

“Microfinance for People with Disabilities”

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With support, disabled people can participate in microfinance
Photo: Sudhindra CN/Leonard Cheshire Disability

Microfinance for People with Disabilities

Enzo Martinelli and Roy Mersland

Summary

Microfinance is considered an important tool in reaching the United Nations' Millennium Development Goals (Littlefield *et al.*, 2003). Nevertheless, few people with disabilities have access to microfinance. This is in contrast to the United Nations' assertion that people with disabilities have the right to equal opportunities (UN, 1993, 2008). Anthony Mukungu in Lugazi, Uganda is an example of how people with disabilities are excluded from accessing microfinance. He packages and distributes flavoured drinking water. Mr Mukungu has a physical disability and moves in a wheelchair. He reports that the market is growing steadily and he now needs access to additional capital to boost his business. He has therefore approached several microfinance institutions '(MFIs) to apply for credit, but so far he has not succeeded. The reason he gives is that MFIs think we [persons with disabilities] are not creditworthy' (Mersland *et al.*, 2009, p. 3)

The aim of this chapter is, first, to provide the reader with basic knowledge about microfinance and how this is relevant for people with disabilities. Second, the chapter outlines the main mechanisms leading to exclusion from services and identifies strategies to improve the current situation. The overall objective is to give the readers a background to understand better how microfinance can be used as a tool to reduce poverty for one of the most marginalised social groups and to provide important knowledge useful in advocacy and project efforts.

Disabled People's Organisations (DPOs) in developing countries have long tried to advocate better access to microfinance for their members. However, if any answer is given at all, the message from the MFIs is normally that people with disabilities are a group too risky for lending and that their savings capacity is limited. Owing to the general misunderstanding within society that people with disabilities are 'destitute' and without the knowledge, skills and opportunities to operate businesses successfully, the MFIs generally shy away from clients with disabilities. However, in doing so they miss an important business opportunity, and fail to reach out to the poorest and the most marginalised – hence failing to implement the double bottom-line policy of reaching both financial and social objectives, with which nearly all MFIs claim to be acting in accordance (UN, 2006; Helms, 2006).

Adding to the challenge of persuading MFIs to target people with disabilities is the fact that DPOs, in their advocacy efforts, often demonstrate limited knowledge about microfinance. After all, microfinance is about the provision of working capital and financial services for sustainable businesses and individuals with lending and/or savings capacities. Advocacy to improve access to microfinance that fails to keep in mind the MFIs' business models (and the rationales behind them) risks being counterproductive. This leads to lost opportunities for both the MFIs and people with disabilities – the former miss out on an important market segment while the latter continue to be left out of the benefits of microfinance. A situation of asymmetric information is currently prevailing in the microfinance disability market. We therefore want to make the case for information dissemination and awareness creation among the microfinance providers as well as among DPOs and disabled people in general. In order to assure improved access to microfinance opportunities in the future, it is important to understand better what microfinance is and the reasons why people with disabilities tend to be excluded from it.

In developing countries most livelihood opportunities are generated in the informal sector, and people with disabilities have to compete within these constraints. Statistics show that 80–90 per cent of people with disabilities

in these economies do not have a formal job, and as a consequence must turn to self-employment (UN, 2008). A main obstacle facing the self-employed is the lack of access to capital, either in the form of loans or accumulated savings. Without access to microfinance the economic activities of most people with disabilities tend to remain marginal and difficult to sustain (Handicap International, 2006; Mersland, 2005).

The idea of providing better access to microfinance services for persons with disabilities is not new. Several projects have been initiated to provide people with disabilities with a combination of training and subsidised credit from non-financially specialised organisations like community-based organisations (CBOs) or DPOs (Handicap International, 2006). The results from these efforts have been mixed. In some cases the results for the beneficiaries have been positive, but very few initiatives have been sustainable and able to reach out to more than a few people. Thus, when donor support ends, the provision of services is normally discontinued (Handicap International, 2006; Lewis, 2004).

Aside from Thomas (2000), Lewis (2004), Mersland *et al.* (2009) and Cramm and Finkenflugel (2008), the academic literature on microfinance and disability published in peer-reviewed journals is virtually non-existent. Thankfully, some reports like Handicap International (2006), MIUSA (1998), Dyer (2003) and Mersland (2005) do provide guidelines, conceptual frameworks, basic knowledge and, when available, some statistics. Most of the literature concerns the need to include people with disabilities in microfinance efforts but few studies provide evidence-based insights. Only Handicap International (2006) and Mersland *et al.* (2009) provide data to support their analysis.

All the studies, including those published in peer-reviewed journals, can be classified as 'expert opinion' and generally lack the theoretical rigour necessary in order to be classified as academic studies (Cramm and Finkenflugel, 2008). In particular, there is a considerable gap in the literature when it comes to empirical evidence of the market size, market served, exclusion mechanisms, and the effect of different intervention efforts.

The rest of this chapter proceeds as follows: in the next section we define microfinance and follow this with a brief history of microfinance. Later sections explain the reasons why poor people demand microfinance services and outlines the basics of savings, credit, insurance and money transfer services. The potential impact from accessing services is then explained and then the different providers of microfinance and their potentials are discussed. The barriers hindering disabled people's access to microfinance are presented and ideas are given on how the outreach to disabled people can be increased. The chapter concludes with a list of questions to stimulate debate and further research.

Defining microfinance

As will be outlined later in this chapter, the scope in terms of services, market segments and participating organisations involved in microfinance is increasing rapidly. Microfinance has therefore become a difficult term to define. Anything from member-owned savings and credit groups, where the members struggle to save ten US cents weekly, up to multi-million-dollar investments in huge banks, often serving medium-sized enterprises, are all referred to as microfinance. Nevertheless, it is important to start out by defining the term in order to structure the content of the chapter. Thus, in order to define microfinance we make use of the following short definition:

Microfinance is the supply of financial services to micro-enterprises and poor families.

This definition is roughly the same as that used by recognised books such as those by Robinson (2001) and Ledgerwood (1999). It is a narrow definition, but it serves its purpose when understanding the core of microfinance. This is important since many socially oriented organisations, like DPOs interested in microfinance, often tend to neglect the technicalities, and keep their main focus on the proposed positive outcome of microfinance. Three areas in the definition stand out:

1. financial services (what kind of financial services are supplied?),
2. supply (who supplies the services?),
3. micro-enterprises and poor families (which market segments are being served?)

The best known microfinance service is microcredit, which is limited to the provision of capital. However, savings, micro-insurance and money-transfer systems can be equally important services, as will be outlined later in this chapter.

Suppliers of microfinance are a broad group of organisations and schemes, ranging from small informal self-organised groups to multi-billion international commercial banks.

Regarding the market, in principle all poor people, whether they are disabled or non-disabled, micro-entrepreneurs or not, are a potential market segment for microfinance services. The long-term overall microfinance objective is to reach penetration rates for access to financial services similar to the ones experienced in several European countries. Here up to 99 per cent of the population have access to and make use of financial services, like savings accounts, money-transfer systems or housing credit.

The long-term objective is thus *access for all* (Helms, 2006) regardless of where people live, their poverty level or their physical or intellectual limitations. International development and financial service stakeholders know that to reach such an ambitious objective there is still a long way to go. However, several initiatives have demonstrated that it is possible to reach poor people with microfinance services, and also that people with disabilities can successfully benefit from microfinance. The noble objective of reaching all is therefore not an unreachable objective – and by sharing knowledge and lessons learned, the aim of this chapter is to provide the reader with information useful for increasing the outreach of microfinance to people with disabilities.

The history of microfinance

To understand microfinance one needs to know its history. First of all, microfinance is not a recent invention. For hundreds of years people of modest means have come together to organise savings clubs and small credit schemes (Bouman, 1995). In Europe the upper classes and authorities have been concerned with bringing financial services to the poor since at least the 16th century. As today, the objective then was also developmental.

Some of the historical pro-poor banking systems developed hundreds of years ago continue to be important banking organisations throughout the world. The savings banks, initiated more than 200 years ago, and the savings and credit cooperatives initiated 150 years ago were organised by people who had a real concern to help poor people escape poverty (Teck, 1968; Horne, 1947; Mersland, forthcoming). Similar to microfinance today, savings and credit were introduced as a self-help means to avoid poverty and to improve poor people's living conditions (Tucker, 1991; Rønning, 1972; Horne, 1947).

Modern microfinance as we know it today was born as a response to the frustrated development resulting from subsidised rural credit in the 1950s and 1960s (Adams and Fitchett, 1992). Over several years international donors and national governments invested billions of dollars in cheap credit to farmers. The results were disappointing. Corruption flourished, repayment of the loans was low and the overall development effect was negligible.

It was in this context that several pioneers started experimenting with new methods of issuing loans to poor people (mobilising savings or promoting other types of microfinance services were often not their initial concern). The Nobel Peace Prize winner Mohammad Yunus, who started issuing small loans to poor women from his own pocket in 1976, is (together with his Grameen Bank in Bangladesh) the most well known of the pioneers (Yunus, 2003). Others, however, had preceded Mr Yunus, including a student organisation in Recife, Brazil, which later became Accion International (www.accion.org), and David Bussau and



Financial inclusion is vital for full participation in the economy
Photo: Jenny Matthews/Leonard Cheshire Disability

Al Whittaker, who in 1971 started issuing small loans to generate jobs. Their initiative later became Opportunity International, one of today's biggest international microfinance networks (www.opportunity.org).

Until the early 1990s, most microfinance initiatives were driven by donor-funded NGOs concentrating upon providing credit to entrepreneurial poor people, often women. Since then microfinance has gained a much broader scope, including all types of financial services, not only credit, and several kinds of actors, not only NGOs, are participating in it. Today the importance of microsavings is considered by many to be more important than microcredit, and, increasingly, services like micro-insurance and systems for money transfer are becoming available for the poor throughout the world. Moreover, most international banks are now becoming involved in microfinance and more than 100 international funds are investing in MFIs (www.mixmarket.org). Today more than 500 million poor people, including children, have a savings account (Christen *et al.*, 2004) and more than 100 million poor families have received loans (www.microcreditsummit.org).

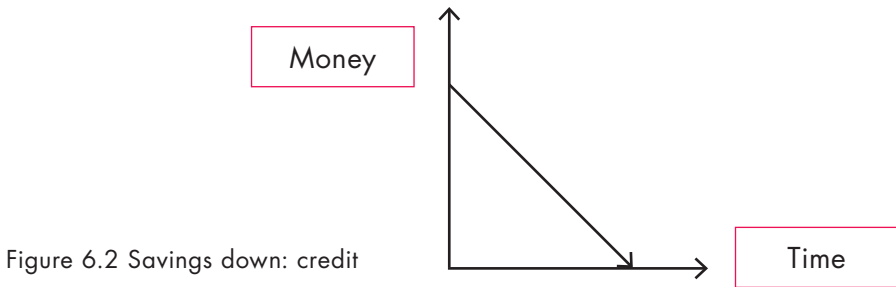
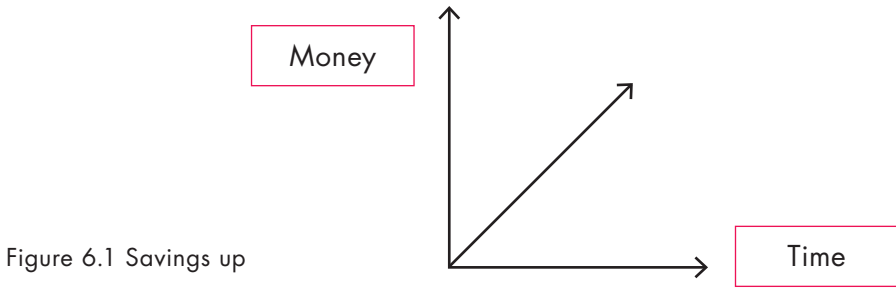
Why do people demand microfinance services?

So, why do people demand microfinance services, and why is it also important that people with disabilities get access to microfinance? To answer these questions we refer to Rutherford (2000), who provides an excellent, down-to-earth introduction to understanding poor people and their money. His main answer is that people need access to microfinance because they frequently need access to lump sums of money. Such lump sums of money are larger amounts that cannot be drawn easily from the daily income and require sacrifice and planning. According to Rutherford, lump sums of money are needed for:

- life-cycle events: dowries, funerals, religious feasts, rites, marriage, etc.
- emergencies: healthcare, loss of work, climatic incidents, livestock diseases, loss of home (e.g. bulldozing in slum areas), etc.
- opportunities (either business or other types of opportunities): to buy a piece of land or a TV, to take advantage of fluctuations in food prices (e.g. grains), livestock, machinery, as incentives to get hold of opportunities, start a business, increase a business, etc.

As indicated in this list, business opportunities are only one of several reasons why people need access to microfinance. A first lesson from Rutherford is therefore to understand that microfinance is not only about supporting businesses. Other events or emergencies may equally trigger a need for a lump sum of money.

There are two traditional ways of getting access to lump sums of money; either through savings or via borrowing. A second essential lesson from Rutherford (2000) is to understand that accessing lump sums of money through savings or credit is basically the same. Either you save beforehand (Rutherford call this 'savings up') or you save (repay the loan) afterwards (what Rutherford calls 'savings down'). In any case, it is the user who is ultimately responsible for paying the lump sum of money. This is illustrated in Figures 6.1 and 6.2.



As illustrated in Figures 6.1 and 6.2, the major difference between savings and credit is the time when a person gets access to the lump sum of money. By accessing credit a person immediately gets the money. For this advantage there is an associated cost referred to as 'interest'. In addition to the price involved with lending, another important 'disadvantage' of credit is the considerable risk associated with being indebted. If challenges arise when repaying a loan the borrower can easily become worse off than before. For economically marginalised people, including most people with disabilities, it can therefore be important to generate a good understanding of the concept of management of savings and credit before they actually access microfinance services.

The microfinance services

Nowadays, in addition to savings and credit, insurance and money transfers are also important microfinance services. In the following section we introduce important basic knowledge about each of these four services.

The basics of savings

Financially speaking, savings serve two main purposes. They enable future investments and they can smooth out consumption. For people who are poor, both of these are essential. The first gives access to lump sums of money that can be used for life-cycle events, emergencies or investment opportunities, while the second makes it possible to cover everyday basic consumption needs even when no daily income is available. The latter in particular is of utmost importance, because income for poor people tends to fluctuate considerably through the year. Particularly for farmers, the evening out of income between harvests is vital; during harvest, income and consumption can be abundant, while during the growing season, winter or drought many farmers depend totally on their savings, whether these are in cash, livestock or in grains.

Becoming disabled or discovering your child is disabled is normally associated with both a personal crisis as well as financial distress. Few people ever consider that one day they may become disabled. Often people do not even make financial plans for their old age. Probably the best preventive measure to avoid financial distress in case of disability is to learn to save.

Generally speaking, poor people want to save and in most cases they can save at least during some parts of the year. The claim that a person is too poor to save can in most cases be disproved (Rutherford, 2000). However, poor people don't necessarily save in cash. Saving in kind – like animals, grains and building materials – can be more common than saving in cash. Unfortunately saving in kind can be risky (e.g. animals can die) and, from an economic point of view, it is

inefficient. If people save cash, in a system where the cash becomes available for others during the time when the saver does not need the money, the overall economy will grow. This, however, requires the intermediation of money.

Such intermediation can take place in a bank, a savings and credit cooperative, an MFI or through a Rotating Savings and Credit Association (ROSCA) or other self-managed financial schemes. In any of these systems the money being borrowed is provided by the savers. People will, however, only use such financial systems if they can trust them. Due to the inefficiency and insecurity associated with many financial systems, poor people may be perfectly rational in not using available financial systems but instead continuing to save in animals or building materials. Furthermore, inflation may deflate the value of the savings and, especially in rural areas, often there is no financial intermediation system available.

In livelihood projects the aim is often to start up new business ventures. Experience shows that practically all new successful business activities involve some kind of personal savings. However, this knowledge is often not incorporated when planning livelihood projects. What many seem to forget is that starting a new venture that is only financed with credit is extremely risky. Rarely do more than 50 per cent of new business ventures succeed. However, regardless of success a credit must be paid back. Increased misery instead of economic progress is too often the result of loans to finance the start-up of new businesses. Poor people, and particularly vulnerable persons with disabilities, should therefore not be enticed into contracting credit to initiate a new business, without sufficient safety nets in place. Savings, help from families and friends and sometimes grants are needed when a new business is to be initiated.

When persons with disabilities initiate business ventures they follow the same financial pattern as others without disabilities. This was recently revealed in a study from Uganda among 841 disabled persons involved in business (NUDIPU, 2009).¹

Source of initial business investment	%
Personal savings	51
Support from families and friends	25
Sold a personal asset	17
Loan	7
Total	100

Source: NUDIPU, 2009

The numbers in the table above illustrate the personal sacrifice needed to get involved in business. Ninety-three per cent of the respondents depended on their own personal efforts or their own personal networks (families and friends) to enable their initial investment.

One important lesson from this study is the importance of promoting and cultivating a saving culture among prospective users of microfinance schemes. Furthermore, when a business is nurtured by the fruits of a person's own sacrifice the owner has strong incentives to protect and care for that business. The likelihood for success thereby increases.

The claim that disabled persons are too poor to save needs contesting. In the survey from Uganda already mentioned, 74 per cent of the respondents indicated that they saved regularly and, on average, they had one month's worth of income in cash deposits (NUDIPU, 2009). Generally, because of the risks and the costs associated with borrowing, most poor people prefer savings over credit (Hirschland, 2005; Rutherford, 2000). One therefore wonders why most donor efforts are for the outreach of credit and not for the promotion of savings. Strategies that promote savings before facilitating credit, especially for economically marginalised people, should be much more at the forefront of livelihood interventions. Poor people, including people with disabilities, *can* save and should be encouraged to save *more* in order to sustain their livelihoods.

Poor people demand the facility for both voluntary and compulsory savings. Most economic rationales indicate that consumers prefer flexibility, meaning voluntary savings that can be deposited and withdrawn whenever needed. However, many poor people are perfectly rational when they often indicate that they prefer compulsory savings that can only be withdrawn after some time. One of the reasons for this is that women who save often want outside pressure to protect their savings against the many daily claims for cash – for example, claims for food, healthcare or from their husbands, who often demand the money for immediate consumption (Anderson and Baland, 2002; Rutherford, 2000). When savings are compulsory, a person (often a woman) has the necessary argument to postpone immediate consumption in order to honour the compulsory savings contract.

Often poor people prefer participating in a group where they can save together with their peers (Eggen and Mersland, 2007). Gugerty (2007) and Ambec and Treich (2007) argue that the reasons why poor people save in groups is in order to cope with self-control problems. They argue that individuals simply cannot save alone since there are just too many claims on cash. Thus, poor people appreciate peer pressure. As many ROSCA participants put it 'you cannot save alone' (Gugerty, 2007) .



Group participation can promote saving
Photo: Sudhindra CN/Leonard Cheshire Disability

The extent to which people value the importance of having a place where they can save is illustrated in the following quote:

If you live in an urban slum or in straw hut in a village, finding a safe place to store savings is not easy. Bank notes tucked into rafters, buried in the earth, rolled inside hollowed-out bamboo, or thrust into clay piggy banks, can be lost or stolen or blown away or may just rot. Certainly their value will decline, because of inflation. But the physical risks are the least of the problem. Much tougher is keeping the cash safe from the many claims on it – claims by relatives who have fallen on hard times, by important neighbours, by hungry or sick children or alcoholic husbands, and by landlords, creditors and beggars. Finally, even when you do have a little cash left over at the day's end, if you don't have somewhere safe to put it you'll most probably spend it in some trivial way or other. I have lost count of the number of women who have told me how hard it is to save at home, and how much they would value a safe, simple way to save. (Rutherford, 2000, p. 2)

For most people saving is a habit that has to be learned. Regularly setting aside resources, even the smallest amount, that can be drawn upon when needed is essential, but difficult. However, there is very seldom a quick way out of poverty – sacrifices are needed. It is important to keep in mind that even if only a small amount can be saved every day or every week, over time it accumulates into important amounts. We all need to remember that 10 cents a day makes nearly 40 dollars in a year.

Furthermore, when poor people save together in groups their limited individual resources become important amounts when pooled together. For example, 20 persons each saving a dollar per week makes \$1,000 a year. Development experts and the donor community have repeatedly been impressed when they learn about the resources being mobilised by the poor themselves. Persons with disabilities are no exception. The above-mentioned study in Uganda revealed that 50 per cent had a savings account in a formal financial institution like a bank, an MFI or a

SACCO (savings and credit cooperative), and as many as 71 per cent indicated that they participated in a ROSCA or other type of informal financial group. Their responses when asked about the value of their savings are shown in the table below (NUDIPU, 2009).

Current balance in savings account	%
Less than 46 dollars	55
Between 46 and 184 dollars	29
Between 185 and 322 dollars	8
Between 323 and 460 dollars	3
More than 460 dollars	5
Total	100

Source: NUDIPU, 2009

The survey from Uganda reveals that it is time to rethink the entrepreneurial potential of people with disabilities and their savings habits. Even though it does not represent all disabled people (only those involved in some kind of business, including the tiniest vegetable garden or the smallest tomato vendor at the market), the survey reveals that disabled people understand the importance of savings, and that they do save. Even if the amounts of money involved may seem small to some, the effort behind this is undeniably admirable. It is that type of effort that in the long run helps people to escape poverty.

The basics of credit

Credit is still the best-known microfinance service. Microcredit is normally a short-term, high-priced (high interest rate) loan for working capital to the self-employed poor. The main reason for the high interest rate is because of the high cost of handling many small loans. The average global interest rate in MFIs is close to 40 per cent p.a. (Mersland and Strøm, 2009). Figure 6.3 illustrates the virtuous potential of microcredit.

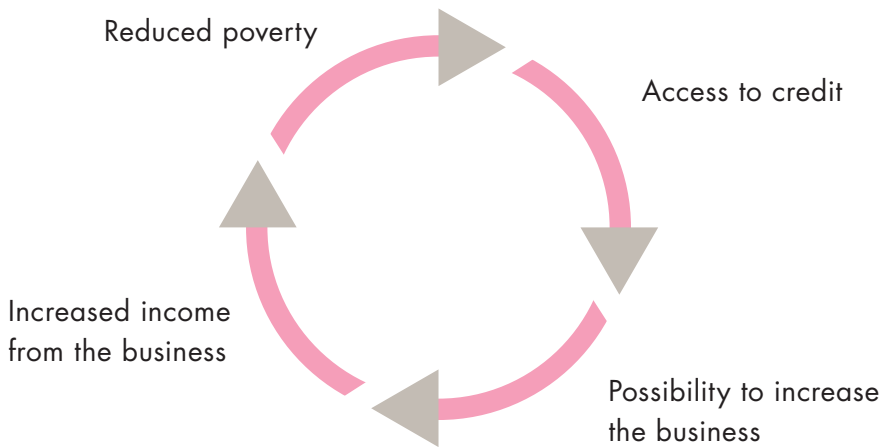


Figure 6.3: The virtuous circle of microcredit

First of all, Figure 6.3 indicates that a loan is something that should be used to *increase* a business (or expand into a new business line). Most poor people are farmers or are involved in other types of business activities. It can be a tiny garden where part of the harvest is sold at the market, a home brewery or selling charcoal in the street. A loan can fertilise such a business, or the existing income from the business can serve as a guarantee when a person wants to expand into a parallel business line (for example, to initiate some non-farm business alongside farming). As illustrated in Figure 6.3, access to credit can enable an increase in the total business size, which, in turn, makes possible an increased income from the business(es). Increased income reduces poverty, and people who are less poor get easier access to credit, thereby enabling them to have the continued possibility of increasing their outcome from business ventures. Access to credit can therefore be an important tool in reducing poverty.

However, a loan needs to be repaid. Thus, for those without repayment capacity, contracting credit can be a very risky strategy. 'Credit is also debt, and constitutes a risky strategy for the poorest and most vulnerable

to economic stress' (Montgomery, 1996, p. 292). Most poor people know of peers who ended up in trouble because they could not repay their loans. Imagine disabled people who are already struggling in their daily life; if they were to fall into repayment problems on a loan they could end up in total misery.

Another downside of microcredit is the high interest rates. The benefit of receiving a loan can easily be lost in the face of the costs of the loan. Too often, when calculating the real return on a business loan, it is revealed that the associated increase in income is less than the real interest paid on the loan. Access to credit is not, therefore, an easy prescription for escaping from poverty and, in fact, Hulme (2000) suggests that microcredit should be renamed 'microdebt'. Nevertheless, as illustrated in Figure 6.3, credit can be a powerful anti-poverty tool. What is important is to provide credit to the *right* people – those who can benefit and have the required entrepreneurial skills – and not to those who risk increased misery.

There are basically three different microcredit methodologies: individual lending, solidarity group lending and village banking. In the first, a customer must present collateral or guarantors to get a loan directly from the MFI. In solidarity groups, four to ten persons guarantee each others' loans. In village banking, members of a community – usually 15 to 30 people – are trained in operating their own little 'bank', where they borrow capital from the MFI, which they then lend on to the members.

An important characteristic of a professional MFI is that it should become financially sustainable. Only then will it be able to service the customers in the long run. However, most MFIs, even the more professionally oriented, are still not sustainable. On average the annual operating costs in an MFI are 31 per cent of its average loan portfolio (Mersland and Strøm, 2009). In addition there is the cost of capital (often above ten per cent) and the cost of defaulters (often around two per cent). Thus, in order to keep financially afloat most MFIs need to charge an interest rate above 40 per cent if they are not to depend on support from donors.

Often DPOs advocate special loan conditions for their members. However, for MFIs struggling to keep afloat, the offering of loans on sponsored interest rates is simply impossible. Furthermore, by asking for reduced interest rates the DPOs create a barrier between them and the MFIs, thereby hindering a real integration and dialogue between equal partners. It is important to respect the fact that sustainability-oriented MFIs simply need to cover their costs. It is also important to note that even if a 40 per cent interest rate *per annum* may be considered high, MFIs' interest rates are normally much lower in comparison with the rates charged by other money lenders (Robinson, 2001). Since repayment time is often short, and the outcome from a business activity can in some cases be very high, paying a high interest rate can be a lesser problem than accessing the credit itself.

Studies have confirmed that the benefit of gaining access to credit is higher for those already in business, and have shown that the benefit increases over time (CGAP, 2003). This means that one should not expect a great benefit from the first loan. It is only after repeated loans that significant impact can be expected. This understanding is now incorporated into the practices of most professional providers of microcredit who, if repayment has been as scheduled, offer repeat and increasing loan opportunities to borrowers.

Credit for business purposes is what most have in mind when microcredit is being discussed. However, microcredit can also be used for housing, education, healthcare or consumption. Often poor people value credit for these purposes rather than for their businesses. The pivotal question asked by professional providers of loans is not whether a loan is for a business, but whether the potential client possesses the willingness and the capacity for repayment. If willingness and repayment capacity can be proven, there should be no problem in allowing disabled persons, as any other persons, the right to borrow to cover the needs they themselves consider to be most important.

Who should borrow money?

Capital is a necessary resource for self-employment but cannot stand alone in ensuring the sustainability of a business. A range of skills as well as access to other types of resources are necessary for the efficient use of capital. Success in self-employment depends on the opportunity and ability to access markets and to compete successfully. The main problem facing many persons with disabilities is often not the lack of capital, but the lack of skills and additional resources needed to be successful in business. The necessary skills can be divided into the following three groups.

- Life skills: personal aptitude, talent and motivation for business, as well as savings habits and willingness to make personal sacrifices in the short run to achieve gains in the long run.
- Technical and vocational skills: how to raise goats, how to mould pots, how to bake bread, how to weave carpets, etc.
- Business management skills: purchasing, marketing, organising, calculating, controlling, networking, etc.

Figure 6.4 presents a matrix to aid understanding of when microcredit may be considered useful for a poor person.

Micro-entrepreneurs

		High	Level of access to skills	Low
Level of access to microcredit	High	Successful entrepreneurs Role models for others	Access to credit may have negative impact	
	Low	Access to credit will often have immediate positive impact	Need input of both capital and non-capital resources	

Figure 6.4: Market matrix for microcredit

As the matrix illustrates, only those persons with access to the necessary skills will benefit from accessing credit. So when a person does have the needed skills he or she should be provided credit, and if he or she already has access to credit, the person serves as a role model for others. However, as illustrated, if a person does not have the necessary self-esteem, business aptitude, vocational and business management skills to succeed in business, credit might well do more harm than good. The core of a business is not capital but skills and personal aptitude. It is therefore important to assess a person's level of skills before promoting credit as a developmental solution. The categorisation suggested in Figure 6.4 is thus an important exercise to carry out before determining the most appropriate type of intervention when wanting to improve the livelihoods of poor and disabled people.

The basics of insurance

Sometimes insurance can be the most appropriate way of accessing a lump sum of money when it is needed. Whenever people face death, accident, loss of crops, or a health problem they will always have a need for extra money. In these cases, insurance contracted beforehand may help to avoid economic stress.

During the past decade, micro-insurance has been put on the development agenda. It is obvious that poor people's need for life insurance, health insurance, crop insurance, etc. is enormous. Take, for example, crop insurance, where the assumption is more or less as follows.

Box 6.1 Crop insurance

Poverty is concentrated in rural areas, where agriculture is the main source of income. In sub-Saharan Africa, two thirds of the population are agriculturists living in rural areas (Todaro and Smith, 2006). The two factors most influencing the outcome of agricultural activities are the climate and the market prices on crops. Neither of these can be controlled by the farmers. Therefore, in order to invest more wisely in agriculture farmers need access

to insurance schemes such as rainfall insurance and guaranteed minimum prices on crops.

Few such insurance types are available – however, they do exist, for example in Malawi, where Opportunity International is partnering the World Bank to provide rainfall insurance to local farmers.²

Increasingly, MFIs offer life insurance attached to their loans. In these cases a loan will be completely written off if death occurs while repaying the loan. A few MFIs also offer disability insurance attached to their loans. In these cases the outstanding loan balance will be written off if the client becomes permanently disabled before the final repayment.

The need for designing and promoting disability insurance as a preventive mechanism against economic distress has generally still not entered the standard practice of livelihood interventions. With the increased emphasis on micro-insurance we consider that it is now time to get this important policy issue on the agenda. Economic misery is too often a consequence of becoming disabled. Making disability insurance widely available among the poor could be an important measure to modify economic distress when someone becomes disabled.

The basics of money transfer

With increased national and international migration and trade taking place at regional, national and international level, most people – even the very poor – are increasingly in need of systems where money can be transferred in a safe and convenient way at a reasonable cost. Today money transfers from guest workers account for three times the total foreign aid provided by OECD countries.³ Unfortunately some of the money-transfer systems available are unsafe – for example, sending cash with friends or family members – or are costly, sometimes with charges of more than ten per cent of the amount transferred. However, increasingly more convenient and efficient money-transfer systems are becoming available. For example, in some countries, such as Kenya, it is today possible to send money via mobile phones.

Some people with disabilities cannot work and so depend on support from others. For them, access to an efficient money-transfer system that makes it easy to receive support can be very important indeed. As technology advances and it becomes easier to wire money to loved ones, we expect that those disabled persons who totally depend on the support of others will increasingly receive money from their families and friends in such ways. It will also become easier to organise public cash-transfer systems for targeted groups, for example some disabled people, and we expect to see more of such systems in the future (Gooding and Marriot, 2009).

The impact of accessing microfinance services

The promotion of microfinance has become an important development tool due to the likely positive impact on those who will then get access to financial services. It is obvious that savings and insurance provided by safe, convenient institutions at a reasonable price will have a positive impact on the users. It is also obvious that access to efficient money-transfer systems can be positive. However, some fear that a potential dependency culture will develop and so question the disincentive to work this might create (Mersland and Thøgersen, 2009). As money-transfer systems rapidly develop and cash-transfer schemes become more widespread, we consider it important that dedicated studies are carried out on how this new situation affects the livelihood and the empowerment of disabled persons.

The impact of accessing microcredit is widely discussed in the literature and is the research topic of most interest within microfinance (Littlefield *et al.*, 2003). Generally speaking, most studies identify a positive impact from access to microcredit, with improvements in business stability or growth and in household economic welfare. However, these improvements are often not major, and frequently contracting credit can lead to increased misery for individuals and their families. It is therefore of the utmost importance that the prevailing socio-economic conditions and potential impact on the target group are carefully considered before initiating interventions that solely promote access to credit.

Lack of transparency is a serious problem in the microfinance industry. All too often there are hidden costs related to savings accounts or contracting a loan. Furthermore, microcredit and micro-insurance contracts can be difficult to understand, and the transfer of money is not always as convenient as claimed, with the costs involved often surpassing ten per cent of the amount transferred. There is therefore a considerable need for consumer education in this area. Similarly there is a need for more transparent providers of microfinance⁴. Finally, more 'truth in advertising' is needed. Microfinance is important and can contribute to development, but it is not a panacea; as we have repeatedly stressed in this chapter, in some cases microfinance, especially microcredit, can have negative impact on its customers.

There is one other effect of accessing microfinance that is seldom discussed in the literature. That is the effect on a person's self-esteem. Being trusted by a credit company or having been able to steadily save money can totally change a person's self-respect. For many disabled persons this is of absolute importance, as explained by Shahidul Haque in *Social Assistance and Rehabilitation of the Physically Vulnerable in Bangladesh (SARPV)*:

Credit is acceptance, hope, honour and confidence. It is not easy, rather much harder to attain acceptability, honour, trust and confidence from someone's counterpart. Someone has to be committed to achieve those. Credibility and credit go together. Credibility is the only factor to get credit. So, it goes to those who have credibility, who deserves it, who can possess it and above all who can uphold it.' (Shahidul Haque)⁵

We believe that access to credit and the accumulation of savings can indeed help to boost a disabled person's self-esteem. We thus welcome systematic project efforts as well as rigorous research to study the self-esteem effect from accessing microfinance.

The providers of microfinance

Providers of microfinance can broadly be divided into three groups – specialised providers, different types of savings and credit groups and credit components or revolving funds operated by non-specialised providers. In what follows we introduce each of the three groups and assess their opportunities and challenges in relation to persons with disabilities.

Specialised providers

Specialised providers are formal, legalised organisations whose core – and normally only – activity is to offer financial services to members and clients. Some specialise in microfinance, like MFIs, while others may offer microfinance alongside traditional financial services for other market segments. For example, Ecuador's largest bank, Banco de Pichincha, also offers microfinance through its Credife programme.

Being a specialised provider brings several benefits. When operations are concentrated and specialised, communication with customers, employees and other stakeholders becomes easier. This can reduce transaction and operational costs. CGAP (www.cgap.org) is a Bank attached centre that has been established in order to disseminate information to improve the professionalism and sustainability of the specialised providers.

Specialised providers of microfinance differ a lot in their ownership forms. They can be incorporated as NGOs, or be financial companies, banks or SACCOs. Some are small and serve only a few hundred customers, while others are large, reaching out to millions of clients (e.g. Grameen Bank). Together with the MFIs, in most markets SACCOs are the most important providers of microfinance; they are owned by their members and exist in thousands across all continents. Most SACCOs are small, servicing only a few hundred members in rural areas, but some serve thousands of members, including some in the cities.

In the NUDIPIU study in Uganda referred to earlier, the respondents were asked where they kept their savings. The following table shows their answers.

Where do you save?	Numbers
SACCOs	28%
ROSCAs	21%
Commercial banks	16%
MFIs	13%
None	22%
Total	100%

Source: NUDIPU, 2009

This Ugandan survey underlines the fact that in addition to keeping the savings 'underneath the mattress' (22 per cent), disabled people, alongside other poor people, tend to prefer SACCOs and ROSCAs when entrusting their savings. There are basically two reasons for this: first, because MFIs and banks often concentrate their efforts in urban areas and not in rural areas where poor people tend to live and, second, because MFIs and banks often show little interest in reaching out to people who are just starting to get used to financial services.

Even if it is against the Consultative Group to Assist the Poor's (CGAP, 2004) recommendation, some MFIs are able to successfully combine the delivery of microfinance with other services like business training. For example, BRAC, a successful Bangladeshi MFI servicing millions of clients, refuses to specialise and continues to offer microfinance alongside training and different types of social services.

BRAC argues that since poverty is multidimensional, providing credit alone will not bring about much development for the poorest people (Halder, 2003). Many disabled persons need to improve their skills and knowledge in order to improve the outcome of their business ventures. The MFIs providing additional services alongside microfinance could

thus potentially become important partners in improving the livelihood of disabled people. However, there are few MFIs that do not specialise, and several of those that provide additional services are not sustainable and too often deliver low-quality financial services (Lensink and Mersland, 2009). As a consequence, skills training and microfinance will normally need to be provided by separate organisations. Coordination between the different providers is therefore important.

Specialised providers aim to be financially sustainable. Thus, the pivotal question when offering credit is whether the potential clients possess the willingness and the capacity to repay a loan. All other arguments fail if this cannot be proven. Arguments such as ‘MFIs “should” service disabled people because they are poor or because they have impairments’ will normally not convince a professional MFI. Moreover, to reduce credit risk, specialised providers tend not to provide credit for start-ups, and the repayment capacity is normally calculated based on existing income streams before contracting a loan. Thus, in order to convince specialised providers that they should start servicing disabled people it is important to present this as a market opportunity. A shift in argument is needed: from presenting disabled people as ‘needy’ to presenting them as resourceful entrepreneurs.

Very few MFIs or other specialised providers are today consciously targeting disabled clients (Mersland *et al.*, 2009; Handicap International, 2006). Nevertheless, most MFIs have some disabled clients among their customers, but normally fewer than one per cent (Handicap International, 2006). In a recent survey carried out by the Association of Microfinance Institutions of Uganda (AMFIU), 16 MFI branches were asked to report the number of disabled loan customers they had. The survey results showed a range from 0.24 per cent to 2.18 per cent of disabled customers; on average 0.68 per cent of the loan customers were disabled people (AMFIU, 2009).

The AMFIU (2009) study confirms a former study in Uganda, which found that 0.65 per cent of the clients of larger MFIs were disabled. However, in that study, reported in Mersland *et al.* (2009), it was also found that MFIs could be easily persuaded to take on more people

with disabilities as customers. Thus, less than a year after having been informed and motivated in a short training session, the same MFIs now reported that one per cent of their customers were disabled people (Mersland *et al.*, 2009). The numbers are still small, but a 50 per cent increase (0.65 per cent to one per cent) is significant and demonstrates that changes are possible and not necessarily difficult. It is also important to keep in mind that one per cent of the client base in an MFI with thousands of clients adds up to several hundred people with disabilities being served. Thus, if low-cost information efforts are what it takes to persuade an MFI to increase its outreach to disabled people, it is essential that this is done. Nonetheless, even if every MFI goes on to have one per cent of its customers as disabled people, there is still a long way to go before all disabled people have access to microfinance.

Self-help savings and credit groups

The world's most commonly used financial systems for poor people are different types of groups, often referred to as ROSCAs, where the members regularly, often weekly or monthly, pool their savings or contributions and rotate these as grants or loans among members. The groups normally consist of 10 to 30 members and are organised by the members, either collectively, or by one or a few of those predominantly involved.

These groups have existed around the world for centuries, and have different names in different countries, like Merry Go Round in Kenya, Tontines in West Africa, Self-Help Groups in India and Cadenas in Ecuador. Many refer to the groups as ROSCAs, while others simply call them 'self-help groups' (SHGs).

These traditional schemes represent an efficient banking system at the community level, where members can easily save and periodically receive a lump sum of money (Bouman, 1995). In principle, a ROSCA is closed down when each member has received his or her pot of money. However, in practice many (perhaps most) ROSCAs continue opening new rotating rounds, and some accumulate the savings and offer

them to members as loans instead of free contributions. These ROSCAs are sometimes referred to as accumulating savings and credit associations (ASCAs) (Bouman, 1995). Thus, many ROSCAs are kept intact for several years with the same or increased capital.

It is unlikely there are two identical ROSCA set-ups in the world. Nevertheless, there seem to be some fundamental conditions that make a ROSCA work over time.

- Social connectedness. This means that the members will normally be known to each other and belong to the same social strata, community, and social group (e.g. ethnic, religious, etc.). When the members are socially connected to each other it is more difficult for them to default on payments.
- Self-selection of members. The group as a whole or the leader(s) are the ones who decide who can join a ROSCA. If membership is imposed by others, such as donors or external agents, the group will weaken.
- Leadership. ROSCAs tend to have strong leaders who keep the group intact and are able to ensure that the members follow the rules.

Even if ROSCAs are popular they often encounter some common problems, like the following.

- Loss of savings. Many participants have experienced losses when participating in traditional ROSCAs. Before they receive their round of money the group simply disintegrates. An example from Kenya is as follows: 'The usual form of cheating is for a new member to come to a merry-go-round (the local name for a rosca), and ask for number 1 or 2 because they have an emergency ... And then, they stop contributing. (...) There are many cheaters like that, about half of the population! Some of them are well known, and still, some groups fail due to cheating.' (Anderson et al., 2003, p. 3).

- Elite capture. This is the situation when leaders of the ROSCA turn it into their personal business. If this is understood and responded to by the members from the beginning, it is not necessarily a problem, but too often leaders enrich themselves at the cost of members without the members' knowledge.
- Theft. Pure theft can happen either in the form of a person (normally a leader) who simply appropriates available cash, or by a member who deliberately stops contributing after having received his or her round of money.
- Inflexible savings and credit design. The savings and credit design in ROSCAs are generally inflexible and only fulfil the need of the participants to a minor degree.
- Exclusion of vulnerable members. Self-selection of members facilitates a continued practice of exclusion in the local communities. The more vulnerable, like people with disabilities, are often excluded from participating in ROSCAs.

Increasingly, donors are becoming aware of the traditional ROSCA systems. As a consequence the creation and mobilisation of self-help savings and credit groups is becoming more popular (Allen, 2006). The reasons for this are mainly that:

- such groups are based on savings
- such groups are driven and owned by the people themselves and make use of their own resources, both financially and socially
- such groups help develop both financial and social capital
- such groups can be cost efficient and can reach more rural areas and poorer target groups
- such groups use a flexible model and the groups can be used as platforms for the delivery of other development services
- donors believe that the weaknesses of the ROSCAs can be balanced with the help of proper training and the introduction of transparent leadership and money management systems.

When designing development programmes, donors and stakeholders often want to influence the makeup of savings and credit groups. Some, inspired by principles of equality and inclusion, would like to mix people from different social strata, ethnic groups, religions or disabilities. However, savings and credit groups need to balance a fine line when such values are introduced from the outside, and there is a considerable risk that the groups will end up having an externally driven design with a minimum chance of long-term survival. The internal cohesion of a credit and saving group is the primary element that can ensure its own sustainability, and efforts should be made to support the creation and development of groups that have strong bonds between the members.

For the enhancement of disabled persons' livelihoods the promotion of savings and credit groups can be of particular importance, since these schemes can allow for a more flexible and integrated approach, allowing outreach to vulnerable groups like disabled people. Compared with MFIs, the savings and credit group methodology can reach out to poorer target groups and help enhance social capital (Eggen and Mersland, 2007). For a savings and credit group to become sustainable it is of utmost importance that the money management, the leadership and the savings and loan operations are properly organised. Any other inputs to a group, like literacy or enterprise training, will be made in vain if the groups are not properly organised.

Programmes promoting savings and credit groups often have a credit component where the groups are provided with additional capital, either as loans to some of the members or as a loan directly to the group, which can be used to lend-on to members. These inputs give the members the possibility of accessing bigger loans and investing in larger business ventures. However, experience shows that access to capital from the outside creates a 'credit focus' in the groups, reducing the members' incentives to save, and often creating governance and ownership challenges. As a result, outside funded groups tend not to be sustainable (Murray and Rosenberg, 2006).

A major challenge for disabled persons is that community members decide on whom to include as members in a savings and credit group. This normally leads to the exclusion of people with disabilities if community awareness has not been raised on disability issues (Thomas, 2000). Particularly in donor-funded programmes for the promotion of savings and credit groups, it is important to include a conscious strategy on how to secure the inclusion of marginalised people in community initiatives. In this regard a recent initiative in Uganda is interesting. Here, with the help of the FAHU foundation in Denmark, the National Union of Disabled People of Uganda (NUDIPU) is partnering with CARE (a leading humanitarian organisation fighting global poverty) to influence implementing partners in charge of mobilising savings and credit groups in the SUSTAIN programme to ensure that disabled people are included as members.

Even if people with disabilities often tend to be excluded from participation, the ROSCAs continue to be the number one financial system for persons with disabilities in many (probably most) contexts. In the NUDIPU study in Uganda, 71 per cent of the respondents indicated that they were members of a ROSCA or a similar association (NUDIPU, 2009).

However, instead of integrating into regular community groups, people with disabilities often organise their own savings and credit groups. The reason for this is not only that they are excluded from other groups, but also because they feel more at ease and can reinforce their self-esteem and advocacy through such groups (Handicap International, 2006).

Credit components operated by non-specialised providers

Non-microfinance specialised NGOs, religious organisations, CBOs and DPOs often operate different types of revolving funds and credit components. For example, a Handicap International (2006) study revealed that 83 per cent of 58 surveyed DPOs operated their own credit scheme, wherein all of them had some sort of special loan conditions. Furthermore, they often tended to be less strict in client screening and enforcement of repayments.

The loans in this type of scheme are frequently offered in combination with vocational training and business skills training, and are often only provided once. Thus, these programmes are rarely sustainable. Of the 48 credit schemes supported by DPOs surveyed in the Handicap International study, none were sustainable (Handicap International, 2006).

There are several challenges related to credit schemes operated by non-specialised providers.

- Several studies have indicated that the impact from one loan only is limited. People need access to permanent financial services (CGAP, 2003).
- Operating loan services over time is difficult and requires professional management of a type that is normally different from managing a DPO.
- These programmes are often unable to select beneficiaries who have a true interest and talent for running their own businesses. Too often the selection of beneficiaries is based on friendship or membership, and not on business aptitude.
- The cost of operating such a programme is generally disproportionately high in relation to the outcome achieved. Seldom does such a programme reach more than a few hundred beneficiaries (Handicap International, 2006).

For these reasons, the provision of credit by non-specialised providers should, according to several observers, be discontinued (Murray and Rosenberg, 2006; Dyer, 2003). Others, however, argue that since savings and credit groups as well as specialised institutions tend to discriminate against disabled people there may still be a need for DPOs to provide credit to their members (Cramm and Finkenflugel, 2008).

In most cases we would disagree with the recommendation that a DPO start providing credit. Instead, we would advocate a linkage strategy where the DPO partners with a professional bank, SACCO or MFI. Such a partnership may bring along several benefits, like the following:

- a bank, MFI or SACCO may provide other types of financial services, like savings and money transfer, and not just credit
- the quality of service may be better
- the sustainability of service will in most cases be better
- repeated loan opportunities are available
- screening of potential clients is based on professional criteria to assess creditworthiness and potential entrepreneurship and not on friendship or membership
- potential conflicts within the DPO related to the ownership of funds is avoided
- disabled people are mainstreamed as customers of existing service providers, which is more in line with current disability policies and human rights approaches.

In order to gain access to the professional provider it is of utmost importance that the DPO understands the 'rules of the game' of an MFI. The first thing a professional MFI will (and should) ask is: 'What's in it for me?' Negotiating successful partnerships often requires in-depth knowledge of microfinance. In many cases a DPO will benefit from involving technical expertise in the negotiation.

Barriers excluding people with disabilities from accessing microfinance

So, why is it that people with disabilities tend to be excluded from microfinance? Building on Simanowitz (2001), Mersland *et al.* (2009) laid out five barriers, each of which has the potential to exclude access by people with disabilities to microfinance services. The barriers are:

- exclusion because of low self-esteem (sometimes referred to as 'self-exclusion')
- exclusion by other members
- exclusion by MFI staff

- exclusion by service design
- exclusion because of the disability itself (physical and/or informational exclusion).

We will look at each of these in a little more detail.

Exclusion because of low self-esteem

People with disabilities often experience exclusion and rejection. The accumulation of such repeated negative experiences produces secondary incapacities like lack of self-esteem, which often lead to self-exclusion from public and private services such as microfinance (Roeske, 2002). Furthermore, some persons with disabilities and their families may have the expectation of constantly receiving charity or special conditions (Thomas, 2000). Such an attitude is incompatible with sustainable MFIs, SACCOs or ROSCAs, and will naturally lead to exclusion from services and membership.

According to a Handicap International study (2006), as many as 53 per cent of MFIs considered low self-esteem to be the main barrier hindering disabled people in accessing their services. Mersland et al. (2009) also considered lack of self-esteem to be the main hindering factor.

Improving people' self-esteem is not easy and calls for innovative and integrated approaches. Some ideas and principles for stakeholders involved are as follows:

- providing the opportunity for learning by doing
- starting something small and manageable where a person can experience success
- integrating groups of both fellow disabled persons as well as participation in mixed groups with both disabled and non-disabled members
- learning skills needed to manage a business
- being familiarised with the existence/practices of MFIs through visits and information by them.

The NUDIPU (2009) study found that persons disabled at birth or during childhood were the poorest and the most excluded from accessing microfinance services. Thus, parents' upbringing of a disabled child is clearly very important. Learning to be independent and developing a sense of self-esteem happens mainly at home and during childhood.

Exclusion by other members

Self-help savings and credit groups, ROSCAs, etc. are based on self-selection of members. Moreover, most MFIs use different types of group methodologies for microcredit, like solidarity groups or village banks, where members themselves decide whom to include in the group. A core element in group methodologies is that all members are jointly liable for each individual's loan. The poorer and the more vulnerable community members therefore tend to be excluded from such groups by 'stronger' persons. There are also studies showing that poorer persons who do join a group have a shorter membership time than average (Montgomery, 1996). However, it is not only the level of vulnerability that decides whether or not to include a member: local stigmatisation or the perceived risk posed by persons with disabilities becoming members in groups also often discourages community members from including them.

The AMFIU (2009) study found that according to the MFIs' staff they considered the group methodology to be the main hindering factor. Savings and credit groups cannot, however, have persons with disabilities imposed upon them as members, and nor can solidarity groups or village banks. Awareness raising of community and group members is needed, which requires work at policy levels as well as at the grassroots level. Furthermore, the identification of successful disabled persons can serve as role models both for fellow disabled persons and for community members.

Exclusion by staff

Due to attitudes and prejudices within society, the staff of an MFI, bank or SACCO will often deliberately or unconsciously exclude persons with disabilities. Personnel often lack the necessary experience and training

to distinguish between a real and a perceived credit risk. Often a credit officer is not able to see through the disability to recognise the real abilities of a person with a disability. Furthermore, if an MFI practises any form of group methodology there is also evidence that 'staff pressure' triggers 'group pressure', leading to exclusion of poorer members (Montgomery, 1996). MFI staff, and particularly their credit officers, are therefore a core target group to be influenced. However, if such influence is to be effective, it must be backed by MFIs' top management.

Experience has shown that staff members *are* willing to be influenced. A general response when asked why they serve so few disabled customers is: 'We haven't thought of this' (Mersland, 2005). However, a major challenge is the time MFI staff have available in which to be influenced. Being an MFI manager or credit officer is very time-consuming and they are seldom willing to dedicate much time in order to be informed and influenced about disabled people's concerns. It is therefore important to find ways of influencing the staff that are not time-consuming. At the same time, one must expect to have to keep up the influencing efforts over time.

Motivating the MFI to identify existing and successful disabled customers can often be an effective way of gradually changing MFI staff's attitudes. Overall, it is important to present customers with disabilities as a potentially important market segment for the MFI. At the same time, providing more accessible services would also help the MFI to practise the double bottom line (achieving financial and social results) that is becoming increasingly important for MFI donors and investors. Partnering with DPOs and servicing more disabled people can thus help strengthen the MFI's financial results as well as its social results.

Exclusion by design

The design of the savings and credit services may create obstacles not only for disabled persons, but for vulnerable groups in general. Savings accounts, for example, often require an opening balance of US\$10 or 20, amounts that can easily be one month's income for a person,

and several dollars may be needed for the monthly cost of maintaining the account. Similarly, accessing credit may require up-front savings or financial endorsements that many disabled persons do not have access to. Moreover, the credit methodology is often standardised and inflexible, thereby hindering persons with disabilities from participating. For example, mobility challenges may make weekly repayments a greater obstacle for persons with disabilities. Also, since credit history in microcredit in many ways replaces formal collateral or guarantees, it becomes difficult for persons with disabilities to get started when most credit officers are not able to distinguish between the disability and personal skills and character for a disabled person who has not received credit before.

Since type of disability varies considerably and since the overall disability segment is, after all, quantitatively limited, it will seldom be cost-efficient for an MFI to develop specialised products for disabled clients. A better alternative is to develop products that are accessible and 'friendly' for vulnerable groups in general. In such efforts an MFI can benefit from including disabled clients in their consumer panels. If a product is found to be attractive for people with disabilities it will most probably be attractive for most vulnerable groups. Moreover, if an MFI can demonstrate its ability to include disabled customers, non-disabled potential customers will probably understand that they can also be included. After all, self-exclusion from services is probably the main reason why vulnerable groups in general do not access microfinance services.

Exclusion because of physical and informational barriers

An impairment in itself can be a major barrier to the access of offices or information. MFIs give information in both verbal and written form, which is of course inaccessible to many deaf or blind persons. Branches are located far away from people's homes, and to enter the premises stairs often have to be climbed and crowds have to be negotiated. However, these are all barriers that can be overcome, often at not too great a cost, and that can enable the creation of physical environments accessible to everyone.

An example from Uganda

The following table summarises how a project in Uganda has systematically tried to address exclusion mechanisms.

Exclusion mechanism	Relative importance as experienced in the project	Major activities in the project to reduce the barriers
Exclusion stemming from low self-esteem	Very high	Training of entrepreneurial persons with disabilities on the aspects of business, microfinance and savings. Bridge-building between disability and microfinance 'communities' and the active use of role models.
Exclusion by other members	High/moderate	Lobbying efforts in the government, etc. Radio and TV talk shows.
Exclusion by staff	High	Training of MFI staff, particularly credit officers, and the sensitisation of MFI top management. Bridge-building between disability and microfinance 'communities' and the active use of role models.
Exclusion by design	High/moderate	Promoting the idea of <i>not</i> developing special products for disabled clients, but to involve persons with disability in the design of new products tailored for the needs of vulnerable groups.
Exclusion because of physical and informational barriers	High/moderate	Motivating MFIs independently to make their premises more accessible and to carry out outreach efforts in the disabled community. Lobbying towards MFIs, donors and authorities to make sure that all new branches are made accessible.

Source: Mersland *et al.*, 2009

How microfinance could be made more effective for people with disabilities

As we have seen, in most cases ROSCAs of various kinds represent the most flexible financial system. Advocating the inclusion of people with disabilities in their membership can provide an entry-point for economically marginalised people to start saving and to receive initial credit. Membership of these groups can enable the development of the financial management culture that is essential in order to move away from a condition of poverty. Also, the promotion of grassroots financial groups, consisting primarily of people with disabilities, can be a sustainable strategy that allows people with similar challenges to get together and share positive experiences on their road to sustainable livelihoods. Once these groups have reached a good level of maturity and have been able to generate more important financial volumes, their members can be motivated to join similar mainstream groups or to connect with other services providers to get access to more complex and demanding financial services. ROSCAs can therefore be a good breeding ground for economically marginalised people to develop confidence in financial management and to provide initial capital for the establishment and expansion of microenterprises.

In recent years, pressure has been increasing from the donor community to demonstrate the fulfilment of the social mandate of the MFIs towards poverty alleviation. Once MFIs have reached good financial ratios and have achieved some sound sustainability in their markets, they are increasingly being pushed to perform well in their social mandate too. There is therefore fresh interest from MFIs in exploring new ways of increasing their outreach to more economically marginalised customers and vulnerable groups.

The inclusion of people with disabilities, a social group rarely tackled specifically by mainstream MFIs, can represent an untapped potential customer base that strengthens their social performance. Many MFIs have ventured, with NGOs and other specialised agencies, to broaden their customer base to people with disabilities by increasing the awareness

of their staff on disability issues and improving the accessibility of their financial services. The benefits of these strategies are seen in their enhanced capacity to deal with a wider range of customers and in their more appealing social performance profile.

Recently conducted research (Handicap International, 2006) shows that, despite the great interest of DPOs in microfinance, current experience is characterised by poor sustainability ratios and marginal impact on the livelihood of their members. As non-specialised service providers, DPOs are in most cases badly equipped to manage the provision of microfinance to their membership. Evidence shows that better roles could be played by DPOs in facilitating access for their members to mainstream microfinance schemes, through support for raising awareness on disability and promoting equality of access with sensitive microfinance service providers and in monitoring social performance of existing microfinance providers.

Conclusions and unsolved puzzles

This chapter has presented the basics of microfinance and discussed the barriers hindering access by disabled people to microfinance services. In the text we have made several recommendations on how to increase disabled people's access to microfinance. We must, however, admit that the issue of microfinance and disability is still to a large extent an undiscovered research area, with many unsolved puzzles remaining. Clear guidelines and recommendations can therefore be difficult to put forward. Our main recommendation is therefore to continue and strengthen research efforts in order to understand better the issue of microfinance and disability. To stimulate debate and further research we present a list of questions that we believe are key to learning more about microfinance and disability.

Box 6.2 Key questions

1. To what degree are people with disabilities excluded from microfinance services? Do they actually tend to be, as we claim, more excluded than others?

2. How can MFIs, SACCOs and banks be influenced to take on more disabled persons as customers?
3. How can vocational training and access to microfinance be provided in partnerships between DPOs, MFIs and other actors? What would be the role of DPOs in such partnerships?
4. When are microgrants an alternative and how should microgrants be designed in order to secure the best possible entrepreneurial incentive for the person with disability involved?
5. How can DPOs and disabled people in general best be involved in the mobilisation of savings and credit groups, and how can such groups best combine disabled and non-disabled members?

Notes

1. The respondents in the survey have participated in business and microfinance trainings provided by the National Union of Disabled People of Uganda (NUDIPU). With the help of local NUDIPU members and public officials responsible for disability rehabilitation, all disabled persons with some kind of economic self-employment activity are invited to participate in the training.

2. <http://www.opportunity.org/Page.aspx?pid=787>
[Accessed 5 March 2010].

3. <http://www.oecd.org/dataoecd/40/3/35389786.pdf>
[Accessed 5 March 2010].

4. <http://www.mftransparency.org/> [Accessed 5 March 2010].

5. Shahidul Haque, <http://www.sarpv.org>
[Accessed 15 August 2008].

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