

Evaluation of the Kiút Microcredit Programme

Abridged version

Disclaimer: This is an abridged version of the original evaluation report elaborated for the Polgár Foundation. The complete version of the document is available in Hungarian at the website of the Budapest Institute (www.budapestinstitute.eu).

Budapest Institute of Policy Analysis
Prepared by: Reszkető Petra, Váradi Balázs

December 2011.

Table of Content

Table of Content.....	2
Executive Summary	3
I. Methodology and purpose of assessment	9
I.1. Purpose and focus of the assessment.....	9
I.2. Assessment Roadmap	9
I.3. Assessment methodology	10
II. Socially oriented microcredit	10
II.1. Entrepreneurship capacity and external factors	10
II.2. Lessons and impact of existing microcredit programmes – omitted from the translation.....	12
II.3. Conclusions for Kiútprogram	12
III. Kiútprogram overview	14
III.1. History of Kiútprogram.....	14
III.2. Progress of Kiútprogram – omitted from the translation.....	18
IV. programme coherence	18
IV.1. Local Business Environment	18
IV.2. Local social policy alignment.....	18
V. Appropriateness and internal coherence of the programme	20
V.1. Target numbers and performance indicators	20
V.2. programme characteristics and consistency	22
VI. Strategic Recommendations.....	27
References	30
ANNEXES	35
I. Appendix on Methodology.....	35
II. Overview of earlier microcredit programmes in Hungary.....	36
III. Overview of social transfers in Hungary	36
IV. Project schedule	36

Executive Summary

This document is an independent expert review of Kiútprogram. In 2008 the founders and the board of Polgár Alapítvány az Esélyekért (in short Polgár Foundation) initiated the establishment of a microcredit programme in Hungary, which would differ from previous local efforts. Officially, the Kiútprogram started in January 2010 with a three-year tenure. Although the first client groups had graduated relatively early, - during the spring of 2010, - the first loans were only disbursed in the fall of the same year (September). The European Commission awarded financial support to the Kiútprogram for a period of two years, the support contract was concluded in June 2010. Thus, Kiút initiative as a community development programme became a pilot project of DR REGIO.

Kiútprogram's strategic objectives are supporting households in disadvantaged areas to avoid the poverty trap, clearing up potential clients' informal enterprises, supporting entry into the regulated enterprise sector, and fostering the social integration of people in endemic poverty, primarily the Roma. The programme targets residents of disadvantaged microregions, mostly but not exclusively the Roma population, by offering small business loans to groups. Apart from deploying a financial instrument (i.e. the group-loan), the clients receive a wide variety of business development and administration services from Kiútprogram. The operation and implementation of the programme is the responsibility of the legal entity called Kiútprogram Közhasznú Nonprofit Zrt.

Due to the perceived challenges and the slow-down in implementation, during the spring of 2011 the management introduced some changes in the programme. While the initial strategic objectives remained unchanged, during the so-called 'model change', the targeting criteria were modified; the program target group now includes people with higher economic strata living in disadvantaged areas, who had business acumen and prior experience in entrepreneurship. Furthermore, several organisational changes took place such as the institutionalisation of crisis management, or the nomination of regional coordinators. In the framework of the programme review several programme elements were reinforced (These were for example, the significance of weekly cash repayment, the exclusivity of family relations and the role of the group recognition test)

Currently, 27 active loan groups participate in the programme. By November 2011 the number of clients reached 70, of which 64 had already received loans. There are equal proportions of clients who regularly pay their instalments and those who are late or already expelled from the programme. 11 clients had received their second or third loan. The initial objective of the programme, similarly to that of the Grameen Bank, to target mostly women clients, has not been sufficiently achieved at this stage. At the moment 45% of the borrowers are women and among the other clients the majority is also men.

The size of the loan portfolio is close to 50m HUF. The outstanding arrears totals 16.2m HUF. The average loan size for the period ending November 2011 was 651,151 HUF, which is in the range of 200,000 HUF to 1,000,000 HUF.

Considering that the evaluation was requested in June 2011, it entailed the evaluation of Kiútprogram, applying two approaches. On one hand the aim was to evaluate the so-called 'model change' (introduced in 2011) and examine the suitability and internal consistency of the programme (*quasi ex ante* evaluation). On the other hand, taking into account the fact that the implementation of the programme matured during the evaluation, and some new elements were introduced (partly as a result of the 'model change', tasks typically carried out in the framework of a mid-term evaluation could not be

avoided. By applying this approach, the suitability and consistency of the implementation have been examined. There has not however, been a focus on the programme efficiency or the comprehensive assessment of the programme management.

Both qualitative and quantitative methods have been applied, in the case of the latter with severe methodological caveats (see, limits to statistically significant interpretations due to low number of observations). The assessment period covered July-December 2010.

The experience of the last three decades shows correlation between the international/regional and national microcredit programmes. The impact assessments of these programmes list several success and failure factors, which are summarised below.

Relevance and consistency of the programme

- Kiútprogram's strategic objectives are justified, however its targeted results are overly ambitious. The simultaneous implementation of the three long-term strategic objectives means some trade-offs, and at the same time, the three-year pilot tenure makes their achievement unrealistic.
- The achievement of this programme's strategic objectives would be extremely challenging, even if synergic relationships existed with other local development initiatives, or if it were a well-tested and carefully planned intervention – though neither of these is the case.
- Previous programme experience in Hungary showed that fostering registered enterprises is hampered by difficulties especially among people living in deep poverty but in a relatively developed economic environment. In an otherwise highly regulated, developed market environment the market entry costs, the seasonality of relevant business activities, the information asymmetry, presence of strongly competitive informal businesses etc. explain the failure of micro enterprises, rather than the motivations of the individual entrepreneurs. The early phase of the Kiútprogram (October 2010 and beginning 2011) has also confirmed this experience.
- Formalising the „black” or „grey” enterprises coupled with the objective of minimising social prejudice have a lot of embedded challenges if the programme targets exclusively people living in deep poverty. This holds true even more for a programme that is not implemented in the framework of a long-term, complex development initiative targeting a particular microregion / urban area. Having said that the economic sustainability of the enterprises established under such a programme is strongly questionable.
- The operative management of Kiútprogram quickly realised that the achievement of the targeted number of clients (100 in the first year and 300 in the following year) is unrealistic. This is mainly a result of the initial phase where implementation has already started before finishing the operative planning of the programme. This also explains the substantial delay in the first loan disbursement compared to the group formation date. Despite knowing all this, no changes have been made in the target values by June 2011.
- It will be part of the *ex post* impact assessment upon the completion of the pilot to decide whether there is any income increase among beneficiaries. According to currently available monitoring data, it is questionable whether during the first year, the current borrowers experienced any increase in their household income especially considering the low (or zero) saving rates of these households and the upfront investment needs of their enterprises. (These often include the settlement

of previous debt as well thus not solely the procurement expense of the business equipment and/or inventory.)

- The repayment targets (75% of the first cycle clients and 80% of all subsequent cycles) are justified and well in accordance with international standards. However, it is important to note that these performance indicators usually refer to scaled up and long-term programmes and not pilots, which in addition operate in the midst of an economic crisis.
- The common characteristic of successful group lending activities is their key focus on the group itself. On one hand the group ensures economies of scale but most importantly it provides a platform for mutual learning, an opportunity for shared responsibility and ensures moral obligation. (I.e. the members try to avoid losing face in front of others.) These factors are fundamental in circumstances where the commercial lending conditions cannot be met by traditional collateral. In the international context the success of strong group dynamics in microlending were achieved best in communities where other binding forces like religion, or traditional social structures and customs supported the community or when mutual financial guarantees were introduced to the members. Prior to this pilot in Hungary, there were no examples of the former solution (moral or religious ties), but the latter (mutual financial guarantee) has proved to deliver negative acceptance. Kiútprogram experienced that groups function well until the loan disbursement but after that point in some cases the support function diminishes and peer pressure becomes weak or nonexistent.
- A new institutional element introduced in the framework of the „model change“ was the organised crisis management, to individually nurture defaulting clients and extend customised support to group members. Although this new programme element seemed obvious from a cost consolidation and implementation perspective (and as a response to multiple defaults in the beginning of 2011), it proved to be only a symptomatic treatment and had a rather negative impact on the programme.
- Regarding the loan tenure, the one year without grace period repayment condition has been found to be hardly feasible despite the carefully assessed business plans. Internationally, only those businesses where the yield after one year was exceptionally high, were able to deliver on this, which is of course an activity-dependent factor. Kiútprogram could alleviate this by initiating savings activity in the first 6 months when special state support schemes are available for most of the clients (see welfare bridge subsidy). While attempts to implement this are clearly documented in the internal policies of Kiút, during the implementation little evidence was found for this.
- Life rules, which usually serve as a code of conduct for credit groups, were elaborated by the programme management and accepted but regarded unnecessary by the beneficiaries. (A view they expressed during interviews.) Their active role in forming these rules was limited or non-existent. It is more an exception where the members could contribute to form these rules or they could complement and discuss the existing ones. It is thus concluded that these life rules played no effective role in the operation of Kiútprogram, despite having a proven track record of the benefits of it in other microcredit initiatives.
- The programme designers recognised the necessity of additional business development services such as financial literacy training, entrepreneurial skills training, group formation and mentoring services even after the loan disbursement.

Targeting

- The early programmes implemented in Bangladesh, implied various elements such as landless women as potential clients, Grameen rules regarding living circumstances, short-tenured small loans mostly as working capital, and the dissemination of basic market information. On the contrary the North American microcredit programmes targeted mid- and long-term investments and/or working capital coupled with business planning and cash flow management mostly explained by the complexity of the business environment and the society. The same holds true for those Eastern- Central European programmes where the refundable contributions targeted the extension of existing enterprises other than startups.
- On one hand, it is an important empirical lesson that those programmes that provide consumption loans, which in most cases cover the existing debt of clients, are doomed to fail. (See the lessons learnt from the microcredit experience in Hungary.) On the other hand, experience from international programmes suggest that the *a priori* assessment of potential clients' financial needs (and saving potentials) despite being time consuming, is fundamental and most beneficial to the mitigation of default risk. This allows the loan product and the support services to be customised exactly to the beneficiaries' needs.
- Kiútprogram's efforts are commendable in identifying the above needs both during the feasibility study and the planning phase. The challenge instead proved to be how the implementation will adjust to needs of real clients as opposed to those of an „ideal client“ envisioned by the programme designers initially. This review shows that despite the efforts to correct targeting mistakes after the model change, the new beneficiaries happen to be minimally different from those who were recruited earlier. Improvement is expected in this regard, with more experienced field staff joining the programme, but the high fluctuation of staff (especially among the field agents), the internal communication difficulties, and the lack of organisational learning may hinder this.
- By tailoring the model to local and individual needs, special factors such as the close proximity of markets, information and procurement opportunities and their differences in urban *versus* rural areas should be considered. Such differentiation is visible in the programme, but strongly dependent upon the personal commitment and loyalty of the field agent and his flexibility towards clients. Upon the completion of the pilot, institutionalising these efforts would be worthwhile by comprehensively assessing which business development service is preferred by clients at what location.
- Even in Budapest the ethnic discrimination strongly narrows the possibilities of having a relevant customer base for Kiút enterprises; hence the change in targeting towards more integrated markets gives a better chance for the Kiút businesses to survive. These observations, without being representative, show that there are only few enterprises in the isolated villages, which could be sustainable even after the pilot is over, and the current services (such as procurement with the field staff vehicle or complimentary accountant, etc.) are discontinued. Experience gained during the evaluation has thus reinforced the notion that the model change altered the targeting for the better, but attention must be given to the necessity of an „exit strategy“ to ensure long-term sustainability of supported businesses post the pilot.

External coherence of the programme

- It is an important international and national experience that a country's business environment and the quality of the regulatory framework strongly influence the success ratio of startups. Therefore, in an over-regulated and unstable business

environment, the survival and the success of the established enterprises may depend on factors over which are beyond the control of programme management. For instance the constantly changing taxation and social security system, or the relatively high administrative burdens of setting up business might challenge the potential target group due to informational asymmetries and limited financial resources. The lack of information or uncertainties in framework conditions can easily absorb the savings of the targeted households or even provide disincentives to necessary savings. Such factors have equal if not greater weight than the potential demand or the input expenses of the startups.

- In developed economies the market competition is more vibrant. Dominant market players, import prices, or the informal business practices of local competitors often determine the local prices. This may put microenterprises easily out of business in some sectors as far as profitability is concerned. During the evaluation, these disadvantages became clear through the group interviews. The comprehensive analysis of the above factors, however, should be part of the *ex-post* impact assessment.
- Financial intermediary service provision is heavily regulated in Hungary and burdened with strong financial sector entry barriers. This and the pilot nature of Kiút inevitably resulted in a partnership with a bank and established the need for a new product with all its procedures suitable for their low-income clientele from scratch. It had caused a substantial delay in the first loan disbursements (September 2010), which impacted the fragile trust between the first group members and the programme staff. The overly extensive banking administration hampered the efficient implementation of the programme also later and contributed and still contributes to the decreasing confidence of the field workers.
- When discussing the external environment, it is vital to refer to the measures introduced in the framework of the change of government in 2010 that had a negative impact on the programme's target group (people living in disadvantaged microregions, people living in deep poverty), such as narrowing down social transfers, business development support schemes. Experience showed that the purchasing power of the Kiút target communities decreased by and large by 2011 and shows strong seasonality depending on the availability of the social schemes. (E.g. community work programme are provided mostly in the summer period by local governments). A detailed analysis of the potential demand side (see seasonality of local demand, changes in complimentary household incomes and consumption behaviour) has not been covered under this evaluation, but an extensive assessment on this issue is strongly recommended.

In summary, Kiútprogram is an initiative that fills the gap for a pilot programme in Hungary, and its lessons should be capitalised upon when designing future similar programmes.

Kiútprogram is a constantly changing pilot programme managed and (co)financed by committed and devoted sponsors and founders. While this could also be an advantage, for instance when the product/service is flexibly tailored to the needs of the clients, more disadvantages of this were discovered (unpredictable implementation framework, occasional, *ad hoc* decisions in given credit cases as opposed to a standardised decision-making process, etc.). The designers of the programme have successfully identified many of the risks, which prompted quick response during the model change, however the initially identified programme objectives were left untouched and several implementation risks were *a priori* ignored.

The overly-ambitious targets in client acquisition and the short programme implementation period is counteractive to careful and time-consuming client selection, to rolling re-design of the programme based on feedback from the field and on the internally-managed learning mechanism. Similarly, performance monitoring also becomes less regular and systematic.

Another important lesson for all future pilots is that the Hungarian regulatory framework and the business environment for micro startups requires investment in time and capital far beyond a credit scheme designed basically for one year tenure (with weekly instalment pattern!). The regulated enterprises in Hungary have substantial upfront capital-, and time investment needs and they are also cost-intensive to administer (e.g. each enterprise needs a chartered accountant). This could be a serious challenge for the Kiút target population, in which accumulated savings are virtually non-existent; hence it should be part of the financial literacy training. The model change promptly and appropriately responded to the planning flaws, but it failed to address critical issues such as longer tenure or enterprise specific repayment pattern.

The assessment ends with a short summary of the main recommendations. In order to systematically address implementation deficits, the following recommendations are made for the rest of the programme implementation:

- Focus on fostering mutual learning within groups even after the loan disbursement.
- Reinforce group cohesion and peer pressure to build up more effective moral guarantees.
- Support the field staff and reduce fluctuation, monitor their work more closely.
- Fine-tune client targeting/screening.
- Diversify business development and operations services for clients and provide exchange of information among and corresponding training for field staff.
- Ensure a more organised documentation and experience/knowledge sharing platform for the implementation system.

I. Methodology and purpose of assessment

I.1. Purpose and focus of the assessment

This assessment entailed the evaluation of Kiútprogram using a double filter. The evaluators were aware that the ex-post impact study is to be conducted by the UNDP and the World Bank. Therefore, a combination of an ex ante evaluation (focusing on the model change) and an early mid-term evaluation was decided upon. On one hand, the aim was to evaluate the so called 'model change' (introduced in 2011) and examine the suitability and internal consistency of the programme (*quasi ex ante* evaluation). On the other hand, taking into account that the implementation of the programme matured during the evaluation, and some new elements were introduced (partly as a result of the 'model change'), tasks typically carried out in the framework of a mid term evaluation could not be avoided. By applying this approach, the suitability and consistency of the implementation have been examined. Focus has not however, been put on the programme efficiency or the comprehensive assessment of the programme management. Thus strategic recommendations have been outlined based on the above, which are hoped to provide input for the government, the sponsors and the implementation system of the programme.

I.2. Assessment Roadmap

In March 2011, the Kiútprogram Programme Office contacted the Budapest Institute concerning the evaluation. In June 2011, after several rounds of negotiation carried out with other research institutes and based on the offer of the Budapest Institute, the management of Kiút decided to commission the Budapest Institute to conduct the evaluation.

On July 20 2011, the project kick off meeting was held, after which the evaluation began in three phases. In the first phase the Budapest Institute evaluators conducted desk research based on the available documents, internal policies and data. This was followed by management and expert interviews. As part of this phase there has also been an attempt to find similar initiatives in Hungary and understand the larger environment of microlending and entrepreneurship. As a closure of the first phase the methodology and final evaluation plan (see Annex) were finalised and approval was received from Kiút for the second phase (2011 September).

In the second phase eight case studies were chosen (Kiút lending groups) in order to understand the success and failure factors of the programme and the expert interviews have been continued. An assessment was conducted, of the Hungarian policy framework in which the programme and the enterprises operate and numerous field visits were made.

Surveys were conducted among the field staff and the management members were interviewed. It is important to note here, that this sampling cannot be considered representative because of the following reasons: the field staff was hired at different points of time and their professional background also differs substantially.

In the last phase of the research, all the collected information was analysed and workshops were held. In addition, some international and Hungarian experts were contacted, who are not part of the programme, but who could help in further refining conclusions. In November 2011 the evaluation was closed.

1.3. Assessment methodology

Descriptive qualitative assessment was conducted, by use of statistically non-significant quantitative methodology.

Qualitative tools: programme monitoring documentation, and media appearance review, literature review as per the list in the Annex as a basis of secondary research and 52 interviews with various actors in the programme, data of field staff survey (non-representative).

The guided interviews had a predetermined scheme and were conducted with the Kiút beneficiaries, field staff, management and sponsors. Wherever it was possible, the interview subjects were extended to local stakeholders such as religious leaders, journalists, bank staff, and other microcredit programme representatives. As observers, the evaluators also participated three times in a half a day management and field staff workshop and held guided interviews with Hungarian experts. All interviews with the field staff and with the clients are anonymous.

The selection criteria of the interview subjects were the inauguration date of the group (2010 or 2011), the development of the market that the enterprises operate (less developed, well developed). More criteria is listed in the methodology Annex no 1.

Our quantitative assessment was based on the data extracted from the programme monitoring database (as on Nov 21st 2011).

The research team members were Petra Reszkető and Balázs Váradi. Sincere gratitude is extended to Ágota Scharle and Zsombor Cseres-Gergely for their contribution as well as to research assistants Máté Halmos and Andrea Kiss, and to Árpád Földessy for his support in writing the theory chapter and to all Kiút staff for their availability and the generous use of their time.

II. Socially oriented microcredit

II.1. Entrepreneurship capacity and external factors

For a long time economics, sociology and business literature have attempted to define what skills are required to become an entrepreneur and what personal and external factors are needed to start an enterprise, i.e. to determine the entrepreneurial capacity?

Shane and Venkataraman (2000) define the enterprise as an activity to develop new services and products to explore and exploit new markets, logistics and resource allocation. This can be measured by self-employment, organisational survival rate, and profit, revenue and turnaround ratios. It is important to note that these ratios are low all over the world.

For instance in the United States in 1990 studies it is found that 40% of startup enterprises fail (Taylor, 1999) and less than 10% of the working enterprises grow (Duncan and Handler, 1994). Shiller and Crewson show that only 21% of self-employed men and 8% of self-employed women earn more than the median wage of their age (1997).

Regarding entrepreneurial capacity a wide spectrum of influencing factors were listed by several evaluators. These are:

- Access market information on potential business opportunities and the skill to recognise these
- Necessary motivation to exploit the business opportunity, organisational skills, openness for change and innovation (Shane, 2003),
- Skills to withstand the unpredictability of outcomes entrepreneurship (Knight, 1921),
- Demand for performance (McClelland, 1961)

The above evaluators examine those technological, structural-industrial, and environmental factors, which stimulates large number of individuals to become self-employed business men.

Entrepreneurial capacity can be described as the interaction between the following factors:

- Objective possibilities to start a business
- Individual attributes
- Environmental factors such as sectoral, macroeconomic and social security

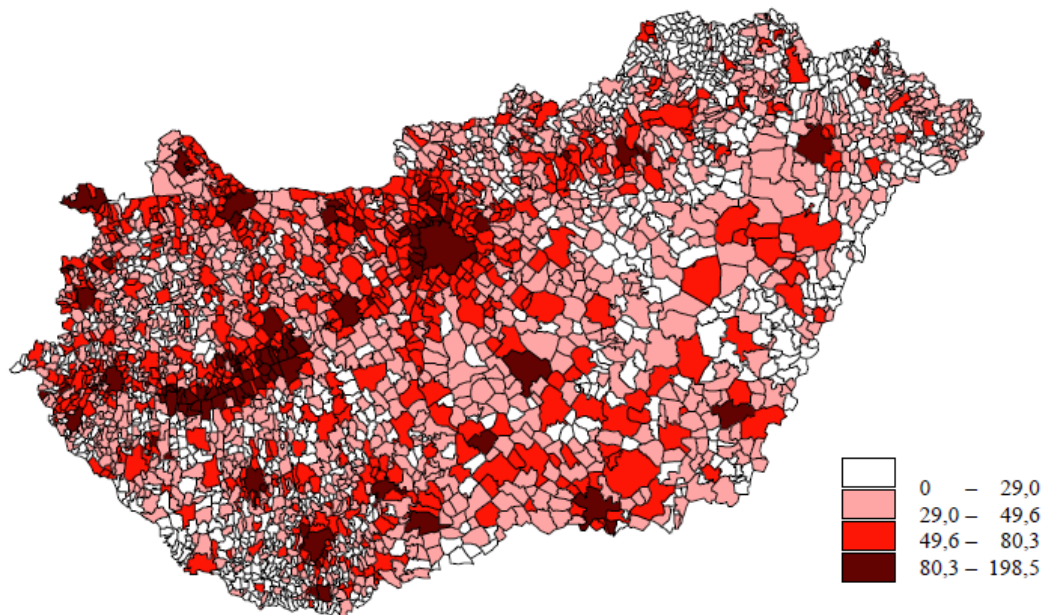
Individual attributes consist of psychological (motivation, cognitive traits, - Baum, Frese and Baron 2007) and non-psychological (age, socio-economic status, education, previous professional experience – Shane 2003) traits. Although successful enterprises driven by psychological factors may be prevalent in all strata of the society the socio economic indicators are by definition, lower at the target audience of socially oriented microcredit.

The articles of three evaluators seemed the most relevant to this assessment. (Lengyel Gyorgy (2008): The impact of business inclination on the enterprises and welfare, Kopasz Marianna (2005) The role of historical, cultural and social factors in determining differences of entrepreneurial potential in Hungary, and Messing Vera and Molnar Emilia (2011) Responses to cash deficit: livelihood strategies of poor Roma and non Roma families)

Lengyel (2008) studied 1992-2007 panel datasets to determine the non-psychological individual factors of entrepreneurship. The „conscious entrepreneurs”, those who were inclined to start a business in 1992 and later realised their targets are mostly males below the age of 50 with various degrees of post-elementary education. Leadership experience according to the findings, doubles the likelihood of becoming an entrepreneur. There is a positive influence if parents are of above-average education and if the person believes he belongs to the middleclass with occasional career shifts. In terms of professional experience, in 1992 larger proportions of white or blue-collar workers, supervisors or other leadership role subjects became entrepreneurs.

Mariann Kopasz (2005) researched with quantitative tools the business inclination of rural/small town subjects. Her findings, which use a historical perspective and results from the above researchers, are particularly relevant for socially-oriented microcredit.

Table 1. Density of microenterprises, which are not legal entities, broken down into microregions, 2001



Source Kopasz, 2005, Chart 5.

Kopasz (2005) focuses mostly on the external conditions of entrepreneurial potential and its geographical spread. She found a historical factor that may determine business inclination; she discovers a statistical relationship between the density of businesses and the land ownership structure of 1935. More importantly, she finds the impact of social capital on entrepreneurial potential by determining the density of nonprofit or civil organisations, which except for those less than 500 persons/village, shows statistical significance.

Considering that Kiút works with Roma as a target group, the question of ethnicity and entrepreneurial capacity rightfully arises. Messing and Molnár (2011) show with quantitative tools that the widespread assumption of traditional Roma occupations such as usury, metal recycling and timber theft, are not necessarily conducted by Roma businessman. Discrimination at the workplace and the long-term unemployment better explains the decision to become an entrepreneur than the factor of ethnicity. Their main finding is that the inherently Roma survival strategies are nonexistent even if there are certain livelihood activities that one or more Roma community considers as their own. These are for instance, the musicians, tradesmen, forest cultivators, which serve more as a basis of identity.

II.2. Lessons and impact of existing microcredit programmes

Omitted from the translation

II.3. Conclusions for Kiútprogram

The experience of the last three decades shows correlation between the international regional and national microcredit programmes. The impact assessments of these

programmes list several success and failure factors, which are summarised below based on four filter criteria.

- i. *Targeting suitability* (geographical and beneficiary level)
- ii. *Programme coherence* (economic and social embeddedness)
- iii. *Group dynamics* ('peer pressure')
- iv. *Programme implementation*

I. Targeting suitability

- *Need-based customised support offered to potential beneficiaries.* Irrespective of geographical disparity all future clients face the following challenges when becoming an entrepreneur. 1) Lack of information, 2) Lack of leadership and management skills, 3) Lack of capital.

In several regions there are successful programmes available for the extension of an existing enterprise, but there is none for startups. Therefore any microcredit programme needs to address the main deficiencies and customised demands of the clients, both in terms of the credit product and the business development services.

The early programmes run in Bangladesh implied various elements such as landless women as potential clients, Grameen rules regarding living circumstances, short-tenured small loans mostly as working capital, and dissemination of basic market information. On the contrary, the North American microcredit programmes targeted mid- and long-term investments and/or working capital coupled with business planning and cash flow management mostly explained by the complexity of the business environment and the society.

Those programmes that provide consumptions loans, which in most cases cover the existing debt of clients, are doomed to fail. (See the lessons learnt from the Autonomia foundation's microcredit experiences in Hungary.) To mitigate this risk the initial comprehensive target-assessment of clients despite being time consuming, is fundamental and most beneficial.

- *Geographical outreach:* the close proximity of urban centres and rural markets are a determining factor. It is easier to design the business support services in places where the distance to cities and towns is smaller as opposed to remote villages where obtaining market information is more challenging. Similarly, procurement logistics and financing is more advantageous in urban centres than in disadvantaged rural areas.
- *Fine-tuning targeting tools.* Often the international practice describes in-process customisation of programme elements mostly due to the changing business and regulatory environment (certain subsidies introduced, tax laws or base interest rate change, etc.). Such customisation serves the best interest of the beneficiaries of microcredit programmes and with careful assessment of resource intensity and client feedback, they serve as fundamental success factors of the implementation.

II. programme coherence

- *Predictable tax and public contribution system.* In a complex policy environment the survival and the success of the established enterprises may depend on factors over which the founders of Kiút have limited control. For instance the constantly changing taxation and social security system or the lack of information penetration in the villages can easily consume the savings of the households. Additionally it increases the market challenges of the enterprises in comparison to their urban counterparts. Another such factor could be the overdependence on

the moneylender, which still lack appropriate regulatory framework. Such factors have equal if not greater weight than the potential demand or the input expenses of the startups.

- *Competitors – local competitiveness.* In developed economies the market competition is more vibrant. Prices are often determined by large conglomerates or unofficial practices of the competitors. Import duties/subsidies may put the enterprises out of business and potentially deprive entire sectors. On local markets even non-tradable goods and services (such as hairdressers) could cost substantial resources from a development programme unless it assumes an innovative monopoly-input.
- *Financial intermediary status.* The successful microfinance programmes both in Asia and in South-Eastern Europe found a suitable legal entity and judicial status as a financial institution (or intermediary) and were able to operate independently as opposed to part of a forced-partnership with banks or other lenders.

III. Group dynamics in practice

- *Lack of collateral or guarantees – alternative solutions.* The Hungarian experience on microcredit assuming individual loan, no collateral and social orientation, has so far delivered limited results. Unless mortgage or other forms of credit guarantee is imposed on the loan, there is little form of repayment responsibility except for some sort of a cosignatory.
- *Mutual responsibility.* Successful group lending methods have proven that the group has a key role and that all operating rules are aligned accordingly. This uniting force is not necessarily the economies of scale or the shared learning experience, but rather the imperative of mutual responsibility or not losing face in front of the community. The well-functioning group microcredit models are either prevalent in communities where religious or moral bonds unite the members or in those where clear financial commitment was shared among the members. For instance no further credit is given to the group unless all members pay the instalments on time and in full. Whichever may be the case, mutual responsibility is a sine qua non.

IV. Programme implementation

- *Predictable and well-communicated programme plan.* Entrepreneurial life is full of unpredictability, which can be compensated with thorough planning and flexibility. Therefore if the services and support of the given programme is unpredictable it results in market disadvantage for the businesses. To ensure accountability and predictability is a key role of the sponsors and management of the microcredit intervention. The constantly changing parameters may disadvantage both potential and active clients and minimises the expected success of such programmes.

III. Kiútprogram overview

III.1. History of Kiútprogram

abridged in the translation

It was originally the idea of Polgár Alapítvány az Esélyekért (referred to as Polgár Foundation or Foundation) around 2008 to start a microcredit programme. In March 2010, the European Commission awarded financial support to the Polgár Foundation based on the application submitted in September 2009. Kiútprogram as a legal entity was founded

on September 23rd 2009, where Polgár Foundation became its primary owner. The field operations and the staff orientation of Kiútprogram had started in January 2010. The first client groups were formed during the summer of 2010 and by the end of the year there were 11 established groups. The first loan was disbursed in September 2010.

In January 2011, it became clear that the loan portfolio had substandard performance, which prompted the management to establish more active platforms for information exchange between themselves and the field staff. By March 2011, operational experience showed that certain changes need to be made to the current model, similarly a new development director was introduced to the field staff. The performance measurement tools and indicators were shared with everyone and the parameters of the model customisation were also established. This entailed slightly modified client targeting; considering soft skills such as social relationships, positive approach to life, business acumen, etc. Along with the model changes organisational changes also took place, such as the setup of a crisis committee for individual handling of clients with repayment difficulties, or the introduction of regional coordinators for easier field communication.

The overall review also uncovered programme features that were undoubtedly part of the original concept but which had received modest attention during the implementation. These were for example, the significance of weekly cash repayment, the exclusivity of family relations and the role of the group recognition test. The table below summarises the elements of the model change: