Innovation Policies for Inclusiveness – Policy Cases

Kiút Programme

Country: Hungary

1. Short Description

The ***Kiút Programme*** is a 2010-2012 pilot project that promoted innovative entrepreneurship among lower-income groups. It was financed through the European Union's project for Roma Inclusion (EUR 1.425 million) by private investors and the Hungarian state. The Kiút Programme **encouraged self-employment among people living in poverty, particularly people belonging to the Roma minority**. The programme supported the establishment of functioning and formalised business activities based on innovative entrepreneurial ideas. For this purpose, it provided unsecured microloans, in-kind benefits and other types of support (e.g. accounting services at early stages, assistance with developing business plans, and training on financial and managerial issues).

This policy profile is part of a policy toolkit on innovation policies for inclusiveness. It is relevant for social inclusiveness.

2. Policy Characteristics

Basic Information

Country and implementing institution(s):	Timeline:
Country: Hungary **Institutions:** Kiútprogram non-profit organisation, Polgár Foundation, Raiffeisen Bank	2010-2012
Target group	**Size and budget:**
Low-income groups, with an emphasis on minorities (Roma people, in particular Roma women) **People in lagging regions**	**Number of policy recipients:** 153 loans were provided to 138 beneficiaries **Budget:** EUR 1 425 million (EU) + HUF 200 million (approx. USD 1.5 million, PPP) for project management costs + HUF 70.25 million (approx. USD 534 000) for tax and social security re-financing + an undisclosed amount from private donors
Type of policy instrument(s)	**Inclusiveness focus**
Financial support: microloans **Non-financial support:** training, in-kind benefits	**Social inclusiveness**

Policy objectives

The Kiút Programme is a pilot project financed through the European Union's project for Roma Inclusion[1] by private investors and the Hungarian state. The aim of the programme is to enable people living in poverty (particularly those belonging to the Roma minority) to become self-employed and operate a functioning, formalised business activity. For this purpose, it provided unsecured microloans, in-kind benefits and other forms of support (e.g. accounting services at early stages, assistance with developing business plans, and training on financial and managerial issues). The objective of the programme was to enable people living in poverty (in lagging regions and/or belonging to the Roma minority) to establish their own businesses, based on their innovative entrepreneurial ideas. Beyond this purpose, the programme helped to achieve more comprehensive social objectives, notably the integration of poor people into the local production system, which may increase the overall level of innovation in the region over the long term.

The programme is based on the original Grameen model adapted to the Hungarian context. In principle, the Grameen model supports people in deep poverty by mobilising their own resources.

Rationale

Poor people belonging to the Roma minority in Central-Eastern European countries, including Hungary, are generally not part of the formal economy. However, their involvement in labour markets is essential for the economic growth of local communities and regions. One efficient way to achieve this is to encourage them to create small businesses based on their own innovative ideas, which respond to the needs of the local environment. Such business creation relies on addressing limitations in access to finance.

Policy target recipient and selection mechanism

The programme targeted people around or below the official poverty line (i.e. 60% of the median disposable household income), with a specific focus on the Roma minority, people in lagging regions and women.

Applicants were selected by field workers trained by the Kiútprogram non-profit company. The field workers' mission was to identify municipalities where an adequate number of applicants fulfilled the programme's criteria. The programme was then implemented in a range of selected municipalities. The main responsibilities of field workers included:

- mapping municipalities in terms of social and economic relationships;
- searching for adequate institutional partners and contact persons, including key stakeholders (firms and organisations) and local poor people, willing to help achieve the objectives of the programme and assist field workers in contacting potential clients;

[1] The "Pan-European Coordination of Roma Integration Methods – Roma Inclusion: Self-employment and microcredit".

- organising forums and disseminating information on the programme;
- establishing personal contact with applicants and make initial decisions regarding their suitability for the programme (with particular regard to their life styles and attitudes towards regular work);
- organising group meetings and community building.

The screening process to select programme beneficiaries included analysis of the following: (i) the applicant's debt situation towards the government; (ii) the applicant's debt situation towards credit institutions; (iii) a simplified business plan (i.e. short summary of the proposed business venture on the basis of which its feasibility can be assessed); and (iv) the applicant's score in an evaluation of their entrepreneurship abilities.

Policy instrument(s)

Financial support: microloans were provided to groups consisting of five persons in a sequential order (i.e. provided first to one member and sequentially to the remaining members). The prompt repayment of instalments by the first member was a pre-requisite for the following member to receive the microloan). The eligibility criteria included having a disposable household income per capita of less than 60% of the median income (relative poverty line). The maximum amount of the one-year microloans was HUF 1 million (approx. USD 7 600, PPP), repayable weekly at an annual interest rate of 15%. In accordance with Hungarian legislation, a credit institution (Raiffeisen bank) provided the loans and the non-profit company undertaking the actual credit process acted as the agent of this institution. In contrast to the original Grameen model, field workers were responsible for setting up adequate borrower groups, and the new entrepreneurs had to compile a business plan. They also received other forms of social support in order to survive the first months (e.g. free accounting and state financing to pay social contributions and possibly taxes).

Between 2011 and 2012, the Kiút Programme provided 153 loans for an overall amount of HUF 70 521 000 (approx. USD 554 800, PPP).[2] By the end of the pilot project, 95 enterprises were functioning and 27% of applicants had experienced a delay in repayment exceeding 180 days.

Non-financial support: this included administrative help (e.g. provision of free accounting in the beginning, and support in compiling business plans) and training on financial and business issues.

Policy challenges

- The burdensome legal, financial and administrative regulations that apply to new entrepreneurs hinder their potential innovative activities. For example, new entrepreneurs must obtain a certificate from the Hungarian Tax Office that proves they have no tax or any other debt with the public authorities. However, many poor people

[2] Other costs (e.g. training and organisation) financed by EU funds are not included in these figures.

have debts with the public sector (e.g. public utilities). An entrepreneurial account must be opened in a local bank that can refuse applicants on the basis of low creditworthiness, poor business plan and so on; however refusal may also be driven by hidden discrimination. In addition, new entrepreneurs in the target group may be unable to finance some of the initial costs by themselves. Most importantly, social security contributions must be paid from the first month following the establishment of a new company, even if it made no profits. This problem required the introduction of a special type of early loan. There is also a need for an accountant to help establish the company – the programme finances this requirement during the first year, but the entrepreneur is expected to cover the cost thereafter. These legal and financial difficulties are coupled with lack of experience in dealing with such complex administrative matters.

- The programme has resulted in a high rate of defaulted loans – the target of 75% was not reached. The overall recovery rate was around 60%.

- The number of new applicants is low. Many poor people not used to overcoming administrative and financial challenges are unwilling to participate in the programme, even in the face of successful peer examples. As a result, the original target of 400 recipients was not attained. Only 138 beneficiaries were selected from 900 applicants to receive microloans (41 beneficiaries in 2010, 74 in 2011 and 23 in 2012). The total number of loans disbursed was 153 (an individual may apply for more than one loan).

- Field workers were inadequately trained. Field workers must possess adequate knowledge of social work and (small) business development. The social work component should centre on the selection and subsequent development of clients (communication, administrative skills, etc.), while the business development aspect must consist of specific up-to-date legal and financial knowledge. Many well-prepared social workers did not possess the latter knowledge. In view of this, new training modules were introduced to overcome these challenges.

- The number of (even well-trained) field workers fluctuated due to the high psychological pressures involved.

- Co-operation between the credit institute (Raiffeisen bank) and the non-profit firm lending the loans was ineffective. The bank was not fully prepared to administer the lending of microloans at the launch of the programme, and the first clients had to wait several weeks for their first loan instalments. This eroded mutual trust between the clients and the non-profit company in the early phase of the project. Even though funding from private donors covered losses arising from defaulted loans, the bank was not sufficiently flexible (with regard to payback times, financing needs, tenor, etc.) and was not co-operative in developing necessary amendments to the loan process.

- The bank's lending rules were not suitable for the needs of the target group (e.g. few instalments, short tenor and long periods between the granting of two loan instalments). Some of these problems were addressed later, but the implementation of new measures was hindered or prevented by the bank.

- Seasonal effects in the case of certain forms of enterprises, especially agricultural businesses heavily affected by weather and other outside influences, may lead to late or defaulted payments.

Actions undertaken to address challenges

Due to the increasing rate of delay in loan repayments, the drop in new groups and lending, and the low level of trust between the management of the non-profit company and field workers, the programme was re-structured:

- A more accentuated focus was given to the entrepreneurial abilities of the applicants. Field workers assessed whether applicants had the necessary personal strengths to succeed as entrepreneurs (i.e. they had an entrepreneurial “dream” and the requisite drive, and were not merely motivated by money). They also checked that applicants were capable of individual administration, had run a previous enterprise or participated in other entrepreneurial activities, were capable of working hard on a constant basis, had a social network that would enable them to sell future products or services, were capable of entering into new relationships, were capable of planning forward and had a good history of paying back loans.
- More flexible rules were applied with regard to the number of participants in a group and loan conditions. The amount of time between two loan payments was decreased from six to four weeks, loan amounts decreased from an average of HUF 700 000 (approx. USD 5 300, PPP) to HUF 500 000 (approx. USD 3 800, PPP), and the minimum tenor of one year was abandoned so beneficiaries could apply for a loan with a tenor of less than one year.
- A more pronounced and structured regional focus was adopted. The programme’s new focus involved additional counties and places where segregation between Roma and non-Roma individuals was less marked.

Evaluation and outcomes of the scheme

The European Commission, UNDP and the World Bank closely monitored this pilot programme. The final report of the project was produced in 2013, and identified the above policy challenges and different ways to tackle them, including:

- Targeting should be appropriate in terms of beneficiaries, applicants and geographical areas.
- The programme should be coherent with the overall financial/societal environment in which it is embedded.
- “Peer pressure” should apply – there should be mutual liability and accountability and alternative solutions should be found to avoid the escalation of defaulted loans.
- Programme implementation should be based on a predictable and well-communicated business plan.

The report recommended that the programme continue, but due to lack of state financing it is currently on hold. However, private sector funding is still in place for smaller-scale projects.

Sources

Budapest Institute (2012), *The evaluation of the Kiut Microloan Programme*, Budapest Institute, Budapest, www.budapestinstitute.eu/uploads/Kiut_ertekeles_tanulmany_FINAL_MOD1.pdf (accessed 16 June 2016).

Kiútprogram Non-profit Company (2012), "Kiut Programme – our vision", Kiútprogram, Budapest, www.kiutprogram.hu/index.php/en (accessed 16 June 2016).

Kiútprogram Non-profit Company (2012), Social microcredit, self-employment and Roma integration. The experiences of the Kiút programme and policy recommendations for the 2014-2020 planning period of the EU Structural Funds (Final evaluation), Kiútprogram, Budapest, www.kiutprogram.hu/index.php/hu/aktualis/70-zarotanulmany (accessed 16 June 2016).

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Background

*This document is part of a repository of examples of **innovation policies that have for explicit aim to contribute to territorial, industrial and social inclusiveness.** The repository is part of an innovation policy toolkit developed for the **Innovation for Inclusive Growth** project and gathers national innovation policy programmes that:*

- **A.** *Explicitly target **lagging and less innovative regions** (outside of regions that are highly innovative) or by design are more likely to support these lagging / less innovative regions.*
- **B.** *Explicitly aim to include in innovation activities **individuals and groups that are not usually participating** in those activities and in support of broadening the group of innovators.*
- **C.** *Explicitly aim to foster innovation activities in non-innovative firms, in particular by targeting **non-innovative sectors and non-innovative Small and Medium-sized Enterprises (SMEs).***

Policies are searchable by inclusiveness type, objective and implementation challenge on:
https://innovationpolicyplatform.org/inclusivetoolkit