

## **First Person**

# **Microfinance for the Most Marginalized**

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## Microfinance for the Most Marginalized

How small loans are tipping the social scales for Roma people

BY CHRISTOPHER J. VARADY & MILA GAVRILOVA

“ROMA PEOPLE JUST DON’T want to work,” a Bulgarian man recently told a Catholic Relief Services assessment team worker. “Look at the scoundrels! They don’t want to work like us—get up early in the morning, go to bed late at night.”

All over the world, marginalized groups such as the Roma (also known by the derogatory term Gypsies) face barriers not only to education and social standing, but also to making a living. In Bulgaria, for example, many people refrain from residing near or purchasing goods from Roma people. Because Roma people are rumored to be untrustworthy, Bulgarians will not do business with them.

This centuries-old pattern of discrimination has resulted in ghettos, extreme poverty, and poor health for the Roma in Bulgaria, as well as throughout Europe. Exclusion, poverty, and illness in turn keep Roma people from sharing in Bulgaria’s economic growth. As a result, the Roma are trapped in a vicious cycle that reinforces the impression that they are incapable of being successful members of society.

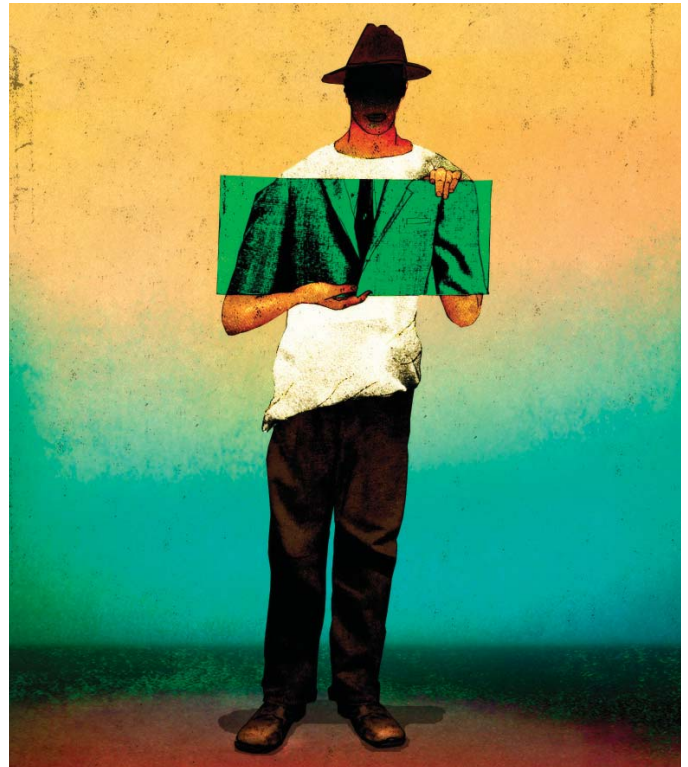
Meanwhile, mainstream media do not cover the plight of Roma people. And in the rare instances when they do cast a light on these communities, it tends to be a negative one that perpetuates society-wide misgivings about the group.

A recent project in Bulgaria, however, is at once enriching Roma people and dispelling negative social stereotypes about them. Called the Alliance for Inclusive Business Development of Roma Communities in Bulgaria, the project combines micro-loans—that is, very small business loans to the poor—with anti-discrimination programs in a one-two punch that is breaking the cycles of both poverty and exclusion. To deliver this program, the alliance draws on the varying skills of its partners: Catholic Relief Services, the United States Agency for International Development (USAID), and local microfinance institutions Mikrofond EAD and USTOI (a Bulgarian term connoting strength and stability).

All over the world, governments, businesses, and nonprofits are using microfinance to build a bridge between poverty and prosperity. Yet purely financial interventions seldom address the social dynamics that help keep marginalized groups impoverished. The alliance, however, shows that when combined with anti-discrimination efforts, microfinance can be an effective tool not only for poverty alleviation, but also for society-wide attitude change.

### UNLIKELY ENTREPRENEURS

To launch the Roma microfinance project in 2006, the alliance first raised more than \$1 million from USAID, Mikrofond EAD,



and USTOI. The alliance then made small loans to 796 promising Roma microentrepreneurs for both start-up businesses and existing microenterprises. The loans averaged about \$1,100 each and incurred local interest rates (an average of between 12 percent and 15 percent annually).

For the project to succeed, alliance leaders had to adapt their

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lending techniques to Roma culture. Roma people typically lack collateral, and their businesses are often not formally registered with government authorities. To offset risk, the loan officers used a solidarity lending method whereby the entire group guarantees the loans made to each individual member. Given the Roma’s close social connections, this method proved particularly effective and contributed to an extremely low portfolio-at-risk rate. In addition, leaders of the Roma community promoted loans to potential

new clients and acted as their guarantee. In this way, the microloans actually strengthened the social connections within the community.

The alliance's lending methods work well: Only 0.39 percent of the borrowers were late for their payments for more than 30 days, compared with 7 percent for other Bulgarian borrowers at USTOI and Mikrofond.

Using successful borrowers as case studies, the alliance then supported several initiatives to reduce discrimination and to demonstrate that Roma people indeed contribute to Bulgaria's economic growth. For instance, in seven provincial cities, a prominent sociologist moderated a series of roundtable discussions, which allowed Bulgarians to examine their stereotypes of and prejudices against the Roma. Bulgarian sociologists, members of the media, and young people participated in the discussions, debating Roma people's place in business and society. The roundtables revealed a widespread view of Roma people as little more than a source of cheap, unskilled labor. The discussions also allowed participants to explore ways to improve the public image of the Roma.

To educate Bulgaria's future leaders, the alliance also sponsored several university students to write research papers about how entrepreneurship can lead to better integration of the Roma

## With a one-two punch, a new alliance mixes microfinance with antidiscrimination programs to break the cycles of poverty and social exclusion for Bulgaria's Roma people.

into Bulgarian society. The alliance presented these papers not only in the universities, but also in the mainstream media, further dispelling myths about the Roma people.

Meanwhile, the alliance worked to educate Bulgarian journalists about how to report on Roma people in positive ways. A series of three roundtable discussions with Bulgarian journalists helped them understand how Roma microentrepreneurs struggle to create successful businesses.

Although most journalists still held negative opinions of the Roma at the end of this intervention, they nevertheless acknowledged the ability of the media to show a side of Roma life that challenges long-held beliefs. The journalists immediately appreciated this new angle, which broke clichés and opened the door for new stories.

In addition, the alliance used mass media to improve the image of Roma people throughout Bulgaria. In one initiative, the project produced a 30-minute documentary that showcased the day-to-day lives of four successful Roma entrepreneurs. Two of the entrepreneurs, a hairdresser and a convenience store owner, discussed discrimination against Roma people in Bulgaria, highlighting the business and social challenges that they have faced and overcome.

Upon viewing the documentaries, many in the audience of students and journalists were surprised by the success of the featured microentrepreneurs. Their surprise led to a discussion of

how Bulgaria, as a new member of the European Union, needs to rethink its views on its minority populations.

By the end of the project, 55 percent of the businesspeople surveyed by a local opinion polling organization thought that helping Roma people start a business is a good strategy for integrating their communities into Bulgarian society. Respondents also believed that the Roma could compensate for their lack of education and technical skills by running small businesses—which would also provide income for their families. Businesspeople also thought that micro-entrepreneurship could help teach Roma people how to work with various state institutions such as tax agencies and licensing authorities. And although most Roma businesses remain in the informal sector, several have become formally registered businesses, particularly in the cases of taxis and market stalls.

### MAKING THE MAINSTREAM

Since the inception of the Alliance for Inclusive Business Development of Roma Communities in Bulgaria, nearly all clients have used their increased income to meet critical demands of their families, report their loan officers and case managers. As a result of their growing businesses, many Roma microloan recipients have been able to enroll their children and grandchildren in school, often to learn English and computer skills.

For instance, one project beneficiary, Ivan Shopov, worked for a taxi company for years and had to pay the company for both radio equipment and customer leads. With two loans of about \$3,500 each, he was able to purchase a vehicle and start his own taxi business in Sliven, a city of about

115,000 in the southeast corner of Bulgaria. Through careful planning and long hours, Shopov now has two taxis and is in the process of applying for a third loan to enhance his business. By offering a necessary service to his town, Shopov is not only building his own business, but also dismantling his neighbors' stereotypes about the Roma people.

Perceptions of Roma people have indeed improved since this project started, notes Pavel Velev, USTOI's director. "Especially in the marketplaces, Roma entrepreneurs and Bulgarian traders are working side by side and now share a sense of solidarity based on similar interests and lives." He admits, however, that the attitude of the general population is changing much more slowly.

As Roma people use microfinance to establish themselves as entrepreneurs, they may lay the groundwork for larger shifts in perception throughout Bulgarian society—and perhaps throughout Eastern Europe as well. With their newly established credit histories and ability to pay taxes, apply for business licenses, and obtain identity cards, many Roma microentrepreneurs who used to operate outside of the formal economy are now joining the mainstream. The alliance not only has lifted many families out of poverty, but also has started to break the discriminatory beliefs that trap Roma people in a cycle of poverty and exclusion. Microfinance thus can be a tool not only for poverty alleviation, but also for empowering marginalized groups to dispel derogatory beliefs about them. ■