

Lending to the 'Unlendable':

Evidence from a Five-Year Natural Experiment in Dignity-Based Finance

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ABSTRACT

Traditional poverty finance operates on a binary: microfinance for the 'creditworthy poor' (requiring collateral or group guarantees with interest rates) versus unconditional grants for the 'unbankable.' This paper documents a five-year natural experiment in Czech Republic that demonstrates a third approach: zero-interest, no-collateral loans to families experiencing homelessness achieved 52% donor capital multiplication and 41% aggregate repayment rate through voluntary repayments—without legal enforcement mechanisms. Operating first as a private experiment (2020-2022) and subsequently as a registered foundation (2022-present), the model deployed 8.1 million CZK across 410 families, with one-third achieving full repayment. The innovation centers not on financial engineering but on three pillars: (1) partnership-based screening through 29 social service organizations, (2) radical transparency via monthly public reporting, and (3) dignity-based contracting where loans (versus grants) signal recognition and activate reciprocity motivation. Results challenge fundamental assumptions about creditworthiness assessment for marginalized populations and suggest significant implications for global poverty finance architecture.

1. INTRODUCTION: THE IDENTIFICATION PROBLEM

1.1 The Binary in Poverty Finance

Global poverty finance has evolved along two distinct trajectories. Microfinance institutions, following the Grameen Bank model, serve the 'creditworthy poor' through mechanisms like group lending, collateral requirements, and interest rates that offset default risk (typically 15-35% annually). At the opposite end, humanitarian organizations and government welfare programs provide unconditional grants or services, implicitly categorizing recipients as unable to repay.

This binary creates a gap: individuals who have exhausted traditional credit options—those experiencing homelessness, systematic discrimination, or acute economic crisis—are typically deemed 'unlendable' and relegated exclusively to grant-based assistance. The implicit assumption is that such populations lack both the capacity and motivation for repayment without coercive mechanisms.

1.2 The Czech Context

Czech Republic presents a particularly acute case of this gap. The country has no social housing system, and private rental markets require security deposits of 2-3 months' rent upfront—an insurmountable barrier for low-income families. Roma families face systematic housing discrimination documented in multiple government and NGO reports. Once families lose housing, the path to re-entry is effectively blocked: no credit history, no collateral, and social stigma that compounds economic barriers.

Traditional responses prove inadequate. Commercial lenders explicitly exclude this segment. Government emergency housing assistance is limited and bureaucratic. Charity-based interventions provide temporary relief but do not address the structural barrier of rental deposits or establish pathways to financial independence.

1.3 The Central Question

This experiment addresses a fundamental question: *How do you identify repayment capacity among people who have exhausted all traditional options—without coercion, collateral, or conventional credit scoring?*

The hypothesis was unconventional: repayment capacity exists even at the economic bottom, but standard assessment methods cannot recognize it. What if instead of screening based on credit scores or collateral, we trusted the contextual knowledge of frontline social workers? What if the loan structure itself—specifically, offering a loan rather than a grant—could activate latent reciprocity motivation? And what if radical transparency could substitute for legal enforcement?

2. THE INNOVATION: THREE-PILLAR ARCHITECTURE

2.1 Pillar One: Partnership-Based Screening

Rather than developing proprietary risk assessment, the model outsources underwriting to 79 partner social service organizations across Czech Republic. These partners—including both large NGOs and municipal social departments—refer families they already work with and assess as having potential for success.

This represents a fundamental reframing: social workers function as de facto credit analysts, but with superior information. They possess intimate knowledge of family circumstances, behavioral patterns, support networks, and contextual factors invisible to algorithmic scoring. Their professional judgment, honed through direct casework, becomes the primary risk assessment tool.

Partners also facilitate the loan process: they explain terms to families, witness contract signing, and provide ongoing support. Critically, the model does not penalize partners for referrals that result in non-repayment—maintaining their incentive to serve families with genuine need rather than cherry-picking 'safe' cases.

2.2 Pillar Two: Radical Transparency as Accountability Mechanism

The entire operation functions through transparent bank accounts with every transaction publicly visible. A custom-built system tracks each loan's status, repayment progress, and aggregate statistics, updated monthly on a public website (nejdrivdoma.cz). The transparency architecture includes:

- Complete transaction history for all accounts
- Individual loan status (anonymized for privacy)
- Aggregate repayment statistics
- Partner organization participation data
- Donor contributions and fund deployment

This transparency serves multiple functions. For donors, it provides unprecedented accountability—no administrative overhead or hidden uses. For recipients, it creates what might be termed 'reputational collateral': repayment behavior is visible (though identity-protected), creating social accountability without legal coercion. For partner organizations, it demonstrates outcomes and builds trust in the model.

2.3 Pillar Three: Dignity-Based Contract Architecture

The loan contract intentionally diverges from both commercial lending and traditional charity:

- Zero interest
- No collateral requirements
- No penalties for late or non-payment
- Flexible repayment schedules
- No legal enforcement or debt collection

The terminology itself matters: calling it a *loan* rather than a *grant* signals mutual obligation and recognizes the recipient's potential for reciprocity. As the founder notes in the model's documentation: 'The loan itself is a form of recognition—a fundamental human need that many in this population have not experienced for years.'

Critically, the model explicitly accepts that not all loans will be repaid. Non-repayment is not considered failure or risk—it simply converts the loan into a grant. The operating philosophy: 'Money always helps people at the edge, regardless of whether they repay.' This removes the moral burden from both recipients and partner organizations, allowing them to focus on family stabilization rather than repayment anxiety.

2.4 Legal Innovation Through Practice

The model's legal evolution reveals an additional innovation dimension. Initially operating as a purely private experiment from a personal bank account (2020-2022), the approach existed in a regulatory grey zone. As loan purposes expanded beyond housing deposits to include items like school supplies, funeral expenses, and

qualification courses, the activity potentially resembled consumer lending—which requires Czech National Bank licensing.

Rather than seeking permission first, the founder operated transparently while building an evidence base. After two years demonstrating model viability, formal inquiry to Czech National Bank revealed that a foundation structure could legally conduct this activity under existing charitable lending provisions—essentially, the experiment had been 'probably illegal' but the evidence forced regulatory clarification that created a new operational category.

This 'build first, legalize later' approach allowed pure model testing without regulatory constraints, then used empirical results to shape favorable legal interpretation. The Foundation 'First Home' (Nadační fond Nejdřív doma) was established August 19, 2022, and has operated within this clarified legal framework since.

3. METHODS

3.1 Study Design and Timeline

This is a natural experiment—an observational study of a real-world intervention without randomized control. The study comprises two phases:

- **Private Phase (June 16, 2020 – August 18, 2022):** Operating from personal transparent bank account, testing core model assumptions
- **Foundation Phase (August 19, 2022 – present):** Operating as registered foundation with clarified legal status, scaling model application

The private phase effectively concluded December 31, 2025, when all loan maturity dates had passed and repayments ceased, allowing complete outcome assessment. The foundation phase continues with active lending and ongoing repayments.

3.2 Participant Selection and Loan Process

Families enter the program exclusively through partner organization referral. The typical process:

- Social worker identifies family with acute housing crisis and potential for stabilization
- Partner organization contacts foundation with case details
- Foundation approves loan (rejection extremely rare)
- Social worker facilitates contract signing with family
- Funds transfer directly to landlord/creditor or to family account

Loan amounts averaged 22,700 CZK in the private phase and 16,000 CZK in the foundation phase (approximately \$1,000 and \$700 USD respectively). Typical uses: rental security deposits, rent arrears preventing eviction, utility bills, and occasionally other stabilization needs.

Demographic note: Partner organizations estimate approximately 85% of recipients are Roma, reflecting both the acute housing discrimination this community faces and the concentration of partner organizations serving Roma families. However, Czech law prohibits collection of explicit ethnic data, so this remains an informed estimate rather than verified statistic.

3.3 Data Collection and Tracking

A custom-built database system tracks:

- Individual loan details: amount, date, purpose, maturity date
- Recipient information: anonymized identity, family composition, referring organization
- Repayment activity: all payments with dates and amounts
- Donor contributions: all incoming funds
- Partner organization engagement: referral volume, success patterns

All data is updated monthly and published at www.nejdrivdoma.cz. The transparent bank accounts provide additional verification—any interested party can audit fund flows independently.

3.4 Outcome Measures

The analysis employs two primary outcome measures:

- **Capital Multiplication Rate:** Total available capital (donor input + repayments) / donor input. This measures the model's efficiency in creating revolving capital through voluntary repayments.
- **Loan-Level Repayment Rate:** Proportion of loans achieving full repayment, plus aggregate percentage of deployed capital returned. This measures individual-level success and overall capital recovery.

4. RESULTS

4.1 Aggregate Outcomes: Private Phase (Complete)

The private phase (June 2020 – December 2025) generated complete outcome data:

Metric	Value
Total loans issued	237 (157 women, 80 men)
Capital deployed	5.4 million CZK (\$237,000 USD)
Average loan size	22,700 CZK (\$1,000 USD)

Donor contributions	4.0 million CZK (\$175,000 USD)
Total repayments received	2.1 million CZK (\$92,000 USD)
Capital multiplication rate	+52% (4.0M → 6.1M CZK)
Full repayment rate	33% (1 in 3 loans)
Aggregate capital recovery	34% of deployed capital

Context note: The private phase was significantly impacted by COVID-19 pandemic (2020-2022), which resulted in three borrower deaths and severely limited many families' ability to generate income for repayment.

4.2 Aggregate Outcomes: Foundation Phase (Ongoing)

The foundation phase (August 2022 – present) shows similar patterns with data still accumulating:

Metric	Value (as of Dec 31, 2025)
Total loans issued	173 (117 women, 53 men, 3 unspecified)
Capital deployed	2.7 million CZK (\$118,000 USD)
Average loan size	16,000 CZK (\$700 USD)
Donor contributions	2.3 million CZK (\$101,000 USD)
Total repayments received	0.8 million CZK (\$35,000 USD)
Capital multiplication rate	+35% (2.3M → 3.1M CZK, ongoing)
Loans reaching maturity	98 loans
Full repayment rate (so far)	25% (expected to grow)

The foundation phase multiplier is lower because most loans remain active with ongoing repayments expected. Final multiplication rate will likely approach or exceed private phase outcomes.

4.3 Combined Impact

Across both phases (June 2020 – December 2025):

- **Total families served:** 410
- **Total capital deployed:** 8.1 million CZK (\$355,000 USD)

- **Total donor contributions:** 6.3 million CZK (\$276,000 USD)
- **Total repayments:** 2.9 million CZK (\$127,000 USD)
- **Combined capital multiplication:** +46% (6.3M → 9.2M CZK)
- **Aggregate capital recovery:** 41% of deployed capital (ongoing)

Estimated reach extends beyond direct recipients: the 410 families include approximately 1,000 children (most recipient households have 2+ children), meaning the intervention's stabilization effects cascade to roughly 1,400-1,500 individuals total.

4.4 Partner Organization Ecosystem

The model operates through 79 partner organizations spanning Czech Republic, including:

- National NGOs (e.g., Člověk v tísni - People in Need)
- Regional social service providers
- Municipal social departments
- Roma-focused organizations
- Housing-specific intervention programs

Partner engagement has grown organically through word-of-mouth within the Czech social services sector. After initial outreach to establish the first partnerships, subsequent partners predominantly approached the foundation proactively after learning about the model from peers.

4.5 Qualitative Patterns: Case Studies

The following cases illustrate the diversity of outcomes:

Case A: Full Non-Repayment → Grant Conversion

Woman HC (53, disabled): Until 2022, a single mother with four children lived in a ruin's cellar spaces, literally among rats. A social worker used loan funds to secure housing at a group facility. Currently the mother, adult daughter, and daughter's young son remain there; the mother requires ongoing care from her daughter. Two sons live independently but struggle with alcoholism. Zero repayment has occurred—the loan converted entirely to grant. This represents the model's 'safety net' function: even complete non-repayment achieved the core goal of housing stabilization for a vulnerable family.

Case B: Consistent Repayment with Multiple Loans

Man RS (34, disabled): In 2023, he, his partner, and their four children faced eviction due to rent arrears. A first loan prevented eviction; a second loan addressed subsequent crisis; now a third loan is active. The first two loans were fully repaid; the third is being repaid on schedule. This represents a 'responsible but precarious' profile—a father who honors commitments but whose economic position remains fragile enough to require periodic bridge financing.

These cases bracket the outcome spectrum. Between them lie families with partial repayment, families who repay fully after delays, and families whose repayment capacity shifts with life circumstances (job loss, health crisis, family changes). The model's success lies partly in accommodating this heterogeneity without penalizing anyone.

5. DISCUSSION

5.1 Principal Finding: Hidden Capacity

The central empirical finding is that repayment capacity exists among people experiencing homelessness and extreme economic marginalization—but this capacity is invisible to conventional assessment methods. One-third of borrowers fully repaid loans averaging \$1,000, and aggregate repayment reached 41% of deployed capital, all without legal enforcement. This occurred in a population definitionally excluded from traditional credit markets.

The 52% capital multiplication rate in the completed private phase demonstrates that dignity-based lending can be more efficient than pure grant-making. Each donor dollar generated \$1.52 in deployable capital through voluntary repayments. For poverty interventions typically measured by 'dollars spent,' this represents a fundamental efficiency gain.

5.2 Mechanism Analysis: Why This Works

Three mechanisms appear to drive outcomes:

A) Superior Screening Through Contextual Knowledge

Partner social workers possess information unavailable to algorithmic credit scoring: they know family dynamics, behavioral patterns, support networks, motivation levels, and crucially, they observe people over time in crisis situations. This contextual intelligence allows identification of 'hidden creditworthy' individuals—people with motivation and capacity but no formal financial history.

The model essentially reframes social workers as underwriters. Their professional judgment, refined through direct casework experience, becomes the primary risk assessment tool. This proves more effective for this population than traditional credit bureaus or means-testing.

B) Dignity Activation: Recognition as Motivation

The loan structure itself—the simple fact of being offered a loan rather than charity—appears to activate reciprocity motivation. Behavioral economics literature on 'dignity goods' suggests that how assistance is framed affects recipient response. A loan signals trust and recognition of capacity; it establishes mutual obligation rather than one-way dependence.

As documented in program materials: 'Many families understand the loan as recognition—a fundamental human need they haven't experienced for years. This becomes a source of pride.' The psychological effect appears material: people strive to honor the implied trust.

C) Transparency as Social Collateral

The radical transparency architecture creates accountability without coercion. While individual loan details remain anonymized for privacy, the aggregate system is fully visible: every transaction, every loan status, every repayment appears in public monthly updates. Recipients know their behavior contributes to visible statistics that affect the model's reputation and sustainability.

This might be termed 'reputational collateral'—not legal obligation but social accountability. The transparency also builds trust with donors and partners, creating a virtuous cycle where success visibility attracts more resources.

5.3 Comparison to Existing Models

This model occupies unique space between traditional microfinance and charity:

Traditional Microfinance:

- Requires collateral or group guarantees
- Charges interest (typically 15-35% annually)
- Targets 'near-bankable' poor, excludes extreme poverty
- High repayment rates (85-98%) but through coercive mechanisms
- Criticized for extraction rather than empowerment

Traditional Charity/Welfare:

- Unconditional grants or services
- No expectation of return
- Can create dependency dynamics
- Limited donor capital (no recycling)
- Sometimes reinforces 'unworthy poor' stigma

This Model (Dignity-Based Finance):

- No collateral, no interest, no penalties
- Serves people in extreme poverty/crisis
- 41% voluntary repayment without enforcement
- 52% capital multiplication through recycling
- Converts to grant if needed (safety net)
- Activates dignity and reciprocity motivation

The model achieves middle-ground efficiency: less 'extractive' than microfinance, more capital-efficient than pure charity, and specifically designed for populations excluded by both.

5.4 The Czech Roma Context

Approximately 85% of recipients are estimated to be Roma—Czech Republic's most economically marginalized ethnic minority. This population faces systematic housing discrimination (documented by government equality reports), extremely limited credit access, and pervasive negative stereotypes about financial responsibility.

The results directly contradict these stereotypes. One-third of Roma families fully repaid zero-interest loans without any enforcement mechanism. This challenges not just financial sector assumptions but broader social prejudices about Roma 'culture of non-payment' or 'abuse of help.'

The founder's operating philosophy explicitly rejects deficit framing: 'People experiencing homelessness don't abuse help by definition—they are in crisis and need support.' The model's success demonstrates that when given dignified access to credit without punitive terms, marginalized populations respond with responsibility rates comparable to many commercial lending contexts.

5.5 Limitations and Boundary Conditions

Several factors limit generalizability:

1. Selection Effects:

Partner organizations presumably refer families they judge most likely to benefit. While not cherry-picking 'safe' cases (no penalties for referral non-repayment), partners likely exclude cases of severe addiction, untreated mental illness, or complete social isolation. The model thus serves 'challengeable but not impossible' cases rather than absolute hardest cases.

2. Scale Constraints:

The founder is 79 years old and manages operations largely personally, with custom-built software and direct partner relationships. Scaling would require institutional infrastructure, which might alter the personal trust dynamics that contribute to success.

3. Cultural Context:

Czech Republic's small size and relatively cohesive social services sector enables the partner network model. The radical transparency approach assumes stable internet access and a culture where public financial disclosure creates accountability rather than privacy concerns.

4. Economic Context:

Average loan size (\$700-1,000) represents 1-2 months rent in Czech context—substantial but not transformative amounts. Results might differ with larger loans or in economies with different income/housing cost ratios.

5. Absence of Control Group:

As a natural experiment, this lacks randomized comparison. We cannot definitively isolate which elements drive success or quantify counterfactual outcomes. Would pure grants have achieved similar housing stability with lower administrative complexity? The capital multiplication advantage is clear, but comprehensive welfare analysis requires controlled comparison.

6. IMPLICATIONS AND REPLICATION FRAMEWORK

6.1 For Poverty Finance Architecture

This experiment suggests poverty finance needs a third category beyond microfinance and charity: *dignity-based lending* for populations experiencing acute crisis but retaining latent repayment capacity.

Key principle: The goal is not maximizing repayment rate but maximizing *impact per donor dollar* while maintaining dignity. A 40-50% voluntary repayment rate with zero extraction may be socially superior to 95% coerced repayment with high interest.

For development finance institutions and foundations: This model offers a potential middle path for serving 'last mile' populations currently excluded from both commercial microfinance and deemed too risky for revolving loan funds. The transparency architecture could address donor accountability concerns while the safety net (conversion to grant) maintains ethical obligation to vulnerable populations.

6.2 For Social Service Integration

The partnership model demonstrates that frontline social workers possess underwriting intelligence superior to algorithmic credit scoring for marginalized populations. This suggests social service organizations could be integrated into financial inclusion strategies not just as referral agents but as primary risk assessors.

Implication: Fund social worker time for financial assessment work, recognize this as legitimate professional expertise, and structure incentives that reward quality referrals without penalizing outreach to difficult cases.

6.3 Research Agenda

Priority questions for future investigation:

- **Randomized controlled trial:** Compare dignity-based loans vs. unconditional grants vs. traditional microloans on outcomes including housing stability, family welfare, economic mobility, and psychological measures (self-efficacy, dignity, stress).
- **Mechanism decomposition:** Test which elements drive success through factorial design varying transparency, loan vs. grant framing, and enforcement mechanisms.

- **Social worker underwriting:** Formalize and validate the implicit assessment criteria social workers use. Can this tacit knowledge be partially codified for quality control without losing contextual judgment?
- **Cross-cultural replication:** Test model in diverse contexts: Does dignity-activation work universally or is it culturally specific? How do different transparency norms affect accountability mechanisms?
- **Long-term trajectories:** Follow recipient families 3-5 years post-loan. Does successful repayment correlate with sustained economic improvement? Do multiple loans indicate dependency or effective bridge financing?
- **Cost-effectiveness analysis:** Compare total welfare costs (emergency services, shelters, health impacts of homelessness) vs. preventive lending intervention costs.

6.4 Replication Checklist

Organizations considering adaptation should ensure:

- Essential Elements (non-negotiable):
 - Zero interest, zero penalties, zero legal enforcement
 - Transparent financial operations (public transaction visibility)
 - Partnership model with trusted social service organizations
 - Loan-to-grant conversion for non-repayment (safety net)
 - No penalties for partners whose referrals don't repay
- Context-Dependent Elements (adapt as needed):
 - Loan size calibrated to local housing costs
 - Repayment timeline flexibility based on income patterns
 - Technology infrastructure appropriate to context
 - Privacy protections aligned with cultural norms
- Success Indicators:
 - 30%+ aggregate capital recovery (demonstrating latent capacity exists)
 - Partner organization trust and continued engagement
 - Donor confidence reflected in sustained contributions
 - Housing stabilization for majority of recipients (repayment or not)

7. CONCLUSION

This five-year natural experiment demonstrates that people experiencing homelessness and extreme economic marginalization possess latent repayment capacity invisible to conventional financial assessment. Through dignity-based lending—zero-interest loans without collateral, penalties, or enforcement—410 Czech families received 8.1 million CZK in housing crisis intervention, achieving 52% donor capital multiplication and 41% aggregate voluntary repayment.

The innovation is not financial engineering but recognition architecture: trust frontline social workers as underwriters, signal recognition through loan structure, create

accountability through transparency rather than coercion, and maintain a safety net by converting non-repayment to grants. This hybrid approach—neither extractive microfinance nor unconditional charity—achieves middle-ground efficiency while centering human dignity.

Results challenge fundamental assumptions undergirding global poverty finance. The 'creditworthy vs. unbankable' binary appears to misclassify significant populations who respond to dignified access with responsible behavior. Standard credit scoring mechanisms are blind to capacities that become visible only through contextual human judgment and respect-based relationships.

For development institutions, this suggests a third category for intervention design. For social service organizations, it validates frontline worker expertise as financial intelligence. For marginalized communities, particularly Czech Roma, it provides empirical counter-evidence to deficit narratives about financial irresponsibility.

The model's replicability remains to be tested through rigorous experimental design across diverse contexts. But the core finding stands: capacity exists where conventional wisdom sees only risk. The challenge is not convincing poor people to repay—it is building financial systems humble enough to recognize and activate latent dignity.

As the founder's operating motto states: 'Regret equals inability to help.' This experiment chose possibility over caution, trust over enforcement, recognition over stigma. The results suggest that in poverty finance, as in human affairs generally, people tend to meet the expectations we set for them—whether those expectations are punitive or hopeful.

REFERENCES AND TRANSPARENCY

Complete operational transparency documentation:

Website: www.nejdrivdoma.cz

Updated monthly with:

- Complete transaction history for all transparent accounts
- Individual loan status (anonymized)
- Aggregate statistics and trends
- Partner organization list
- Foundation governance documents

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Note: *This paper represents a natural experiment conducted by a practitioner-innovator rather than academic researchers. The author welcomes collaboration with research institutions interested in rigorous evaluation, controlled replication, or longitudinal follow-up studies.*

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