**Microfinance & Disability**

**Recommendations for policymakers and practitioners**

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**1. Introduction**

The provision of financial services to poor persons – microfinance – has been praised for its development effect. It has been an implicit assumption that access to microfinance services may improve the standard of living of poor people, particularly in low- and middle-income countries. Nonetheless, it is often contended that especially vulnerable groups of people, for instance persons with disabilities, are barred from accessing microfinance services (Cramm and Finkenflügel, 2008). Historically, such claims have been based on expert opinions (Martinelli and Mersland, 2010) because “the academic literature on microfinance and disability published in peer-reviewed journals is basically non-existent” (Bwire et al., 2009, p. 4). Nevertheless, the topic is important; because persons with disabilities living in low- and middle-income countries often struggle to obtain a job, most of them turn to self-employment, and access to capital is thus a necessary ingredient for success. Moreover, the United Nations Convention on the Rights of Persons with Disabilities promotes equalizing opportunities for persons with disabilities. The paucity of research on microfinance and disability is therefore worrying and problematic.

Recent research on the developmental impact of microfinance has shown controversial results. In experimental studies conducted at family and village levels, researchers struggle to identify a positive causal relationship between access to credit and the improved wellbeing of poor individuals (for a summary of the microfinance impact research, see Duvendack et al., 2011). At the same time, researchers find that an increased penetration of microfinance reduces poverty at the country level (Imai et al., 2012). As strange as it might sound, a non-effect at the micro level and a positive effect at the macro level may actually both be true. The reason is that impact studies at the micro level, particularly experimental studies, may not measure the secondary effect of microfinance. A secondary effect could, for example, be that microfinance customers use their money to buy groceries at a neighbor’s store or building materials in a nearby town. Microfinance customers’ money may thus have a positive impact on other persons’ lives. Regardless, the microfinance impact literature is certainly still in its infancy, and it is important to turn to theory to understand why policy makers recommend the penetration of microfinance and in particular the inclusion of persons with disabilities in microfinance efforts.

The most cited theory to support the necessity of making credit available for poor persons is found in the entrepreneurship literature, highlighting that access to credit is a vital ingredient in enterprise development. For persons with disabilities, access to credit is of special importance because employers normally resist hiring disabled personnel. Thus, persons with disabilities need access to credit to develop their entrepreneurial activities. In general, this starting point is not disputed. However, financial capital alone does not secure success in the market place. Other resources, for instance human capital (knowledge, skills, attitude, etc.) as well as social capital (networks, etc.), can be equally or even more important than access to financial capital in regard to succeeding in a business venture. It is the combination of the different types of capital together with access to customers that determines whether a person succeeds with a business activity. Therefore, when we lay out knowledge related to microfinance and disability in this chapter, we want to emphasize from the outset that ensuring access to financial capital by itself may not necessarily benefit persons with disabilities.

A second point we want to emphasize at this point is that there are several other theories supporting the promotion of microfinance; however, these theories often tend to favor savings (and insurance) over credit. The theory most relevant for persons with disabilities is the “consumption smoothing theory”. A great deal of variation in incomes and expenses is part of the poverty trap. On a daily basis, poor people must come up against uneven incomes and expenses. One day these people might have to pay medical expenses worth 200 while at the same time only having an income of 20, whereas on another day, their expenses might be 10 only and their income may be 100. Collins et al. (2009) explain in detail how one primary problem of being poor is figuring out how to match the uneven income and expense streams and how poor people save, both in cash and in kinds (for example animals), to evenly distribute their daily consumption. Thus, when discussing microfinance and disability, we cannot emphasize enough that the focus should include savings and not credit only.

The purpose of this chapter is to focus on how the use of microfinance schemes by persons with disabilities relates to, and possibly improves, employment rates and economic activities. We seek to describe existing knowledge, lessons learned, limitations, challenges, and future potential. Unfortunately, these categories are not easily explained due to the current paucity of relevant literature. One reason that the literature on microfinance and disability is scarce is that it is difficult to obtain access to data that facilitate rigorous academic research. First, researchers are faced with the difficulty of defining disability. The “disabled proportion” of a population is very sensitive to the definition of “disability” being applied; for instance, Beisland and Mersland (2012d) show that the percentages of persons with disabilities range from approximately 3% to 20% of a given population. Second, even if everybody agreed on the “correct” definition of a disabled person, researchers are still left with the challenging issue of categorizing citizens according to this definition and then accessing data of the persons who can be included as disabled. Finally, to ensure random inclusion of a sufficient number of the various types of disabilities, datasets of a given population need to be very large, which is costly.

Despite the challenges and data limitations, there has been an increased focus on disability and microfinance over the past few years, and some academic research is currently becoming available. Therefore, the first aim of this chapter is to review the existing research, and the second goal is to provide practical recommendations and policy guidelines based on this knowledge.

This chapter is organized as follows: Section 2 begins with a presentation of the theoretical framework that is often applied to analyze microfinance and disability. The second part of Section 2 discusses the empirical research on access to microfinance for persons with disabilities. In Section 3, we apply survey evidence from two Ugandan studies and use Uganda as a case for a more in-depth empirical analysis of access to microfinance. Section 4 is the forward-looking section of the chapter. We combine “hard facts” from the presented research with subjective judgment based on several years of experience from both academic microfinance research and practical microfinance work in the field to assert suggestions for future applications of microfinance and disability. Section 5 concludes the chapter.

**2. Prior research**

**2.1. Theoretical Framework**

Persons with disabilities are a low priority and a disadvantaged group in regard to socio-economic integration (ILO 2002). According to the United Nations (2008), employers often resist hiring persons with disabilities. Even if “disability does not necessarily mean inability” (Handicap International, 2006, p. 6), statistics indicate that 80% to 90% of the persons with disabilities do not have formal jobs; thus, most persons with disabilities resort to self-employment (United Nations, 2008). Because lacking access to capital can be a major problem for this group, access to microfinance should be a priority in pro-disability policies (Handicap International, 2006). Nevertheless, it is generally assumed that persons with disabilities have low access to microfinance services (Cramm and Finkenflügel, 2008; Martinelli and Mersland, 2010). Simanowitz (2001) defines four exclusion mechanisms, or barriers, that lead to the exclusion of disabled and other vulnerable persons from microfinance services: exclusion by other credit group members, exclusion by staff, exclusion by service design, and exclusion by the disabled person himself. Bwire et al. (2009) add a fifth barrier to this list: physical and informational exclusion stemming from the disability itself.

The first of the listed exclusion mechanisms - exclusion by other microfinance costumers - may be a serious barrier to persons with disabilities. This barrier can be attributed to the group methodology often applied in microfinance. For instance, in solidarity groups or village banks, the members themselves decide whom to include in the group (Bwire et al., 2009). Martinelli and Mersland (2010) contend that a core element in group methodologies is that all members are jointly liable for each individual’s loan and “the poorer and the more vulnerable community members therefore tend to be excluded from such groups by ‘stronger’ persons” (Martinelli and Mersland, 2010, p. 249).

Stigmatization, discrimination and perceived risk are explanations for the exclusion caused by the staff of microfinance institutions (MFI) and especially by their credit officers (Labie et al., 2010). Bwire et al. (2009) contend that credit officers are often not able to “see past” the disability and recognize the real working ability of a person with a disability; thus, the staff fails to distinguish between real credit risk and perceived credit risk. It is also suggested that if group methodologies are practiced, prejudiced staff may cause increased levels of exclusion by other group members (Martinelli and Mersland, 2010).

Exclusion by service design, often referred to as credit design, is also a potentially important barrier for persons with disabilities. Microfinance products are often designed for non-disabled clients and do not acknowledge that persons with disabilities may have particular needs. For instance, frequent installments on loans may all too often represent an insurmountable hurdle for persons with various physical handicaps and reduced mobility if they have to pay in person. In general, according to Mersland and Martinelli (2010), the credit methodology is often too standardized and inflexible, thereby hindering persons with disabilities from participat­ing.

Irrespective of pure design issues, the disability itself can be a serious hindrance for persons with disabilities. This exclusion mechanism is caused by physical and informational barriers (Bwire et al., 2009). MFIs provide information in both verbal and written form, inaccessible to many with visual or hearing impairments. Moreover, MFIs are often located such that stairs have to be climbed or crowds have to be penetrated to reach their premises.

Finally, although at first glance, self-exclusion may appear as a peculiar barrier to the use of microfinance services, as explained by Bwire et al. (2009), persons with disabilities often experience rejection throughout life. Repeated exclusion produces low self-esteem, and low self-esteem often leads to self-exclusion from public and private services such as microfinance (ILO, 2002). Self-exclusion may also be attributed to the fact that some persons with disabilities and their families may have the expectation to constantly receive grants (Thomas, 2000) and are thus unwilling to pay the interest rates demanded by sustainable microfinance institutions.

**2.2. Empirical evidence**

One of the most comprehensive studies on microfinance and disability was conducted by Handicap International (2006). The empirical part of the study covers survey evidence from South Asia, East Africa and Central America and field visits in 7 countries; Afghanistan, Bangladesh, Ethiopia, India, Kenya, Nicaragua, and Uganda. Generally, surveyed MFIs indicated that they did not discriminate against persons with disabilities, although this segment was not their target population. Thus, only 0-0.5% of the costumers of the surveyed MFIs had a disability. Even if this number may be somewhat underestimated because many of the institutions do not track disability status, the percentage was as low as 0 to 2%, even for organizations that kept track or could identify the clients with disabilities (Handicap International, 2006). A general finding is that microfinanciers with a higher outreach to persons with disabilities are usually those providers for which poverty alleviation is a main objective.

Another finding in the Handicap International (2006) study is that in addition to MFIs, many Disabled Persons’ Organizations (DPOs) operate credit schemes for their members. These schemes are generally very small (often serving only some handfuls of persons), often rural based and not financially sustainable. Approximately half of these schemes only target disabled women, whereas the rest also include men. 19% of the schemes actually provide grants and not loans, while 16% of those schemes offering loans charge no interest rates. The rest charge rates between 10% and 24% per year. In contrast, MFIs in the survey charge annual rates of 20-58% per year.

The study of Handicap International (2006) also investigates possible barriers to microfinance that persons with disabilities face. The results are reported separately for DPOs with credit schemes and MFIs. Among the DPOs, 95% affirm that persons with disabilities face specific barriers accessing microfinance services, and lack of education, low income, stigmatization and lack of access to information are listed as the main barriers. In contrast, only 47% of the MFIs state that persons with disabilities face specific microfinance barriers. Among MFIs, lack of self-esteem, guarantees and access to information are viewed as the most important barriers.

The more detailed field studies, which may also be referred to as in-depth case studies, of Handicap International (2006) also revealed interesting aspects of the microfinance market of persons with disabilities. For instance, in Kenya, many persons with disabilities expected grants instead of loans, and “[the] recipients of the loans were much more committed to working seriously to develop their businesses compared with the grant clients” (Handicap International, 2006, p. 108). Moreover, whereas evidence from Colombia suggests that it is important to make some adjustments in microfinance services for persons with disabilities if these persons are very vulnerable, a lesson learned in Nicaragua was that the inclusion of persons with disabilities in mainstream MFIs boosts the economic and social inclusion as well as self-confidence of these persons.

Based on the Handicap International (2006) study, de Klerk (2008) concludes that there is no single best solution to the funding of self-employment activities for persons with disabilities. The inclusion of persons with disabilities in existing microfinance institutions may be the preferred strategy due to sustainability and access to funds for the target group; however, de Klerk (2008) contends that many persons with disabilities in reality will not have access to conventional institutions. For instance, many persons with disabilities are too vulnerable; MFIs typically only provide services to clients with existing business activities, and persons with disabilities often have no business experience. Moreover, de Klerk (2008) indicates that the stigmatization by staff and self-exclusion by the disabled themselves are two primary explanations for why persons with disabilities do not obtain access to mainstream microfinance services.

In addition to the large Handicap International (2006) survey, several studies covering limited geographical areas have been conducted. In a study of projects promoting savings and credit groups in Bangladesh, Thomas (2000) supports the contention that persons with disabilities have low access to microfinance services. Even if 8 out of 12 projects include persons with disabilities, only 0.3% to 5% of the savings and credit group members are persons with disabilities. Moreover, in her sample Thomas (2000) finds that, even in specific disability rehabilitation projects, only 18% to 23.5% of saving and credit group members are disabled. She maintains that community development and disability rehabilitation projects lack selection criteria for the inclusion of people with disabilities into savings and credit groups.

Thomas (2000) lists several hindering mechanisms that may exclude persons with disabilities:

“The common difficulties faced in including people with disabilities in the savings and credit groups are that the non-disabled persons do not accept disabled persons easily, disabled people expect charity funds rather than operating a savings scheme, the credit worthiness of disabled persons is low, their motivation is low, their source of earning is less than others, many of them are very poor and unable to save, their families are not very supportive, it takes longer to prepare disabled persons to include them in this programme, their mobility is restricted, their ability to market their products is limited, and their attendance in the group activity is lower than the others” (Thomas, 2000, open access journal).

Thomas (2000) maintains that attitudinal changes among the non-disabled people and the families of persons with disabilities may be major steps to overcome these difficulties.

In Uganda, Bwire et al. (2009) report results from a pilot project where the aim is to enable persons with disabilities to access mainstream microfinance services. In this project, staff in mainstream MFIs is trained in being more disability sensitive. As a result of the project, a change in attitudes is observed and all MFIs report an increase in the number of clients with disabilities (on average, participating MFIs doubled their number of clients with disabilities – from 0.5% to 1% of their clients). The study stresses that the disability community is an untapped market opportunity for MFIs and that the institutions need to realize the potential of this group of customers. Bwire et al. (2009) list exclusion by staff and self-exclusion due to low self-esteem as major hindering mechanisms for microfinanciers; additionally, the study indicates the importance of informational barriers. Bwire et al. (2009) maintain that misinformation about MFI terms and conditions may be a primary explanation for why persons with disabilities do not approach these institutions.

Also using Ugandan data, Labie et al. (2010) provide an in-depth empirical and theoretical analysis of one of the exclusion barriers, namely, exclusion by staff. Their main finding is that credit officers are more biased against disabled customers than are other employees. Because credit officers are the individuals with daily contact with the customers and are those who hold a large influence on whether a particular costumer is granted a loan, this finding is particularly unfortunate. However, Labie et al. (2010) emphasize that credit officers are often motivated by a genuine desire to be useful and do good; the bias can often be attributed to an overestimation of risk or an underestimation of the abilities of persons with disabilities to run viable businesses.

Lewis (2004) analyzes microfinance from the perspective of women with disabilities in Zambia and Zimbabwe. The research illustrates that the MFI staff can be a major barrier to microfinance. In many cases, the 30 women from the study reported that the staff often appeared to assume that persons with disabilities lack the ability to run a successful business and that they would likely to experience repayment challenges. Moreover, Lewis (2004) presents evidence that MFIs require collateral of disabled but not of non-disabled credit applicants. The study also indicates inaccessible infrastructure and lack of appropriate adaptive equipment and resources as serious barriers. Additionally, an informational barrier is highlighted by the study; many women did not know that community microfinance programs existed or that they would be eligible to participate.

In a case study from Bamako in Mali, Ormazabal (2010) focuses particularly on persons with disabilities’ ability to contribute to the double bottom line of MFIs, i.e., to both the financial and social objectives of the organizations. She concludes that persons with disabilities can be better clients for MFIs than non-disabled persons. Nevertheless, she finds that persons with disabilities remain a stigmatized segment of the population. This view that persons with disabilities are stigmatized and considered unproductive and risky clients is also observed in Pakistan (Ahmad and Ahmad, 2011).

Collectively, the reviewed research confirms that access to microfinance services is limited for persons with disabilities. The importance of the barriers outlined in Sub-Section 2.1 is emphasized by several studies; however, the perceived importance of the various barriers varies between the studies. However, all studies appear to take for granted that access to credit would benefit persons with disabilities. No study actually investigates to what extent access to credit improves the outcome of self-employment activities among persons with disabilities or whether better access to credit increases the portion of persons with disabilities being self-employed. Another weakness of the surveyed literature is that it focuses nearly entirely on credit and does not include savings (and insurance) services.

**3. The Ugandan Case**

Recently, using Ugandan survey data, we conducted several studies to better understand the concept of ‘microfinance and disability’ (Beisland and Mersland, 2012a; 2012b; 2012c; 2012d). The data come from two different surveys from 2008, one conducted by the National Union of Disabled Persons of Uganda (NUDIPU) and the other collected by the Association of Microfinance Institutions of Uganda (AMFIU). The Norwegian Association of Disabled supported the surveys[[1]](#footnote-1). The data from NUDIPU were collected in trainings organized for *economically active* persons with disabilities. An economic activity was defined as anything from the smallest farm or the tiniest kiosk. The AMFIU data were collected from MFI staff participating in awareness-creation sessions in MFI branches. Both surveys were originally designed to improve the design of a project where NUDIPU and AMFIU had joined forces to increase persons with disabilities’ access to mainstream MFIs. In what follows, we present the main findings of our four empirical studies.

**3.1. Access to microfinance**

While the first study does not speak to the overall access of people with disabilities to microfinance, it does demonstrate that, applying a broad definition of microfinance, *economically active* persons with disabilities have better access to microfinance than previously assumed (Beisland and Mersland, 2012d). Out of the 841 respondents, 748 (89%) have used at least one type of microfinance service. The survey splits microfinance services into two broad categories: informal and formal services. Membership in Rotating Savings and Credit Associations (ROSCAs[[2]](#footnote-2)) or any type of traditional saving activity is regarded as informal microfinance, whereas formal microfinance services include savings and loans from banks, MFIs or formally registered member-based organizations such as Savings and Credit Cooperatives (SACCOs). The survey data show that a total of 72% of the respondents save money regularly, out of which 70% save in a formal institution (i.e., 50% of the respondents have a formal savings account). Moreover, 39% of the respondents have borrowed money formally; however, only 15% of the respondents had a loan at the time the survey was conducted (Beisland and Mersland, 2012d). Thus, we observe that the majority of those accessing credit have not been able to maintain the borrower-bank relationship over time.

 **Figure 1**

Figure 1 relates the use of microfinance services to types of disability. The figure illustrates that persons with vision and hearing impairments have lower access to microfinance services than persons with other physical impairments. Beisland and Mersland (2012d) also indicate that females in general have better access than men and that those who are married have better access than those who are not. Moreover, the study strongly suggests that the use of microfinance services increases with education level.

Using the NUDIPU survey, the use of microfinance services may also be related to income source and income level (Beisland and Mersland, 2012c). There is a positive association between the respondents’ estimates of monthly income and their use of microfinance services. This pattern is particularly strong for the use of formal services. For example, whereas only 33% of the respondents with monthly incomes less than 100,000 Ugandan shilling (approximately US$ 50) stated that they have obtained a formal loan, the proportion increases to 59% for monthly income levels in between 400,000 and 700,000 Ugandan shillings. This relation between the use of microfinance and wealth is further confirmed when the respondents’ estimated business value replaces monthly income as the variable representing wealth.

The NUDIPU survey also provides information on the relation between microfinance and primary source of income (Beisland and Mersland, 2012c). Those persons whose primary source of income is farming or manufacturing generally use fewer microfinance services than those whose primary income source is from wholesale/retail or the service sector. This result is strongest for formal microfinance services. The survey also indicates, not surprisingly, that persons with farming as their primary source of income report the lowest income levels, while persons involved in wholesale or retail trading report the highest income levels. Thus, a major reason why most persons with disabilities in Uganda are poor is because more than 50% of them have farming as their primary source of income. Only 23% of the respondents have their primary incomes from wholesale or retail trading. The dependency on farming is therefore a major constraint in regard to improving the outcome of business activities of persons with disabilities.

**3.2. Barriers to microfinance**

The NUDIPU survey includes questions that can be related to the barriers to microfinance presented in Section 2. The main advantage of applying the NUDIPU survey to study barriers is that the study provides the persons with disabilities’ *own view* on the importance of the barriers. Much of the previous research on the barriers to microfinance has not included empirical evidence from the clients themselves. Note that this part of the NUDIPU study has a microcredit focus because the questions focus on borrowing, not saving.

Based on the NUDIPU survey, Beisland and Mersland (2012a) show that there is some fear among the respondents that they would be rejected by the staff of the institutions because of their disability. Specifically, 22% of the respondents express such a fear. However, more respondents (30%) fear that existing (non-disabled) credit group members would not accept them as members because of their disability. Another important barrier is the disability itself; 28% of the respondents state that their disability would make it difficult to access the banks’ premises or to attend regular meetings. In contrast, self-exclusion appears to be less relevant than expected; only 12% of the respondents would feel shy or embarrassed if trying to apply for a loan.

 **Figure 2**

Exclusion by credit design emerged as the most important barrier in the study. Forty-six percent of the respondents of the study fear that the loan conditions may not suit their needs. However, a weakness in the survey is that the interest rate level is entangled into the question about the loan amount and period. Thus, we cannot know whether the barrier is actually the interest rate or whether it is related to other design issues. The relative importance of the barriers as measured by the NUDIPU survey is summarized in Figure 2.

In the NUDIPU survey, it is possible to categorize the answers according to the respondents’ personal characteristics (Beisland and Mersland, 2012a). A general result is that respondents with higher education levels fear rejection less than those respondents with little or no education. Moreover, farmers and the hearing impaired are generally more pessimistic than other respondents. Finally, respondents who already have some experience with the services fear rejection less than respondents without any microfinance experience.

Applying the AMFIU survey, Beisland and Mersland (2012b) study the barriers to microfinance services from a staff perspective. In the AMFIU survey, the respondents – the staff members – were presented with 16 statements. For each statement, the answers were graded from 1 to 5, where 1 denoted “Fully disagree” and 5 “Fully agree”. Beisland and Mersland (2012b) categorize the statements according to the five barriers to microfinance.

The data reveal that the staff generally disagrees with the statement that persons with disabilities lack the skills to run viable businesses. Nevertheless, most respondents believe that one could easily increase the outreach to persons with disabilities through more personal efforts. The survey shows that the staff does not believe that exclusion by other members of credit groups is particularly widespread; however, data described earlier suggest that this barrier may be relevant. Furthermore, the staff strongly believes in motivating existing credit groups to take on disabled clients as a general means to increase the outreach to the disabled. It is also worth mentioning that the respondents agree more or less unanimously that one should identify successful disabled customers and use those as examples on how to reach out to more disabled costumers.

In the AMFIU survey, there are generally few differences in the responses based on the respondents’ personal characteristics. However, some interesting aspects are revealed. For instance, credit officers, the staff with direct contact with the costumers, appear less convinced that discrimination of persons with disabilities does not occur. Moreover, staff members with disabled relatives are more optimistic with respect to persons with disabilities’ ability to run successful businesses. There is some evidence that younger staff members have a more positive attitude toward costumers with disabilities, whereas very few differences are found when the staff members’ gender and length of work experience are investigated.

**4. Recommendations for practitioners and policy makers**

This section outlines suggestions for practitioners and policy makers. The main focus is on policy recommendations to increase persons with disabilities’ access and usefulness of microfinance services; however, we also present proposals for future research. Many of the suggestions follow more or less directly from the presented research, while other suggestions are based on subjective judgment because available research is still scarce.

The discussion is centered on persons with physical impairments. Mental impairments and access to microfinance and involvement in self-employment activities are, to the best of our knowledge, not discussed in the literature. Thus, the first suggestion for future research is to simply analyze to what extent persons with mental disabilities are involved in self-employment activities and to what extent they may benefit from microfinance services.

**4.1. Borrowing for self-employment activities**

Financial capital is a necessary resource for self-employment but cannot stand alone in ensuring the viability of a business. Other capital, such as human and social capital, is necessary for the efficient use of financial capital. It is the combination of the different types of capital together with market opportunities that determines whether persons with disabilities’ self-employment activities will succeed. Financial capital alone will often not improve the welfare of persons with disabilities, and in some cases, if a loan cannot be repaid or can only be repaid with great sacrifices, access to credit might actually be harmful for persons with disabilities. The following figure (adapted from Martinelli and Mersland, 2010) illustrates the importance of analyzing all types of capital before recommending the provision of credit to persons with disabilities for self-employment activities.

**Figure 3**

DPOs and policy makers advocating for better access to credit for persons with disabilities should keep in mind that the core of any business activity is normally not its financial capital but the human and social capital of the micro entrepreneur. The categorization suggested in Figure 3 is therefore an important exercise to be conducted before determining the most appropriate type of intervention when planning to improve the outcome of self-employment activities.

The finding of Beisland and Mersland (2012c) that earning levels differ considerably depending on the type of business in which the person with disabilities is involved should motivate DPOs and others involved in livelihood projects to better assess potential income levels before recommending business ideas. In particular, the finding that persons whose primary income is from farming have a considerably lower income than others should lead livelihood project designers to consider off-farm opportunities for income generation.

Although the title of this sub-section is borrowing for self-employment activities, we also want to emphasize that borrowing should not always be restricted to business loans only. Particularly loans for home improvement can be important for persons with disabilities. For example, many persons with disabilities need houses adapted to their needs. Moreover, as indicated by Collins et al. (2009) poor people often need loans to cover medical or other precarious needs. Such loans should be granted, on the condition that the person has the requisite repayment capacity.

**4.2. The importance of savings**

Beisland and Mersland (2012d) find that economic activities often start with savings; in fact, 50% of the respondents of the study state that they use savings as their start-up capital. Another 43% obtained their start-up capital from sales of assets or from family members. Only 7% started their business with the help of a loan. This result illustrates that disabled micro-entrepreneurs are similar to other entrepreneurs. It is well known in the entrepreneurship literature that personal savings as well as help from family members and others are the financial capital used to initiate new business activities. The Ugandan data confirm, once again, that loans are a minor source of funding for new self-employment activities. The reasons for this finding are, first, that survival rates of new enterprise ventures are seldom above 50% and that banks cannot take such high risks, and second, that the chance of success in business is higher if the entrepreneur’s own money is at stake. This latter finding is also observed in the study of Handicap International (2006); providing grants to help persons with disabilities to become self-employed often leads to a dependency on grants and not a successful business activity. Moreover, because lending methodologies normally condition that applicants have some existing savings, it is actually a prerequisite for loans to first have demonstrated savings capacity. Taken together, DPOs and policy makers interested in improving persons with disabilities’ outcome from self-employment activities should focus on the importance of savings, not only loans.

Another reason for focusing on savings is related to consumption smoothing. As mentioned above, a major challenge for poor persons is the high variation of incomes and expenses. Access to savings is what can best help balance uneven incomes and expenses and thus ensure that basic needs can be met on a daily basis. Many may argue that persons with disabilities are too poor to save; however, Beisland and Mersland (2012d) document that a vast majority of persons with disabilities does save. The fact that poor people save (though often not in formal bank accounts) is now well documented in the literature (Collins et al., 2009) and should be considered in development projects aiming to improve persons with disabilities’ entrepreneurial activities. Moreover, projects promoting savings among poor people should keep in mind the title of the study by Mersland and Eggen (2007): “We cannot save alone”. Good project design thus combines individual savings with group structures.

**4.3. Informal financial structures should be appreciated**

Beisland and Mersland (2012d) report that persons with disabilities are often involved in informal savings and credit groups. Disability policy makers are often not familiar with such groups and do not sufficiently appreciate their existence. An interesting effect of the NUDIPU survey was that NUDIPU and their donor Norwegian Association of Disabled decided to design a new project to promote savings and credit groups among persons with disabilities. Initial results from this project called “We can manage” indicate that much higher numbers of persons with disabilities than expected are being mobilized and that the saving capacity is higher than traditionally assumed.[[3]](#footnote-3)

For the enhancement of the livelihoods of persons with disabilities, the promotion of savings and credit groups can be of particular importance because these schemes can allow for a more flexible and integrated approach. Compared with MFIs, the savings and credit group methodology can reach poorer target groups and help enhance social and human capital (Eggen and Mersland, 2007).

**4.4. Ensuring access for persons with disabilities in mainstream microfinance institutions**

In much of the research on microfinance and disability, the importance of incorporating persons with disabilities in *formal* mainstream microfinance institutions has been emphasized. The background of this recommendation is that access to microfinance needs to be permanent and not a one-time event. The problem with many development efforts and ad-hoc programs is that they are not financially sustainable and tend to disappear after a few years. Thus, mainstream institutions represent the preferred alternative, and we agree with the recommendation that the provision of credit by non-specialist providers should be discontinued (see Handicap International (2006) and Martinelli and Mersland (2010) for a more comprehensive discussion of the preferred types of microfinance providers).

**4.5. The barriers hindering persons with disabilities’ access to microfinance**

Regarding ensuring access to mainstream microfinance institutions, the five barriers explained in Section 2 have proved useful for both practitioners and researcher to better understand the mechanisms hindering access for persons with disabilities. We thus recommend the continued use of this theoretical framework.

Staff barrier

To date, there has been a considerable focus on the staff barrier in the literature, and there appears to be agreement that staff prejudice and stigmatization is a major explanation for why persons with disabilities often do not access microfinance services (Cramm and Finkenflugel, 2008; Labie et al., 2010). We thus recommend a continued focus on training and awareness creation among MFI staff. This recommendation also follows directly from the study of Beisland and Mersland (2012b), in which the MFI staff strongly believed that they could easily increase the outreach to clients with disabilities if they were more motivated and exerted increased personal efforts.

Nevertheless, it is important to note that, on a detailed level, there is little or no research on the nature of the discrimination and how it is conducted. After all, a rejection of a loan application for a disabled person is not discrimination if it is based on an analysis demonstrating lack of repayment capacity. Thus, to better understand how, when and why discrimination occurs, future research should continue focusing on barriers at the staff level of microfinance.

Credit and service design barrier

Exclusion by credit design typically has not been a frequently discussed barrier in prior research. Nevertheless, Beisland and Mersland (2012a) find that the disabled themselves consider this barrier to be the far most important barrier; almost half of the sample fears that the loan conditions may not suit their needs. A weakness of the study is that it does not disentangle the interest rate level from other loan conditions. Nevertheless, considering the fact that two thirds of the respondents state that they are willing to pay the same interest rates as non-disabled clients, there is reason to believe that other loan conditions play an important role.

As noted by Beisland and Mersland (2012a), unfavorable credit design is a general problem in the microfinance industry, and design improvements could potentially benefit all customers. Thus, a useful recommendation may be to adapt products to serve the needs of persons with disabilities because this adaptation would often be a test to ensure that the product would be friendly for *all* customers. For instance, less frequent repayments could be beneficial for all persons living in remote areas, not only those with disabilities.

The problem regarding credit and service design is that we know little about what are the design issues that are particularly troublesome for persons with disabilities. Generally, MFIs struggle in designing customer-friendly products; thus, we do not know whether customers with disabilities are less satisfied than other customers. Another challenge is related to the heterogeneity within the disability group. The needs of persons with hearing impairments differ greatly from those with mental health impairments. Thus, designing special microfinance products for all customers with disabilities could lead to many different types of products. However, Banco D-MIRO in Ecuador experienced that these adaptations are not necessarily required to increase the outreach to persons with disabilities. In this bank, they decided to specifically target the disability segment and started with sensitivity training for their staff together with targeted marketing efforts, including partnering with local DPOs. Customers with disabilities were offered exactly the same products as other customers. Within one year, the number of customers with disabilities tripled. Banco D-MIRO also found that using existing customers with disabilities to reach potentially new customers with disabilities was one of the most efficient marketing channels.[[4]](#footnote-4)

Many people, including the staff (Beisland and Mersland, 2012b), appear to believe that persons with disabilities need more favorable loan conditions than others. There is also evidence to suggest that some persons with disabilities expect better conditions (Beisland and Mersland, 2012a). However, whether better conditions would influence the supply of or demand for microfinance is an unsolved issue.

Other group members

It is difficult to address local stigmatization and discrimination that lead to the exclusion of persons with disabilities from credit groups and saving associations. Eggen and Mersland (2007) explain the importance of letting groups be autonomous regarding the selection of members. Policy makers, DPOs, MFIs and others thus need to continue raising awareness about the rights of persons with disabilities. In addition, current trends in the microfinance industry might be beneficial for persons with disabilities. As competition in the industry increases, MFIs are lowering their prices, improving their services and targeting new market segments, including the disability segment. In addition there is now a strong shift away from group methodologies toward individual methodologies (Mersland and Strøm, 2011), which in most cases, are preferred by persons with disabilities.

Self-exclusion

Although Beisland & Mersland (2012a) find that, according to persons with disabilities themselves, self-exclusion stemming from low self-esteem is not the major problem, we suggest maintaining a focus on this exclusion barrier. Similar to others who have experienced exclusion, stigmatization and discrimination, some persons with disabilities avoid seeking out new opportunities. DPOs are most likely those best suited to address these challenges; however, MFIs and others should be aware of the challenge and ensure respectful customer service.

One important type of self-exclusion is the fact that many persons with disabilities (as many other vulnerable persons) are not informed about available services. This finding is also documented in recent research suggesting that persons with disabilities do not approach microfinance services simply because they are not aware that they would be eligible for such services (cf. Bwire et al., 2009; Lewis, 2004). Increased and targeted marketing efforts as exemplified above by Banco D-MIRO are needed.

Finally, there is an often-neglected effect of financial services; being trusted by a credit company or having been able to steadily save money can completely change a person’s self-respect. We thus welcome systematic project efforts as well as rigorous research to study the self-esteem effect from accessing microfinance.

Physical and informational barriers

Unfortunately, most countries in which MFIs operate are weakly equipped regarding ensuring equal opportunities for persons with disabilities. Information available in Braille language, sign interpreters or wheelchair ramps are theoretical, unrealistic solutions. Even if microfinance information were available in Braille, there are few persons with visual impairments who can read it; similarly, there are few persons with hearing impairments who practice sign language. Because the microfinance industry is a very international industry with significant donor support, we recommend that this industry could take a lead in demonstrating that reducing physical and informational barriers for persons with disabilities is also possible in low- and middle-income countries. Some solutions are obvious, for example, to avoid locating MFIs in premises that require persons with disabilities to climb steep and narrow staircases.

**4.6. Microfinance and education**

Prior research suggests a strong relation between the use of microfinance and the level of education and between the level of income and the level education. As the education level increases, there is a corresponding increase in income and in the use of microfinance services (Beisland and Mersland, 2012c; 2012d). Moreover, there is far less fear of the various barriers to microfinance if the education level is high (Beisland and Mersland, 2012a). Thus, even though education is important by itself, it is also important as a means to improve income levels and to improve access to private and public services, in this case, microfinance services. We cannot emphasize enough that the best way to ensure better employment opportunities for persons with disabilities is to provide better education for children with disabilities.

**5. Concluding remarks**

An implicit assumption of this chapter is that access to microfinance services is advantageous to persons with disabilities. It has typically been accepted that by giving poor people access to such services, they will experience economic development. In fact, most studies conclude that access to microfinance, whether loans or savings, has a positive impact on poor people’s economic activities and lives (Goldberg, 2005; Levine, 2005; Odell, 2010); however, it is important to note that this general belief is challenged by recent studies (cf. Duvendack et al., 2011). Collectively, there is a reasonable degree of consensus that access to savings is positive in the fight against poverty and that access to loans can be useful to ensure consumption smoothing (Rosenberg 2010). However, whether access to loans increases poor people's income is still being debated, and recent studies applying randomized control trials have resulted in different findings (see Rosenberg 2010 for an overview). Very often, the microcredit effect may be difficult to isolate for individual households and small enterprises. For instance, loans from MFIs are often given for consumption smoothing, and the usefulness of such smoothing is difficult to estimate empirically.

In general, findings on the effects of microfinance cannot necessarily be extrapolated to the disability community. Because an overwhelming majority of persons with disabilities are self-employed (Handicap International, 2006), access to capital is important, possibly more important than for the average citizen of a low- or middle-income country. Moreover, although improvements in incomes and assets obviously are important, access to microfinance may also influence persons with disabilities’ self-esteem and general integration into society (cf. Cramm and Finkenflugel, 2008). Thus, there may be reason to believe that the (positive) development effects of microfinance on average are larger for persons with disabilities than others.

Nonetheless, the microfinance industry recently has come under a certain amount of public and media pressure. There has been a critical focus on interest rates and collection methods, and the major question has been whether microfinance truly helps to bring persons out of poverty. Unfortunately, we are unaware of rigorous academic research that has been able to document the welfare impacts of microfinance services for persons with disabilities. Thus, we conclude this chapter with a caveat: We cannot rule out the possibility that microfinance under specific circumstances can be detrimental to a disabled person’s standard of living. However, in general, we agree with those who claim that access to microcredit should be a priority in pro-disability policies (Handicap International, 2006; Cramm and Finkenflugel, 2008); in particular, we strongly support the recent United Nation Convention of the Rights of Persons with Disabilities (United Nations, 2008), which clearly indicates that persons with disabilities have the right to equal opportunities, including equal access to microfinance services.

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**Figure 1: Disability type and access to microfinance**

**Figure 2: Barriers to microfinance – The customer perspective**

**Figure 3: The importance of human, social and financial capitals for enterprise development**

|  |  |  |
| --- | --- | --- |
| **SITUATION TODAY** | **High level of human and social capital** | **Low level of human and social capital** |
| **Easy access to microcredit** | Successful entrepreneurs that can be role models for others | Existing access to credit may have negative impact for the customer |
| **Lack access to microcredit** | Access to credit will often have immediate positive business impact | Need combined inputs of human, social and financial capital |

1. Roy Mersland has worked as a consultant for the Norwegian Association of Disabled in their efforts in Uganda and elsewhere. [↑](#footnote-ref-1)
2. In a ROSCA, a group of 15-30 people pool their savings weekly or monthly. These savings are distributed as grants or loans among the members in a rotating system. ROSCAs have been around for centuries and exist in virtually every developing country including Uganda (Bouman, 1995). [↑](#footnote-ref-2)
3. One of the authors (Roy Mersland) has served as a consultant for this project, and the results reported here come from his personal contact with the project officers and donor representatives. [↑](#footnote-ref-3)
4. Roy Mersland is a board member at Banco D-MIRO. [↑](#footnote-ref-4)