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Capability building combined with microcredit: the loan alone is insufficient

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ABSTRACT

The article analyses the specific features of a social innovation aimed at assisting a social group, which is not simply marginalized, but also socially excluded at least for decades. It focuses on the activities of a non-profit corporation providing microcredit, mentoring and other social services to undereducated, unemployed and socially excluded Roma people in Hungary. The paper relies on the capability approach developed by Sen and Nussbaum. The main conclusion is that providing loans without capability building can lead to a mission drift towards less disadvantaged groups, and consequently the exclusion of the most disadvantaged may even increase.

KEYWORDS

Marginalization; social innovation; capabilities; microcredit; empowerment; Roma minority

Introduction¹

Since 1976, when Muhammad Yunus launched his experiments (Yunus 1999), microcredit or, more generally, microfinance, has been perceived as the most important innovation in providing financial services to the poor. Microcredit has become a huge and quickly developing industry: the total number of clients with a current loan increased from 13 million to 211 million between 1997 and 2013.²

The essence of Yunus' Grameen Bank model is to give unsecured loans of relatively small amounts to people living in deep poverty, in order to enable them to generate income. The underlying question of this practice is as follows: why would poor people repay unsecured loans? As an innovative solution to this problem, the usual banking collateral is substituted by group liability in the Grameen Bank model. That can be interpreted as a kind of *social collateral* (Karlan et al. 2009): in that way financial sanctions (the loss of a valuable collateral) are substituted by social sanctions.

Yunus' innovation, the practice of group lending bears all the features of social innovation. It is clearly a new practice, based on a new idea 'that intentionally seek to change power relations and improve human capabilities' (Nicholls and Ziegler 2015, 4). However, the views on the actual poverty alleviating effect of microcredit are extremely divided in the literature. Advocates of microcredit see it as the starting point of a revolution in banking and the financial inclusion of the poor. More enthusiastic supporters even consider it a source of major social transformation, as stressed, for instance in the title of Robinson's influential book: *The Microfinance Revolution* (Robinson 2001). This view is so strong that in 2006 the Nobel Peace Prize was awarded jointly to Yunus and the Grameen Bank 'for their efforts to create economic and social development from below'.³ By the 1990s, microfinance had become the most generously funded poverty reduction policy. '[M]icrofinance is the icon of millennial development, crystallizing a multitude of aspirations, agendas, interests, and desire' (Roy 2010, 188).

A large number of inspiring stories is presented in the microfinance literature and in other publications about poor people, typically women, who have been able to start a viable business with the help of a microloan and thus substantially improve the lives of their families. Many regard microlending as a unique device promoting women's empowerment (for a summary of this topic see Armendáriz and Morduch 2010, Chapter 7).

Others hotly contest this view, and in particular the proposition that profitable microlending may contribute to poverty alleviation: 'In short, commercialized microfinance appears to have *undermined* the long-term fight against poverty and underdevelopment' (Bateman 2010, 120). In Bateman's opinion, it is a myth that microfinance directly helps the very poorest, empowers the poor and women, or is self-sustainable. In other words, microfinance does not change the power relations, at least not in the case of the most marginalized.

Relying on the lessons of a real life case, this article argues that a loan in itself is not sufficient to promote a change in the relative position of marginalized people. Microfinance needs to be supplemented by other types of support, in particular by business advice, financial training, skills development, help in registering the business, and bookkeeping to turn it into an effective tool for empowering marginalized people.

The article draws on the experiences of Kiútprogram,⁴ a non-profit corporation providing unsecured loans and mentoring primarily to socially excluded Roma people (in Hungary, Kiútprogram is the only active organization offering this service). Of course, these experiences are very special. They are obtained from a relatively developed transition economy and not from a poor developing country. The major differences between a poor developing country and Hungary go way beyond the higher level of GDP per capita; these include, the existence of a certain kind of welfare state, high tax rates in the formal economy (also at lower income levels), the excessive bureaucratic difficulties of starting a new business, and relatively low demand for unqualified work in the formal labour market. The central problem is not poverty alleviation in general, but the high level of marginalization of certain social groups.

The article follows the capability approach (CA) developed by Sen (1999) and Nussbaum (2006). Actually, the CA already played a part when the Kiútprogram was devised in 2009. Marginalization, from the CA perspective, results from social processes through which personal, social or environmental traits are transformed into actual or potential factors of disadvantage (Jacobi, Edmiston, and Ziegler 2017).

The Roma in Hungary (and in several other European countries) are disadvantaged in almost all aspects of life: education, employment, income, housing, land ownership or health conditions. These disadvantages are exacerbated by discrimination and the lack or weakness of social ties with non-marginalized social groups. The lack of inter-community social ties and the prejudices against the Roma mutually reinforce each other. The lack of knowledge as to how marginalized people live and think, stemming from the lack of connections, increases prejudices, and prejudices, in turn, prevent the establishment of connections. The paper uses the term *social exclusion* to describe this vicious circle, leading to a serious form of marginalization.

The case study presented in this paper illustrates that the provision of financial and social capital together can contribute to capability building and halting the processes causing social exclusion. The analysis draws on information obtained from questionnaires completed by actual and potential clients of Kiútprogram, as well as interviews with clients and field workers involved in the programme. The appraisal of whether capability building has taken place and whether any empowerment effect has been perceived is based on the clients' self-assessment.

The article first briefly presents the situation of the Roma in Hungary and outlines the main factors of social exclusion. Then it describes the methods applied by Kiútprogram, its main differences compared to the original Yunus model, as well as the major changes as the programme evolved over time. The main body of the paper analyses replies to two sets of questionnaires completed by clients and potential clients a year apart. The questionnaires focused on assessing the clients' social and economic position, their opinion on the programme's structure and implementation, as well as the

financial and subjective impacts of the programme. The article concludes with a summary of the most important lessons learnt, including policy implications, and questions for further research.

The marginalization of the Roma

The number of Roma in Hungary is estimated at 750,000 by the Council of Europe,⁵ that is, about 7.5% of the whole population. While the share of the rural population is only 31% in Hungary, the majority (53%) of the Roma lives in villages, mainly in the peripheral North-Eastern and South-Western counties.⁶

The most important reason of falling behind is poor education. Without a secondary school certificate, it is difficult to find long-term, legal employment on the Hungarian labour market; the income of people without secondary school education is much lower – and the disparities keep growing (Bernát 2014; Hajdu, Kertesi, and Kézdi 2014).

According to the 2011 census, 77% of the Roma in the 20–59 years age group do not have a secondary education. As to the non-Roma population in the same age group, this proportion is only 15% (Table 1). Only 1% of the Roma have completed tertiary education.

The fact that Roma children finish their schooling with less marketable certificates than non-Roma children has nothing to do with ethnic or cultural differences. Non-Roma children having similar living conditions have rather similar outcomes (Kertesi and Kézdi 2016).

A large part of the Roma is either not present on the labour market or only in a very poor position with very poor chances (Table 2). Only one-quarter of the Roma in the 15–59 years age group are employed. The share of inactive women with own income is especially high. This is due to the child care allowance system; formerly unemployed parents (in the practice usually mothers) are also eligible for this allowance, from birth until the age of three of the child.

Gatti et al. (2016) showed – not only for Hungary, but also for other CEE countries – that employment gap remains huge between Roma and non-Roma, even if the effect of gender, age and education level differences are filtered out. According to their hypothesis, this difference can be attributed to discrimination.

A rather large segment of the Roma population lives in poverty. In 2012, 76% of the Roma, but only 12% of the non-Roma, lived under the poverty threshold in Hungary⁷ (Bernát 2014). Prejudices against the Roma contribute to their disadvantaged position and exclusion – and in turn, this disadvantaged position and unemployment strengthen the prejudices, which become visible through judgements such as ‘they don’t want to work’, ‘they don’t want to learn’, ‘stealing is in their blood’, etc. Table 3 illustrates the existence and the extent of these prejudices.

Seventy-six per cent of the Roma think that they are frequently discriminated against when looking for employment and only 3% said that they never had to face discrimination in that respect. As to dealing with official authorities, the corresponding values were 42% and 12%, respectively (Neményi et al. 2011, 78).

Comparing these figures with the data of Table 3, we can conclude that there is a particular system of prejudices with reference to the alleged attitude of the Roma towards working. The majority of the non-Roma thinks that the Roma do not want to work but if they want to find employment,

Table 1. Distribution of the Roma and non-Roma population of 20–59 years of age in Hungary, by the attained education level, %.

| | Non-Roma | Roma |
|--|----------|------|
| Unfinished elementary school (<8 grades) | 1 | 21 |
| Elementary school (8 grades) | 14 | 56 |
| Vocational school (no maturity exam) | 28 | 16 |
| Secondary school (with maturity exam) | 35 | 6 |
| Tertiary or higher | 21 | 1 |
| Total | 100 | 100 |

Source: Own calculation based on the 2011 census. <http://www.ksh.hu/nepszamlalas/>.

Table 2. Distribution of the Roma and non-Roma population of 15–59 years of age in Hungary, by gender and activity, %.

| | Non-Roma | | | Roma | | |
|-------------------------------|----------|--------|-------|------|--------|-------|
| | Male | Female | Total | Male | Female | Total |
| Employed | 67 | 58 | 62 | 33 | 19 | 26 |
| Unemployed | 9 | 8 | 9 | 24 | 17 | 21 |
| Inactive with own income | 8 | 17 | 13 | 20 | 40 | 30 |
| Student | 13 | 12 | 12 | 13 | 12 | 12 |
| Other inactive without income | 3 | 5 | 4 | 11 | 12 | 12 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 |

Source: Own calculation based on the 2011 census. <http://www.ksh.hu/nepszamlalas/>.

Table 3. Attitudes towards the Roma in Hungary, 2011: agreement with the statements, in % of the respondents.

| Positive items | |
|--|----|
| More social benefits should be given to the gypsies ^a than to the non-gypsies | 11 |
| All gypsy children have the right to attend the same classes as non-gypsies | 82 |
| Respect for traditional values is stronger among gypsies than among non-gypsies | 63 |
| Negative items | |
| The problems of the gypsies would be solved if they finally started working | 82 |
| The inclination to criminality is in the blood of gypsies | 60 |
| It is only right that there are still pubs, clubs and discos where gypsies are not let in. | 42 |

Source: Bernát et al. (2013, 2).

^aThe use of the terms 'Roma' and 'Gypsy' (in Hungarian, 'cigány') is rather controversial in Hungary. The words 'Rom', 'Romani' or 'Roma' were recommended as official designations by the First World Romani Congress in 1971.¹⁴ In the EU, 'Roma' has become the official term, but in Hungary, after a quick initial spreading of the term 'Roma' in the 1990s, it is now solely used in the public sphere; the majority of the Roma do not use it either. 'If a politician comes here and says "Roma" I immediately know that he is going to lie' (quotation from an interview with a Gypsy woman in a North-Eastern Hungarian village, 2015). In this paper generally the term 'Roma' is applied, but in this case the planner of the survey consciously used 'cigány', so this intention is followed.

they will face discrimination. A recent content analysis of the Hungarian mainstream media observed that reports presenting employment activities of Roma persons or Roma communities are very rare in the media. (Bernáth and Messing 2013)

An overview of the Kiútprogram

The primary mission of the Kiútprogram is to promote social mobility and facilitate Roma inclusion by *assisting clients to establish sustainable formal businesses* (Kiútprogram 2012; Audy et al. 2013). The less explicit mission of the programme is to reduce negative stereotypes about poor and vulnerable groups, especially the Roma. (Budapest Institute 2014, 1)

The programme was initiated in 2009 by the Polgár Foundation for Opportunities, a Hungarian civil foundation. The concept of the Kiútprogram was inspired by Muhammad Yunus' social innovation, the Grameen microcredit model (Yunus 1999). Discussing microlending in general would by far go beyond the scope of this study;⁸ therefore only the major characteristics of the Grameen model will be summarized here.

Outline of the Grameen model

At the core of the lending activity, there is a voluntary group of five loan recipients whereby the collateral is replaced by a mutual moral commitment. Loans are *sequential* in the sense that they are initially given to only two of the members. If the first two loan recipients make the payments on time, after 6 weeks, loans will be granted to another two group members; finally, after another 6 weeks the group leader elected by the group members is granted a loan. If a member fails to make a payment as agreed, he or she is excluded from the group and the others have to find someone else to replace this group member. Further loans are not granted until the excluded member is replaced.

In case of default by a group member – irrespective of the cause of the default – no member of this group ever receives a loan in the future. This feature of the model is called *contingent renewal*. This is a rather tough measure: without a follow-up loan the business started with the help this micro-credit becomes shaky, to say the least, as the loan periods are usually one year long and the first loan is a rather small amount.

This means that if a group member is not able to overcome his or her difficulties with starting the new business, and thus refuses to service the loan or uses it for purposes other than agreed, the remaining members have to face punitive measures. The moral pressure is often even harsher: at the joint meeting of the local groups they are held morally responsible (even reprehended) for not being able to persuade the non-compliant member to repay the loan.

An important characteristic of the Grameen model is that the vast majority of participants is women (95% in Bangladesh).

Adaptation of the Grameen model to Hungary

The *target group* of the Kiútprogram are in the first place, but not exclusively, people of Roma origin who live in deep poverty. The programme is active in areas that are densely populated by the Roma but still have an ethnically mixed population.

Since an important objective of the programme is to facilitate social integration of the marginalized poor, there is no ethnic selection of its beneficiaries, not even in the form of positive discrimination. Anyone living in poverty, that is living with his or her family from income below or around the poverty threshold, can become a beneficiary. Since the objective of the programme is to facilitate self-employment (including agricultural primary production), applicants inclined to such activities are given preference.

The Kiútprogram took off in Borsod-Abaúj-Zemplén and Szabolcs-Szatmár-Bereg counties, as well as in the eighth district of Budapest. Before the regime change, Borsod was one of the centres of heavy industry in Hungary and the loss of jobs was the highest in this county in the early 1990s. Szabolcs-Szatmár-Bereg is in the North-East of Hungary, where agriculture and light industry used to be the most important employers. The proportion of Roma is the highest in these two counties. In the villages and small towns targeted by the Kiútprogram, the Roma live separately either in Roma settlements, or in streets with mostly Roma residents. The eighth district of Budapest is an ethnically mixed urban problem area. This district has the highest share of Roma residents in Budapest and is the most popular destination of Roma who move to the capital in the hope of finding a better life.

The architects of the Kiútprogram realized that the complex nature of the reproduction of marginalization required complex interventions, and thus – beside loans – non-market tools were also required to help long-term unemployed people return (or enter at the first time) to the labour market. Thus, unlike the original Grameen model, Kiútprogram has also supplied participants with related business development and support services free of charge, including mentoring, group-level and individual counselling, financial, vocational and communication training, help in registering a business, and bookkeeping. This support is provided by well-trained fieldworkers paid by the programme who are continuously present at the location, as well by external business and professional consultants.

The Kiútprogram is a non-profit corporation owned by the Polgár Foundation and private persons. It is not a genuine microfinance organization; the focus of the programme is on participants' self-employment (including agricultural self-employment) and empowerment rather than profitability for the lender. It is not even financially self-sufficient, continuous external funding is needed.

During the first phase of the programme (2010–2012), project participants formed groups of four to six members, and following the Grameen model the method of sequential lending was applied. Participants had the option to start a business of their own choice. This phase was financed by the *Pan-European Coordination of Roma Integration Methods – Roma inclusion* EU pilot project.⁹

Drawing on its early experiences, Kiútprogram had to adjust its operating model in 2011. The recruitment of clients took much longer than expected, and the programme had to face the increase of late- or non-payment on loan instalments. In response, in Spring of 2011 the field workers started placing a *bigger emphasis on personality traits, capabilities, motivation and credit history*. Furthermore, Kiútprogram made the rules of providing a loan and forming a group more flexible, hired new field workers and improved their training. It also started network building activities to connect its clients with the economic mainstream (Audy et al. 2013).

The intense involvement and permanent availability of field workers providing business and social support services was one of the most important modifications of the original Grameen model. They have organized community meetings in areas of the selected settlement with higher density of the Roma, visited the interested candidates, organized and facilitated group meetings, provided personal counselling for the clients, supported the development of their business plan, assisted them in registering a business and dealing with other administrative tasks, helped in settling earlier debts and building business connections, and established communication with municipal leaders. In sum, field workers have played the role of social workers and loan agents in the same time (Kiútprogram 2012).

Weekly group meetings have been crucial. Business ideas were discussed by the group (group members were not rivals in the market): the members had to convince their peers about the feasibility of their business plans. These debates also developed the communication skills of the participants. On top of these, group meetings provided a forum to discuss to problems of the local community, too (Kiútprogram 2012).

In 2012, Kiútprogram implemented further operational changes, shifting toward integrated businesses solutions. Initiated by a group of clients, trilateral agreements between Kiútprogram, the clients and a cucumber buyer were entered into with more than 20 clients. Kiútprogram provided the loan for the investment necessary for cucumber growing, as well as free training for clients who had no skills and experience in agricultural production. The buyer provided the chemicals needed for growing, likewise through a loan. Due to lack of trust, no buyer would have entered into contracts with Roma clients without the participation of the programme.

When the pilot project ended, the Hungarian government decided not to support the programme. Since then it has been financed solely from private donations. As a consequence, available financial resources have shrunk significantly, and thus the programme had to be scaled down. As a result, from 2013 onwards, Kiútprogram only continued the cucumber-growing programme with around 100 clients a year.

Regarding that detailed client data are not available after 2012, only the period between 2010 and 2012 will be discussed in the quantitative analysis. During this period and also over the last two years, a large number of field workers and also clients have been interviewed. In drawing conclusions, the experiences of these will also be discussed.

Programme results between 2010 and 2012

Between 2010 and 2012, loans with an average value of EUR 1800 had been issued to 138 clients (Table 4). In this period, 15 clients had got also a second loan. Depending on whether their groups were formed before or after the model correction at the beginning of 2011 (see the previous

Table 4. Summary loan indicators by batch.

| | First batch | Second batch | Third batch | Total/average |
|-------------------------|-------------|--------------|-------------|---------------|
| Loan recipients | 41 | 74 | 23 | 138 |
| Loan disbursements | 49 | 81 | 23 | 153 |
| Average loan per person | 2500 EUR | 1800 EUR | 550 EUR | 1800 EUR |
| Average duration | 52 weeks | 43 weeks | 26 weeks | |

Source: Audy et al. (2013, 18).

Table 5. Repayment indicators, status on 15 May 2013.

| | Persons | Still operates as entrepreneur | Loan totally repaid | Arrears per payments due (%) | Payment per credit ratio (%) |
|--------------|---------|--------------------------------|---------------------|------------------------------|------------------------------|
| First batch | 41 | 4 | 0 | 62 | 44 |
| Second batch | 74 | 37 | 14 | 45 | 62 |
| Third batch | 23 | 22 | 2 | 22 | 81 |
| Total | 138 | 63 | 16 | 51 | 55 |

Source: Audy et al (2013, 19).

subsection), the clients are referred to as belonging to the first or second batch. The clients of the cucumber growing subproject are referred to as third batch. The average duration of the loans was strongly influenced by the too short duration of the pilot programme. Approaching the end date of the pilot programme, the duration of the loans had to be shortened. Regarding that in the case of relatively larger loans the realistic return time would be longer, this implied also the decrease in the loan sizes.

The EU pilot project ended in September 2012, the Kiútprogram staff, however, kept track of the clients. Table 5 presents the final repayment indicators. Due to the inexperience of the field workers, the share of strategic defaulters, who had decided not to pay back the loan already when joining to the programme was relatively high in the first batch. As a result of the model corrections, the improvements in the applied methodology and the growing working experiences of the field workers, the loan repayment performance improved in time. However, the average ratio of unpaid loans remained high.

Operating costs (including lending losses) were high during the pilot period, the total cost of issuing EUR 1800 in loans (the average loan per person) was almost EUR 6000 (Audy et al. 2013). The largest share of costs was incurred by the field workers' wages and other field expenditures. According to the rough calculations of Kiútprogram staff, in case of continuous operation at full capacity with well-trained and experienced field workers, the cost per loan ratio can be reduced somewhat below two. In these calculations, 30% average lending losses were assumed (Kiútprogram 2012, 26).

Quantitative analysis

The data-set

During the first phase of the programme (2010–2012), a management information system was developed in partnership with the World Bank and implemented by the Kiútprogram field staff.¹⁰ It included a baseline survey with each potential beneficiary before the formal loan application. The majority of the potential beneficiaries did not eventually become clients. Some of them decided not to apply for a loan already after familiarizing with the detailed conditions, in other cases the group could not be formed as there were not enough eligible candidates, or the potential client could not develop a good business idea. Those potential beneficiaries who did not get a loan are called potential clients. This is a wider group than that of the dropouts.

The baseline surveys were completed by the field workers during the first personal meeting with the candidates, consequently the date of the interview varied according to the time recruitment. The ideal location for the interview was the home of the family. The questionnaire consisted of the following main parts: description of the location and the dwelling, demographic profile of the family members, individual and family income in the previous month, agricultural and household assets, debts and credit accessibility, accessibility to public services, subjective well-being and personality characteristics. The income part of the questionnaire was used to assess if the candidate meets the income criteria (that is the family is really poor), and if the debt of the household is at a manageable level. The personal visit helped to judge the reliability of the answers.

One year after the baseline survey was made a follow-up survey was conducted. Repeating also the baseline questions, it focused on opinions and client feedback on the programme. To avoid

Table 6. Distribution of the respondents (head count).

| | Actual clients | | | Potential clients | Total |
|------------------------|-----------------|--------------|----------|-------------------|-------|
| | Successful | Unsuccessful | Subtotal | | |
| Only baseline | 15 | 19 | 34 | 216 | 250 |
| Baseline and follow-up | 54 | 35 | 89 | 103 | 192 |
| Total | 69 ^a | 54 | 123 | 319 | 442 |

^aThis figure is somewhat larger than the number of successful entrepreneurs in Table 5. This table shows successfulness at an earlier date, the time of the follow-up questionnaire.

distorted answers, these personal interviews were not conducted by the field workers. The majority of the actual and about one third of the potential clients answered also the follow-up questionnaire (Table 6). Because of a delay in the finalization of the questionnaire, there were 15 early clients who did not complete even the baseline questionnaire. All of these early clients failed in their projects.

Those clients are considered successful in Table 6 who have repaid the loan, had no arrears, or their arrears were less than 3 months at the time of the follow-up questionnaire. Defaulters and clients with arrears over 3 months are called unsuccessful.

According to the protocol of the follow-up questionnaire, it was asked one year after the baseline. However, in the case of the cucumber project the duration of the loan was only half a year. Consequently, the majority of the successful clients of the third batch did not fill the follow-up questionnaire until the end of the pilot phase.

About half of unsuccessful clients were strategic defaulters, they broke off the contact with the field workers (the appraisal of their approximate share is based on interviews with the field workers). Those unsuccessful clients who answered the follow-up questionnaire tried their best, but did not succeed.

An analysis of the survey results, focusing on the programme evaluation, can be found in Audy et al (2013, 14–26). Our paper investigates the survey results from a different aspect, following the conceptual pillars of the CrESSI theoretical approach. There are also methodological differences, here the longitudinal nature of the database is utilized.

Initial characteristics of the actual and potential clients

The main question of this subsection is what are the initial differences between the actual and the potential clients, and between the successful and unsuccessful ones. For the sake of simplicity, in the case of the potential clients baseline questionnaires without a follow-up are ignored. There is no significant structural difference between those potential clients who responded also to the follow-up questionnaire and those who did not. For actual clients this is not the case. Therefore, the investigated population in this section consists of 123 actual and 103 potential clients.

The questionnaire approached the issue of ethnic identity in the same manner as the Hungarian national census: asking the respondents about their primary and secondary ethnic identities. *There are no ethnic differences between successful, unsuccessful and potential clients*, the share of people with primary or secondary Roma identity is uniformly 79%.

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. In spite of this, only 33% of the potential clients were women. A possible cause is that entrepreneurs are not eligible for childcare allowance, what could withhold women utilizing this type of support from becoming officially an entrepreneur. However, perhaps *due to their stronger commitment, the share of women within the clients is higher, 45%. Women proved to be significantly more successful than men* (Table 7). More than half of the successful clients were women, while their share within the unsuccessful clients is only one-third.

The share of people living in villages is significantly higher within the actual than within the potential clients (Table 8). In larger settlements, a relatively higher share of candidates decided not to apply

Table 7. Gender distribution of the respondents, % (*N* = 226).

| | Actual clients | | | Potential clients | Total |
|--------|----------------|--------------|----------|-------------------|-------|
| | Successful | Unsuccessful | Subtotal | | |
| Male | 48 | 65 | 55 | 67 | 61 |
| Female | 52 | 35 | 45 | 33 | 39 |
| Total | 100 | 100 | 100 | 100 | 100 |

Source: Own calculation. Significance levels testing independence: overall 3.2%; between actual and potential clients 7.3%, between successful and unsuccessful clients 6.0% (Pearson χ^2 (2) test).

Table 8. Distribution of the respondents by settlement type, baseline questionnaire, % (*N* = 226).

| | Actual clients | | | Potential clients | Total |
|---------------------------|----------------|--------------|----------|-------------------|-------|
| | Successful | Unsuccessful | Subtotal | | |
| Village, unregulated area | 80 | 72 | 76 | 61 | 69 |
| Towns, cities | 20 | 28 | 24 | 39 | 31 |
| Total | 100 | 100 | 100 | 100 | 100 |

Source: Own calculation. Significance level between actual and potential clients is 1.3%.

for a loan already at an early stage of the common work. For them, the offer provided by the Kiútprogram was less attractive (based on interviews with the field workers).

The education level of the clients is slightly higher than the average of the 20–59 years old Roma population (compare Tables 1 and 9); 95% of the respondents belong to this age category. The share of those who had not completed primary school is somewhat lower than the average, but altogether only 30% of the clients have secondary education and only 10% have a maturity exam. Within successful clients, the share of people having a maturity exam is somewhat lower than within the other two groups.

At the time of the baseline survey, more than 80% of the clients were unemployed (Table 10). As for the employment structure, there were no significant differences between the different investigated groups before the programme.

The income of families concerned was very low, 80% of them lived below the poverty threshold (235 EUR/month) and the income of the other 20% was also close to the threshold (Table 11). The questionnaire asked the income of the previous month, but in the case of these families the monthly income heavily fluctuates according to the availability of occasional and seasonal works. Consequently, in some months the family income may exceed the poverty threshold. The average equalized income of the respondents is far below the poverty line. There is no significant difference between the income of the successful, unsuccessful and potential clients, but the average family income of the Roma respondents is only 90% of the non-Roma (the difference is significant at 5% level).

Only 8% of the respondents have any savings (in the form of cash, bank deposits or, highly valued commodity items like gold), and half of them has debts because of housing rent arrears, unpaid taxes, official fees or unpaid public utility bills.

Table 9. Distribution of the respondents by attained education level, baseline questionnaire, % (*N* = 226).

| | Actual clients | | | Potential clients | Total |
|--|----------------|--------------|----------|-------------------|-------|
| | Successful | Unsuccessful | Subtotal | | |
| Unfinished elementary school | 6 | 4 | 5 | 12 | 8 |
| Elementary school (8 grades) | 71 | 57 | 65 | 49 | 57 |
| Vocational school (no maturity exam) | 19 | 22 | 20 | 29 | 24 |
| Secondary school (with maturity exam) or higher ^a | 4 | 17 | 10 | 11 | 11 |
| | 100 | 100 | 100 | 100 | 100 |

Source: Own calculation. Overall significance level 3.6%, between successful clients and the others 4.1%.

^aThere was only one person among the potential clients with tertiary education.

Table 10. Distribution of the respondents by activity, baseline questionnaire, % ($N = 226$).

| | Actual clients | | | Potential | Total |
|-------------------------------|----------------|--------------|----------|-----------|-------|
| | Successful | Unsuccessful | Subtotal | clients | |
| Employed (formal or informal) | 7 | 2 | 5 | 8 | 6 |
| Self-employed ^a | 1 | 0 | 1 | 0 | 7 |
| Unemployed ^b | 83 | 83 | 83 | 74 | 73 |
| Inactive | 9 | 15 | 15 | 18 | 15 |
| Total | 100 | 100 | 100 | 100 | 100 |

Source: Own calculation. No significant differences between the columns.

^aAt the time of the survey, 14 clients were already registered as individual entrepreneurs or primary producers because of the programme. Later all of them proved to be unsuccessful. According to their previous status, they are counted as unemployed.

^bHousekeepers and public workers included.

Table 11. Average monthly equalized household income^a, and at-risk-of-poverty rate^b of the respondents at the time of the baseline questionnaire, % ($N = 226$).

| | Actual clients | | | Potential | Total |
|---|----------------|--------------|----------|-----------|-------|
| | Successful | Unsuccessful | Subtotal | clients | |
| Equalized income for a single person, Euro ^c | 175 | 180 | 177 | 188 | 182 |
| At-risk-of-poverty rate, % | 80 | 80 | 80 | 78 | 79 |

Source: Own calculation based on the Eurostat's poverty threshold for 2011 as reference year. http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_li01&lang=en.

^aTo take into account the impact of differences in household size and composition, the total disposable household income is equalized using the following scale: the weight of the first person aged 14 or more is 1.0, the weight of other persons aged 14 or more is 0.5 and the weight of the persons aged 0–13 is 0.3.

^bShare of persons with income below the at-risk-of-poverty threshold, that is the 60% of the median equalized household income. In Hungary, the monthly value of the threshold was 235 EUR in 2011.

^cCalculated at 280 HUF/EUR exchange rate.

Connections with local communities are crucial for the success of the enterprises. During the process of business plan development, the lack of interethnic connections was the largest problem to be solved for the Roma clients. Who will buy their products or services? In many cases, the estimated purchasing power of the Roma community was not enough to maintain a lucrative business, consequently, without non-Roma customers the planned business could not be viable. In some cases, the field worker served as a 'guarantor' for the potential non-Roma customers (interviews with field workers and the author's personal participation on group meetings are the sources of this information).

The designers of Kiútprogram assumed that working in groups and participating in productive entrepreneurial activities will intensify participation in community affairs (Kiútprogram 2012). This hypothesis had not been confirmed; participation in community affairs did not change significantly during the year between the two surveys. However, it is important to note that successful clients had stronger community ties before entering the programme than the others (Table 12). About 30% of successful clients participated in discussions and decisions of the local community weekly or more

Table 12. Participation in community affairs, % ($N = 188$).

| | Successful clients | Unsuccessful clients | Potential clients | Total |
|------------------------------|--------------------|----------------------|-------------------|-------|
| Never | 22 | 17 | 17 | 18 |
| Less frequently than monthly | 35 | 57 | 57 | 50 |
| Monthly | 12 | 9 | 8 | 9 |
| Weekly or more frequently | 31 | 17 | 18 | 22 |
| Total | 100 | 100 | 100 | 100 |

Source: Own calculations on the panel subsample. Question: How often do you participate in discussions and decisions concerning the affairs of your community? (Community is any formal or informal social, civil or church organization, circle of friends, parents association, housing association, club, sports club, etc., including municipal events or elections.)

Significance level comparing successful clients to the others is 2.4%.

Table 13. Average values of some personal characteristics based on self-evaluation, baseline interview ($N = 224$).

| | Actual clients | | | Potential clients | Total |
|--|----------------|--------------|----------|-------------------|-------|
| | Successful | Unsuccessful | Subtotal | | |
| Risk attitude (0–10 scale) | 6.2 | 7.4 | 6.7 | 6.7 | 6.7 |
| Find satisfaction having influence over others (1–5 scale) | 2.2 | 2.7 | 2.4 | 2.4 | 2.4 |

Source: Own calculations. The questions: (1) Various risks have to be taken in our daily life. Are you generally a person who is fully prepared to take risks or do you try to avoid taking risks? 0 means: ‘unwilling to take risks’ and the value 10 means: ‘fully prepared to take risks’. (2) Please rate how much you agree or disagree with the statement: I find satisfaction in having influence over others. Five-level scale from disagree strongly to agree strongly.

Significance levels between the average values of successful and unsuccessful clients: (1) 1.5%, (2) 2.8% (ANOVA F -test).

frequently. *This fact reinforces the crucial importance of existing social ties. Preliminary community development may increase the success of similar programmes.*

Risk attitude is an important component of entrepreneurial skills. The risk attitude of the successful and of the potential clients is very similar, but unsuccessful clients are more risk-takers (Table 13). Their risk-taking attitude may have contributed to the failure (Armendáriz and Morduch 2010). Unsuccessful clients are more satisfied than successful ones if they have influence over others. In the case of other personal characteristics (satisfaction with life, satisfaction with financial position, careful planning, like to juggle with several activities at the same time), there are no significant differences between the members of the three investigated groups.

The analysis has shown that the differences between potential and actual clients on one hand, and between successful and unsuccessful clients on the other hand, cannot be explained by ethnic, educational or initial income differences. There are only two factors which could have significant explanatory power in a logistic model estimating the selection between potential and actual clients: settlement type and gender. Beside gender, the initial level of social connections and risk-taking attitude influence significantly successfulness: the first two in positive, the third in negative direction.

The literature on microcredit has suggested that in the case of the poor the most important causes of entrepreneurial failure are insufficient knowledge and lack of practice and business connections. *The results show that the complex approach of Kiútprogram could counterbalance the majority of initial disadvantages.*

The effects of the programme on clients’ utility

Changes in clients’ utility are approached through two different ways, using family income and life and financial satisfaction. As it was mentioned (and in the case of the income presented) in the previous subsection, there were no significant differences between the initial utilities of the three investigated groups.

The income of successful clients’ household increased by almost one-and-a-half times between the baseline and the follow-up questionnaires, while the income of unsuccessful clients decreased only by 10%. However, this change is not significant statistically (Table 14). The income of unsuccessful clients also remained essentially unchanged. This means that the financial consequences of the failure were not critical for the households of unsuccessful clients. Of course this would not have

Table 14. The change of households’ monthly equalized income ($N = 192$).

| | Successful clients | Unsuccessful clients | Potential clients | Total |
|------------------------|--------------------|----------------------|-------------------|-------|
| Baseline income, Euro | 177 | 173 | 188 | 183 |
| Follow-up income, Euro | 261 | 156 | 180 | 199 |
| Follow-up/baseline, % | 147 | 90 | 96 | 109 |

Source: Own calculation on the *panel* subsample. The small differences between the first row of this table and Table 11 is due to the difference of the investigated population. The income increase of successful clients is significant at 0.02% level; the other two changes are not significant (t -test for equality of means).

Table 15. The subjective change of the households' financial position ($N = 189$).

| | Successful clients | Unsuccessful clients | Potential clients | Total |
|---------------------|--------------------|----------------------|-------------------|-------|
| Baseline interview | 2.6 | 2.3 | 2.2 | 2.4 |
| Follow-up interview | 3.5 | 2.4 | 2.1 | 2.7 |

Source: Own calculations on the panel subsample. The question was the following: How did the financial position of your household change in the last 12 months? Possible answers and the numeric values assigned: deteriorated significantly (1), deteriorated (2), did not change (3), improved (4), improved significantly (5). The table presents the average of these assigned values.

The increase in the case of successful clients is significant at 0.001% level (t -test for equality of means).

Table 16. Average values of financial satisfaction ($N = 189$).

| | Successful clients | Unsuccessful clients | Potential clients | Total |
|---------------------|--------------------|----------------------|-------------------|-------|
| Baseline interview | 3.1 | 2.8 | 3.0 | 3.0 |
| Follow-up interview | 5.0 | 2.3 | 3.2 | 3.6 |

Source: Own calculations on the panel subsample. Question: To what extent are you satisfied or dissatisfied with the financial position of your household? Where do you stand on the ladder? A ladder (the so-called Cantril ladder) with levels ranging from 0 (totally dissatisfied) to 10 (totally satisfied) is shown to the respondent. In the questionnaire, the life satisfaction question precedes financial satisfaction.

The increase in the case of successful clients is significant at 0.001% level. The decrease in the case of unsuccessful clients is not significant.

been the case if they had to repay the loan. *This situation caused a serious loss for the Kiútprogram, but saved the affected households from financial collapse.*

The subjective evaluation of the change in the households' financial position confirms the previous results, the subjective financial position of unsuccessful clients did not change (Table 15). In the case of the successful entrepreneurs, the significant increase in the average value is due to the fact that 65% of them reported in the follow-up interview that the financial position of their household improved or significantly improved.

The analysis of the financial and life satisfaction of the respondents allows further observations (Tables 16 and 17). The average baseline level of the financial satisfaction is similar and extremely low for all three groups. During the year between the baseline and the follow-up interviews, it remained the same for the potential and (in statistical sense) for the unsuccessful and considerably increased for the successful clients.

The life satisfaction significantly increased both in the case of successful and potential clients. The life satisfaction of successful clients considerably exceeds the satisfaction of the potential clients, but in statistical sense this difference is significant only at 6% level. The decrease in the life satisfaction of the unsuccessful clients may reflect their frustration because of the failure. This is confirmed by the changes in life satisfaction.

Life satisfaction depends on the available income but it is influenced also by other factors.¹¹ The previous results suggest that the decrease in satisfaction of unsuccessful clients is much greater than the loss of income. Regression results support this conclusion. Controlling for household income,¹² gender, age¹³ and the initial level of satisfaction the levels of financial and life satisfaction reported in the follow-up questionnaire were estimated (Table 18). The coefficient of unsuccessful clients is significantly negative. This effect is particularly strong in the case of the life satisfaction that is *the failure*

Table 17. Average values of life satisfaction ($N = 191$).

| | Successful clients | Unsuccessful clients | Potential clients | Total |
|---------------------|--------------------|----------------------|-------------------|-------|
| Baseline interview | 4.2 | 4.3 | 4.0 | 4.1 |
| Follow-up interview | 5.7 | 3.4 | 4.8 | 4.8 |

Source: Own calculations on the panel subsample. Question: All things considered, to what extent are you satisfied or dissatisfied with your life in general at the present time? Possible answers: 0–10, see the note to the previous table.

The increase is significant in the case of successful clients at 0.08%, and in the case of potential clients at 0.6% level. The decrease in the case of unsuccessful clients is significant at 3.3% level.

Table 18. Linear estimation of financial and life satisfaction ($N = 184$).

| | Follow-up financial satisfaction | Follow-up life satisfaction |
|----------------------------------|----------------------------------|-----------------------------|
| Successful client ^a | 1.55 (0.37)** | 0.63 (0.43) |
| Unsuccessful client ^a | -0.90 (0.43)* | -1.57 (0.50)** |
| Female | -0.56 (0.32) ⁺ | -0.49 (0.38) |
| Age | 0.16 (0.10) ⁺ | 0.15 (0.10) |
| Age square | -0.002 (0.001) ⁺ | -0.002 (0.001) |
| Log (follow-up equalized income) | 1.06 (0.27)** | 0.90 (0.32)** |
| Baseline financial satisfaction | 0.27 (0.08)** | - |
| Baseline life satisfaction | - | 0.33 (0.08)** |
| Constant | -10.9 (3.3)** | -8.3 (3.8)* |
| Adjusted R^2 | 0.27 | 0.19 |

⁺Significant at 10% level, *significant at 5% level, **significant at 1% level. Standard errors in parentheses.

^aPotential clients represent the reference category.

significantly decreases the subjective well-being of the unsuccessful clients (of course, this is true only for those clients who answered the follow-up questionnaire. In the case of strategic defaulters, the situation can be different).

In the case of successful clients, the favourable outcome of their enterprise resulted in extra financial satisfaction compared to the potential clients. That is they are satisfied with the financial position of their household not only because the higher income, but also because they *were able* to increase their income. However, their life satisfaction increase did not prove to be significant.

Our results would qualitatively be the same if logistic estimation were used instead of the linear one, or if instead of the satisfaction levels the satisfaction differences would have been used.

Respondents' feedback on the programme

Certain aspects of the programme and its execution were only assessed in the follow-up questionnaire. There were 17 unsuccessful clients who responded to the other parts of the questionnaire but skipped this block of questions; so only 18 unsuccessful clients gave a feedback about the programme.

Considering that the potential clients were familiar with the principles of the Kiútprogram, they were also surveyed on some important traits of the programme. Ninety per cent of the respondents found financial training important or very important while this figure was only 75% in case of microcredit (Table 19). More than half of the successful clients think that training was very important. *The lowest percentage of those who thought that training was not very important occurred among the*

Table 19. Opinions on the financial services, %.

| | Successful clients | Unsuccessful clients | Potential clients | Total |
|---|--------------------|----------------------|-------------------|-------|
| Financial training ($N = 173$) | | | | |
| Not important | 4 | 11 | 12 | 9 |
| Somewhat important | 39 | 44 | 53 | 48 |
| Very important | 57 | 44 | 35 | 43 |
| Total | 100 | 100 | 100 | 100 |
| Microcredit ($N = 155$) | | | | |
| Negative impact | 0 | 0 | 1 | 1 |
| Not important | 15 | 31 | 28 | 24 |
| Somewhat important | 40 | 31 | 36 | 37 |
| Very important | 46 | 38 | 35 | 39 |
| Total | 100 | 100 | 100 | 100 |
| Comparison of credit and training ($N = 155$) | | | | |
| Credit is more important | 10 | 8 | 16 | 14 |
| They are equally important | 63 | 54 | 56 | 58 |
| Training is more important | 27 | 38 | 28 | 28 |
| Total | 100 | 100 | 100 | 100 |

Question: How much do you think the following financial services would be important for you? (1) Providing financial literacy training. (2) Providing microcredit for business. The third block of the table is based on the comparison of the two answers.

potential clients, i.e. those who did not actually participate in the training. Most respondents found these two services as equally important, but more respondents considered training more important than vice versa.

Although not surveyed in the baseline questionnaire, subsequent personal interviews with clients revealed that the relative importance of the loan and of the training has changed after a year of working together. Initially clients regarded the loans more important than the trainings, and not just because of the money. As a Roma client said,

I think the most important to the Roma is the fact that we get a loan. Because it means that they are not afraid that we would not repay it. For us, it was the first objective that they give a loan and that they give it to us. This raised our attention: they give a loan to us. (2015)

The role of trust is prevalent in two aspects. First, the executives and field workers of the programme trust the clients' honesty that they want to repay the loan; second, they also believe in their potential to succeed with the microbusiness created with the help of the loan.

One-third of the potential clients did not like the group model (first block of Table 20). At the same time, there were many people, mainly among the successful clients who held a favourable opinion about this solution. Support for business plan development and obtaining licences was important to everyone, a large majority of actual clients considered this as very important (second and third blocks of Table 20). The share of potential clients who found these services very important was much lower. This means that *the importance of support for business plan development and obtaining licences became obvious only later, during the tenure of the programme.*

Regarding the various aspects of the operations of Kiútprogram, those potential clients who joined the programme but never started their businesses were also surveyed (57 people.) One-fourth of them reported negative practical experience during the operations of the group (see Table 21). Three-fourth of successful clients and even the majority of unsuccessful ones said that the group helped their activities.

Two-thirds of successful clients and half of unsuccessful ones answered that the support and information provided by the programme were very adequate. This also proves the importance of additional support beyond issuing the loans. At the same time, one-fifth of potential clients thought that the information provided by the field workers was inadequate. This fact highlights the importance of the field workers' activity.

Participation in the programme was usually supported by the close neighbourhood, although one-fourth of unsuccessful clients met with hostile reactions, probably contributing to their failure

Table 20. Opinion on the elements of the Kiútprogram model, %.

| | Successful clients | Unsuccessful clients | Potential clients | Total |
|--|--------------------|----------------------|-------------------|-------|
| Group lending (N = 173) | | | | |
| Retained from joining | 0 | 0 | 6 | 3 |
| Reduced my interest | 15 | 12 | 28 | 23 |
| Did not affect my interest | 56 | 41 | 33 | 41 |
| Increased my interest | 30 | 47 | 32 | 33 |
| Total | 100 | 100 | 100 | 100 |
| Support for business plan development (N = 164) | | | | |
| Not important | 0 | 0 | 3 | 2 |
| Important | 26 | 24 | 45 | 37 |
| Very important | 74 | 76 | 52 | 62 |
| Total | 100 | 100 | 100 | 100 |
| Support with obtaining licences (N = 157) | | | | |
| Not important | 0 | 0 | 4 | 2 |
| Important | 13 | 24 | 51 | 35 |
| Very important | 87 | 76 | 45 | 63 |
| Total | 100 | 100 | 100 | 100 |

Question: The Kiútprogram lending model consists of different elements. What is your opinion about the following ones: Group-based lending model; support for business plan development; support with obtaining licences.

Table 21. Evaluation of Kiútprogram operation, %.

| | Successful clients | Unsuccessful clients | Potential clients | Total |
|--|--------------------|----------------------|-------------------|-------|
| Functioning of the group (N = 124) | | | | |
| Counterworked | 6 | 12 | 27 | 16 |
| Neutral | 22 | 29 | 46 | 34 |
| Helped my activity | 73 | 59 | 27 | 50 |
| Total | 100 | 100 | 100 | 100 |
| Quality of information provided (N = 125) | | | | |
| Inadequate | 2 | 6 | 21 | 11 |
| Adequate | 33 | 47 | 56 | 46 |
| Very adequate | 65 | 47 | 23 | 43 |
| Total | 100 | 100 | 100 | 100 |
| Support in running my business (N = 68) | | | | |
| Inadequate | 4 | 12 | - | 6 |
| Adequate | 33 | 41 | - | 35 |
| Very adequate | 63 | 47 | - | 59 |
| Total | 100 | 100 | - | 100 |
| Support in bookkeeping (N = 67) | | | | |
| Inadequate | 2 | 0 | - | 2 |
| Adequate | 32 | 53 | - | 37 |
| Very adequate | 66 | 47 | - | 61 |
| Total | 100 | 100 | - | 100 |

Question: How do you evaluate the functioning of the Kiútprogram?

(see Table 22). During personal communication, many clients complained of envy or pressure from relatives who demanded to share the loan with them.

Wider neighbourhood proved to be a lot less supportive, one-third of the participants said that the neighbours were definitely hostile. Hostility could be caused by prejudices against the Roma or envy/jealousy within the Roma community. This is reinforced by the fact that *clients in ethnically mixed neighbourhoods reported higher levels of sympathy and lower hostility than those living in mostly Roma or non-Roma neighbourhoods* (see Table 23).

To give an overall evaluation of the programme, clients were asked three questions: How much did the Kiútprogram loan contributed to improving (1) their business performance, (2) their family's financial situation and (3) their fulfilment in life? (Table 24). In all three cases, it was possible to add verbal explanations.

Almost without exception, clients said that their enterprise could have never come into existence without Kiútprogram. Ninety per cent of successful clients and almost 60% of unsuccessful clients said that the financial situation of their families had improved more or less. Clients whose financial situation got worse during the programme mentioned two reasons: (1) inability to repay the loan and (2) according to Hungarian regulations, entrepreneurs must pay taxes and social contribution for newly launched enterprises even if they do not yield an income yet.

Eighty per cent of clients said that the programme improved their quality of life. Some of the typical explanations included becoming more optimistic, hopeful, gathered motivation and momentum for

Table 22. Reaction of the neighbourhood, %.

| | Successful clients | Unsuccessful clients | Potential clients | Total |
|--------------------------------------|--------------------|----------------------|-------------------|-------|
| Close neighbourhood (N = 125) | | | | |
| Hostile | 8 | 24 | 5 | 9 |
| Neutral | 12 | 0 | 11 | 10 |
| Helpful | 80 | 76 | 84 | 81 |
| Total | 100 | 100 | 100 | 100 |
| Wider neighbourhood (N = 125) | | | | |
| Hostile | 22 | 35 | 35 | 30 |
| Neutral | 43 | 18 | 25 | 31 |
| Sympathetic | 35 | 47 | 40 | 39 |
| Total | 100 | 100 | 100 | 100 |

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Table 23. Reaction of the neighbourhood by neighbourhood type, %.

| | Mainly Roma (N = 23) | Mixed (N = 73) | Mainly non-Roma (N = 29) | Total |
|-------------------------------|----------------------|----------------|--------------------------|-------|
| Wider neighbourhood (N = 125) | | | | |
| Hostile | 44 | 21 | 41 | 30 |
| Neutral | 17 | 34 | 35 | 31 |
| Sympathetic | 39 | 45 | 24 | 39 |
| Total | 100 | 100 | 100 | 100 |

Table 24. Effect of the Kiútprogram (N = 70), %.

| | Successful clients (N = 53) | | | Unsuccessful clients (N = 17) | | |
|-----------------------|-----------------------------|-----------|------|-------------------------------|-----------|------|
| | Business | Fin. sit. | Life | Business | Fin. sit. | Life |
| Negative impact | 0 | 2 | 0 | 6 | 24 | 12 |
| Same as before | 0 | 9 | 19 | 0 | 18 | 35 |
| Somewhat contributed | 6 | 30 | 32 | 18 | 35 | 18 |
| Very much contributed | 94 | 59 | 49 | 76 | 23 | 35 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 |

Question: How much did the Kiútprogram loan contribute to improving (1) your business performance, (2) your family's financial situation, (3) your fulfilment in life?

life, becoming more independent, confident, resolute, gaining a purpose in life and a secure standard of living. *In addition, more than half of the unsuccessful clients said that their lives had turned for the better* (this is distorted inasmuch as information is available only from those who were willing to respond). They reported to have become more hopeful, gained motivation and their self-confidence has improved. This is also confirmed that several unsuccessful clients got full time employment after participating in the programme – which they could not achieve earlier. According to the field workers, as a result of participation in the programme, clients' communication skills have improved, they have gained a more commanding presence.

Discussion

Although there were several differences from the original Grameen model already in the planning phase of Kiútprogram (employing field workers with social competence instead of loan officers; free accounting, financial training, etc.), the initiators of the programme endeavoured to follow the Yunus model in several respects, for example in the recommendation formulated below.

From the very beginning, Grameen has gone against traditional methods of poverty alleviation by handling 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 their ability. They do not need us to teach them how to survive; they already know how to do this. (Yunus 1999, 140)

The experiences of Kiútprogram diametrically oppose this view. It is also doubtful whether these ideas are correct with regard to developing countries, but the situation is certainly different concerning a marginalized and even socially excluded social group of a relatively developed country. Survival and breaking out from a marginalized situation require entirely different skills, which socially excluded people do not have.

A loan in itself without capability building is not sufficient and may even worsen the position of the beneficiary. After a year's joint work, the majority of clients assessed the role of the information provided by Kiútprogram, the financial training, the support given to the business plan development, and the assistance in accounting or obtaining various licences and permits more important than being granted a loan. This is not only true of successful clients, but also holds for the unsuccessful ones. Comparing this with the opinion of the potential clients, it can be stated that the true

importance of some of the support offered by the programme was only revealed as the programme progressed.

The question may arise whether the help offered in dealing with administrative issues by the field workers in addition to training is a paternalist practice impairing empowerment (with regard to the problems concerning the relationship between CA and paternalism, see Claassen 2014). Besides the bureaucracy, which poses a challenge even to people with good school education, the main reason for this type of support is prejudice against Roma people (or more broadly, people whose appearance reveals their extreme poverty) expressed through discrimination in the course of arranging administrative affairs. Field workers have reported that in about half of the administrative cases their intervention was required despite the fact that the client acted correctly.

'[T]he beneficiaries' freedom to choose is at the very core of the CA and its insistence on the real freedom to lead the life and perform the job one has reason to value' (Bonvin and Orton 2009, 568). The freedom to choose a business and the possibility of free exit, that is to leave the programme without serious sanctions, are very important features of the Kiútprogram. These possibilities however decrease the loan repayment ratio – at least on the short run – and increase the costs of the programme.

The programme had a strong empowerment effect not only for the successful clients but also, to a lesser extent, for those whose venture eventually ended in failure. An important condition of achieving the empowerment effect is creating trust between the clients and Kiútprogram. In this respect, the unsecured loan also has a symbolic role. It expresses that the loan providers have confidence in the client. The contingent renewal method contradicts this principle. If somebody is sanctioned by exclusion from the programme because another member of their group has failed to repay the loan, the programme would lose the trust of all the clients and continuing the programme in the village would become impossible. Thus, the contingent renewal method may be suitable for increasing the loan repayment rate, but it renders empowerment impossible.

Based on the interviews conducted with the field workers and the clients, it can be stated that servicing the unsecured loan has a very strong impact on the external environment as well, thus significantly increasing the personal prestige of those who have repaid their loan in the given locality. It is worth quoting from an interview with a field worker on this topic:

Good clients are more respected; they like going to the village [from the segregated Roma streets on the outskirts of the village] and when they do so, people listen to what they say and they are confident to go to the shop. They are not discriminated against in the local pub and if they go there, the others talk to them. Bad clients, however, fall in the local hierarchy and have a lower position than before.

These kind of experiences may contribute to breaking the vicious circle of prejudices. Szüdi and Kováčová (2016) present similar effects in the case of a complex Roma housing programme in Slovakia. The complex approach seems to be the most important common feature of the two programmes.

As regards the success of the micro-enterprises established by the clients, social ties are highly important. One of the main problems of socially excluded social groups is that they lost contact with other communities and quite often even relationships within the group are wanting. Clients who are taking an active part in local public life have proved to be more successful. The importance of inter-community connections is shown by the fact that the environment in ethnically mixed neighbourhoods was relatively more supportive than elsewhere. The hostility of the environment and the lack of business contacts have in part contributed to failures. Following the terminology of the CA, in the case of a marginalized social group inter-community connections belong to the most important social conversion factors.

Supporting capability building and the creation of social and business relations is a costly activity. Recovering the costs of this activity from the interests paid on the loans is not possible. Several EU documents dealing with microcredit funding represent a diametrically opposed viewpoint. A typical example is as follows:

Self-sustainability is a major issue for a microcredit fund. One way of achieving this goal can be to charge an above market interest rate. An above market rate is acceptable where the risk is higher. For example, in a pure subordinated loan, with no collateral at all by the micro-entrepreneur, the interest rate can be higher than for a traditional loan in order to cover all risks. (European Commission 2003, 29)

This approach can lead to the cream-skimming effect (Le Grand and Bartlett 1993), selecting less problematic and consequently less expensive clients. The experience of Kiútprogram corroborates that there is a trade-off between the degree of marginalization of the participants and the costs of the social innovation. There is a significant difference between the position of groups that are marginalized in some way and the socially excluded groups. If the social innovation based on social action only targets the most disadvantaged, the probability of failure is higher and the potential of the innovation may be lost. If only less disadvantaged groups are included, the exclusion of the most disadvantaged may increase. This trade-off must be taken into account by both the innovators and the policy-makers and it also has a cost effect.

Conclusions

This article has analysed the specific features of a social innovation aimed at assisting a social group, which is not simply marginalized, but also socially excluded at least for decades. It has focused on the activities of Kiútprogram, a non-profit corporation providing microcredit, mentoring and other social services to undereducated, unemployed, and socially excluded Roma people in Hungary. The main conclusions are summarized below.

The experience of Kiútprogram shows that in the case of socially excluded groups a loan in itself is not sufficient to support the establishment of viable formal businesses and in this way to promote the (re-)entry of the clients to the labour market, or more broadly, their social inclusion. The literature on microcredit has suggested that in the case of the poor the most important causes of entrepreneurial failure are insufficient knowledge and lack of practice and business connections. The article illustrates that the provision of financial and social capital – through business advice, financial training, skills development, help in registering the business, and bookkeeping, etc. – together can contribute to capability building and halting the processes causing social exclusion. This complex approach could counterbalance the different types of disadvantages. The analysis has also shown that the difference between successful and unsuccessful clients cannot be explained by ethnic, educational, or initial income differences.

In the framework of the CA (Sen 1999), the loan component of the Kiútprogram method can be interpreted as a form of activation, a strong incentive to help clients seeing themselves as entrepreneurs, while the other forms of support served as conversion factors to convert financial resources into capacity to create and maintain a sustainable own business (Bonvin and Orton 2009). Or, following Moulart et al. (2005), this practice is a combination of a product and a process innovation: the innovative financial product (unsecured loan) was combined with a complex empowering process.

In the case of socially excluded population social competences and intercommunity ties – in addition to technical skills, financial and business competences – are also crucial conversion factors. The intense involvement and permanent availability of field workers seems to be a necessary condition for developing the clients' social competences and creating intercommunity ties. As a result of capability building, more than half of even those clients who had been unsuccessful in a strict business sense reported that their lives changed for the better.

The role of trust between the field workers and the clients is crucial in this respect. Unsecured loans are very effective tools of trust building, while the method of social collateral introduced by the original Grameen Bank model (that is, making somebody responsible for the faults of someone else) can destroy this trust. Applying social collateral contradicts the principle of free and sustainable agency.

The success of Roma clients – besides its empowering effect – may also influence the opinion of the non-Roma neighbourhood and, by breaking the vicious circle of prejudices, can promote social inclusion. In contrast, if capability building is not successful enough, a business failure might occur and that would reinforce prejudices against the Roma. Therefore, it is important to pay sufficient attention to capacity building when devising a social innovation for the marginalized, and thus provide the necessary financial, professional and other resources when implementing it.

Capability building has been a fundamental feature of the Kiútprogram, too. But it also has to be noted that the permanent availability of field workers makes this complex approach rather costly. To generalize this observation, there is a trade-off between the degree of marginalization of the participants and the costs of the social innovation. When only less disadvantaged groups are included in a social innovation, given cost considerations, the exclusion of the most disadvantaged may increase. Practitioners and policy-makers are also faced with another inherent dilemma. When a social innovation based on social action, with the aim of reducing marginalization, only targets the most disadvantaged, the probability of a business failure is higher, and thus this type of social innovation may be discredited – on top of losing the time, funds, and goodwill invested. Given the importance of capability building and its ensuing costs, expecting financial sustainability from social innovation for marginalized seems to be a major policy misconception.

The role of field workers also points to the problem of paternalism. Their activity, especially their help in dealing with administrative issues or in organizing business connections can be perceived as a paternalist practice, that is, impairing empowerment. However, in the case of social exclusion this kind of support seems to be inevitable. To find the balance between paternalism and empowerment is a critical question in the case of social innovation addressing socially excluded people.

Notes

1. Disclaimer: The author was involved in devising the programme analysed in this paper, and he is still a voluntary member of the Kiútprogram Non-Profit Ltd. board.
2. <https://stateofthecampaign.org/2015/12/15/2015-report-number-of-clients-reached/>
3. https://www.nobelprize.org/nobel_prizes/peace/laureates/2006/
4. The Hungarian name 'Kiútprogram' means 'Way out programme'. The sound 'ú' is pronounced as 'oo' in the word 'good'.
5. See the *Estimates on Roma population in European Countries* at the Roma and Travellers site of the Council of Europe: <http://www.coe.int/en/web/portal/roma/> (accessed on 10 May 2017). At the 2011 census, only 309,000 people declared themselves being Roma as their first or second ethnic identity (the census allowed for double ethnic identity). People are usually reluctant to admit their association with a stigmatized minority in front of an official state organization.
6. Own calculation based on the 2011 census, <http://www.ksh.hu/nepszamlalas/>.
7. Poverty threshold: 60 % of the median of the equalized household income.
8. A synthetic work on microfinance is Armendáriz and Morduch (2010).
9. http://ec.europa.eu/regional_policy/en/policy/themes/social-inclusion/roma-pilot/
10. The management information system was financed by the EU *Roma Inclusion* project.
11. It would far exceed the scope of this study to give a review of the literature on life satisfaction, or happiness. On the connection between income and happiness, see e.g. Easterlin (2001). For the relationship between capabilities and happiness, see Anand, Hunter, and Smith (2005), Veenhoven (2010).
12. As it is usual in the estimation of subjective well-being, the logarithm of income is used (Layard, Mayraz, and Nickell 2008).
13. Subjective well-being is usually U-shaped during the life cycle, that is the subjective well-being of young and old is generally higher than that of middle-aged people (Blanchflower and Oswald 2008). Surprisingly, in our case it is \cap -shaped.
14. <http://romafacts.uni-graz.at/index.php/history/prolonged-discrimination-struggle-for-human-rights/institutionalisation-and-emancipation>

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