

Empowerment through Employment: Capitalizing on the Economic Opportunities of Roma Inclusion

Introduction

“Robota, robota, robota” (“Work, work, work”), comes the answer from 71-year-old Vojtech Bily, who lives in a segregated Roma settlement next to the Eastern Slovakian village of Ostrovany. Bily was responding to a question regarding “the secret to a long life” raised during a World Bank team’s recent field visit organized by ETP Slovensko.

The wisdom of Bily’s words is unquestionable. Work makes one’s life fulfilling in many ways: not only does it help support a family, but it also brings purpose and helps individuals build a sense of responsibility, belonging, and self-esteem. From the broader perspective of societal goals, jobs deliver economic benefits, and help strengthen social cohesion.

This policy brief discusses the importance of creating “good jobs” to move social inclusion toward economic empowerment, and proposes a potential approach to job creation through a combination of socially sensitive investment facilitation policies and enhancing small entrepreneurial activity through microcredit.

Key Findings and Recommendations

The political and policy dialogue in Europe increasingly recognizes the economic dimensions of Roma inclusion.

Roma inclusion not only addresses the human rights violations of today, it is also the prerequisite for footing the increasing bills of caring for the aging societies of our region tomorrow.

The labor market integration of the Roma is very poor. As a result, Roma are much less likely to have jobs than non-Roma, and Roma with jobs earn much lower salaries

than non-Roma. And while other segments of the region's population are aging rapidly, the Roma population is comparatively young and growing.

If more Roma were employed and more of them had higher earnings, the tax revenue generated by Roma workers could help pay for the rising health care costs of the increasingly older general population.

In addition to its potential impact on public health care, the lack of social inclusion and jobs for Roma has a significant impact on other areas of the economy as well.

The upcoming World Development Report calls jobs transformational: they improve living standards, contribute to productivity growth and strengthen social cohesion.

A distinction must be made between “good jobs” for the individual and “good jobs” for society. Public works, designed to simply increase employment rates and without any longer-term economic or productivity goals, are rarely good jobs for society.

Increasing attention is being paid to microcredit and its role in enhancing small-scale entrepreneurial activity, long considered an important component of poverty alleviation efforts.

A recent World Bank / UNDP household survey found that in the marginalized Roma communities of Eastern Europe, microcredit has a very limited role in facilitating self-employment, primarily because Roma entrepreneurs generally lack collateral, are indebted, and have a lower level of education than the average person from the general population.

The following actions and policies can form the initial basis of a comprehensive response to Roma employment that would not only benefit Roma and other groups hit hardest by unemployment, but also the larger society:

- Provide social microcredit—unsecured microloans provided by a not for profit entity along with social support and information. Microcredit organized along these lines has worked efficiently in the past.
- Policymakers should focus on creating sustainable jobs in the private sector to facilitate Roma employment.
- Governments should consider introducing a well-coordinated mix of economic policy and activation measures behind employment policies targeting marginalized and poor population segments (Roma and non-Roma alike).
- Governments should also increase their responsibility in developing a clear set of antidiscrimination expectations and potential consequences toward labor market actors, as well as an institutional framework to support the implementation and enforcement of these principles.

- To support policy measures on investment and micro-, small- and medium-enterprise facilitation, governments should identify short-, medium-, and long-term skills requirements stemming from current and prospective labor market demand, along with those most needed for efficient micro-, small- and medium-enterprise activity.
- Enhancing small-scale entrepreneurial activity with microcredit is an important component of employment policy efforts. The state can help facilitate this, for example, by supporting value chains and promoting the integration of enterprises into the economic mainstream.

By adapting a holistic approach to Roma economic inclusion, policymakers can gradually move beyond inefficient and costly programs and increasingly focus on how sustainable jobs in the private sector or small entrepreneurial activity can benefit Roma communities.

Capitalizing on the economic opportunities of social inclusion will demonstrate the economic strength of the Roma community, transforming employment into economic empowerment.

The Fiscal Impact of Roma Inclusion

The starting point for the political and policy dialogue focusing on the economic dimensions of Roma inclusion is quite sobering: The labor market integration of the Roma is very poor. According to World Bank estimates calculated for Bulgaria, the Czech Republic, Romania and Serbia, the opportunity costs of poor Roma labor market integration—the economic costs that societies bear when Roma do not have strong levels of economic participation—may range from EUR 3.4 billion to EUR 9.9 billion annually, with additional costs expected in the range of EUR 1.2 billion to EUR 3.5 billion.¹ In Slovakia, opportunity costs in 2008 were estimated to be as high as EUR 7 billion.²

Jobs at Center Stage

In the context of Roma inclusion, employment is one of the four priority areas along with health, education, and housing. While employment policies cover a broad range

¹ *Roma Inclusion: An Economic Opportunity for Bulgaria, Czech Republic, Romania and Serbia*. The World Bank, 2010.

² *The Cost of Non-Inclusion. The Key to Integration Is Respect for Diversity*. Anton Marcinčin and Ľubica Marcinčinová, 2009.

of themes—from public employment services to safety nets to skills development—the success of employment policy efforts is by and large measured by its “results,” i.e., the number of jobs created. This is a technically correct approach since the ultimate purpose of every employment policy effort should be to keep as many people employed as possible. However, the qualitative aspects of job creation are beyond the raw numbers: Jobs deliver many benefits to a family—a salary, a sense of purpose in life, and mental and physical activity.

The outline of the upcoming World Development Report 2013³ calls jobs transformational and considers them “the hinges of development” as they contribute to improving living standards, productivity growth, and social cohesion. The World Development Report outline also notes that jobs are a key part of the individual, and convey a sense of belonging in society. In short, jobs are a key component of socio-economic progress.

Jobs versus Public Works

The World Development Report outline makes a clear distinction between “good jobs” for the individual and “good jobs” for society. From the individual’s perspective, good jobs are the ones that contribute the most to the individual’s well-being through earnings and benefits. However, while getting a job may be good for that particular individual, it does not necessarily move social progress forward.

A case of artificial “employment” in Central and Eastern Europe involves those public works schemes that were developed to simply increase employment rates, deliver a political message that the Roma “should work for their social benefits,” or the combination of the two. While public works programs can be a very efficient component of the employment policy palette, they are normally regarded as part of the social safety system and should, by no means, be confused with job creation. A public works program in itself—i.e., without an agenda for skills development or delivery of real public goods—does not provide benefits either for the individual or for society. This can easily be demonstrated by experimenting with the ideas of the World Development Report outline.

Public works without a longer term economic or productivity goal—ones that are designed to simply keep people busy through the day by making them sweep the street or pick up litter from the roadside—do not create real economic value, and do not contribute to productivity growth. Such activities do not strengthen social cohesion either, as society generally looks down upon public workers. Moreover, as politics drive the government agenda, making existing social transfers conditional on

³ World Development Report 2013: Jobs. Outline. The World Bank, 2011.

participating in public works schemes is preferred over providing additional benefits that could incentivize participation by rewarding performance. As a result, public works are highly unlikely to improve the living standards of families.

Private Sector Jobs Serve Society Best

In the Central and Eastern European context, sustainable “good jobs” are almost exclusively associated with private sector investments and activity. For example, a small manufacturing plant built in the vicinity of a town by a multinational firm will provide a living for local families; higher individual earnings and increasing production by the company will translate into a higher tax income by the local and central government; and the town residents become colleagues in the workplace, significantly strengthening the families’ network. The effect is the same if a local entrepreneur opens a new restaurant in town—while obviously of a smaller economic scale, the impact on social progress will be similar.

As a result, the best option for policymakers to facilitate Roma employment is by focusing on the creation of sustainable jobs in the private sector through a holistic socio-economic approach. This approach can draw on the beneficial social impact of greenfield corporate investments on the one hand, and that of small entrepreneurial activity through enhancing micro-, small- and medium-sized enterprises’ growth on the other.

Employment of Marginalized Communities through Socially Sensitive Investment Policies

When developing options for employment policies targeting marginalized and poor population segments (Roma and non-Roma alike), governments should consider introducing a well-coordinated mix of economic policy and activation measures. These policies should aim to ensure that labor demand originating from growth in the real economy will reach poor communities, and that activation efforts carried out by government agencies, local authorities, and NGOs will ultimately lead to sustainable employment in private sector jobs. Ideally, such a “socially sensitive” approach to investment facilitation should include the identification of labor market demand emanating from growth sectors and translate, in the national economic development planning cycle, into an emphasis on attracting investments that benefit the inactive population, territorially or otherwise.

In turn, investment support policies and instruments should reflect this priority. For example, national economic development strategies need to put a clear emphasis on attracting investments to areas with populations containing a large number of inactive or otherwise disadvantaged members. Investment support policies and

instruments should reflect this priority through corporate tax incentives for example or explicit requirements to hire from the disadvantaged population if public funds are provided.

This approach should be rooted in the same territorial considerations that governments should follow in the distribution of structural and cohesion funds, and are expected to be supported by the joint efforts of the European Commission and the World Bank to produce poverty maps for New Member States. These maps will help governments identify leading and lagging areas at the sub-regional level.

Urgent Need for Antidiscrimination Policies and Accountable Institutions

In addition to the territorial aspects of inclusion of deprived and marginalized communities, policymakers have to dedicate special attention to the issue of discrimination. A wide array of field experience, case studies, and surveys suggest systemic discrimination of Roma in several areas, including on the labor market. Here the state's role is clear: development of a clear set of antidiscrimination expectations and potential consequences toward labor market actors, as well as an institutional framework to support the implementation and enforcement of these principles. While all countries in the region have established intra and extragovernmental positions to develop and support the antidiscrimination agenda, the level of ownership and the degree of "institutional muscle" varies across countries. One thing, however, is common: Each one of these institutions has yet to demonstrate progress on the antidiscrimination agenda.

Micro-, Small- and Medium-Sized Enterprise: A global Instrument for Self-Employment.

A wide range of global experience suggests that poor groups can benefit from self-employment through entrepreneurial activity. Hundreds of millions of people in developing countries earn their living through small-scale businesses: Recent evidence from 13 countries finds that close to one quarter of poor households have at least one self-employed household member.⁴ Therefore, enhancing small-scale entrepreneurial activity has long been considered an important component of poverty alleviation efforts.

In this respect, increasing attention is being paid to the role of microcredit, both in global development efforts and in the context of European Union cohesion policy.

⁴ *The Economic Lives of the Poor*. A. Banerji and E. Duflo (2006).

However, the impact of microcredit schemes on business outcomes, especially for the poorest, is still largely unknown, and many banks that target the poor realize low or negative profits.⁵ In addition to the missing business case, several other barriers exist: for example, a recently concluded World Bank / UNDP household survey—in line with the field experience of NGOs active in the field of microcredit and financial inclusion—has found⁶ that in the marginalized Roma communities of Eastern Europe, microcredit has a very limited role in facilitating self-employment, primarily because Roma entrepreneurs generally lack collateral, are indebted, and have a lower level of education than the average person from the general population who has been refused credit.

Shifting the Focus of Microcredit Provision

It is important to realize that microcredit's success is dependent on the business it is

Box 1. Kiútprogram: A Social Microcredit Operation in Hungary

The Kiútprogram (Way-out program) is a [European pilot project](#) for Roma inclusion working in the most disadvantaged microregions of Hungary. The program can be defined as social microcredit, which aims to enable the unemployed living in deep poverty—primarily, but not exclusively Roma—to become self-employed by providing them with social support, financial services (most importantly, unsecured microloans), and information. According to the experience of Kiútprogram, helping clients' efforts in creating sustainable enterprises requires intensive social work by well-trained field workers familiar with social work, lending, and business knowledge. While this is a costly operation that cannot break even or become profitable in a business sense, social benefits can be achieved through increased state income from taxes and contributions, and lower payments of social benefits and other social costs. These factors altogether outweigh the costs of the program. In addition to financial resources, social microcredit programs should also mediate networking capital by building networks and connecting new enterprises into the economic mainstream.

Efficient social micro-lending is impossible without the committed involvement of the state. The unit costs of social microcredit are basically equal to the costs of public works schemes, however social microcredit delivers positive results in the longer run: after two years of operation, an estimated half of the created microenterprises remain sustainable.

⁵ "Savings Constraints and Microenterprise Development: Evidence from a Field Experiment," in Kenya. P. Dupas and J. Robinson (2009).

⁶ World Bank presentations at the "Banking for Progress" workshop in Bratislava (May 24, 2012).

being used to support. Microcredit alone is not the solution. Micro-, small- and Medium-sized enterprises will only provide employment for a limited number of jobseekers. Moreover, given the uncertain European economic and investment climate, small businesses in Central and Eastern Europe are more likely than ever to fail. Considering economies of scale, and increasing pressure by governments, as well as a generally poor growth outlook across the region and the missing business case, banks and other financial sector players are expected to significantly curb or altogether stop microcredit operations in the coming years. This leaves the responsibility of providing the funds needed for micro-, small- and medium-sized enterprise growth to the government sector, a few development institutions, and nonprofit operators.

At the same time, this rather bleak outlook opens up a great opportunity. If the main provider of funds is able to plan for the longer term, and proactively facilitates the maximal social impact of operations—rather than trying to maximize short-term profits—the horizon of the potential microcredit impact significantly broadens. For example, by supporting micro-, small- and medium-sized enterprises that have a chance of becoming the local suppliers of a greenfield investment of a multinational corporation, or providing funds to farmers working in a collective to produce a rare, high-value agricultural product, the economic impact of microcredit becomes significantly larger.

When doing this with a socially sensitive edge and focusing on the investments' impact on the local disadvantaged families—for example, by supporting small-scale construction activity to provide low-cost housing for Roma families who currently live in barely habitable shacks—even those funds that end up not generating any profits will turn into investments very well spent.

The Role of the State

It is important to emphasize that in a socially sensitive microfinance scheme, the government needs to play a supporting role during a relatively long lifecycle of the entrepreneurial activity. This role starts by incentivizing micro-, small- and medium-sized enterprise activity—for example, through addressing administrative bottlenecks, offering partial coverage of social benefits during the early phase of entrepreneurship, or providing tax benefits. This role should by no means end at the point when the funds are disbursed. The government has a very important “network building” capacity as it is in a unique position to promote the connection of microenterprises into the economic mainstream. Microenterprises integrated in a value chain are significantly more likely to survive, while those outside can get permanently stuck on the periphery, struggling to survive, or giving it up altogether soon after startup.

The Skills Agenda Should Follow

Skills and knowledge are the prerequisite of getting a job or starting a business. To support policy measures on investment and micro-, small- and medium-enterprise facilitation, governments should identify short-, medium-, and long-term skills requirements stemming from current and prospective labor market demand, along with those most needed for efficient micro-, small-, and medium-enterprise activity. These skills gaps should be reflected in education policies. Short-term education needs should be addressed through vocational training activities possibly supported through subsidized internship / traineeship programs, while medium- and longer-term needs should be mainstreamed into the curricula of the education system tiers.

Box 2. Developing the Local Context

Similar to other policy areas, socially sensitive job creation cannot be addressed through a one-size-fits-all approach. Stakeholders—governments, civil society, development institutions, academia—in countries with Roma populations have to develop the local context through a series of questions. For example:

- Where are the areas in which a large number of the population is disadvantaged, and what are the possible growth sectors in these areas?
- What role can the Roma population play in facilitating economic growth?
- What are the education and skills requirements in the short, medium and longer term, and how could they be best addressed?
- What are the sectors with scope for micro-, small-, and medium-sized enterprise growth, and what kind of financial instruments (grants, loans) could facilitate this?
- What is the scope for local initiatives that could potentially link entrepreneurs with Roma jobseekers?

Benefits of the holistic approach

Shaping micro policy actions around the commonly shared national priority of productivity growth into a macro approach can provide the foundations for the Roma community to draw on its potential and create real economic value for society as a whole. By building on the dual tiers of the holistic approach (socially sensitive investment policies combined with systematic antidiscrimination measures; facilitating micro-, small-, and medium-enterprise growth through microcredit), and coordinating this activity with other employment policy measures for example organizing public employment services and mediation / counseling support schemes; adjusting the social safety net to better serve employment policy goals; establishing and supporting a network of Roma entrepreneurs, policymakers could gradually

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move beyond inefficient and costly programs (e.g. dead-end public work schemes or counterproductive affirmative action initiatives). Policymakers would combine this shift in focus with a renewed emphasis on the benefits of sustainable jobs in the private sector or small entrepreneurial activities for Roma communities. Capitalizing on the economic opportunities of social inclusion will demonstrate the economic strength of the Roma community, transforming employment into economic empowerment.

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