.

Additional factors

- Does the candidate have the required qualifications?
- Is the candidate capable of cooperating/adjusting in flexible and efficient ways?

- Are there any physical or mental conditions that might – even temporarily – obstruct work? This is not a ground for elimination from the programme of course, but any potential difficulties must be considered and get prepared for.
- Does the candidate need help with the business activity?
- Does the candidate effectively own the equipment necessary for running the business?
- Is the candidate able to take actions to start the business or undertake “sacrifices” before getting the loan?
- Is the candidate able to step out of his/her current comfort zone, e.g. getting up early or work late if needed?
- Is the candidate aware of the length of the process, does he/she have patience/capacity to wait until the business is launched?

Of course, potential clients do not have to meet all these conditions. These are merely guidelines; however, it was found that if the majority of these are not met or there is a condition that the candidate does not meet in the least, then the chance to become successful is very small. The profile of the planned business defines necessary characteristics, for example:

- In retail trade, personal traits like sociability, friendly communication style and knowledge of supply sources are crucial;
- In agricultural activities, professional know-how, experience, and good physical condition, endurance are more essential.

The factors listed above may be used as guidelines for similar programmes to define a complex system of criteria for selecting their clients.

A9.2. The environment and profile of the enterprises

The following summary is based on the findings of the management and field workers of the programme.

The size of the settlements and their urban development level have a fundamental effect on finding clients, forming groups, and also determines the environment of enterprises and their potential problems, as well. While in larger settlements or townships (even in segregated urban areas) members of the target group are more isolated, Roma people tend to form closer family networks and know each other better in smaller villages. Consequently, it is easier to recruit clients and form groups in villages. However, aspects regarding business operations proved to be more crucial.

In small settlements, businesses could face several serious problems:

- Due to the high rate of unemployment and indebtedness, there is a lack of paying demand for products and services.
- At these locations, retailers have no choice but sell their products on credit in the second half of the month. However, providing credit to customers carries a huge risk for new enterprises, which often led to the decline of business in the first wave, thus this was

restricted as much as possible. Efforts were also made to avoid the situation, where clients themselves became usurers (“loan sharks”). According to field workers’ findings, even local stores operated by powerful business owners with a long history calculate with a 5 to 10% loss due to non-paying customers.

- If retailers decline to sell to their Roma customers on credit, then they will probably turn to somewhere else. In the meantime, non-Roma customers buy only from Roma retailers they already trust. This results in a vicious circle that makes the operation of a store unfeasible from the very start.
- In this same entrepreneurial segment in disadvantaged areas with high unemployment rates, entrepreneurs can only work with very low margins to remain competitive. This adds an additional risk factor to the vulnerability of the businesses supported by the programme.
- Jealousy going beyond rivalry can be another risk factor mostly in villages, due to the particularities of Roma communities. People who start a business through the programme may be ostracised, not cooperated with, lose connections or even face hostility. Due to his status as an entrepreneur, a person might be considered as “wealthy” – even if the start-up is difficult and without a profit – and he/she will not get any supplementary work.
- Roma communities often de facto reject entrepreneurs who achieved a higher living standard; or the family expects them to help beyond their means.
- The problem of direct competition is a more serious problem in smaller villages. For example, an entrepreneur started a tiny grocery store, and another entrepreneur started to trade with second-hand clothes. Since local demand was low anyway, the latter entrepreneur started to sell groceries in winter when income is lower, basic costs of living are higher, and the demand for clothing items further declined. They inevitably became competitors at a location that could hardly support one grocery store.
- Distance from towns/county seats is a general disadvantage of smaller settlements; this is apparent if one considers the high shipping costs and frequent travel needs to remote offices. A significant portion of the programme budget is spent on fuel costs paid to the field workers who may get reimbursed for 3000 km per month. These costs are partly due to the support of clients’ shipping and administrative activities. In later phases, when a business runs regularly, less support is necessary. However, this help is vital early in the process.

All these circumstances do not make operations in smaller villages impossible; they simply suggest that these factors must be given extra consideration when groups are formed and loan decisions are made. Field workers must face potential clients with these problems and must encourage them to find specific solutions applicable to the given location. If this process is unsuccessful then the loan must not be issued. In general, it was observed that there is very little chance to start a successful enterprise in extremely deprived, segregated small villages or settlements.

Although bigger settlements and towns have disadvantages regarding recruitment and group formation, they still offer unsurpassable economic advantages. Compared to small villages, paying demand is higher and more stable, and the decline in demand during winter is less

severe (except for January and February, a general phenomenon). Shipping costs are lower (buying supplies, distribution, etc.), and official errands can be taken care of locally in many cases.

In some bigger towns with significant Roma population (e.g. Ózd), there is a particular factor: certain interest groups occupy certain economic segments and external players cannot gain acceptance in this network, or can only survive by significant financial sacrifices.

Independently from the size of the settlement, a fundamental problem is that several investments require a longer return period than 1 year. In the start-up period, businesses do not generate larger income that could be reinvested; an introduction period is necessary while potential customers get familiar with the store/service, and a customer base builds up. Kiútprogram clients also go through a learning curve; it is difficult to perform in an entirely new and often earlier unknown territory. Clients' lives change completely due to starting their enterprises; this also affects their family and community lives. The tasks previously performed by the entrepreneur within his/her family must be partly or fully taken over by other family members. The client's and the family's daily activities, routines and habits go through a change. The merge of family and business costs and income may be confusing, and this – by itself – complicates the optimal management of resources.

Finally, it is worth reviewing any changes in prejudices. At the planning of the programme, it had been hypothetically assumed that discrimination against successful Roma entrepreneurs would decrease. Field workers found the following:

- Participating in the programme increased the prestige of clients. Prejudices against Roma participants decreased by the non-Roma environment (offices and business partners).
- Various state officials initially doubted the success of the Kiútprogram programme and clients; however, the notion of the programme and Roma clients positively changed during the process. This was especially crucial when clients applied for the support to become an entrepreneur (VVT).
- Although discrimination against Roma clients decreased, the hostility and jealousy of their immediate environment often increased.

Field workers did not experience any increase in discrimination. These findings support the validity of the initial hypothesis.

It was also found that successful clients' self-confidence significantly increased, their view of the world widened, i.e., the programme's psychological impact is also noteworthy. As a related result, the number of potential interested clients shows a significant increase among people in the surroundings of our clients; field workers reported that this is due to learning about individual success stories and not because of the possibility of receiving a loan.

A9.3. The group model

It has already been previously described how the conditions of the group model were loosened during the pilot. This also requires further analysis, however, there is already have a concept based on practice so far.

It was found that the group model in its original format works only if one encounters a very strong community by itself – this is very rare. Without this, sequential lending becomes dysfunctional. There are several arguments against it. First, seasonality: delays in time often prevent the last member of the group from launching the business in the given year. Waiting, well-prepared clients often lose their patience, especially if a group member prior in the sequence starts to pay late. If there is no strong local community, then group pressure does not work either. Sequential lending is especially confusing when taking a second loan. The bank did not approve of the second loan until someone still owed money in the group – destroying promising businesses that needed current assets after making the initial investments. (The inflexibility of the bank also played a role here).

The argument for sequential lending is to reduce moral hazard. Under circumstances where almost every business needs some kind of investment, non-eligible use of the money can only happen at the very beginning of the process. It is impossible later when investments are already paid for. (Purchasing a car was an exception; this is why it was excluded after the correction of the model.) If a guarantee is wanted, sequential lending in 2 phases is satisfactory; in this case, the group leader is the only one getting the loan later, with 4 weeks' delay. The group leader must be selected by the field worker in accordance with the group's opinion, making sure that he or she is really the most influential group member in the hierarchy of the local community.

It became clear that group lending is beneficial, however, sequential lending can be skipped or applied only minimally.

In the following, the most important functions of the group are summarised; the major factors of group cohesion and dissolution are reviewed, as well. The most important functions of groups as identified during the programme and after summarising the experiences are the following:

- Increased efficiency due to bigger size, easier organisation, improved mutual information exchange among members / members and field workers.
- Mutual support, good opportunity to practice cooperation skills needed for entrepreneurship, building trust, easier to learn in a group.
- The possibility of stronger individual discipline.
- Group identity, belonging to a special community that differentiates the individual from others in the community to some degree, stresses his/her identity as an entrepreneur, thus decreasing the level of discrimination in their surroundings.
- External pressure is huge on individuals living in segregated communities, often causing insecurity and doubt in the clients. Groups also play an important role in sustaining

motivation. More resilient and assertive group members may empower others when problems have to be handled and resolved.

- Mutual assistance, business connections. They may buy goods together by using their circulating capital or purchase products at a lower price. In such cases, shipping costs are also shared.
- In case of agricultural activities or if an integrator/coordinator is involved, production in bigger groups is more efficient. Efficiency is also higher because of the size of the group; information exchange is also easier.
- Handling certain official matters or performing certain tasks together.
- Enabling an environment of healthy competition with the field worker's help.
- Synergy of enterprises, utilising other members' businesses.
- Prevention: discussion of problems, finding resolutions before problems get out of hand. Works only in "real", well-functioning groups. Does not work in solely economic formations.
- Maintaining paying morale not only for continuous repayment of loan instalments, but also for taxes and contributions, a crucial topic. Group members remind each other to meet these obligations. This is a certain kind of assurance that lasts until the end of the lending process.
- Decreasing the possibility of misconduct.
- Building self-confidence.
- Building positive relationships and friendships.

At the same time, trust in the programme is not born as a result of working in groups. A more important component is the relationship between the field worker and the client, the fact that the client considers the field worker as his/her mentor who can be trusted with any problem. In general it was found that group members share confidential information privately with their field workers instead of discussing it at group sessions.

In the experience of Kiútprogram, groups very often dissolve after the last loan is issued despite obvious advantages. Based on analysis, the reasons are the following:

- The formation of the group is just a step to achieve a short-term goal, members do not realise the advantages listed above. Once everyone receives the loan, this common goal ceases to exist, and the group dissolves. It seems that the earlier described phenomenon of short horizon thinking might play a role here.
- The possibility of dissolution is especially high if the members who received the loan first have difficulties with repayment or intentionally do not pay and thus the rest of the group does not receive the loan according to the rules of sequential lending. In such cases, the remaining members' patience runs out quickly and they leave the programme in spite of not having any direct loss due to the delay. However, psychological loss is significant, because hope rises then evaporates due to the lengthy waiting period, and as a result, trust is lost. This phenomenon is especially serious if the waiting client's enterprise is seasonal and he/she cannot start at the optimal time. At the launch of the programme, it was

assumed that waiting members would be able to press others to pay their instalments. However, experiences show that these situations rather led to the dissolution of the group.

- Dislike or bad relationships among group members or conflicts among families. In such cases, it is more advantageous for the individual to leave the group than to stay.
- All members focus solely on themselves and their own businesses; there is neither time nor energy to focus on cooperation.
- The various levels of success or failure of the enterprises may be a cause of dissolution if members become jealous of each other.
- Competition among group members – e.g. group members sell the same product, or a mobile retailer takes over the customers of the grocery store, etc.
- Exaggerated reliance on the group or the field worker – when a group member expects the group or the field worker to solve all his/her problems and then gets disappointed.
- Intentional misconduct during the programme, handling financial resources as a personal loan. This mostly happened in the first wave. The number of such cases significantly decreased after filtering methods improved and field workers gained more experience.
- Dissolution may also happen if members do not see any practical benefit of the operations of the group, the enterprises are entirely different and thus no business interactions, mutual assistance or bartering take place.

In general, longer time and successful enterprises are needed for the clients to realise the obvious advantages of the group. An extra advantage that may result in increased business potential is the cooperation of members and their common representation and collaboration with external business partners. Enterprises that build on and are connected with each other, or groups where members used to have good relationships before continue to stay together in the long run. There are certain tasks that everyone needs to pay attention to, e.g. marketing, website, sales opportunities, and regulatory changes. Within a couple of months, these advantages become obvious due to working in a group. Field workers have a crucial role in this area, too.

Consequently Kiútprogram's management believe that it is worth supporting group formation in similar programmes due to the potential advantages of working in a group; group formation should even be the prerequisite of lending. Group work offers the clients undisputable advantages in comparison to individual work and it also improves the efficiency of field workers. However, as mentioned earlier, group operations should not go hand in hand with sequential lending. In this regard, the experiences of developing countries are not applicable.

As a hypothesis it can be stated that sequential lending may work at locations where – independently from the programme - local communities are cohesive and local society is governed by strong morale traditions. However, in the pilot there was only one settlement where these criteria were still intact – the model proved successful here as expected -, thus no generalised conclusions can be drawn from this case.

A9.4. From microcredit programmes to business development with a social purpose

As already mentioned briefly earlier, field workers play a dual role. As social workers, field workers learn about the client's way of living and suggest changes; as business development advisors, they help prepare the business plans and urge clients to meet the requirements of the efficiency and regulatory background of business. These two roles call for significantly different approaches. For social workers, the task is mentoring for the prosperity of families; business development advisors focus on achieving the most profitable operations and this very often does not allow for using bigger amounts of extra income for family needs since the development of the enterprise depends on the income reinvested. The controversy of these two roles is increased by the fact that clients contract with the bank but are in regular contact with their field worker.

A fundamental problem is that social work relies on empathy, while business management requires rational decisions. These two coincide only if the entrepreneur succeeds and his/her social standing improves. It was found that failing enterprises cause a considerable frustration to field workers.

Based on these findings, the skills and background of the field workers indispensable to meet the requirements of these two roles are the following:

- Financial/economic qualification, familiarity with human resources development, and thorough knowledge of the target group gained through direct fieldwork.
- For the business development advisory role, one needs to have a certain “entrepreneurial vein” that cannot be substituted by business development training.
- Mentoring the clients' enterprises necessitates field workers to also act as bank associates – partly being bankers, partly mentors, PR associates, claims managers and administrators – at least in the early months.
- Based on direct daily experiences, field workers found that they also need to act as social workers and mental coaches.

Field workers must be open, inclusive and ambitious, of course. They need to demonstrate a strong character that enables them to consistently implement the above expectations, while they cannot behave partially in any case and must handle all clients equally.

Thus a brand new profession was created, that of the “social microcredit field worker” during the pilot. It emerged that only certain people with specific personalities are suitable for this job. Field workers should not be infected by the mentality of officials or bank associates, can be instructed and at the same time can handle a large workload. An important lesson gained during the last year was that some field workers, not being able to become real mentors and helpers, used power to compensate for their failure. During the selection process of field workers, candidates must also demonstrate the capability for empathy in addition to handling psychological stress well.

Field workers must be success-oriented. Primarily they should work for the success of the clients, however, they should also find appreciation and financial rewards of their own work important.

Even if selection is excellent, first-rate training is still necessary to help field workers navigate through the complex tasks listed above. (The topics of the training are described in chapter 7.) A team of professionals who provide continuous support to both the management and the field workers is also necessary. Field workers' training should be ongoing in order to enable them to process / analyse new challenges and learn new techniques.

Based on the above, it is safe to describe field workers as "personal business development coaches". Field workers often work for more than 8 hours a day. All these facts clearly indicate that field workers should be paid relatively high salaries rewarding their expertise.

The process of finding and selecting suitable, successful field workers is connected with the above requirements. **Major findings about the selection process are as follows:**

- Field worker candidates and actual field workers cannot foresee in effect the complexity and workload of the job; this becomes clear only during their work, after several months. If they foresaw all prospective difficulties, they might not take the job. However, by the time they fully understand their role, most of them become infatuated with the job.
- Altogether, the existing methodology – following the mechanism of natural selection in essence – of finding competent field workers works well. Those who stay in the system are capable to fill this complex and diverse role; similarly to great theatre shows, an excellent team of obsessed individuals is required. As a result though, creating a team of suitable field workers is a costly and time-consuming task.

Field workers continuously face the internal dilemma of the programme, i.e., the contradiction of the social purpose and providing loans as its instrument. Regard the programme as one with a primarily social purpose, then the additional burdens constituted by managing fragile enterprises in a recessive but economically also repressive environment have to be considered. Some additional burdens have been taken over by the programme in the pilot phase, such as paying for defaulted loans, compensating for the discrimination of contribution-paying obligations, or reimbursing vehicle usage of field workers. Another significant portion of additional burdens currently fall on field workers while their job is not yet standardised / formalised adequately (although it is probably impossible to fully standardise this role either).

A similar future programme needs to keep in mind that the most important ingredient of successful implementation is the extremely complex and responsible role of field workers; this is a matter of principle. It should be realised that entrepreneurs and enterprises supported by the programme are not businesses in a traditional sense, but forced enterprises in need of ongoing support and mentoring. Consequently they cannot be left alone after the launch of the business. The need for ongoing support means that it is unrealistic to expect that a suitable, flexible and tailor-made lending programme – by itself – could keep these enterprises afloat. As a result a similar programme is inevitably costly in this social setting as mentioned several times earlier, and a considerable portion of the budget is spent on continuous support and mentoring of clients.

It is also very difficult to measure the field workers' performance; this is a controversial issue. Expectations towards field workers have changed during the programme. In the beginning, too much attention was paid to enrol as many potential clients as possible and form groups as soon as possible. As a result of this pressure, too many clients who were not prepared to start an enterprise were contracted, and some clients with malicious intent were also acquired. Breaking through the early mistrust about the programme already mentioned earlier was also costly; potential clients needed to experience for themselves that Kiútprogram follows through with on its promises. The more deliberate clients seriously considering the possibilities and obligations often applied to the programme only later on.

These early difficulties would probably also affect any similar programme in the future. This is why it is believed that these issues should be highlighted.

Later on, expectations tend to focus on the repayment of the loans and assuring that the clients succeed. However, too much pressure on field workers is counter-productive here, too, because it may lead to excessively safe selection of clients, thus the target numbers of employment generation will not be met. Field workers may also be tempted to provide too much support exhausting their own resources while clients will not become as independent as desired. There is a delicate balance between recruiting new clients and supporting existing ones. The management needs to be aware of this from the very start and should avoid using wrong incentives that might tilt the balance in either direction. This is easier to grant if management views field workers as partners rather than employees. Intense and continuous communication between the management and the field workers is essential. Therefore, *the professional manager of field workers is probably the most important role in the whole programme.*

A9.5. Lessons learnt through fieldwork

Besides summarising best practices, miscalculation of a programme often provides even more valuable lessons. This section mainly focuses on field workers' reports. Some "mistakes" happened due to the fact that it was only gradually figured out additional components that should have been done, and not because of doing things wrong in the first place. For a new programme, these lessons could be of special importance.

Some issues that proved to be erratic were caused by methodological principles; initially Muhammad Yunus' model was followed too rigidly in certain respects. At this point, it is necessary to quote further from Yunus' work titled *Banker to the Poor*.³²

„From the very beginning, Grameen has gone against traditional methods of poverty alleviation by handing out cash without any attempt to first provide skills training. We have received a great deal of criticism for this policy, even from some of our friends. In Jobra we simply did not see any need for formal training, and our experience in the 1980s gave us more confidence that we had taken the right approach. ... I firmly believe that all human beings have an innate skill. I call it the survival skill. The fact that the poor are alive is clear proof of

³² Yunus: *Banker to the Poor. Micro-lending and the battle against world poverty.* 2007, New York, PublicAffairs. Originally published © JC Lattès, 1997.

their ability. They do not need us to teach them how to survive; they already know how to do this.” (p. 140.)

„Government decision-makers, many NGOs, and international consultants usually start the work of poverty alleviation by launching very elaborate training programs. They do this because they begin with the assumption that people are poor because they lack skills. Training also perpetuates their own interests – by creating more jobs for themselves without the responsibility of having to produce any concrete results. Thanks to the flow of aid and welfare budgets, a huge industry has evolved worldwide for the sole purpose of providing such training.” (p. 141.)

Although there were some doubts regarding this section (quote: “...the poor are poor not because they are untrained or illiterate but because they cannot retain the returns of their labour. They have no control over capital, and it is the ability to control capital that gives people the power to rise out of poverty”, p. 141) because several studies proved the relationship between poverty and a low level of education, trust was put in Yunus’ strong practical background and his two powerful arguments. The first argument referred to survival skills quoted above; it can safely be assumed that if the average person had to move to a Roma settlement in Borsod County in mid-winter – similarly to the prince’s fate in Mark Twain’s novel, *The Prince and the Pauper* – it would be quite improbable that they could survive it.

The second argument regarding training programmes is perfectly valid under Hungarian conditions and is probably also valid in other Eastern European countries, to varying degrees. It was also found that adult education programmes primarily meet the trainers’ needs and often disregard the trainees’ interests, or give them only minimal attention – despite being very costly, or for this very reason.

During the implementation of the programme, however, it became obvious that *training of the clients is crucial within the framework of the programme*, especially in finance and business skills. Complicated administrative regulations, invoicing, various interactions with the bank and other official business tasks all require systematic, well-prepared training, even if bookkeeper’s services are available. Regarding business skills, marketing is an especially important area.

The most efficient way of training is for field workers to serve as trainers and to provide training during group sessions. Obviously, field workers should also be trained in this case; they must be knowledgeable in both the content of the course and training methodologies. Yunus is correct regarding strong mistrust of formal education based on bad experiences with the school system, but clients highly trust field workers, thus the training held by field workers may be very efficient. For special courses (regulations of certain trades, or marketing) this can be supplemented by drawing in trainers in these special areas.

When planning training courses for the programme, the characteristics of adult learning must be considered. The most efficient and lasting learning method is going back to existing empirical knowledge and building further knowledge on this foundation. Clients gain the most lasting and useful knowledge through learning embedded with practice.

Clients mostly have low levels of education; they have usually collected negative experiences in primary school, and this influences their willingness to learn later on. These negative reflexes need to be eliminated by using appropriate methods; formal teaching styles are not suitable. This notion is supported by the limited success of the recruiting sessions using traditional presentation style.

The most important objective is providing knowledge that can be applied in practical situations. For this purpose, theoretical business materials should be tailored to the characteristics of the clients and their business profiles; questions and issues raised by the clients must be discussed in all cases. Even if thoroughly prepared, field workers cannot become familiar with all issues the various enterprises. Therefore, a powerful background team should be organised so that all questions can be answered before the next group discussion. In many cases, even over-the-phone consultations are necessary.

As an example, a field worker used the following method:

“We continued the client’s training by giving practical instructions at the store through role play. The client performed the steps of the sales process while the bookkeeper made corrections and also pointed out causalities of the actions. Thus these competencies were ingrained and became routines through minor reinforcement during the daily work.” This knowledge was not about the relationship between the salesperson and the customer because good sales skills are mostly intrinsic, but there are many other areas to learn about (e.g. invoicing, taking inventory, ordering goods, health regulations, etc.).

While working on the structure and coordination of the training, it was realised that there are many more areas where field workers need further support from the management:

- Tracking regulatory changes and informing field workers about them.
- Providing support about the special regulations and knowledge regarding individual trades. For typical business types (such as grocery store, mobile retailer), it is worth summarising the core information about the licensing process and operating practices.
- Providing organised assistance with the establishment of the channels for institutional cooperation (e.g. employment centres, tax- and misc. authorities, local government).
- Organising knowledge in *to-do and problem-resolution manuals*.
- The field workers’ job is quite stressful for several reasons. They face many grave life stories and situations, while they cannot show pity for the clients or take too many tasks on themselves. They often need to make decisions influencing the lives of the clients and they inevitably make bad decisions at times, or feel that they did so. Field workers usually experience the clients’ failure as their own, and they are in danger of being burnt out. For these reasons, *continuous supportive supervision* should be provided to field workers from the onset of the programme.
- Continuous discussions and information exchange between the management and field workers is essential.
- Field workers need a “hospitality fund”. This issue arises when field workers interact with Roma clients. Following cultural traditions, Roma families always offer food and beverages to the visiting field workers, but they can only afford this early in the month

when they still have some money. Therefore, field workers started to carry some hospitality items with them (crackers, beverages, etc.). Field workers reported that occasionally they need to spend about 8 000 to 10 000 Forints per months to make sure that cultural traditions are respected.

The following account of a field worker proves that to-do and problem-solving manuals would be highly useful: “We found that it is necessary to provide guidance to the clients, advise about the best direction of action and prevent future problems. Advice should be given about topics such as choosing the profile of the business, or at specific points of the various decision-making phases. Mentors foresee potential drawbacks and failures already when the profile of the business is chosen; this is necessary to be able to help the client and the business become successful. At the same time, mentors carry serious responsibility and they inevitably take the risks of miscalculation as being key players in the process. Templates by business types would be helpful where clients themselves could consider the pros and cons of the business. Templates could include the amounts of taxes/contributions payable and other administrative fees (bookkeeper’s fees and bank charges following the maturity of the loan, etc.). Templates would help clients with completing official paperwork and mentors would have an easier time deciding about the eligibility of the clients; the level of previous education and knowledge would be easier to measure, and topics for consideration easier to identify. Mentors give “homework” to clients to a degree, however, it was not stressed enough due to the social nature of the programme. However, it is essential to measure the clients’ competencies in planning and writing. Thus clients could be gently guided instead of perceiving a recommended change of business profile as a harsh intervention. It is still possible though that acquisition and sales prices are distorted and a clearly unprofitable business is verified; but clients inevitable face reality when interacting with their group, the local stores/markets or Internet resources.”

A10. Case study – cucumber growers in the northern part of the Great Plain

This is a real *best practice* story. It is worth taking a closer look because it offers a good illustration for the flexible prospects of social microcredit. Hopefully this focus is not premature, as this project is still underway.

“N” is a village with little less than 2,500 inhabitants in one of the poorest, primarily agricultural counties in the north-eastern part of Hungary. According to the latest census, 11% of the inhabitants are Roma; this number is in fact most probably higher. In the village, a charismatic church has many followers, especially among the Roma. The field worker started to work in “N” in early 2011, and a group of 6 Roma women was organised pretty soon – all of them are members of the above-mentioned church.

Three people in the group took the loan for cucumber growing; one person opened a confectionery shop, another one started a small grocery shop, and the group leader (originally) took the loan for poultry husbandry. Due to the sequential nature of the lending, the group

leader was the last to receive the loan, which she did this year, because of seasonality reasons. In the meantime, however, she also changed her mind and decided to start cucumber growing instead of poultry husbandry.

What is cucumber growing about? Pickled, 3 to 4 cm long cucumbers can be sold at a good price in Western Europe. If cucumbers grow bigger, the price falls drastically, therefore lots of attention and precise work is needed from April/May to September/October. One person can manage an approximately 250 m long row of cucumbers plants, which can be set up even in the yard around the house.

Based on the above, an economic network was born where the central player is the so-called “integrator” (coordinator). The integrator distributes seeds, nutrients and pesticides, trains participants if necessary and finally ships the cucumbers to the processing factory (usually their own). Prices are agreed upon in advance, and material costs are deducted when the produce is collected. The producer needs to invest in the watering system, posts and drilling a well if there is none on the plot. It is fundamental to have *trust* between the integrator and the producer. The biggest risk for the integrator is that another wholesaler may arrive at harvest and give a higher bid for the product. He/she can easily do this because he/she hasn’t invested in the seeds, materials, and daily work of organising and training. Even in this case, the cost of materials is reimbursed to the integrator; however, there is no profit on the integrator’s invested money and work. A producer who accepts such a deal gets the higher profit only once because the integrator will not contract with him/her again. Taking new producers is another huge risk for the integrator, because it is doubtful if they will follow the rules of growing cucumbers.

However, the producer also takes a risk if the integrator tries to pay less than originally agreed upon or goes bankrupt and cannot buy the product. This latter happened in this case.

What was the role of Kiútprogram in this story? At start-up, loans were issued of a little more than 1 000 Euros per participant to drill the wells, pay for the watering system and the posts, and pay the social security contributions. At the end, assistance was provided to help them find another integrator who bought the cucumbers without taking advantage of the growers’ difficult situation.

Because of the contributions and repayment of the loan, producing 250 m of cucumbers does not generate profit by itself in the first year, however, with the help of family members, women cultivated a much bigger area, and thus they ended up with a net income. A real profit can be expected in the following year when no new investments are needed and no contributions must be paid any longer. The integrator, however, told the growers that due to increased shipping costs she can only afford to contract with them if they recruit additional trustworthy partners in the village.

The initiative was a huge success, group members, under the group leader’s guidance, recruited 25 new growers, mostly Roma women, although there are some who are non-Roma. Trilateral agreements have been created among the growers, the integrator and Kiútprogram. For new participants, Kiútprogram continued to provide loans to cover the cost of investments and contributions, except for the steps of regular group forming and sequential lending. At the

same time, forming the group last year has not been useless at all, because without the efforts of the group, the recruitment would not have been successful. The members of the original group will pay the loans back within two months and can continue their business activities without taking any new loans.

According to the integrator's own account, she had some negative experiences with growers who sold their produce to higher bidders and she hasn't contracted with Roma for several years. Now, however, seeing the achievements of the women and the contribution of Kiútprogram, she has changed her approach and was ready to do additional training if necessary.

Of course, there may be many hurdles to face before the next harvest. There is no guarantee that everyone will work with the necessary intensity and endurance, and weather is another huge risk factor. Whatever the end result, this case study indicates the right direction if the programme can be continued: helping clients connect with the normal flow of economy by building trust and assist this by providing loans and facilitating networking. Another important lesson is that Kiútprogram as a loan provider, needs to handle the lending process with maximal flexibility, accommodating to the circumstances.

The story of the confectionery shop is also briefly summarised. This member had received a loan of 2 000 Euros while the family also had some financial resources of their own, and they invested a great deal of work into renovating the shop. Within a very short time, the shop became a central destination in the village, children – Roma and non-Roma – started to meet there after school instead of hanging out in the streets; actually, this is the only place where people can meet and talk and alcohol is not served. Probably this was the reason why the integrator asked the owner of the confectionery shop to coordinate the collection of cucumbers. Regardless of future events, it is obvious that there has already been a significant advancement in the integration of the Roma in the village.

Annex B: Who are the beneficiaries of Kiútprogram? Analysis of the intake questionnaires asked before the end of 2011

B1. Project background; Methods and circumstances of data collection

During implementation of the project, field workers completed a so-called intake questionnaire with everyone who showed serious interest (i.e., potential clients); this questionnaire is available in the appendix of this paper. This group included people who contacted the field worker on their own a second time to get more details about the programme. The first meeting usually took place at a forum previously announced in the community, or at a discussion mediated by already identified potential clients. If someone contacted the field worker again following the forum or the discussion (over the phone, by sending a message, or contacting the field worker personally – an easy task since field workers spent a lot of time at the locations), then the field worker and the potential client came together at the client's residence to discuss details more thoroughly; this was the occasion when questionnaires were completed (or, if the discussions were drawn out too much, on a following occasion).

The majority of the people showing serious interest did not eventually become clients, for which there several reasons, for example, one family decided not to enrol based on the additional information provided; in another case, a group could not be formed as there were not enough eligible candidates (originally 5 people were required, this requirement was later decreased to 3); the lack of a good business idea; a failure to create a justifiable business plan, etc. The programme was based on the principles of group-based, sequential lending. This meant that if the first (or first two) group members receiving the loan(s) did not repay the instalments as required in the first 6 weeks, then the rest of the group could not receive their loans until the first recipients fulfilled their contractual obligations. As a result, some groups practically vanished; the rest of the group members never received their loans, or lost patience and withdrew from the programme.

Altogether 440 questionnaires were completed, of which 85 (approximately 20%) were filled in by actual clients; the remaining 355 interested individuals did not become clients. In the following, all respondents of the survey are referred to as *potential clients*, also including individuals who eventually became clients.

As an effect of sequential lending and the lengthiness of the preparation of business plans, occasionally longer periods passed between the completion of the questionnaire and the realisation of the loan, in some cases several months. In addition to intake questionnaires, a business questionnaire was also completed, focusing on earlier entrepreneurial activities in a very broad sense, even including informal activities. Business questionnaires were completed at a later date when clients were preparing their business plans.

The questionnaires were created in cooperation with the consultants of the World Bank and UNDP – these organisations track the implementation of the programme. The World Bank

also created the software tracking operations. The questionnaire had to correspond with the questions of the regional Roma survey of WB/UNDP. (In the end, the sample was not included in that survey.) However, this was a complicated coordination process that caused some delay in the finalisation of the questionnaires, and this was the reason why some early clients completed the survey around the time of receiving the loan instead of early on. 6 clients did not complete the intake questionnaire; they are all early clients who did not intend to repay any of the loans, thus we could not complete the questionnaires with them after the loans had been issued. Because of non-compliance, they were all excluded from the programme.

Fieldwork started at several locations in Borsod-Abaúj-Zemplén and Szabolcs-Szatmár-Bereg counties and in the 8th district of Budapest; then it extended to Hajdú-Bihar County and other regions to a smaller degree in the Great Plain, furthermore in Pest and Baranya counties. Distribution of questionnaires by counties is presented in Table 1, while distribution by location type can be found in Table 2. The majority of this work was conducted in Borsod-Abaúj-Zemplén County and in rural regions. Some areas were also surveyed, where eventually no groups were formed, and consequently no loans were issued. The last region added was Baranya County. If the programme can be continued, further groups will be formed here.

In the last column of Table 1, the number of locations where field workers took surveys are also listed. Altogether they operated at more than 200 locations, and they took surveys at 110 locations – more than half of these happened to be in Borsod County. Most of the operations took place in Roma settlements or in areas of the locations where Roma people reside relatively more densely.

The table demonstrates that data collection is not representative of the given location in any sense – not even for the population segments of districts populated by the Roma in higher proportions. The data gives information about people who showed serious interest in the loans available through Kiútprogram, including those who ended up as actual clients.

Although the sample is not representative, the results may be relevant to Roma population living in poverty and also non-Roma who reside nearby. One often hears that the Roma (or “Gipsies”) continue to live under such circumstances and do not work because they are actually happy with this way of life. Potential clients and their family members are definitely discontent with their circumstances and try to seize every opportunity to improve their situation. If their attempts are unsuccessful, it is due to the circumstances – lack of job opportunities – and not any lack of intent.

As mentioned earlier, data was collected in the homes of potential clients. Field workers also recorded the number of people present when taking the survey. It shows the high level of interest that not only the household members, but often also the members of the extended family were present, including children. On more than a third of all occasions, more people were present than the number of household members; and in 17% of the cases, non-household attendants were just as numerous as household members.

Table 1: Distribution of respondents by counties (%) and the number of locations

County	Percentage of potential clients (%)	Percentage of potential clients who...		Number of locations
		Became clients (%)	Did not become clients (%)	
Budapest	9	9	9	1
Baranya	6	0	7	7
Bács-Kiskun	4	5	4	6
Békés	1	0	1	1
Borsod-A-Z	39	61	34	53
Csongrád	4	0	5	4
Hajdú-Bihar	12	1	15	10
Heves	2	0	3	3
Nógrád	4	5	4	3
Pest	3	5	3	5
Szabolcs-Sz-B	16	14	17	17
Total (%)	100	100	100	110
Number of clients	440	85	355	

Table 2: Distribution of respondents by type of location %

Type of location	Percentage (%)
Budapest (capital)	9
Cities with county seat mandate	3
Other towns	26
Villages ¹	62
Total (%)	100

¹ Also includes 2 non-incorporated locations

This observation reinforces the notion that the whole family participates in the business supporting the client who becomes an entrepreneur; several members of the household or the extended family contribute. For this very reason, the optimisation of family income was key in determining who would officially become the entrepreneur in the family; while getting childcare support (so-called “GYED”, or “GYES”, the latter issued before the 1st birthday of the child), the parent cannot become an entrepreneur without losing that support. The person who had a good chance to get employed in the public work programme of the local administration would not be the one to apply for the entrepreneur’s licence either; instead, a family member who had lower chances would apply for it.

Originally, based on experiences in developing countries, it had been assumed that the majority of clients would be female, and special attention was paid to recruiting women accordingly. However, as mentioned above, it was found that several additional factors determined which family member (male or female) would become the entrepreneur. For this reason, it is not worth analysing this issue any further. 46% of potential clients were female, while this ratio was somewhat higher among actual clients with 48%.

Table 3: Date of completion of the questionnaires, broken down by months

Month	Became clients	Did not become clients	Total
2010-09	2	0	2
2010-10	1	0	1
2010-11	0	1	1
2011-01	27	23	50
2011-02	18	21	39
2011-03	6	15	21
2011-04	2	16	18
2011-05	8	22	30
2011-06	5	30	35
2011-07	3	55	58
2011-08	12	47	59
2011-09	1	62	63
2011-10	0	44	44
2011-11	0	19	19
Altogether	85	355	440

The first test surveys were taken in December 2010 and finalised in December – test data was completed by asking additional questions if necessary. Regular surveys were launched in January 2011. Table 3 shows the progress of data collection month by month.

Modifications to the model

Regarding project background, a small-scale project modification was implemented in May 2011 based on first experiences. This is briefly summarised because in the following, the changes this modification has caused in the measured characteristics of the clients will be examined.

By early 2011, the programme showed several signs of crisis; the most important was the growing ratio of non-payment by the members of the earliest groups. Consequently, the formation of new groups and disbursement of new loans was slowed. While analysing the situation, it was realised that – among other factors - entrepreneurial abilities must be more emphasised than in earlier stages. Some other factors were taken into account before, but not according to their actual importance:

- Does the client show the individual characteristics necessary for running a business?
- Has the client run any businesses before, or conducted any business-like activities, including informal business activities?
- Does the client have a “business dream”, an idea he/she wants to carry out?
- Does the client have the required certificate to run the business, if not, is he/she willing to make the necessary efforts to earn it?
- Does the client have a social network predicting that his/her products can be sold successfully – considering not only retail sales, but also any other products and services?
- Is the client capable of making new connections?

- The importance of credit history: how did the client handle earlier loans?

It was assumed that e.g. the presence of a social network would lead to the enrolment of clients of a somewhat higher social status. This effect may also work in case of potential clients to some degree because field workers would skip the most devastated Roma settlements; but should be even more prominent during the selection process.

To take a closer look at this issue, the clients were divided into two groups: those who received their first loans (1) before the end of April 2011, or (2) after this date. This partition is not entirely accurate due to the nature of sequential lending; there are clients with contract dates later than May 2011 whom we surveyed earlier. At the same time, clients surveyed earlier also underwent additional selection because due to the homogeneity of groups, members of the failed groups were less apt than the rest of the clients. Thus this partition meets its purpose despite minor inaccuracies.

Of the 85 clients of the sample, 29 clients were surveyed during the pre-modification and 56 during the post-modification phase. Besides this, there are 6 excluded clients mentioned earlier who were not surveyed; they are all pre-modification and live in a Roma settlement. The lack of their data might distort results to a small degree.

The survey data contains a very rich mass of information. This study takes a closer look at the areas that may be connected with issues regarding the modification of the model: ethnic composition, income data, economic activity, learning and the level of education, and some personal traits, the latter based on self-description.

B2. Ethnic composition of the potential clients and their surroundings

Kiútprogram targets people living in poverty, *primarily* the Roma. As mentioned in the previous chapter, “primarily” means that the field workers visited rural Roma settlements, locations or districts more densely populated by the Roma. However, they professedly treated all potential clients equally.

The questionnaire approached the issue of ethnic identity in the same manner as the national census: asking the respondents questions about their primary and secondary ethnic identities. (See the questionnaire in the appendix.) Only the potential clients answered these questions (the household members did not).

Table 4: Ethnic composition of respondents, %, N=438

Primary ethnic identity	Secondary ethnic identity				Total
	None	Hungarian	Gipsy/Roma	Misc.	
Hungarian	18.7	0.0	32.0	0.9	51.6
Gipsy/Roma	11.6	36.1	0.0	0.2	47.9
Misc.	0.0	0.2	0.0	0.2	0.5
Total	30.4	36.3	32.0	1.4	100.0

The way the question was asked significantly increased the ratio of respondents who identified themselves as Gipsy/Roma (see Table 4); almost one third of all respondents identified themselves as Hungarian first and as Roma second. Interestingly, a significant majority of respondents who identified as Roma first identified as Hungarian second. ***Altogether, 80% of the potential clients were Roma.*** Essentially the same ratio can be observed among actual clients at 81%, i.e., the selection process did not differentiate based on ethnicity. Among actual clients, the proportion of people identifying as Hungarian first and Roma second was somewhat higher; accordingly, the opposite is somewhat lower. During data collection, these questions did not cause difficulties at any of the locations; field workers did not encounter any reservations regarding this topic.

Kiútprogram also asked the field workers to assess for themselves if the respondent was Roma. A difference of 4% to 5% was noted in both directions, i.e., the field workers assumed in 5% of all cases that the respondent was Roma (while the respondent did not identify themselves as Roma- neither as a first nor as second identity), while in 4% of all cases the assessment had the opposite result. There is no reason to believe that respondents gave false answers, thus the difference must be due to the distortion of external opinion. Information regarding ethnic identity was not used in any form during the programme. The field workers were asked this question in order to get some idea about the difference between external opinion and self-identification, since there is a debate regarding this issue in literature. The symmetry of difference is remarkable. It would be worth testing this phenomenon in additional surveys.

Nearly 10% of potential clients live at a location with a Roma majority; a further 15% lives at a different location type, but in areas mostly populated by the Roma, or Roma settlements (see Table 5). The majority of potential clients live in mixed areas/districts of mixed locations. If one considers actual clients only, the result is the same distribution as presented in the table.

Table 5: The ethnic composition of the immediate proximity and the settlement, %

Location	Ethnic composition of the surrounding area/district			Total
	Mostly Roma	Mixed	Mostly non-Roma	
Mostly Roma	7	2	0	9
Mixed	13	53	13	78
Mostly non-Roma	2	2	10	14
Total %	21	57	23	100

The ethnic composition of clients did not change during the project life cycle, and the model modification had no effect on this factor either.

B3. Income of potential clients

The programme focused on people living in poverty, they made up the target group. *The average net income of potential clients and their families was 30 100 Forints³³ per person.* The precise amount is difficult to assess because surveys took place at different points of time and the respondents were always asked about the income of the previous month. Income data was collected for a period of a little longer than 1 year. (They were also asked about the difference between the income of the previous month and a typical month; this issue will be addressed later.) For this reason, a monthly average income is presented in Table 6. Obviously – and also verified statistically – income did not change as time passed except for the last two months. The last two months show an obvious increase though. Two months are too short for a meaningful analysis; the programme is still running and additional questionnaires are still being completed, thus this issue will be examined later.

No systemic income difference was found between the actual clients and potential clients who did not become clients, verifying that the *level of income was not a factor of selection.*

It is worth comparing this survey's income data with the levels of average national income and the poverty threshold. Latest national data is available for 2010 only; however, meaningful comparisons can be made. According to the publication *Income Situation – 2010³⁴* by the Hungarian Central Statistical Office (KSH), the average net income per person was 78 300 Forints in 2010, thus the potential clients lived on significantly less than half of the average income.

However, the customary definition of poverty makes comparisons with the median³⁵ income instead of the average; a person is considered as poor if his/her income is less than 60% of the median income, the so-called poverty threshold. Although figures have not been released for 2010 yet, a study of KSH (in progress)³⁶ sets the *poverty threshold at 41500 Forints per person for 2010.*

Table 6: Net income per person by month, Forints

Month	Client	Non-client	Average
2010-09	26100	-	26100
2010-10	19000	-	19000
2010-11	-	41500	41500
2011-01	24600	22900	23700
2011-02	29700	24800	27300
2011-03	27900	27800	27800
2011-04	48000	33200	35500

³³ Rounded to the closest 100.

³⁴ <http://www.ksh.hu/docs/hun/xftp/stattukor/jovhelyzet/jovhelyzet10.pdf>

³⁵ If lining up the population of Hungary by the size of their income, the person exactly at the middle of the line would have the median income.

³⁶ Éva Havasi: Income, living circumstances, poverty. In: Társadalmi helyzetkép, 2010. KSH, under publication. (in Hungarian).

2011-05	35100	24000	27500
2011-06	29200	31300	31000
2011-07	32500	30300	30500
2011-08	34900	30900	31700
2011-09	27800	30900	30800
2011-10	-	34800	34800
2011-11	-	38200	38200
Total	29600	30300	30100

A more accurate measurement for the living circumstances of households is the so-called equivalent income where the savings ability of the household is also considered. The bigger the household, relatively the lower income is needed to ensure living at the equivalent standard. In Hungary, the best match seems to be the so-called OECD1 scale of equivalence (also known as the Oxford-scale)³⁷. Here the 1st adult counts as 1 person, and any further adult (or, more accurately, non-child) counts as 0.7 person, while a child counts as 0.5. Children are defined as 0 to 14 years old; anyone older is counted as an adult. In Hungary, a household of 2 adults and 2 children needs 2.7 times the income of a single person to live at the equivalent level, instead of 4 times. According to the study referred to in footnote #5, *the poverty threshold calculated based on the equivalent income was 49 900 Forints, while the average equivalent income of potential clients' in this survey was 42 600 Forints.*

Due to the larger-than-average household size (4.3 persons) of those affected by the programme, the difference is somewhat smaller than it would be based on the income per person; however, it is still clear that clients live in poverty, most of them even deep poverty.

The income distribution of potential clients is given in Table 7. As shown below, almost one quarter of the clients lived above the poverty threshold in the month of data-collection. The major cause of this is the substantial fluctuation of the income level. Casual income plays a significant role among income sources; the income by months may be very different depending on job opportunities or the availability of public work. Income is an important - although not the only - component of poverty; it is also influenced by other factors.

Table 7: Equivalent income of potential clients by fifths of income, Forints

Fifth of income	Average income
Lowest fifth	20400
Second	32000
Third	38800
Fourth	48400
Top fifth	73900*
Proportion of clients w/income below poverty line (49 900 Forints)	74%

*Calculating with actual clients only, their average income is only 67900 Forints in the top fifth.

As seen earlier, the income of actual clients does not differ from those who eventually did not become clients. At the same time there was some change in the income level of clients as time

³⁷ Regarding the adequate scale of equivalence for Hungary, see Zsombor Cseres-Gergely–György Molnár (2008): Consumer behaviour and wealth of households in Hungary following the regime change. In: Közgazdasági Szemle, Vol. 55. No. 2. p. 107–135 (in Hungarian).

passed. Before the modification of the model, the average equivalent income was 40 700 Forints per household while it was 43 100 Forints after the modification, an increase by 6%. This is a very small change that could partly be caused by the passing of time. ***Thus it can be confirmed that the modification to the model caused only minimal increase in the income level of the selected clients.***

Notable income sources

For the households in the sample, the largest component of income came from regular salaries, altogether 22%. However, only 30% of all households had access to this type of income. An almost equally important income source was family aid (20% of all income) mentioned in a lot more households, in 70% of all cases. The proportion of casual labour was 12 % followed by regular welfare aid³⁸ at 7%. Among those who actually became clients, the weight of regular income was somewhat higher (by 2 to 3% points) while casual labour had a lower significance.

It is worth mentioning the issue of public work, the subject of many discussions today. In the sample, ***less than 5% of income came from public work programmes.*** In addition to the above-mentioned sources, even GYES (childcare support) and unemployment benefits rated higher. This happens despite the fact that potential clients could be ideal candidates for public work: they have low income with very high unemployment ratio (This will be discussed later) and they are very motivated to work.

The low significance of employment in public work programmes is due to the fact that few households were affected by it. While ***there was at least one unemployed family member in 82% of the households and more than one unemployed person in 40% of the households (see Table 8), public work affected only 12% of the households*** in the month of the survey. People employed in public work programmes – although their legal status is unemployed – cannot be considered as such; neither can be those employed informally. If employees of public work programmes were considered unemployed, then 86% of households would include an unemployed family member.

Table 8: Distribution of households, income per person and equivalent net income by the number of unemployed*, N=440, Forints

Number of unemployed persons in the household	Proportion of households, %	Income per person	Equivalent income
0	18	35000	47800
1	43	31100	42900
2	29	26700	36400
3+	11	25400	35000
Total	100	29920**	41100**

³⁸ The system of aid underwent a reform in 2011. The earlier regular welfare aid was divided into two branches; those fit to work receive a so-called on-call benefit whenever the self-government is unable to provide public work opportunities. This is also included in the category of regular welfare aid.

*Unemployed status was self-determined by the respondents themselves. In this sense, those working in public work programmes or informally employed, were not considered unemployed.

**These figures somewhat differ from earlier values because they were average figures for individuals, while this table contains the averages of households.

In households where someone is employed in a public work programme, it has a significant role, providing 34% of all household income. The problem is that this type of income is available only to relatively few households.

Public work is also a heavily seasonal; it is more intense from May to August. In this period, potential clients' income is by 80% higher than in other times of the year. This is mainly due to the fluctuation of the number of employees in public work programmes.

It must be added that in January and February 2011 there were no public work opportunities at the locations visited, and only a few in March. The reason is that the system of public work programmes underwent a reform. The new system took effect as of January 1, and local administrations had to submit an application for public work resources at the employment centres. Applications could only be submitted in 2011, and the specific process was not announced earlier. Thus, depending on the speediness of the local administrations and the decision-makers, there was no public work available in Hungary for 2 to 3 months. **This had serious consequences for Kiútprogram's new entrepreneurs – not only because their family income decreased but because paying demand for their products also declined.**

As shown in Table 8, unemployment fundamentally defines the income level, and it is *the reason why households fall below the poverty threshold*. The situation of households hit by unemployment was also complicated by the measure brought in 2010 that limited on-call benefit to one person per household. Consequently, and also considering the data in Table 8, it was found that in 30% of households there was 1 adult who had no income whatsoever; in an additional 10%, there were 2 adults without any income. *This explains why the income difference is bigger between households with 1 or 2 unemployed persons than between 0 or 1 person.* (There is a smaller difference if there are more than 2 unemployed persons because this usually happens in complex, multigenerational families with several members, who are either employed, or pensioners, or parents receiving childcare support.)

A total of 42% of household income came from various work activities (see Table 9). This is far below the national average, which is 66%. 22% came from regular work, which means that almost half of the income from work came from formal or informal casual employment, public work programmes (also seasonal as explained above), gathering, farming or selling own produce, all greatly increasing uncertainty. Regular income also came from informal employment, another factor adding to uncertainty.

Table 9: Distribution of income by source

Source of income	Share of total income, %
Income from work (including public work, caretaker's fees)	42
<i>Regular income</i>	22
Support received for raising children	27
Unemployment benefit	14

Pensions	8
<i>Disability pensions</i>	4
Sickness allowance, disability aid	4
Misc.	2
Total	100

The next item in significance is constituted by support for raising children with a ratio of 27%. Poor Roma families are often accused of having more children for this additional income. No verification was found for this claim during work with the Roma, but setting aside the misleading tastelessness of this accusation for a moment, the question of whether income for raising children increases or decreases the equivalent income of families or not will be explored. (Equivalent income calculates the additional consumption of children as half of an adult's.)

A very simple calculation was conducted about household income, assuming that income for raising children is omitted. Since this support is granted before the child is 18 years old, household members under 18 and all income resulting from having children were omitted; then income for one consumption unit was recalculated.

Average income calculated without children is 7% higher than the actual income. In families where the respondent self-identified as Roma, it was somewhat higher at 9%. Obviously, there was no change in families without members under 18. ***In nearly 60% of Roma households with children, equivalent income would be higher if the consumption of children and the income for raising them was missing.*** Thus the actual effect of giving birth is quite contrary to the assumption in the majority of cases. (If the calculations are carried out with average income per person instead of equivalent income, this effect is even more significant.)

Unemployment benefits constituted 14% of the income (public work programmes are not calculated here), while pensions provided 8%. This latter was low because of the age composition of the households. Potential clients who wanted to start a business were mostly young people, and their households contained pensioners only if they lived with their parents. Half of the pensions were received for disability status.

A total of 56% of the income of the sample came from state redistribution, including public work programmes and caretakers' benefits.

The role of agricultural activities

Regarding income sources, finally the role of agricultural activities will be explored. Based on income data by months, only 2% of the affected households had income from agricultural activities, with a share of 40% in the given month. However, reporting data by months distorts the accuracy of reporting because of the seasonality of agriculture; therefore, the respondents were also asked about yearly income.

25% of all households conduct agricultural activities; this ratio is somewhat higher for those living in rural areas (30%) – a rather low figure. Households had net income from this source

in little more than 10% of the cases; the remaining 15% produce for their own consumption purposes only. (Those who sell produce, also consume some of it.) ***There is no difference in agricultural activities between the Roma and the non-Roma in the sample; they have an equal proportion in rural areas.*** (Altogether the ratio of those working in agriculture was higher among the Roma, this was due to the fact that there were more non-Roma clients in urban areas.)

Those who had income from agriculture ***earned an average 3.6 months' worth of non-agricultural income yearly.*** The proportion of clients conducting agricultural activities was a little higher than 31% and nearly half of them derived some income from it. Although the number of examples is very low, it is worth mentioning that the share of clients with earlier agricultural experience increased following the modification of the model. This is clearly connected with the selection process and the fact that the modification took effect in spring. Early in the programme loans for agricultural activities were available to a lower extent.

The average yearly worth of consumption from the clients' own produce was equal to the net income of 1.7 months, thus providing a significant supplement.

Household members' economic activities

When asking questions about work and other economic activities, multiple answers were available. Answers were selected by the respondents by specifying the categories for themselves and their household members (Table 10).

In a legal sense, public work participants are unemployed; thus more than half of the population in their active years is unemployed in the sample. As mentioned earlier, only 10% of the unemployed got the opportunity to participate in public work programmes.

The ratio of those formally employed was somewhat higher than 13% (including entrepreneurs and primary producers as well) and an additional 2% was employed informally. The remaining 36% was inactive.

Table 10: Distribution by economic activity for the active population, 15-64 years, %, N=1279

Status	Proportion %
Formally employed	13
Full-time	9
Part-time	2
Casual labourer	1
Entrepreneur, primary producer	1
Informally employed	2
Full-time	1
Casual labourer	1
Unemployed	46
Informally employed	3
Employed in public work programmes	5

Old-age pensioner, or receiving pension of deceased spouse	2
Disability pensioner, or on misc. disability aid	6
Childcare support (GYES, GYED or GYET)	9
Homemaker	2
Student	14
Misc. (neither studying nor working, mostly 15-18 years)	4
Total	100

In addition to the primary activity, secondary activities were also investigated (and also tertiary, though only one person chose this option). Less than 5% of respondents in their active years had secondary activities. 7% of the unemployed respondents reported that they work informally. Certainly there is some secrecy about this, but not to a great extent according to these experiences. Informal casual labour is usually short-lived and is available in the late spring or summer periods. At a given moment, relatively few respondents have this type of employment.

16% of females in their active years are receiving GYES, GYED or GYET (1.5% of males were also receiving childcare support). The unemployment ratio is 11% points lower for women, than for men. Approximately 5% of women are homemakers, and the share of employed and disability pensioners is 2 - 3% points lower than for men; otherwise, the employment structure of both genders looks similar. Apparently, in the case of women, childcare support is the counterpart of unemployment status for men.

The activity structure described above included all household members in their active years. It is worth exploring whether potential clients' activities are any different (including those who became actual clients) (Table 11). The most important difference is that the share of those employed is even lower, while the ratio of unemployment is extremely high (76%), including those in public work programmes. This makes sense because family members with no jobs take on the risk of becoming an entrepreneur more readily in the first place and they are the ones who are eligible for the so-called support to become an entrepreneur.

Table 11: Distribution by economic activity of potential clients, 15-64 years, %, N=436

Status	Proportion %
Formally employed	8
Informally employed	1
Unemployed	71
Employed in public work programmes	5
Disability pensioner, or on misc. disability aid	4
Childcare support (GYES, GYED or GYET)	7
Homemaker	2
Student	2
Misc. (neither studying nor working, mostly 15-18 years)	2
Total	100

Finally the economic activity of the youngest group (15 to 24) of the active population is reviewed, for the very reason that they comprise one third of this population segment.

More than 40% attend school, but the shocking data is that this is equal to the ratio of the unemployed, including those in public work programmes. *Among young people not in schools, 66% are unemployed – 70% if public work participants are included. This situation explains the reason why 20% of Kiútprogram clients are younger than 25 years old.*

Table 12: Distribution by economic activity, 15-24 years, %, N=431

Status	Proportion %
Formally employed	4,4
Full-time	3,5
Part-time	0,2
Casual labourer	0,7
Informally employed	0,4
Full-time	0,2
Casual labourer	0,2
Unemployed	39,4
Informally employed	1,9
Employed in public work programme	2,1
Disability pensioner, or on misc. disability aid	0,7
Childcare support (GYES, GYED or GYET)	8,1
Homemaker	0,7
Student	40,6
Misc. (neither studying nor working, mostly 15-18 years)	3,5
Total	100,0

The relationship of activity and income change

As the income of a single month was examined in detail, respondents were also asked if the month was a typical one and how it differed from the previous month. 421 of the total 440 respondents gave an answer to this question. 29% thought that their income in the current month was lower than usual, 9% said it was higher; the remaining respondents said that it was essentially the same. 60% of those who mentioned a difference also specified the main reason for the difference.

The answers show that being employed is a key component of household income. Approximately two thirds said that income change was caused by losing a job (or public work), or becoming employed (public work). Considering the changes in income from work, *almost 80% of income change is connected with being employed.*

B4. Learning and the level of education

When defining the highest level of education completed, an unusual category was also added, the so-called OKJ certificates (issued by the National Registry of Qualifications or OKJ). This is important because for a number of activities it is required to have an OKJ certificate to operate with an entrepreneur's licence if someone did not graduate from a vocational school³⁹.

Table 13: Highest level of education completed, over 18 years of age, %

Level of education	Clients	Potential clients who did not become actual clients*	Family members of clients	Family members of potential clients who did not become actual clients	Total
Less than 8 grades of primary school	6	10	14	16	13
Primary school	33	43	41	44	42
OKJ course	26	12	10	8	11
Vocational school	23	22	22	20	21
High-school diploma	12	13	12	11	12
College graduation	0	1	1	1	1
Total	100	100	100	100	100

*People showing serious interest who did not become clients eventually.

More than half of the adults in the sample had completed only primary school. More than 10% had not even completed primary school by the age of 18. In comparison, only 20% of the Hungarian population aged 25 to 64 had no higher level of education than primary school⁴⁰. People with OKJ-certificates qualify as those completing primary school, making this difference even more extreme. (People over 18 were added because there were many clients from 19 to 24. If only those from 25 to 64 were to be considered, all columns would essentially match.)

The major difference between actual clients and potential clients who did not become clients is that among actual clients, the ratio of those whose highest level of education is primary school is 14% points lower, and the proportion of those with OKJ certificates is about the same amount higher. Since the short duration of Kiútprogram provided only limited options to get an OKJ certificate, these certificates were completed beforehand. We assume there is a common motivation: those adults who complete an OKJ course and take on the difficulties of

³⁹ The regulation states that at least one employee must have the required qualification in the business. For individual entrepreneurs operating without employees, possibly with only family members, it is clear that the entrepreneur must have the qualification. A repulsive practice was encountered several times, i.e., that officials do not remind applicants of this condition, and then an audit follows in a couple of weeks to check if there is an employee with the required qualification. This was not unexpected, but there had been several earlier cases in these clients' circles when heavy fines were imposed and businesses that had been set up with high costs, had to be closed.

⁴⁰ OECD: Education at a glance, 2010.

becoming an entrepreneur are the ones who wish to break out the most. From a different perspective, an OKJ certificate is relatively easy to obtain while completing a vocational school or secondary school with a high-school diploma is a lot more difficult, sometimes even impossible.

Table 14: Highest level of education completed, 19-24 years old, %

Level of education	Distribution %
Less than 8 grades of primary school	9
Primary school	49
OKJ course	10
Vocational school	15
High-school diploma	17
College graduation	1
Total	100

The level of highest completed education of young adults is only slightly better than the rest of the sample. Table 14 shows that the proportion of those who have not even completed primary school is somewhat lower than in the older generation. A somewhat-lower share completed a vocational school and a somewhat higher proportion graduated with a high-school diploma. At the same time, the ratio of primary school graduates at most is the same as among the older population meaning that there is no real improvement between the generations.

It is worth examining the current education system from this aspect. Table 15 shows the proportion in the age groups attending school and day care/kindergarten before school. Virtually everyone goes to primary school in the appropriate age group; this is why it is omitted from the table. Regarding the completion rate of primary school, see the table above.

Only a few children between 0 and 2 attend day care facilities in the families of potential clients mostly because there is often no such institution locally, or its capacity is very low. The low ratio of day care is also connected to the fact that the income from GYES (childcare support) is somewhat higher than income from work, and it is very difficult to get a job as mentioned earlier. Kindergarten attendance among children from 4 to 6 is definitely high, essentially same as the national average⁴¹.

A surprisingly high proportion (more than half) of youngsters from 15 to 17 years of age, continue their studies in secondary schools offering high-school diplomas, and a further 33% go to vocational schools; apparently, the affected families attempt to ensure upward mobility. However, data shown in Table 14 regarding the level of highest completed education and data regarding people 18 years and above indicate that a very high number do not complete high school.

⁴¹ In 2010, 87.8% of children aged 3 to 5 attended kindergarten, see http://www.ksh.hu/thm/2/indi2_2_3.html. At the same time, in 2005 only 80% of children aged 4 to 6 in the households of the lowest decile attended kindergarten (author’s own calculation based on the Hungarian survey data of EU-SILC).

In this age group, a significant difference between the genders is found: a relatively higher proportion of girls attend secondary grammar schools while many more boys attend secondary technical schools. The gender distribution was equal for those attending vocational schools.

Table 15: Proportion of attendants of day care, kindergarten or schools by age groups within the whole sample, N=1877

Institution by age groups	Proportion of attendants, %
0-2 years (day care)	7
3 years old (day care or kindergarten)	49
4-6 years, not in primary school yet (kindergarten)	89
15-17 years, not in primary school any more (vocational schools, secondary schools)	88
Vocational school without high-school diploma	33
Vocational school with high-school diploma	36
Secondary /high/ school	19
18 years old (vocational schools, secondary schools)	49
Vocational school without high-school diploma	33
Secondary school (vocational or general) with high-school diploma	16
19-23 years*	19
OKJ course, vocational school	7
Vocational school with high-school diploma, or training requiring a high-school diploma	10
Higher education (college, university)	2
24-34 years	5
35-54 years	2

* It was decided to draw a line at 23 instead of the usual 24 years because a more thorough research found that the number of attendants falls sharply at the age of 24.

We often found that the best clients pay more attention to the schooling of their children. If actual clients are compared with potential clients who did not become clients, it can be seen that a higher percentage of the children aged 15 to 17 of actual clients attended school and a relatively higher proportion of them attended secondary grammar school than secondary technical school. However, these differences are not significant because of the small sample size. Among actual clients, similar valid comparisons could not be made.

Only 2% of the group aged 19 to 23 studied at a college/university. This low percentage is even more accentuated because – as mentioned earlier – this survey sample included the most ambitious families among people living in poverty.

The percentage of those participating in adult education was also very low.

B5. Personality traits based on self-evaluation

A couple of questions targeted the subjective well-being and personality traits of the clients. There is only data for the respondents but not concerning their household members. Respondents could mark their degree of satisfaction with life on an 11-degree scale with 0 denoting that they are absolutely unsatisfied and 10 meaning that they are fully satisfied. The satisfaction with their financial situation was similarly measured. (See section 5 of the questionnaire in the appendix.)

At first sight, these questions sound very soft; however, serious analysis can be based on them with a large amount of literature supporting it. Table 16 shows the averages of these satisfaction values. Behind the average, extreme difference can be found, and the differences of the individual categories are also telling. 8% of respondents said that they were absolutely unsatisfied, while 2.5% were totally satisfied with their lives. It is typical in Hungary that more people declare dissatisfaction than vice versa. 14% were absolutely unsatisfied with their financial situation and only 1 person was fully satisfied. No one marked the two upper categories among the clients, and altogether only 7% marked a higher than middle satisfaction value.

Table 16: Average satisfaction of potential clients with their lives and financial circumstances

Category	Life	Financial circumstances
Potential clients who did not become actual clients	3.8*	2.8
Before May 2011	3.1	2.6
After May 2011	4.0	2.9
Actual clients	4.6	3.1
Before the modification of the model	3.9	2.8
After the modification of the model	4.9	3.3
Total	4.0	2.9

* On a scale 0 to 10 where 0=totally unsatisfied and 10=absolutely satisfied

Satisfaction with life is significantly higher than satisfaction with the financial circumstances. This makes sense as financial situation is one aspect of being satisfied with a person's life, but there are many other factors which have an influence. One might assume that our potential clients came from those who were especially unsatisfied with their lives, and this was the reason why they applied, but this is not true. The average satisfaction level presented above is exactly the same as measured among the poorest 10% of the population.⁴²

⁴² The author's own calculation based on the data of Statistics on Income and Living Conditions 2005-2007 (Változó Életkörülmények Adatfelvétel 2005-2007). See György Molnár– Zsuzsa Kapitány (2010): Unreported Income, Education and Subjective Well-being. Institute of Economics, Discussion Papers MT-DP 2010/27, Budapest, p. 1-25. <http://econ.core.hu/file/download/mtdp/MTDPI027.pdf>

A particularly intriguing outcome is that *those who became clients were a lot more satisfied with their lives than those who did not become clients. And clients admitted after the model modification, were much more satisfied than those enrolled before the model change.* This phenomenon could not be the result of becoming a client because questionnaires were completed well before selecting the actual clients.

This difference could also be the effect of passing time, thus potential clients who did not become actual clients were divided based on the date of completing the questionnaire. They also show the above difference, i.e., potential clients who answered at a later time are more satisfied than early respondents; however, both groups are significantly less satisfied than those who became actual clients.

It seems probable that individuals whose approach to life is more positive are more likely to become actual clients and their performance is more likely to be successful.

Regarding the changes as time passed, No clear explanation can be found. In theory, some change in the external circumstances could have taken place, but no such event was found that would have caused such a great difference between before and after May 2011. The social circumstances of the target group worsened instead of improving. Another explanation can be that clients were selected in a different way after the model modification, and the first informational sessions were also differently organised. While earlier the emphasis fell on receiving the loan, following the model change, there was a focus on candidates' business ideas, i.e., if they had an idea they wanted to implement. It is possible that as a result, people with different personalities started to show interest. Neither the low case number nor the duration allows for relevant statistical calculations, but *the hypothesis that people more satisfied with their lives and with more positive attitudes will become more successful entrepreneurs sounds viable.* This notion is also reinforced by the national and international observations that entrepreneurs are usually more satisfied with their lives than regular employees, if other factors are counter-balanced. If this hypothesis is valid, then the improvement following the model modification is due to more accurate screening for entrepreneurial skills – which was a purpose of the modification.

The observed difference cannot be caused by a difference in income since, it has been shown earlier that there was no difference in income between potential clients who became actual clients and those who did not; nor was there a difference between clients before and after the modification of the model. It is also noteworthy that the satisfaction with the financial situation shows a much smaller difference. This means that *in case of actual clients, there is a bigger difference between being satisfied with life and satisfaction with financial circumstances than among potential clients who did not become actual clients. Similarly, this difference is bigger among actual clients that enrolled before the model modification than among those who enrolled after the modification.*

National data shows that satisfaction with life is positively correlated with a higher level of education and negatively with being unemployed. As demonstrated earlier, there is no significant difference in the level of education (the additional OKJ certificates make no significant difference among clients from this aspect), and the high level of unemployment would have an adverse effect.

The respondents were also asked if they felt they could do something to make their lives better. From this point of view, the sample is pre-selected, as potential clients are interested because they think they can make a difference. Even so, we only slight differences were found leaning towards the assumed direction. *Only 7% of respondents thought that they could not do anything to improve their lives.* The percentage among respondents who did not become clients was 8%, while among those who became clients it was 5%. However, a greater fluctuation was found among actual clients: among excluded clients, this figure was 12% (this was measured beforehand), and only 3% among cooperating clients. Since the sample is very small though, it is not possible to draw far-reaching conclusions.

Respondents were also very optimistic about the financial outlook of their households in the following 12 months. *87% thought that it would improve or significantly improve.* This is far above typical expectations measured in Hungary: the ratio of those expecting improvement or significant improvement is usually not more than 30%.

The only difference between actual clients and non-clients was in the share of those expecting significant improvement; for clients, this share was 22% with only 12% for non-clients. Similarly, only 12% of actual clients hoped for significant improvement in their financial circumstances while this figure rose to 27% following the model modification.

In spite of the small data size, Kiútprogram's actual clients appear to be more optimistic than those who did not become clients and the share of optimists among actual clients is higher after the model modification. Of course, these statements are true on average and there are individual cases where the opposite is the case.

The willingness of potential clients to take risks was also examined. They were asked to rate, on a scale from 0 to 10, how prepared they were to take risks. As expected, they showed a very high willingness to take risks, one quarter selected the options 9 and 10, and almost 70% selected a value higher than 5. The average answers of the groups are shown in Table 17 below.

Potential clients who became actual clients felt that they were better prepared to take risks than those who did not become clients. There was a similar difference between actual clients before and after the modification of the model. A comparison between excluded and successfully performing clients would paint a similar picture, which is logical, since it was found that clients declining to repay the loan and subsequently excluded from the programme withdrew when they faced the first more serious difficulty. They estimated their risk-tolerance higher than it was in reality. It is also possible that they only tried to meet the assumed expectations; this is why averages are less telling than the individual differences.

Table 17: Average preparedness to risks of the potential clients *

Category	Preparedness to risks
Potential clients who did not become actual clients	6.6
Before May 2011	7.5
After May 2011	6.4

Actual clients	7.4
Before the modification of the model	6.8
After the modification of the model	7.7
Total	6.8

* A higher figure shows higher level of preparedness on a scale from 0 to 10. (See the exact question in the appendix.)

It is surprising that potential clients who did not become clients before the model modification rated their preparedness to risks much higher than those who became clients in the same period or even at a later time. If it is assumed that feeling a higher level of preparedness to risks contributes to relatively better performance – this hypothesis cannot be proved yet, but there are plans to revisit this question when the loans of post-modification clients mature – then this fact proves that Kiútprogram selection methods improved.

Some further personality traits were also explored, where candidates could rate themselves on a scale of 1 to 5, from ‘not very characteristic’ to ‘very characteristic’. The average figures are displayed in Table 18 below.

Table 18: Self-evaluation of potential clients regarding some personality traits *

Personality trait	Average value	Direction of deviation **
I tend to plan my tasks carefully	4.2	++
I tend to have a quick understanding	4.0	++
I enjoy multitasking	3.9	++
I tend to lead in groups rather than leaving it to others	3.4	++
I enjoy influencing others	2.5	+–

* Where the figure is higher, it shows that the trait is more characteristic on a scale of 1 to 5. (See the exact questions in the appendix.)

** If the first figure of deviation is +, then the actual clients’ indicator is higher than those who did not become clients; if it is a –, then visa versa. The second figure is a + if the indicator for clients after the modification of the model is higher than for those before the modification.

For the first 3 questions, respondents rated their traits very highly, obviously to meet the assumed expectations. In case of the item targeting the willingness to lead the results are approaching the average value, while enjoying influence over others was rated as less characteristic for the majority.

In comparison it was found that actual clients rated themselves a little higher in each category on average than those who did not become clients (the deviation is 0.1 to 0.4, statistically not significant). Post-modification clients rated themselves higher for the first 4 questions on average, but rated themselves lower than clients before the model modification.

The differences are minimal but they indicate a positive direction showing that Kiútprogram selection techniques improved after the modification of the model.

It is worth taking a closer look at the last item. Here the first + sign is a result of the ratings of the clients before the modification where the trait of ‘influencing others’ was somewhat more characteristic than for the rest of the clients or those who did not become clients. Because of the small size of the sample this observation is not grounded thoroughly but it is worth comparing this with experiences in the field.

An important principle of the group model was that the group leader – appointed by the group – is the last one to receive the loan. In the first instances, the most aggressive and influential group member often persuaded the others to elect someone else as a group leader so that he/she can get the loan first. In these cases the repayment of the loan failed every time. Using its experiences Kiútprogram introduced some techniques in cooperation with the field workers to prevent such situations; this may have led to the change.

It is therefore very important to distinguish between those who like to perform leadership tasks from those who take pleasure in manipulating others.

B6. Conclusion

The authors do not wish to replicate the most important conclusions already stated in the above chapters. The sample is not representative; however, it can confidently be stated that the circumstances of the Roma – and non-Roma living close by – are not worse than described here, since Kiútprogram clients came from those who are actively trying to improve their living standards. One final conclusion is highlighted here.

The authors believe that the most important purpose of social work among the poor is to encourage the target group to become active, in order to achieve results in the long run. Unfortunately, the duration and nature of the programme did not allow this; instead it was attempted to identify people who may be capable of becoming successful entrepreneurs with adequate support based on their personality traits, previous experiences and family relationships.

During the programme, the improvement of the efficiency of this search was striven towards, through implementing modifications to the model based on experience gained, paying more attention to the clients’ social networks, personalities and business ideas. This latter was not about being able to create a well-founded business plan on their own, but finding out if they had a cherished dream to achieve, once provided with a small amount of money.

It had been assumed that the modification of the selection principles would lead to the rise of the income and education levels of the clients, i.e., clients of relatively higher status would be selected.

This study clearly proved that this did not happen. The only effect of the modification was that clients were more satisfied with their lives, more optimistic, had higher levels of self-confidence at selection already independently from other circumstances. Consequently, personal characteristics must be more emphasised when selecting clients, and this must also be apparent in the methods of recruitment.

