Employment of Marginalized groups

Employment and self-employment programs

OPEN SOCIETY INSTITUTE
ECONOMIC AND BUSINESS DEVELOPMENT PROGRAM / SEDF

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Entrepreneurship Among Roma

- Part I
  - Finance facilities supporting Roma
  - Compare the programs

- Part II
  - What it takes to run a business compare to above.

- Part III
  - Alternative
Questions

- How to start?
- What is the role of the EU or national Governments?
- How can I become wealthy?
## Investments

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Mikrofond, BG</td>
<td>1999</td>
<td>REDC</td>
<td>4 / 3,000</td>
<td>15%</td>
<td>Individual / Rural</td>
</tr>
<tr>
<td>CDE / Goodbee, RO</td>
<td>1999</td>
<td>SELF / Group</td>
<td>17 / 7,000</td>
<td>10%</td>
<td>Group / Rural</td>
</tr>
<tr>
<td>Horizonti, MK</td>
<td>2003</td>
<td>Group</td>
<td>3 / 875</td>
<td>35%</td>
<td>Urban women groups</td>
</tr>
<tr>
<td>Mikrohitel,HU</td>
<td>2005</td>
<td>No support</td>
<td>0.800 / 8,000</td>
<td>4%</td>
<td>Individual / Rural</td>
</tr>
<tr>
<td>KIUT, HU</td>
<td>2010</td>
<td>SELF</td>
<td>&lt; 0.300 / 2100</td>
<td>95%</td>
<td>Group / Rural</td>
</tr>
</tbody>
</table>
Conclusion

- Provide support
  - Assist with access to market, funds management, motivation
  - **CHALLENGE:** financial support

- Customize for market *no standard*
  - Know the market, work with client grow slowly
  - **CHALLENGE:** Not sustainable.

- Create sustainable program
  - Diversify client base for all marginalized
  - Work with existing structures
  - Not poorest of the poor
  - **CHALLENGE:** getting people to work with each other
Need to do business

1. Make a product or service

2. Sell the Product or service

3. Manage money

4. Motivation, Motivation Motivation
Additional concept

- Focus to develop businesses in marginalized communities who create employment.

- NOT employment program

- Investment funds **FOR MEDIUM OR LARGER BUSINESSES**

- **RISK !! “eggs in one basket”** meaning all risk on limited number of companies.

- **CONTINUED PERSONAL FACILITATION “bridge”**
Questions

- How to start?
- What is the role of the EU or national Governments?
- How can I become wealthy?
# Balance Sheet

<table>
<thead>
<tr>
<th>ASSETS (things to make money)</th>
<th>Debt and equity (where the money came from)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money / Cash savings</td>
<td>Short term Loans</td>
</tr>
<tr>
<td>Time (personal)</td>
<td>Long term loans</td>
</tr>
<tr>
<td>Homes / Buildings</td>
<td>==</td>
</tr>
<tr>
<td>Machines</td>
<td>Your own money</td>
</tr>
<tr>
<td>Automobile</td>
<td>Other peoples money</td>
</tr>
<tr>
<td>Phone</td>
<td></td>
</tr>
<tr>
<td>TV</td>
<td></td>
</tr>
</tbody>
</table>
Part II
Economic Development
Programs for Roma: Examples
Key Beliefs

- Roma are entrepreneurial
- Small enterprise is consistent with Roma way of life and their culture
- Roma = resource not an obstacle
Left Behind Development of MSME’s

- Roma left out of self-employment
  - Few Roma pursue self-employment
    - e.g. Hungary
      - 3.0% of Roma are officially self-employed vs. 18% of the general population unofficial much higher
  - Little help/business services
  - Difficult access to formal credit and other business opportunities
  - Little is known about Roma entrepreneurship
Access to Capital

- Financial institutions reject poor borrowers for numerous reasons
  - collateral,
  - education level,
  - business experience,
  - Discrimination.
- Banks – not servicing
- MFI best serve the tradition SME sector more affluent
Source of Credit (UNDP Survey)
OSI Supported Programs: What Works

- Microfinance
  - Rural finance – Romania
  - Urban microcredit – Macedonia
  - Micro-lending pilot - Hungary
  - Microcredit in Roma ghettos - Bulgaria

- Asset building
  - Pilot initiative - Hungary, Slovakia

- Virtual Incubators
  - Sliven real incubator
Initial Findings from OSI Supported Programs

- Physical segregation an obstacle to entrepreneurship
- no systematic differences in delivery of business support require BUT design changes, customize for community
- Credit risk for Roma has shown to be the same as as non-Roma when done correctly.
- more expensive because
  - smaller loan amounts
  - require more follow-on / assistance
  - Know community
- Programs should not focus on Roma but include them
Roma Groups

a) not educated, inactive, not motivated
b) not educated, motivated, more or less active
c) educated (but the not marketable), motivated, more or less active
d) educated (more professions), motivated, active

Source: Autonomia Froundation Hungary
## CDE Romania

<table>
<thead>
<tr>
<th>Number of CDE local offices:</th>
<th>11</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDE Personnel:</td>
<td>70</td>
</tr>
<tr>
<td>Number of counties covered by the program:</td>
<td>27</td>
</tr>
<tr>
<td>Number of operational counties:</td>
<td>19</td>
</tr>
</tbody>
</table>

![Map of Romania showing CDE locations]
CDE Programs

• Microfinance
  - Rural Microfinance Program
  - Microfinance Program in Mining Areas

■ Business Development and Training
  - SME training and consulting
  - Microenterprise Training for Women
  - Training in Cooperative Management
# Rural Microfinance Program

Number of groups formed by CDE loan officers: 80

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of micro-credits disbursed:</td>
<td>7,506</td>
</tr>
<tr>
<td>Average loan size:</td>
<td>$1,500</td>
</tr>
<tr>
<td>Number of micro-credits used for cultivating cereals, vegetables and for animals’ farms:</td>
<td>7,238</td>
</tr>
<tr>
<td>Number of micro-credits used for agriculture services:</td>
<td>220</td>
</tr>
<tr>
<td>Number of micro-credits used for trade with agriculture products:</td>
<td>36</td>
</tr>
<tr>
<td>Number of micro-credits used for processing units in rural areas:</td>
<td>12</td>
</tr>
<tr>
<td>Repayment rate:</td>
<td>100 %</td>
</tr>
</tbody>
</table>
## Microfinance for Roma

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of groups formed by CDE loan officers:</td>
<td>32</td>
</tr>
<tr>
<td>Number of micro-credits disbursed:</td>
<td>550</td>
</tr>
<tr>
<td>Out of which: - Roma groups:</td>
<td>18</td>
</tr>
<tr>
<td>- Mixed groups:</td>
<td>15</td>
</tr>
<tr>
<td>Micro-credit average value:</td>
<td>600 USD</td>
</tr>
<tr>
<td>Number of micro-credits used for animal micro-farms:</td>
<td>310</td>
</tr>
<tr>
<td>Number of micro-credits used for orchards’ maintenance:</td>
<td>80</td>
</tr>
<tr>
<td>Number of micro-credits used for trade with agriculture products:</td>
<td>160</td>
</tr>
<tr>
<td>Repayment rate:</td>
<td>100%</td>
</tr>
</tbody>
</table>
Roma Clients
CDE Clients
HORIZONTI - Macedonia
Microcredit Foundation

- Created as microfinance project of CRS/Macedonia in January 2000
- Poverty-focused microfinance program
- Operates in 7 branches and served around 3,000 clients (all women) active 1,500
- Main founders: CRS and Caritas Norway
- Total staff: 32 (15 Loan Officers)
- Group loans as primary product
Reaching the Roma

- Natural target for poverty-focused MFI’s
- Strong presence among the micro-entrepreneurs (small traders) in the markets in urban areas
- No access to other financial institution
- Huge demand for financial support
- Easy to access and outreach
Horizonti approach

- Unique on the market (no competition to serve this client niche)
- Group lending based on solidarity
- Short-term loans mainly for working capital
- Horizonti office located in Roma community
- Strong focus on pre-credit training and business and household assessment
- Respect their culture and tradition
- Pay special attention to build trust, respect and care between clients and MFI
Challenges to serve Roma

- Ability to hire the right loan officers
- Lack of education
- Lack of experience and familiarity with loans
- High attrition due to individual (life) circumstances
- Formalization of Roma businesses
Horizonti Roma clients
Mikrohitel - Hungary

- First private financial company
  - started 2005
  - joint venture between Autonomia Foundation and Business Basics Foundation
  - initial capitalization from OSI, additional support from UNDP

- Target clients: low income entrepreneurs and small businesses, including Roma

- Pilot lending:
  - group lending in two regions in Hungary
Local Business Development – Sliven, Bulgaria

- Combined approach to local economic development:
  - Regional Economic Development Center (REDC)
  - Small Business Incubator
  - Mikrofond EAD
  - Mikrofond Foundation
RECD – Sliven

- Started in 1998
- Small business and local economic development support center
- Co-funded by OSI and City of Sliven
- Acts as a catalyst for numerous local projects and a business service provider
  - initiated SME lending and microfinance in the region
  - developed business incubator
  - promoted ecologically sound development (e.g., facilitated new waste treatment facility)
  - facilitates community development activities
Community Development

- Based on the business development and microfinance activities
  - REDC using its prior experience and trust capital with the local community leads several community development initiatives
    - community planning meetings and strategy
    - developing resources/fund-raising
    - negotiating with the municipality and regional government
Business Incubator - Sliven
Business Incubator

- Affordable space for start up and growing companies
- Managerial services.
- Business Support Network
- Shared services
- Manufacturer Network
MIKROFOND EAD

THE FIRST MICROFINANCE NGO IN BULGARIA TRANSFORMED INTO COMMERCIAL LENDING COMPANY

- Outstanding portfolio: 3,000,000 EURO
- Number of loans outstanding: 1,600
- Number of loans disbursed (2005): 3,000
- Cumulative Roma clients: 550
- Number of Roma clients: 260
Results

- Breakdown of clients by type of business:
  - Wholesale 9%
  - Retail 26%
  - Production 15%
  - Field Farming 9%
  - Stock-breeding 8%
  - Services 22%
  - Others 11%

- Over 350 start-up businesses funded
- 40% of clients are women
Mikrofond EAD

- Strategy to lending in Roma ghetto in Sliven
  - entry through trusted clients who are successful businesses
  - Mikrofond clients in the ghetto provide referral to other clients and serve as support network for new borrowers
  - Clients are creating groups or small scale network in the community
  - 75 Roma loans disbursed in Sliven, 250 total Roma clients of Mikrofond throughout Bulgaria, 98% on time repayment rate in 2005
Asset Building Program
Pilot - Hungary, Slovakia

- Asset-ownership
  - home, business, education

- leads to
  - household security, optimism, self-worth, community, risk-taking & entrepreneurship

- Objectives and Principles
  - low income attain a reasonable financial goal
  - Match savings over period
  - financial education and coaching throughout the process to provide on-going support and problem solving
Design

- Matching Scheme
  - 1:1 and 2:1 (3:1)
  - Participant defines asset goal
  - Participant reaches goal, funds are released to a vendor to purchase asset

- Financial Education
  - During savings period: household budgeting, business management & home purchase guidance.

- Individual Support and Coaching
  - Financial emergencies, family issues and motivation
Incubation Program
Pilot - Hungary (Autonomia Foundation)

- Resources
  - Equipment or space ASSET

- leads to
  - Improved quality of work = more income and more competitive

- Objectives and Principles
  - Provide “tools” to compete
  - Slowly learn via mentor
  - Local resource & meeting point = social development
Design

- Traditional space
  - Large building
  - Large Government participation
  - All services provided (e.g. accounting, legal sales pricing etc.)

- Virtual Incubator
  - Tools stored
  - Person rents with “lessons”
  - Provides advice on pricing and “business”

- DETERMINE NEED
Part III
Initial Lessons Learned
Common features

- Various approaches and program designs appropriate to local markets and environment but similar principles:
  - focus on local economic development
  - commitment (through business policy) to lower end markets and business development
  - inclusion as a guiding rule (not Roma only)
  - a combination of small but increasing financial and business assistance
  - understand local Roma community and investment in local trust relations
Initial Learning

- Entrepreneurship viable option & proven tool that can be deployed to Roma communities
- Physical segregation obstacle - entrepreneurship
- Higher risk more costly
  - Hard to access /understand and potentially
  - higher risk more vulnerable, poverty and segregation
- Roma borrowers are able and willing to repay APPROPRIATE loans
Reaching out to Roma

Opportunities:
- Roma are entrepreneurial and independent (traditional way of life)
- no options = “loyal” customers
- Support organizations in place

Challenges:
- difficult to understand & develop trust
- Low hope and short sighted
- loan sizes smaller – cost/sustainability issues
- Cost of program learning high
Informal vs. Formal

Formality is luxury the poor cannot afford
Conclusions

- Entrepreneurship presents an untapped potential for employment generation among Roma

- Time and money required to learn unique groups

- Need focused strategy for technical support and access to capital and market opportunities
  - Community development
  - Financial intermediaries provide niche services

- Initial asset building schemes may be necessary for the poor as a stepping stone into micro-enterprise
Elements of Employment

Environment

Assets
- Skills
- Tools
- Long Term employment
- Social networks
- Capital

Person
- Housing
- Life skills
- Motivation
- Transitional employment
- Monitoring / counseling
Marginalized Groups

Assets
- Skills
- Tools
- Social networks
- Long Term employment
- Capital

Person
- Former Military
- Roma
- Ex-public servants
- Ex-predators
- Mentally & Physically disabled

- Housing
- Life skills
- Motivation
- Transitional employment
- Monitoring / counseling