Microcredit for self-employed disabled persons in developing countries

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Input to donors, microfinance institutions, disabled people's organizations and advocates interested in increasing the outreach of sustainable microcredit to disabled self- employed persons in developing countries

"When we have money, they call us by our names, not by our disabilities"[1]

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Commissioned by:
Atlas Alliance[2]

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[1] Lizzie Longshaw, quoted in Lewis (2004).
[2] Atlas Alliance is the umbrella organization for the development aid of disabled peoples' organizations in Norway

ABSTRACT

Microcredit has become a popular instrument to promote economic empowerment among poor entrepreneurs, and is increasingly being recommended to improve economic rehabilitation among persons with disabilities. However, the majority of the advocates of microcredit for persons with disabilities seem not to be informed on the involved “rules of the game”. At the same time the microfinance community lacks information on disability issues. In this report we aim on closing the gap in knowledge and culture between the disability- and the microfinance communities. We apply resource based theory to analyze when microcredit for disabled persons is an appropriate tool and when it is not. We argue that asymmetric information between microfinance institutions and the disabled population is probably the main hindrance for increased penetration of microcredit services to disabled persons. We recommend disabled entrepreneurs with the necesarry resource base to be included as regular clients in mainstream MFIs or as regular members in self helping microfinance systems like ROSCAs. We provide lists of recommendations that are both easy to understand and to apply for MFIs, DPOs and donors. Due to the lack of theoretical and empirical knowledge available we see this report as a starting point and we advocate for increased research efforts within this field.

FOREWORD

Disabled persons constitute today an important target group for development efforts. At the same time microcredit has become an important and popular tool for enhancing development. However, when it comes to microcredit for disabled persons there is little knowledge available. Assessments and recommendation in this report is therefore to a considerable degree based on general economic, sociological and development theory. Further, existing recommendations and practices in the microfinance community, as expressed for instance by C-GAP[3] is used as a point of departure. When writing the report, the author has also attempted to take into account general recommendations on disability issues. Additionally, considerable input has been brought into this study through our own experience from many years in the field of microfinance.

We will encourage readers of this report to try out some of the ideas mentioned in this paper in addition to their own ideas and thoughts. It is important to reveal what kind of means that have an effect and document any new knowledge by for instance inviting researchers to accompany new ventures. Hopefully, this report can then be replaced by other more comprehensive and empirical based reports in the near future.

In this study we make use of the following definition of disability; *"substantial functional limitation of daily life activities of an individual caused by physical, sensory or mental impairment and environmental barriers."*[4]

We appreciate the considerable input that has been brought in to the report by Terje Berg Utby and personnel at the Atlas Alliance.

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[3] A consortium of 28 public and private development agencies working together to expand access to financial services for the poor (www.cgap.org)
[4] The National Council for Disability Act, (Act 14/2003), Uganda

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1. CONTEXTUAL BACKGROUND

1.1 Rationale for this study

Equalization of opportunities is according to the United Nations a right for persons with disabilities (UN, 1993). Disabled persons are therefore (Alter et al., 1994)an important target group for development efforts. However, even if most donor agencies express their priority towards the disabled population, persons with disabilities continue to be a low priority or wrong-treated target group when it comes to socio-economic integration (ILO, 2002, Lewis, 2004).

During the last decades microcredit has become an important and popular tool for enhancing development. The year 2005 has therefore been declared by UN to be the Year of microcredit. The question then arises; when, where and how should microcredit be promoted for the disabled population? This study aims on providing some insight into how to face this challenging task.

Already from the beginning of this report we will highlight our own position regarding how prior assessment and utilization of microcredit has been made. According to our view, there has been a tendency during the last years to see microcredit as a panacea and a magic formula for development among poor. Such a position reveals a lack of understanding of microcredit's pros and cons. We also believe that it reveals an underestimation of the enormous challenge of facilitating development for the billions of poor, particularly the disabled among them. In this study we will therefore highlight the need for a balanced and critical position when the issues involved are to be analyzed.

The promoters of the importance of targeting the disabled are generally social oriented individuals and organizations without comprehensive economic and financial knowledge. At the same time, the microfinance community – at least some of the practitioners and many of the most influential policy lobbyists like the "Ohio School" and C-GAP – often have an economic point of departure for their analysis. It is the aim of this study to bridge this gap in knowledge and cultures. Still, in this study we utilize a commercial approach when assessing microcredit for the disabled population. We therefore employ commercial terms and economical analysis in the report. For the readers coming from the traditional groups focusing on disabled persons' rights and development, this approach might be unfamiliar and in some cases even frightening. Nevertheless, we believe that if the disabled population is to be included as regular clients in microfinance institutions in the long run, this group must be assessed as a market segment based on economical rationale.

1.2 A prioritized target group for development efforts

"People with disabilities face numerous barriers in realizing equal opportunities; environmental and access barriers, legal and institutional barriers, and attitudinal barriers which cause social exclusion. Social exclusion is often the hardest barrier to overcome, and is usually associated with feelings of shame, fear and rejection. Negative stereotypes are commonly attached to disability. People with disabilities are often assigned a low social status and in some cases are considered worthless" (DFID, 2000, p. 5).

Hence, there are good reasons to have disabled people as a prioritized target group for development efforts. However, it often seems to be forgotten that disabled persons are not necessarily destitute. Many disabled persons take action to improve their own lives. Many have proven their capability to run businesses on their own account. Nevertheless there are still much to be done to secure that small enterprise schemes and microfinance institutions (MFIs), recognize this potential and actively seek to support its development (DFID, 2000).

People with disabilities, especially those with permanent limitation in their daily activities due to their disability, are in need of interventional strategies that can improve their condition on a permanent basis. General recommendations for interventions aiming at improved living conditions for disabled people do therefore highlight the importance of including disabled persons into mainstream private and public services and development actions (NORAD, 2002). Any intervention aiming at increasing the disabled population's access to microcredit should therefore focus on including the disabled into existing microfinance sustainable systems. According to our view, there are only two appropriate systems available, the institutional system and the self-helping system. These approaches are discussed in detail in chapter 6.

1.3 Between participation in economic growth and social protection

A common assumption about persons with disabilities is that they are economical inactive and cannot be expected to work. However, many working age persons with disabilities can and want to work, and do not wish to be considered “welfare cases”. However, Self-employment in developing countries can be harsh and many times, also for non-disabled persons, harmful for the health. Many disabled persons must take especially care of their health to avoid further aggravation of their disability. These considerations are particularly important to bear in mind when promoting self-employment for disabled persons living in countries with lacking efficient social security systems. Many disabled persons are in need of social protection, and we will warn against forcing or tempting disabled persons into types of self-employment that might be harmful for their future health. We will also warn against any attempt to utilize microfinance as a substitute for social policy. Most traditional social protection policies can not be replaced by microfinance.

1.4 Microcredit, only one of many microfinance services

This study is mainly about microcredit, but it is important to highlight that microcredit is only one of many financial services needed by the disabled population. Access to safe and convenient savings, money transfer systems and insurance facilities is probably as important as microcredit. For disabled persons we believe that such services are of particular importance. We have therefore included some basic and brief oversight on these services in annex # 1.

2. PEOPLE WITH DISABILITIES

2.1. Market size and characteristics

Disabled persons represent an enormous market. Global estimates of disability indicate that about 10% of a given population can be defined as disabled (World Bank 2002, as quoted in Dyer 2003). In some developing countries, up to as many as one of every six of the poor can be categorized as disabled. (Elwan, 1999). Further, more than 80% of people with disabilities live in developing countries.

Poverty and disability are often interrelated (DFID, 2000, ILO, 2002, NORAD, 2002). *"It is often noted that disabled people are poorer, as a group, than the general population, and that people living in poverty are more likely than other to be disabled"* (Elwan, 1999, p 1). However, this does not mean that all disabled persons are poor. Disabled persons are by no mean a homogeneous group. Persons with disabilities vary regarding to type and extent of disability, access to networks and resources, economic power and degree of being empowered. Further, disability does not only affect the person itself, it also affects the family, the networks and the surrounding in general. It is estimated that as many as 29% of all families live with disability (Elwan, 1999). This market size makes disabled persons and their families an interesting segment for all enterprises, particularly in this case for MFIs.

2.2. Categories of persons with disabilities

Persons with disabilities are as mentioned not a homogenous group. Nevertheless a classification based on a disabled person's ability to run a viable business and fulfill any repayment commitment, can be useful. For the purpose of microcredit for self-employed disabled persons, we chose to segment the market into five groups:

1. Persons with disabilities with existing viable businesses and with established access to microcredit.

2. Persons with disabilities with existing viable businesses, but without access to microcredit.
3. Persons with disabilities with existing, but still not viable (from a banking point of view) businesses.
4. Persons with disabilities without existing businesses, but with the necessary resource base[5] to run viable businesses
5. Persons with disabilities without existing businesses and without the necessary resource base to run viable businesses.

A classification like this will always be a simplification of the reality. A particular concern is related to the fact that subjective preferences will influence the classification. In worst case a classification as the one presented here can be used to further stigmatize the disabled population. Nevertheless, a classification is necessary to enable the design of efficient interventions, but this should go hand in hand with capacity building of the ones being responsible for the classification. In the following we provide some input for intervention strategies within each category.

Category 1: Persons with disabilities with existing viable businesses and with established access to microcredit.

At first glance one might think that this group should not be a core target group for interventions to increase outreach to the disabled population. We claim the contrary. This group is maybe the most important when it comes to changing the existing organizational culture in MFIs. This group can also serve as a benchmark for other groups and show other persons with disabilities that microcredit can be an efficient way to increase their income from their business activities. We therefore recommend any effort that can display the success of persons with disabilities holding microcredit loans.

Category 2: Persons with disabilities with existing viable businesses, but without access to microcredit.

[5] Resource base refers to skills, contacts, networks, access to market and capital etc. needed to run a viable business. More on this in chapter ….

This group should benefit from access to microcredit on equal terms with able persons. Throughout this report we present the mechanisms hindering equal access as well as we present how these excluding mechanisms can be confronted.

Category 3: Persons with disabilities with existing, but still not viable (from a banking point of view) businesses.

This is a group that must be handled with much care. MFIs aiming on their long term sustainability should only be dealing with clients running viable businesses. For persons in this group a loan can easily end up in a debt trap where the business fails, but the loan will still have to be repaid. MFIs should therefore not be forced or tempted to give loans to persons with disabilities in this group. However, one must also understand that accessing the viability of a business and the repayment capacity of a potential client is not easy. Due to misjudgments or prejudices many persons with disabilities can easily be categorized into this group while actually belonging to category number two. A common mistake when screening persons with disabilities is that the credit officer may fail to assess the total resource base of the potential client. Inexperienced evaluators may have difficulties in assessing the real abilities of a disabled person. Hence, evaluators must be trained to see through the disability to be able to see the ability of an entrepreneur.

Another potential mistake is the inclusion of clients from this category into sustainability oriented MFIs. This is frequently promoted by donors or advocates of persons with disabilities' rights with limited knowledge regarding microfinance. This can both put the sustainability of the MFI in danger at the same time as it may lead the persons with disabilities into a debt trap. For this group we therefore recommend a throughout assessment to verify if the persons with disabilities really belong to this group, and if this is so, that other interventions like for instance training in business skills or access to equity capital are considered.

Category 4: Persons with disabilities without existing businesses, but with the necessary resource base to run viable businesses

This category is definitely interesting when it comes to making a living from self-employment. That does not, however, mean that this category should necessarily be a target group for microcredit. From a sound financial point of view debt is normally for working capital for existing businesses or assets that can be collateralized. Research also indicates that the probability of survival is rather limited for new organizations in general (Freeman et al., 1983). Stinchcombe (1965) labeled this phenomenon the “liability of newness,” and argued that new organizations’ general resource poverty, lack of legitimacy, and weak ties to external actors provide them with reduced capacity when competing with established players. This “liability of newness” is also well known in the informal sector. MFIs should therefore be very conservative when dealing with start ups. Credit to this category should at least partly be backed with income from sources beside the new business. If this is not possible we recommend strategies aiming on injecting equity capital into the new businesses or guarantee schemes that can cover part of the risk involved for MFIs willing to serve this group.

Category 5: Persons with disabilities without existing businesses and without the necessary resource bases to run viable businesses.

For this group, at their current existing resource base, self-employment is not recommended. For many in this group self-employment is without reach. Nevertheless for some in this group self-employment can be within reach if their resource base, particularly their networks, can be mobilized.

2.3. Income options for persons with disabilities

Persons with disabilities, as others, can earn their income from employment or self-employment.[6] So far, it seems that most “think tanks” on economic rehabilitation for the disabled have concentrated their efforts on employment promotion (ILO, 2002, UN, 1993). We consider that this bias towards employment promotion is due to the fact that most fights for the equalization of rights have been fought in developed countries where employment is more common than self-employment. In developing countries, however, self-employment

[6] In this report we don’t consider income from investments, gifts, inheritance or social security systems.

is considerable and in many countries more than 50% of the work force will be self-employed. In particular for the disabled in developing countries self-employment is often the only option due to exclusion mechanisms in the society that hinder the employment option.

2.4. Ownership and self-employment

All over the world poor people have been grouped together to form cooperative businesses. This has also been the case when it comes to disabled persons. We admit that in some cases a business owned and operated by disabled persons together can have a marketing advantage in some specific markets. However, our experience is that such enterprises, if not very well connected,[7] will rarely be an economic success. A cooperative owned enterprise can in some specific situations be a competitive advantage, but in most cases a private owned enterprise will outperform the cooperatives due to the personal incentives involved (Hansmann, 1996). We therefore recommend that disabled persons, when assessing self-employment, are generally motivated to run their private owned business. If others are to be involved, these should be trusted persons that can benefit the enterprise by means of competences, networks, reputation etc.

[7] Connection can be with exporters, distributors, politicians, important business people, expatriates etc. In such cases a cooperative business owned and operated by disabled persons can be a success, but be aware of how vulnerable such connections might be. The enterprise will easily fall apart if the connection is broken.

3. THEORETICAL FRAMEWORK

Though environmental influence on organization survival is well documented (Aldrich, 1979, Sandberg and Hofer, 1987, Freeman et al., 1983, Hannan and Freeman, 1977, Gartner et al., 1998, Cooper, 1993), research has shown that successful management of internal resources can significantly improve venture performance and the likelihood of survival (Shephard et al., 2000, Boeker, 1989, Hambrick et al., 1996, Hambrick and Mason, 1984, Smith, 2002). However, for companies in general and start-ups in particular, the resource base has to be frequently extended and renewed. Hence, the ability to acquire and maintain resources is key to survival of firms (Pfeffer and Salancik, 1978).

According to Barney (1991) firm resources can be classified into three categories: physical capital resources, human capital resources, and organizational resources. *Physical capital resource*s include the firms' physical assets such as equipment an access to raw materials etc. *Human capital resources* include individual skills and capabilities associated with the people working in a company. *Organizational capital resources* include informal relations among people within a firm and between the firm and its environment.

Although this theoretical framework is developed based on insight from businesses and companies in regularly markets, the logic is applicable also in developing countries and for disabled entrepreneurs in particular. Let us illustrate this by means of an example of a disabled person opening up a little shop to sell soft drinks. First, this entrepreneur needs the soft drinks she intends to sell. To purchase the soft drinks she needs an object of exchange. In many instances this means that this entrepreneur needs money. Further, she needs a location for this venture. This may be a room in her house or a rented place. These resources are examples of what Barney (1991) labels physical capital resources. An entrepreneur is in need for many such resources and the usual way of acquire these resources are by means of money transactions. Secondly, the entrepreneur needs to possess the adequate knowledge and skills to run a store. She needs to know how to set prices, how to keep the right stock on hand, how to keep her accounts right etc. Such resources are examples of human capital resources. This kind of resources can not be purchased but may be achieved through training and education. Finally, having the right skills and the money to purchase the necessary resources, our entrepreneur needs to get in touch with suppliers and customers. In many instances the entrepreneur has a family member or a friend that knows someone that sells soft drinks. Further, another acquaintance may have a car and will bring the soft drinks to the store. Such social relations or "networks" may constitute valuable and necessary resources for our entrepreneur to start her venture. These resources fall within the category which Barney label organizational capital resources.

In order to create a viable business, an entrepreneur needs resources within all three resource categories. We can simplify this by advocating that a viable company needs resources according to the three C's; Competence, Capital, and Contacts. First, one needs the competence necessary to perform the tasks the micro-entrepreneur is supposed to carry out for the customers. Second, the micro-entrepreneur needs capital to buy raw materials, rent a stand in the market etc. And finally the micro-entrepreneur needs contacts to get in touch with the customers of its product/services and the suppliers of raw materials etc.

In this report we focus on the provision of physical capital resources necessary for creating viable businesses. That is, we focus on how the disabled persons possessing the necessary competence and contacts may utilize microcredit in order to enhance their chances of success and survival. Still, we do not advocate for the use of microcredit in isolation. Hence, in the next chapter we discuss means of enhancing and improving self employment ventures.

4. INTERVENTION STRATEGIES TO INCREASE INCOME FROM SELF-EMPLOYMENT

Due to the enormous attention microcredit has received during the last couple of decades one can easily be led to believe that this is the only, or at least the most efficient, intervention method available to help poor entrepreneurs to increase their income from self-employment. This is definitely not allways the case. Microcredit may not be the best suited instrument when the entrepreneurs lack resources within other resource categories. In the following we will present some commonly used strategies to facilitate for the establishment and maintenance of entrepreneurial ventures. Later in this report we will discuss when microcredit can be an efficient strategy and when other strategies should be applied.

4.1. Improved access to markets

The donor community has spent considerable amounts on sewing machines, vocational training and organizational issues just to find out that there was no market available for the ventures involved. Doing business is about selling products and services on a local, regional, national or international market. Often, especially in rural areas, there is no easy access to the market. Further, even if there is a market available, the business might not present enough competitive advantages to survive in a competitive market.

The fair trade initiatives we have witnessed during the last decade or so is an honest try to give poorer entrepreneurs access to western markets.[8] Other initiatives aim at bringing products from rural to urban markets; facilitating the construction of markets; make transportation available etc. A particularly important strategy to improve an entrepreneur's access to market is to facilitate relevant information she can use to improve her business and/or reach out to new customers.

[8] We believe that fair trade can bring important benefits for poor entrepreneurs. However we will warn against the dependency often created in such schemes where the businesses involved easily end up being inefficient due to the higher price received on their products.

4.2. Improved access to technology

Technology changes are fuelling economic growth. At business level, improved technology makes it possible to increase the efficiency and become more competitive. One important benefit from microcredit is that this makes it possible to invest in assets with a more efficient technology. Interventions that make available more efficient technologies for poor entrepreneurs will therefore theoretically be of benefit. However technology without skills is of no use. A sewing machine won't bring much benefit if the person involved doesn't know how to operate it.

4.3. Improved skills

There are particularly two types of skills needed to become successful in business; vocational skills and business skills.

a. Vocational skills

Training in vocational skills has been, and still is, a major component in thousands of development projects, especially so for the ones aiming on the disabled population. Vocational skills are important, but there seem to be a lack of understanding which skills are demanded by a market. How many low quality tailors, basket weavers or soap makers are needed in a global market? Probably less than the millions trained through various donor funded programs at many locations in the world today. Further, an increased supply of expertise in certain areas will, when the demand for the products is held constant, increase competition and thereby drive prices down. Increased competition raise the probability of bankruptcy for the companies involved and increases unemployment among experts within the specific fields. Hence, efficient vocational training must be based on demand in a market in addition to the personal skills and preferences of the persons involved.

b. Business skills

Self-employed need business skills. When introducing poor women to business, Pact's program called Worth teaches that a business must be doable, marketable and profitable

(PACT, 2004). This simple sentence provides very good common sense when it comes to the viability of a business. It often seems like such basic lessons are forgotten in development projects aiming on self-employment. We believe that general business skills is widely lacking and projects aiming on providing such skills can have the opportunity to become both efficient and effective.

4.4. Improved self-esteem

Successful self-employed persons have often a high degree of self-esteem. One needs to believe in oneself to be successful in business. Any efforts that can lead to improved self-esteem can therefore easily end up being beneficial for entrepreneurial ventures. Particularly so for disabled people that due to pre-justice and low degree of empowerment often have low self-esteem.

4.5. Improved access to capital

Finally, we now end up assessing how access to capital can be of benefit for the act of entrepreneurship. But first it is important to understand that access to capital is not limited to loans, we must also include equity.

a. Equity capital

Equity capital is needed in all business ventures. No business should run only with the help of external capital. To be committed to the venture, the entrepreneur needs to share both the upside and downside of the business. Further, it will be much easier to obtain external finance when the entrepreneurs themselves provide some of the capital needed. That is, an investor, including a MFI, will be more afraid of the entrepreneur acting opportunistically and therefore more reluctant to invest or give out a loan, when the entrepreneur does not have a stake in the venture. Hence, internal capital is needed to create viable businesses. This is a major challenge for poor people. Nevertheless this basic financial reality should not continue to be ignored in development efforts. Doing so will only create an unsound financial structure for the enterprise and jeopardize the sustainability of the provider of loans (MFI). Access to equity can be done through self accumulation (savings) by the person herself or it can be provided from others. Once again this highlights the importance of developing safe and convenient savings possibilities, but is also leaves us with a question: When and how can poor entrepreneurs be provided with equity?

New businesses face a whole series of difficulties and pressure. In addition, their cash flows situation is in general weak. A totally structured loan repayment schedule, as most microcredit schemes present, can therefore often be a fatal factor for new ventures. Equity funding is therefore generally preferred for start up businesses (Sonfield and Barbato, 1999). This knowledge seems to be nearly entirely lacking within the field of microfinance. We believe that there are three factors leading to the dominating role of loans instead of equity within microfinance:

1. General financial knowledge is lacking within many promoters of microfinance.
2. Equity support, at least as grants, is obviously more difficult to fund than loan support. This is also in conflict with the general trend of demanding sustainability in all kinds of development efforts.
3. It is more difficult to design provision of equity in such a way that responsibility among the recipients can be assured.

We will return to the nature of debt in the next chapter, however, we want to highlight that provision of equity is generally overseen when it comes to capital provision for micro entrepreneurs. We believe that the challenge lies in designing provision of equity in such a way that it seems nothing like charity, but becomes a real financial tool.

When it comes to the provision of equity to poor entrepreneurs, this can basically be provided either as grants or as venture capital. We will look at the latter alternative first. Venture capital for micro entrepreneurs is generally speaking an unknown area when it comes to micro- and small enterprise development in developing countries. In essence, venture capital refers to investor buying shares in young and growing unlisted companies. That means that the venture capitalist becomes a co-owner in the business. In general, venture capitalists are taking high risks and are motivated by seeking out the companies that yield high profits on their investment. Venture capitalists do therefore conduct extensive screening before placing a new investment. In many countries various approaches to venture finance have been tried out by means of governmental intervention and funding to enhance the probability of survival and success of entrepreneurial ventures. The question then arises; may the concept of venture capital be employed to develop micro-businesses? This is an interesting avenue not yet explored by researchers and practitioners. Still, extensive research are committed within the field of venture capital and this may be an valuable source for developing similar concepts for micro enterprises in developing countries.

Equity can also be provided as grants. This way of providing poor people, particularly disabled persons, with the needed capital to become self-employed is tempting for many donors. Provision of equity through grants will however not be efficient if there is not a throughout pre-investment screening process installed. From this point of view, we believe that there is much to be learned from venture capitalists and their screening methods. A throughout screening process of the person and business idea involved is needed. Of particular importance is assessing the resource base of the person involved.

A general problem with most development programs providing equity-capital seems to be their general lack of business structure and monitoring. In their training module C-GAP gives the following guidelines for micro-grants:

- include a graduation process
- is carefully structured and monitored
- is linked to training or mentoring
- Encourage savings
- Requires a cash contribution from the recipient

We also believe that micro-grants should be designed in such a way that it enables the recipient to become a regular microcredit client of a MFI.

There are few examples of well structured micro equity schemes. However, Pretes (2002) presents an interesting exception. For many persons with disabilities interested in self-employment, micro-equity, either as grants or as investment, may present a more efficient solution to their capital need. We therefore recommend that parties interesting in promoting self-employment for persons with disabilities invest in research and pilots to document knowledge within this area.

b. Provision of debt (e.g. microcredit)

Finally, we now reach intervention through debt as a tool to strengthen self-employment. In the following chapters we will try to provide knowledge of microcredit and its relevance for persons with disabilities.

5. MICROCREDIT KNOWLEDGE

5.1. Microcredit is a contracted debt

Among many promoters of microcredit there seem to be a general misunderstanding of what microcredit really is. Microcredit is a contracted debt that needs to be repaid with interests within the accorded time. Most policy guidelines (e.g. the different C-GAP guidelines) recommend that the interest rate should cover all the involved costs. This may easily lead to very high interest rates since the involved costs of offering microcredit are generally high[9]. Others argue that the interest rate, as many other public goods, can in some cases be subsidized (Aghion and Morduch, 2005). However all seems to acknowledge that at least the initial loan amount must be fully repaid. This is what makes microcredit distinct from grants.

The understanding that microcredit is contracted debt is fundamental when promoting microcredit for the disabled population. Promoters, especially donors, must be fully aware that by contracting debt the persons with disabilities takes on an additional burden. *"Credit is also dept, and constitutes a risky strategy for the poorest and most vulnerable to economic stress."* (Montgomery, 1996 p. 292,). Also David Hulme expresses this concern in his article called *"Is microdept good for poor people? A note on the dark side of microfinance"* (Hulme, 2000). See also (Hulme and Mosley, 1996) for a better understanding on these issues.

5.2. The financial nature of loans

Loans are in general best suited for ongoing businesses. This is also highlighted by C-GAP: *"Microcredit is generally most appropriate where ongoing economic activity and sufficient household cash flow already exist, as it may otherwise create an excessive debt burden."*[10] The nature of a loan is that such funding will normally be for assets and activities with

[9] There are basically four costs involved in offering microcredit: Operational cost, financial costs, default costs and equity cost (program surplus). Particularly the operational costs can be very high since the cost involved in administrating small amounts of loans is very high.

[10] C-GAP, Donor Brief No. 2, April 2002; "Microcredit one of many intervention strategies"

limited risk. In general, debt prices (interest rates) are reflecting high repayment rate on the debt portfolio. For more risky investments (where repayment rates are lower due to higher probability of bankruptcy), equity is more common[11]. Thus, equity finance is normally needed for new ventures, new product developments, research etc. This is also reflected in sustainable microfinance institutions. Such institutions do generally target persons with an existing income stream. Normally, most of the repayment capacity will be calculated based on existing income streams and not on possible income streams coming from the new asset being purchased with the new loan (Aghion and Morduch, 2005). Accordingly, microcredit for disabled persons should normally target persons with existing businesses with positive cash flows. Such businesses may be ongoing business as shops, small farms etc. held by disabled persons.

A particular criticism of most microcredit is that the loan term does not match the income stream from the asset being purchased. A four months loan with fixed monthly installments is not suited to finance an immature buffalo that can first start to produce income (milk, calves, draught animal etc.) after more than one year. With the existing microcredit technology most microcredit offered today is designed to finance working capital in commercial activities. This means that if persons with disabilities are to get loans from most MFIs they should be involved in businesses that produce an immediate income stream allowing for starting to pay installments within 1-4 weeks.

5.3. Rationale for microcredit

The most common rationale behind microcredit is that people need access to more capital than what they can accumulate through their own savings. This rationale is the same as the rationale for a regular company where too little debt may easily lead to capital starvation and sluggish growth. Microcredit enables poor households to increase their productive capital. By increasing their capital such households can invest in new productive assets that

[11] As distinct from debt, equity does in general provide the financer with some rights to the investment (e.g. voting rights etc.). That is, equity holders may intervene in the business when the entrepreneurs are not acting in accordance with the interests of the investors. In other words, whereas debtors are “passive” investors, equity holders often take a more “active” approach to their investments.

can be used to increase the volume of their businesses. Increased access to capital also makes it possible to invest in new and more efficient technologies, to take advantage of business opportunities, to cope with business cycles (e.g. farming) and to engage in capital intensive marketing activities like for instance selling their products on credit.

At the macro level, studies also show that well developed banking systems have a positive impact on economic development (King and Levine, 1993). Efficient microcredit schemes can therefore have a positive effect on a country's economic development.

5.4. Social Impact of microcredit

When it comes to access to microcredit, studies show that this can have a positive social impact for the clients, but studies also show that the level of impact depends among others on the following factors:[12]

- There is greater impact on clients who begin with more financial, physical, or social resources than on clients starting with a very limited resource base.
- There is greater impact on clients who have been clients for a longer time than on clients who have been clients of MFIs for a short time. This calls for sustainable institutions that can provide services through time.
- There is greater impact on clients living in stable socioeconomic and political conditions than those living in unstable conditions.

With the knowledge that microcredit often will not generate much impact and in some cases, especially on the poorest segments, can even have negative impact (Hulme, 2000), there has been an increasing claim for sustainable multi-service institutions that can provide poor people with banking services on a long term basis. This has led to the promotion of the institutional scheme instead of more "ad-hoc" type of microcredit schemes. This is in turn leading to a professionalization of the actors and the slow emergence of what is now referred to as the microfinance industry. C-GAP is an important promoter of the institutional scheme instead of "ad-hoc" schemes. The different types of microfinance schemes are discussed in the next section.

[12] CGAP, Donor Brief No. 13, July 2003

6. TYPES OF MICROCREDIT SCHEMES

Microfinance is practiced in a variety of ways and the difference among the ways is considerable. We divide the practices in three main groups; self helping schemes, institutional schemes and "ad-hoc" microcredit. There is no clear dividing line between the three schemes and often a microfinance model can be a combination of two or even all three schemes. In the following we explain each scheme.

6.1. Self helping schemes

This is the most common form of microfinance practiced through centuries by people all over the world. Self helping schemes are often referred to as ROSCAs (rotating savings and credit associations) or ASCAs (accumulating savings and credit association). In these schemes people form their own groups, typically 15-30 persons, where they regularly, often weekly or monthly, pool savings and distribute these as loans among the members. The difference between a ROSCA and an ASCA is that in a ROSCA the pooled savings is distributed among the members as a prize and where each member receives the "prize" before starting a new round. In an ASCA the savings are accumulating and given out as loans, normally with interest, to some of the members based on pre-established criteria.

One often tends to forget these traditional schemes, but they represent an interesting and efficient banking model for poor people. Informal traditional schemes like ROSCAs and ASCAs have been around for more than 1200 years (Fikkert, 2003) and now exists in virtually every village in developing countries (Ashe, 2002).

The fact that different forms of self helping groups, here referred to as ASCAs, have existed through centuries without any form of outside support indicates that this scheme is highly valuated by poor people. From this we can deduce that poor people themselves experience positive impact from participating in such groups (Rutherford, 2000). This is probably why the modernization of the self-helping schemes has attracted considerable support within the microfinance movement lately.

One should beware of that the traditional ROSCAs and ASCAs are often inefficient. Transparency can be low and failure to repay savings to members can be high. Ashe (2002) therefore recommends that donors should aim at modernizing the traditional schemes so that they can be more transparent and efficient and thereby be a better vehicle for economic empowerment among poor (Ashe, 2002). On the other side, Bouman (1995) warns against intervening in these traditional schemes fearing that such donor intervention might weaken these independent schemes (Bouman, 1995). During the last decade some important modernizing efforts have taken place and generally these seem to have generated a positive influence on the traditional schemes making them more transparent and efficient. Examples are Care International's village savings and loan programs in Africa (Allen, 2002) and Pact's program called Worth (Ashe and Parrott, 2002).

6.2. Institutional schemes

The institutional scheme observed today[13] started out about three decades ago with organizations offering microcredit not unlike what we call "ad-hoc" microcredit (see below). Today this is the scheme promoted by most microfinance technologists and observers. In this scheme microfinance is gradually growing into becoming a type of banking industry for poor people. Still the participants heavily disagree on how this industry should look like and if there should be a for-profit investor focus or a more social oriented, but still sustainable focus. One of the main theses in this scheme is that microfinance must be delivered through specialized and sustainable institutions often referred to as MFIs (microfinance institutions).

Microcredit is still, at least in most areas, the most common microfinance service, but the promoters of the institutional scheme increasingly promote multi-services like loans, savings, money transfers, insurance etc. Sustainable interest rates and high repayment rates are fundamental pillars in the institutional scheme. Microcredit is normally organized as

[13] There were other microfinance institutional schemes before like the governmental schemes in the 1950-1970ties, the cooperative schemes initiated around 1850 and the savings banks schemes initiated around 1800.

standardized methodologies, either as individual loans, solidarity loans (where a group of commonly 4-8 persons guarantee the loans for each other), or village banking schemes.[14]

Despite that it has been demonstrated that microcredit does not always fulfill the expectations when it comes to impact, poor people continue to heavily demand such services. One should, however, know how to distinguish between the demand for microcredit provided by sustainable institutions and "ad-hoc" programs. Often when poor people and/or disabled persons express their need for microcredit to a donor agency they have subsidized credit in mind. They will not necessarily be willing to pay for the services when provided by sustainable institutions claiming high interest rates on the loans.

6.3. "Ad-hoc" microcredit

"Ad-hoc" microcredit is what many non-specialists have in mind when they think about microfinance. The idea is that by providing a poor person with a one-time loan the person will invest this amount in a business, often a start up of a new business, and with the help of this business the person will be able to work herself and her family out of poverty. High repayment rates is not a major issue since the focal point is more on the sustainability on the poor person's level (ability to generate a sustainable business through the loan), and not the institutional level. Interest rates are often subsidized. The focus is often on special groups like disabled persons, rural women, victims of conflicts etc. In "ad-hoc" programs microcredit is often only one of many components (training, health services etc.) all aiming on empowering the special group in mind. Most existing practices of microfinance for disabled persons can be catalogued as "ad-hoc" microcredit.

Most microcredit initiatives have been, and are still being, set up by social oriented persons and organizations with little banking knowledge. The focus has been, and often still is, on serving the poor people's need of today and not on building institutional governance mechanisms that can protect and develop the microcredit provider during the decades to come. With the understanding that efficient microfinance services should be provided by

[14] Quite similar to the traditional self-helping schemes, but where instead of depending on the savings pooled from the members the group receives a group loan from the MFI.

sustainable institutions, there has been a growing understanding that institutions providing microfinance should be specialized institutions and not multipurpose organizations like social NGOs, disabled persons' organizations (DPOs) or churches. If multipurpose NGOs, DPOs or churches are to participate in developing microfinance, this should be as a promoters and protectors of microfinance programs and not as a provider of such services.

Most "ad-hoc" types of microcredit activities that we know of have not been able to generate much long term impact. We will therefore recommend that institutions interested in promoting self-employment for disabled persons should not engage in ad-hoc types of microcredit. There is little evidence that such involvement will benefit the persons involved in the long run. Only activities that can be catalogued as self-helping microfinance schemes or institutional microfinance schemes should be promoted for persons with disabilities.

7. MICROFINANCE SCHEMES AND DISABLED PERSONS

People in general relate persons with disabilities to the lack of resources. Accordingly, disabled entrepreneurs are often regarded as having competitive disadvantages due to increased labor cost (e.g. the need for hiring a person to carry merchandise instead of carrying it oneself, transportation cost, slower production etc.). In some cultures, due to prejudice, superstition etc., being disabled can also result in a marketing disadvantage since consumers might not want to contract products or services from disabled entrepreneurs. Hence, being disabled may turn into a competitive disadvantage when a disabled entrepreneur faces the competition from non-disabled entrepreneurs. Nevertheless, the resource deficit as it is perceived by others may not reflect the real resource constrains associated with disabled entrepreneurs. It is therefore important to assess the real resource base and not only the perceived resource base when dealing with persons with disabilities. However, the resource demands for disabled entrepreneurs are in general significant and may be harder to obtain than for non-disabled entrepreneurs. This may include resources within all the mentioned resource categories. Insights from resource based theory are here in line with major findings when it comes to impact from microcredit which indicates that there is greater impact on clients who begin with more financial, physical, or social resources than on clients who start from a very low resource base.

Disabled persons are generally underserved when it comes to microfinance services. The penetration of microfinance services, particularly microcredit, to disabled persons is generally very low (Lewis, 2004, Hulme, 2000). In this section we focus on how microcredit may help disabled entrepreneurs to enhance their chances of creating and maintaining viable businesses. We first look at how various market mechanisms both augment and limit the market opportunities for disabled entrepreneurs. We then look for different explanations to why the poorest are often excluded from microcredit services. Further, we make use of general economy theory to analyze challenges in the supply and demand side of the market for microcredit for disabled.

7.1. Mechanisms benefiting persons with disabilities

In some cases persons with disabilities might "benefit" from some market mechanisms like for instance consumer behavior preferences. With all other things equal some consumers, due to a feeling of solidarity or compassion, might want to prefer doing business with persons with disabilities instead of with non-disabled persons. Consumers might prefer to shop in stores run by disabled persons, prefer furniture made by disabled persons or have their shoes repaired by disabled shoemakers. This market mechanism must be taken into account when assessing the resource base of a disabled person. One must though bear in mind that this market mechanism varies in different cultures. Some cultures present a higher degree of solidarity while others have less.

Related to the previous mechanism is the information advantage experienced by some persons with disabilities. Many disabled are often well known persons in their community. "Everybody" knows about them. This information advantage can in some cases result in a marketing advantage working for the benefit of the disabled person and her business.

Another mechanism often forgotten when assessing disabled persons´ resource bases is the network associated with people with disabilities. Many persons with disabilities benefit from many helpers, family members, community members, social workers etc. If the network stands up for the disabled this may form a powerful team. A blind person in Uganda once told me; "Remember Roy, I can also run a shop." Particularly in developing countries the whole family often participates in business ventures. A blind person can easily be in charge of a shop and be responsible for the involved strategic decisions. At the same time family members might want to back up a disabled person by financial contribution.

The mechanisms mentioned above are of course not as widespread that disabled persons in general are provided with more resources than what is perceived. However, we want to highlight that MFIs when screening potential disabled clients should include the total resource base when assessing business viability and repayment capacity.

7.2. Mechanisms excluding persons with disabilities

Simanowitz (2001) describes four mechanisms that lead to the exclusion of the poorest from microfinance services. The four mechanisms suggested by Simanowitz are self-exclusion, exclusion by members, exclusion by staff and exclusion by design (Simanowitz, 2001). We believe that these four mechanisms are also the ones hindering persons with disabilities from being included as regular clients of MFIs. In the following, insight from Simanowitz's framework is employed and adapted to persons with disabilities.

<u>Self-exclusion.</u>

Self-exclusion is the lack of self confidence and knowledge regarding how the services can be beneficial to the individual. This may be a particular problem for persons with disabilities. During life persons with disabilities may experience a considerable amount of exclusions and rejections, which may affect their behaviour regarding services like financial provisions. This accumulation of exclusions produces secondary incapacities like lack of self esteem etc. This can easily lead to self exclusion from microcredit by persons with disabilities (ILO, 2002).

Another type of self-exclusion is the expectation of some disabled persons and their families to constantly receive charity (Thomas, 2000). Such attitude is incompatible with sustainable MFIs and will naturally lead to exclusion by the MFI of such potential clients.

<u>Exclusion by other members.</u>

Most MFIs use different types of group methodologies for microcredit like self helping groups, solidarity groups, village banking etc. These methodologies are based on self-selection of members. A core element in group methodologies is that all members are jointly liable for each individual's loan. There is therefore an increased likelihood that poorer and more vulnerable members tend to be excluded from such groups. There are also studies showing that poorer persons that do join a group have a shorter membership time than average (Montgomery, 1996). These exclusive attitudes must be confronted both by the public in general, but also by the MFI-staff when in contact with their credit groups.

Exclusion by staff.

Due to attitudes and prejudices in the society the staff of an MFI will often deliberately or unconsciously exclude persons with disabilities. The personnel is often lacking the necessary experience and training to distinguish the difference between real credit risk and perceived credit risk when it comes to persons with disabilities. If an MFI practices any form of group methodology there is also evidence that 'staff pressure' trigger the 'peer pressure' leading to exclusion of poorer members (Montgomery, 1996). MFI staffs, and particularly the credit officers, are therefore a core target group to influence when increased outreach the disabled persons is the objective. Such influence should however, if it is to be efficient, be backed by MFI´s top management.

Exclusion by design.

The credit methodology utilized by MFIs might hinder persons with disabilities in participating. For example, weekly repayment frequency might be a higher obstacle to achieve for a disabled person than for a non-disabled person. Another example is compulsory upfront savings or fees sometimes as high as 20% of the loan amount. Another major challenge in micro credit methodology is the dependence on credit history. In many ways credit history is replacing formal demand for collateral or guarantees. The main challenge is therefore to get the first loan so that a relationship with the MFI can be established. To evaluate a possible client a MFI looks at personal skills and character in addition to assessing the business. But for many Credit Officers (COs) facing persons with disabilities, it is difficult to measure personal skills and character. Often the CO is not able to see through the disability and recognize the real ability of a disabled person.

7.3. Supply and demand for microfinance in the disabled persons' market

When analyzing why the outreach of microcredit to disabled persons seem to be lower than expected in a well-functioning market, one can assess if this market mismatch is due to problems at the supply side or the demand side of the market. Such analysis is important to conduct before possible intervention methods are assessed.

Supply side

Disabled persons are generally speaking worthy beneficians of public and private support. Regretfully, such support is limited in poor countries and rightfully the disabled persons reclaim for increased attention and support from both public and private sources. However, such reclaims turn into a problem when directed towards microfinance institutions operating in a market and making their living through the delivery of financial services. Such institutions have neither the resources nor the public obligation to serve the disabled persons much differently than how they serve the rest of their customers. This could actually jeopardize their sustainability. Nevertheless microfinance institutions, as the rest of the society, do have the obligation not to discriminate any persons due to their physical or physiological disabilities. The problem therefore arises when it comes to the MFI's ability to assess disabled persons the same way as they assess any potential client.

The selection criteria in a professional MFI should be based on the potential client's character, her repayment capacity and the viability of the business involved. Assessing the real ability instead of the disability is however a challenging task even for persons and institutions claiming that they have a non discrimination policy. As long as suppliers of microcredit are not able to assess the real risk involved in serving a disabled person we can conclude that interventions, aiming on changing MFIs and their staffs attitude and provide them with the right knowledge, are needed.

However we must mention that a particular problem in most microfinance institution is their low level of institutional sustainability. What most providers of microcredit actually need at the moment is donors and other stressing the importance of achieving long term sustainability. From this point of view, this report can easily be seen as just one more of the thousands of other special interests trying to be imposed on microfinance institution. If microcredit for poor is to be an ongoing service throughout this century, the microfinance industry must be brought into a more sustainability oriented track. Nevertheless, the right of equal participation in the society is a human right so strong that no institution can ignore it. In this report we do not claim for special conditions for disabled persons, but we promote equal and fair treatment. Such treatment, and commitment, should not jeopardize the sustainability of the microfinance industry. Rather, disabled persons may actually turn into an interesting market segment for committed MFIs.

In a recent study we conducted in Uganda we found the following in relation to the suppliers of microfinance and their attitude towards including disabled persons as clients: (Mersland, 2005)[15]

- All MFIs visited highlighted a non-discrimination policy
- Most MFIs did not see a reason for tracking disability specifically. This could even distort the work of the Credit Officers whose job is to evaluate business viability and repayment capacity and not physical ability/disability.
- The MFIs admitted that their personnel, as the society in general, probably have a tendency to miscalculate or underestimate the abilities of a disabled person.
- All MFIs welcomed any efforts that can help them to evaluate disabled the same way they evaluate able persons.
- The MFIs did not know about any reliable market information regarding the disabled persons segment.
- All MFIs using a group methodology admitted that this methodology might lead to the exclusion of disabled persons. But by having their credit officers to promote the inclusion they would probably be able to influence the groups to take in more disabled persons as members.

Responding to the question of why the MFIs do not have more disabled persons as clients the following seemed to be the main answers in practically all institutions:

- “We haven’t thought of this”
- “There is probably not so many disabled persons running viable businesses”
- “We do not have any knowledge on how to serve this segment”
- “It will not be cost effective for us to specifically target this segment” (through special loan products/methodology etc.)

[15] The study in Uganda was not a well design research study. Nevertheless the findings in Uganda correspond neatly to our general findings visiting dozens of MFIs at all continents. We therefore believe that what we are here mentioning can be generalized for most MFIs around the globe.

Demand side

Disabled persons in need for additional capital for their businesses often end up demanding microcredit. However this demand requires closer analysis. Is there actually a high demand among self-employed disabled persons for microcredit? As for the supply side there is limited existing research to build upon. The following remarks are therefore based on our own experiences and they should only be taken as a starting point when trying to understand the demand for microcredit from disabled self-employed persons.

During the mentioned study in Uganda we also met with 12 self-employed disabled persons. Our findings through meeting with these entrepreneurs confirm our findings from meetings with other disabled persons around the globe. We therefore believe that the following remarks are worth reviewing when trying to understand the demand for microcredit by self-employed disabled persons.

- Most disabled persons running their own viable business prefer not to contract microcredit, even if such service is available in their neighbourhood.
- Disabled persons often represent an enormous ability to adapt and learn. Life has taught them to cope with challenges. Such abilities are a major asset when contracting loans from a MFI.
- Disabled persons seem to be more risk averse than others. They are more afraid of loosing what they have. The consequences of losing what they have might be more dramatic. They often do not dare to take a loan.
- Disabled persons running their own businesses do not seem to understand the pros and the cons of taking a loan. They regard loan as the last resort, something that is only taken when things are really bad. They generally lack the knowledge regarding when and how a loan can improve their businesses.
- Disabled persons often do not know how to approach a MFI.
- Disabled persons have often accumulated so much bad experience when it comes to approaching offices, private or public, that they prefer to avoid such contact if possible.

- Disabled persons, as many other vulnerable groups, are misinformed about MFIs. They often believe them to be some type of social offices and not institutions that operate (at least try to operate) under market conditions.
- Disabled persons tend to be waiting for special conditions, programs etc. coming from the government or donors. They prefer waiting for such programs instead of contracting loans on market conditions from MFIs.
- Disabled persons, as other vulnerable groups, tend to be misinformed. In this case when it comes to real interest rates, collateral requirements, risks etc.
- Some disabled persons feel self pity and think that they should have better conditions (e.g. interest rates, grace periods) than others.
- Often disabled persons believe that they are discriminated due to their disability when the real reason for not qualifying for a loan is that they do not qualify due to business viability and repayment capacity.
- Some disabled persons have higher costs than able persons. This can be due to their need of hiring help, e.g. carrying merchandise, need of public transportation instead of walking/riding a bicycle etc.
- Generally speaking being disabled is representing a disadvantage when it comes to running a business. However, some disabled persons also admit that they might have some “competitive advantages” (mentioned above)

Disabled persons’ organizations (DPOs)

Influencing the demand for microfinance from disabled persons are the DPOs. There seem to be an indefinite number of different associations and organizations for disabled persons. We believe that such organizations can play an important role when it comes to encouraging disabled persons in their ventures. However we have also found that such organizations may negatively influence a disabled person’s ability and motivation to be involved in business. Due to their focus on rights and lacking conditions we believe that these organizations can easily end up discouraging entrepreneurs with disabilities. DPOs are simply not used to being involved in issues that is dependent merely on market forces. The organizational culture and tradition of most DPOs is not nourished to foster such involvement. DPOs are often seen as organizations promoting special conditions for disabled persons. This is off course a two edged sword. Such organizations need to fight for the rights of disabled persons, but by doing so they can easily end up presenting disabled persons as worthy of receiving social benefits instead of being potential entrepreneurs.

DPOs influence directly the disabled population, but indirectly they also influence the society in general including the MFIs. The perceived message coming from the DPO may end up confirming prejudices instead of opening up new opportunities, particularly for self employment for disabled persons. Hence, strategies to influence DPOs should be included when designing strategies to promote self employment among disabled persons.

Families with disabled members

Also families influence the demand for microfinance services. As mentioned, twenty-nine percent of all families are directly affected by disability. Many of these families could benefit from access to microcredit. They should therefore, by donors, DPOs, advocates and others, be informed about the pros and cons of contracting microcredit. However, we will warn against designing specific interventions to influence the suppliers of microfinance services (the MFIs) to specifically target such families. There might be some cultures where having a disabled member is related to shame and exclusion, but it is our experience that such matters do not influence a credit decision in professional MFIs. Nevertheless MFIs might benefit from knowledge related to calculate the extra burden of having a disabled member and when and how this might affect the viability of the business involved.

8. SELF HELPING MICROFINANCE SCHEMES FOR DISABLED PERSONS

Due to the widespread existence of self helping savings and credit groups in developing countries, the fact that these groups tend to reach poorer segments than institutional microfinance schemes, the general lack of knowledge regarding this microfinance scheme, and the current renaissance and interest for the self helping scheme, we find it important in this report to dedicate the following part to this microfinance scheme and its relevance for disabled people.

Due to the self selection process of members in self helping groups, disabled persons tend to be excluded from the self helping savings and credit groups. As mentioned, Simanovitz (2001) calls this exclusion mechanism “exclusion by other members”. A study from Bangladesh showed that in savings and credit groups fostered by development projects only between 0,3% and 5% of the members were disabled people (Thomas, 2000).

Commonly cited reasons for excluding disabled persons from self helping savings and credit groups are negative attitude and prejudice about disabled people and lack of awareness about the abilities of disabled persons. However, Thomas (2000) calls attention to other more specific factors leading to exclusion. First, she highlights the lack of knowledge about disability issues in the staff promoting self helping savings and credit groups. Second, Thomas suggests that mobility problems are a major concern, especially since these groups meet regularly and frequently. Third, disabled persons lack skills and education. Hence, it is more difficult for them to understand how the group works. Fourth, according to Thomas, the savings rates, repayment schedules and methods of dealing with defaulters might be inappropriate for disabled persons belonging to the poorest among the poor. Finally, attitudes of disabled persons themselves can be a major barrier. Many disabled persons and their families expect charity and lack motivation to become self reliant (Thomas, 2000).

Membership in a self helping savings and credit group can have positive impact on disabled persons. Citing from the refereed study from Bangladesh; "*The results of the study show that the social status, self esteem and acceptance of disabled people improved as a result of their membership in the groups, they participated more in community functions, and they gained the respect of their families and community*" (Thomas, 2000, p. 12).

8.1. The relationship between self helping scheme and Community Based Rehabilitation

Community Based Rehabilitation (CBR)[16] is a commonly accepted policy when it comes to equalization of opportunities for disabled persons. CBR may be defined, according to three United Nation Agencies, ILO, UNESCO, and the WHO[17], as a *"strategy within community development for the rehabilitation, equalization of opportunities, and social integration of all people with disabilities. CBR is implemented through the combined efforts of disabled people themselves, their families and communities, and the appropriate health, education, vocational and social services"*. It is claimed that CBR is the best approach to inclusion and social integration and that CBR can meet the basic rehabilitation needs to as many as four out of five disabled persons (DFID, 2000).

In CBR programs the entire community is the target. Integrating disabled persons into self helping savings and credit groups do therefore fit neatly into commonly accepted CBR policies. The self helping groups are locally based and exist virtually in every village. By linking these groups to CBR programs aiming on including local network and resources in rehabilitation efforts, one should expect positive results for the disabled persons involved.

Recommendations related to self helping savings and credit groups

We believe that self helping savings and credit groups can be a very efficient and sustainable banking system for poor people. We therefore recommend that promoters of equalizations of rights for disabled persons take into account the self helping scheme when

[16] For readers unfamiliar with CBR we recommend www.cbrresources.org
[17] Joint position paper by ILO, UNESCO and WHO called Community Based Rehabilitation, CBR, for and with people with disabilities, issued in 1994

assessing microfinance intervention for disabled persons. We particularly give the following recommendations:

- Experts in CBR should assess how linkages with self helping savings and credit groups can be included in CBR programs
- Create awareness in groups and organizations promoting self helping microfinance schemes (e.g. Worth, Care, Nabard, Sewa etc.)
- Facilitate training in disability issues for field promoters of self helping savings and credit groups
- Include special chapters on the need to be sensitive towards disabled persons and their needs in instructive manuals on how to organize and operate self helping savings and credit groups.[18]
- Make non-disabled members of self helping savings and credit groups aware of the abilities of disabled people and the benefits that the disabled people can get by being included in the group (Thomas, 2000).
- Work with disabled persons to change their attitudes and expectations on constantly receive charity (Thomas, 2000).
- Sponsor and carry out research on how self helping microfinance schemes can benefit disabled persons.
- Finally, for the ones not familiar with microfinance in general and self helping microfinance schemes in particular, we recommend that promoters of equalization of opportunities for disabled persons acquaint oneself with self helping bank methodologies before approaching self helping groups and their promoters. Recommended readings are: (Ashe and Parrott, 2002, Bouman, 1995, Grant, 2002, Johnson, 2002, Allen, 2002, Rutherford, 2000).

Trough our field studies we have experienced a considerable number of groups of disabled persons who have started their own savings and credit group. In general, our impression is that the group members would be better of as members of regular savings and credit groups instead of forming their own group with only disabled persons as members. However we

[18] SEWA, CARE, WORTH and others promoting self helping microfinance schemes have developed manuals on how to organize efficient groups.

acknowledge that some of these groups seem to function quite well. Further, the importance of social relations and networks for entrepreneurs in general (Hoang and Antoncic, 2003) lead us to believe that such groups may play a role in competence transfer and network development. This is also recommended by groups advocating for disabled persons (DFID, 2000). We therefore believe that participation in a group of disabled entrepreneurs can be encouraging for the members. Hence, we therefore recommend such participation. However, we still believe that when it comes to banking operations, disabled persons will, if the possibility exists, be better of as members of regular savings and credit groups or as clients of microfinance institutions.

9. INTRODUCTION TO DISCUSSIONS AND RECOMMENDATIONS

It's the aim of this report to provide the readers with practical input on how to increase the outreach of microcredit to disabled entrepreneurs. In the following we therefore provide a considerable list of "dos and don'ts". However, once again due to the limited research available, we highlight the importance of taking our suggestions as a starting point for further research and pilots and not as documented guidelines.

Many interested parties aim at increasing the outreach of microcredit to disabled persons. However, the suggested means to achieve such an objective are of varying quality. In this section we will review common approaches to increase the dissemination of microfinance services and make suggestions of appropriate strategies to meet this target. First, we review some common approaches and argue why many of them are not effective in this setting. Second, we discuss which cooperating partners that may be valuable to approach for donors and disabled persons. Third, we make suggestions for microfinance institutions to reach disabled persons, and, finally, we point at appropriate means available to DPOs and donors to aim at this target.

10. COMMON APPROACHES AND THEIR LIMITATIONS

10.1. Special institutions for disabled persons

Institutions for special target groups have so far not proved to be efficient when it comes to microfinance. There is limited basis – both from practice and from theory – to believe that such institutions would turn out efficient when it comes to disabled persons. Hence, this is not a recommended approach.

10.2. Special loan products for disabled clients

Within the microfinance industry there is currently a positive shift towards increased customer orientation. This often leads to the development of new and better targeted products designed for different segments. Hence, this has led some advocates to promote special loan products designed for disabled persons. According to our view, such promotion reveals a lack of understanding of microfinance and product development. Disabled persons are not a homogenous market segment. The needs among different disabled persons vary too much to make this an effective strategy. Disability is therefore not regarded as a suitable variable for product development and market segmentation.

Another reason for not promoting special loan products for disabled clients is the cost involved in designing such products and the need for scale economics. A professional loan design process includes market research, system adaptation, training of personnel, piloting etc. This is expensive. At the same time it is expensive to position a new product in the market, to maintain focus on the product within the organization etc. In general, the rationale for targeting market niches by custom-made products is to earn above normal profits. However, to achieve low prices economy of scale is important for the suppliers of goods and services. Hence, microfinance is an industry that requires scale in all operations to become efficient and to offer obtainable services for poor people. We believe that the number of disabled entrepreneurs demanding microcredit is too small to enable an efficient introduction of such specialized products by a professional MFI.

However, what can be done is to secure that existing microcredit products are disability and poverty sensitive. This does not require new product development, but assessment of existing product assuring that the methodology applied is sensitive towards the needs of disabled persons (Leonard-Cheshire, 2004).

10.3. Credit components or programs within DPOs

This type of organizations is generally not equipped for operating microcredit. In many cases such organizations might easily find that their work with credit detracts and diverts their limited resources for other priority areas of their work (Dyer, 2003). In 1997 Leonard Chestire, an important UK registered organization with over 250 disability projects in 57 countries, set up their own credit facility for disabled small business entrepreneurs. After only two years of operations they found that even if some disabled persons had been able to set up and expand their enterprises, the impact in terms of numbers was disappointingly low and the administrative costs disproportionably high (Dyer, 2003). The lesson learned by Leonard Cheshire is in line with general C-GAP recommendations that credit components should generally be avoided (C-GAP, 2003).

10.4. Tracking systems to monitor number of disabled persons reached

Most donor agencies are increasingly demanding documented social impact from their investments (Norway, 2003-2004). Such demands are currently drawing MFIs' attention away from their task to develop a long term financial system that can partner with the local communities throughout the century. We will therefore warn against developing systems to track the number of disabled clients reached. The exception will be if such tracking can be included in more comprehensive social impact tracking systems like the ones promoted by Imp-Act.[19] Even an MFI committed to reach disabled persons will hardly end up having

[19] www.impact.org

more than 1-3% disabled clients. Such percentage does not justify tracking systems that necessarily will involve the classification between disabled or not across all clients. Neither will such a tracking system provide the MFI with much useful knowledge. A tracking system would therefore end up as a donor driven agenda. As a response to the donor's need for accurate documentation we suggest ex-post evaluation of statistical samples.

10.5. Subsidized interest rates

Many claim for subsidized interest rates for disabled persons. We do not believe in such intervention and we will in the following express why we think that subsidized interest rates is not an adequate way to increase outreach of microfinance to disabled persons. However we want to highlight that subsidized interest rates is not necessarily an inefficient use of public funds (Morduch, 1999, Aghion and Morduch, 2005). Most citizens in developed countries have historically benefited from either directly subsidized interest rates e.g. loan for housing, farming, schooling etc. or indirectly through interest rates ceilings sometimes even below inflation rates. Nevertheless we do not promote subsidized interest rates specifically for disabled persons because;

- Many disabled persons prefer to finance their ventures through equity and not loans. It would not be fair to subsidize the ones contracting debt and not the ones sacrificing their own savings.
- There is no reason to create a system where people that so far haven't considered themselves as disabled should try to qualify as disabled just to obtain a benefit.
- It is extremely difficult to determine who should be classified as disabled and who should not.
- It would be very expensive to administrate (both the selection process and the operations involved).
- It could create unfair competition between the ones benefiting from subsidized interest rates and the one not benefiting from such arrangements.

- Subsidized interest rates won’t be of much benefit for many disabled self employed persons. In most cases the ones able to repay the loan balance will also be able to pay the involved interest.

10.6. Quick impact projects

The term quick impact projects is sometimes used within the field of development. Particularly is this the case when it comes to post conflict areas or where supposedly more democratic oriented leaders have taken office. In such cases there is a need to stabilize situations or support democratic changes. However, when it comes to economic and financial development and inclusion of disabled persons in mainstream MFIs we do not believe in quick impact, but in working to achieve sustainability by creating long-term effects.

10.7. Special credit officers for disabled clients

To get started this can be an efficient way to increase outreach to the disabled population. However we will warn against such a structure in the long run. An efficient credit officer will often be in charge of 250-600 clients. Such efficiency requires strict routing and geographical delimitation. Normally there will not be enough potential disabled clients within an area to achieve the required efficiency. At the same time it creates confusion in a MFI’s existing division of labor between credit officers when suddenly one credit officer is to serve a disabled client in another credit officer’s designated area.

11. EFFICIENT PARTNERSHIPS

Organizations differ. While a shareholder company is accountable to its shareholders a nonprofit organization is accountable to its mission. If a shareholder company in the long run is to serve the disabled population, particularly if this serving leads to some forms of cross-subsidization, this must be desirable for the shareholders. We believe that many shareholders, also the most for-profit minded, have a broader motivation than merely monetary gains. We would therefore expect that also for-profit shareholder MFIs, if the cost involved is limited and the objective is well reasoned, could be willing to assess their involvement in increasing the outreach to the disabled population.

Nonprofit MFIs also differ a lot. And they should. The difference among the nonprofits is initially found in their mission and institutional objectives. Some nonprofit MFIs aim at being just like any bank, while others have a more integrated purpose. The challenge particularly for the later is that for such organizations institutional sustainability can be without reach. Many nonprofit MFIs are something in between a bank and a social welfare organization. The problem for these organizations is that they can easily end up being neither, with constant internal conflicts regarding direction and their future. Cooperating with such organizations can often be difficult since the organization itself does not know what it really wants. Interventions carried out by non focused nonprofit MFIs can easily end up as ad-hoc microcredit as mentioned above.

Donors, aiming on increasing the outreach to disabled persons might find that cooperation with a regular for-profit organization can be both easier and much more efficient in terms of costs and impact. Donors should, however, expect that reaching into the top level of a for-profit MFI with the idea of increasing the outreach to disabled persons may be a demanding task. In general we recommend donors and others to approach the MFIs with potential of become sustainable in the longer run. Such organizations will often be more difficult to convince due to their market orientation, but if convinced disabled persons can benefit from their services throughout time. Non sustainable MFIs is generally willing to do whatever the donors want just to get hold on the money involved. We warn against such partners and we recommend donors to learn to distinguish between professional MFIs and non-professional MFIs.

Generally speaking we would also like to highlight that from change management theory we know that involvement from top-management is needed if successful changes are to take place. We therefore recommend donors, DPOs and others to foster their relationship with MFIs' top management. If they do not have such relationships we recommend active networking combined with accumulation of microfinance knowledge to enable becoming active and interesting discussion partners for MFIs.

12. WHAT CAN MFIs DO?

Most MFIs receive support from donors. These MFIs should know that many of the leading donor agencies have policies to secure that inequalities between disabled and non-disabled persons is addressed in all sponsored projects (DFID, 2000, NORAD, 2002). This means that MFIs receiving support from such donors have an obligation to secure equal opportunities between disabled and non-disabled persons. So far this obligation has in most cases only included passive acceptation of a non discrimination policy. We suggest that MFIs start having a pro-active attitude to include disabled persons as clients. We base such pro-activity on basic human rights, the market opportunity that disabled persons represent and the obligation following most donations to secure equality between disabled and non-disabled persons.

Another reason for being pro-active when it comes to including disabled clients is the fact that most donor agencies welcome any initiatives that can increase microfinance outreach to marginalized groups. For MFIs operating on market principles this willingness to sponsor initiatives that can increase outreach of services to marginal groups, e.g. the disabled population, should be further explored.

A particular challenge for MFIs willing to try to increase their outreach to disabled clients can be enforcement of repayment. In the public opinion it can damage the MFIs reputation if strict enforcement is being applied. However there is no way around strict enforcement when it comes to sustainable microfinance. This must also include disabled clients. MFIs must therefore make sure that particularly disabled persons are well informed of the enforcement possibility in case of late repayment. MFIs should keep a written enforcement policy to be published if negative publicity becomes an issue. Such policy should also include why enforcement is needed also for vulnerable groups including disabled persons.

Accessibility is one of the UN basic target areas for equal participation (UN, 1993). Accessibility is both about the physical environment and the access to information and communication. In the following we try to concretize what this could mean for MFIs. We believe that there are various interventions that can be tried out to increase the outreach to the disabled population. We divide the interventions in three groups which we label “Send a message”, “Inform the organization” and “Create incentives”.

Even if all interventions mentioned in the following are relatively inexpensive to put into action there is normally a cost involved. We will therefore first provide some analysis regarding costs that can be wise to bear in mind for both MFIs and donors. A cost related to an intervention can according to our view be seen as an “investment”, a “mission-cost” or a “burden-cost”. If the intervention leads to increased income (more clients, increased revenue etc.) such a cost can be seen as an investment. If the intervention leads to what we can call increased fulfillment of the organization’s mission such a cost can in some cases be acceptable and therefore be classified as a “mission cost”. But if the MFI can easily reach out to other clients, at the same or lower risk levels, without interventions, and at the same time the MFI’s mission doesn’t particularly highlight the importance of serving the disabled or vulnerable population, then the intervention cost, if not sponsored by donors, will be a burden for the organization. Donors can decide to sponsor all types of costs. One can also expect MFIs to co-sponsor and/or to slowly take over investment and “mission costs”. But donors should not expect MFIs to get much involved in sponsoring “burden costs” in the long run. Therefore if such cost can not be eliminated through time, donors should only sponsor such cost if they are willing to take on a long term partnership with the MFI involved.

The cost involved for the ideas presented in the following is normally low and many of them can therefore be implemented by the MFIs themselves. Notwithstanding support from donors to interested and committed MFI can make it more interesting for the MFIs to get started. In the following we provide some ideas within each of the three mentioned categories “Send a message”, “Inform the organization” and “Create incentives”:

:

12.1. Send a message

An MFI can send a strong message to its stakeholders (clients, employees, donors, authorities, investors, disabled persons etc.) by actually showing that they are serious when they say that they have a non discrimination policy. This can be showed in various ways. Some examples could be:

- Hire a disabled employee. This would demonstrate the MFI's inclusion policy. The message would be particularly strong if the employee were to be a credit officer.
- Make the offices available for disabled persons like for instance installing ramps for wheelchairs etc.
- Make public success stories of disabled entrepreneurs who are succeeding in business (MIUSA, 1998)
- Show their disabled clients together with able clients in for instance commercial posters, advertising articles etc.
- Hold information sessions about the MFIs and its services in DPOs and similar

12.2. Inform the organization

As discussed above asymmetric information between providers of services (MFIs) and buyers of services (disabled entrepreneurs) is one of the main reasons for the dense microcredit outreach to the disabled population. Disabled entrepreneurs have very limited knowledge of the services, and its benefits, provided by the MFIs. The MFIs on their side do not know the disabled segments and are not able to assess the real risk involved by serving such clients. To confront this situation the MFIs can put the disability issue on their agenda. This can be done through various mechanisms like for instance:

- Information sessions and training seminar for the employees on this issue.
- Letter, as a letter or as an article in the MFI's internal bulletin, from the president of the board or the general manager to the employees where these leaders make clear the MFI's nondiscrimination policy and call on its employees to search for potential disabled clients and let them go through a fair screening process.

- Spread out in the organization information about the magnitude of the disabled segment and the real risk involved in serving disabled entrepreneurs.

12.3. Create incentives

Incentives make people take action. Within the microfinance community it is well known that strong repayment incentives for the employees, especially the credit officers, are an efficient mechanism to maintain a healthy loan portfolio. Can incentives also be used in an MFI to increase the penetration into the disabled segment? We believe so, but we will also highlight that such incentives can easily end up being so-called perverse incentives. By having incentives one can end up reinforcing instead of breaking up the stigmatization of a whole group; “they’ll have to pay me extra if I am to serve those persons”. Another danger is that vulnerable persons that in the beginning didn’t intend to take a loan can be enticed into indebtedness. Notwithstanding, if used wisely and negative effects are minimized, incentives can be a strong mechanism to increase the outreach among the disabled population.

Incentives can be used at different levels of the organization, from the client level to the institutional level. The following provides some examples of incentives that can be assessed, but one have to have in mind the possible hazards and the possible monitoring cost involved:

- Special conditions to village banks or solidarity groups that include disabled members, e.g. prizes to groups including disabled members, lower interest rate to groups that include disabled members, diplomas to groups including disabled members etc.
- Bonus to Credit Officers reaching out to disabled clients
- Bonus to Branch offices reaching out to disabled clients
- Bonus to MFIs reaching out to disabled clients

13. WHAT CAN DPOs AND ADVOCATES DO?

As put forth above MFIs can play an important role to increase their outreach to the disabled population. However, we believe that much can also be done at the demand side, by the disabled population. This will require coordinated efforts from the DPOs. We believe information to be essential. Disabled persons should be better informed. The following provide a list of different important informational issues:

- The pros and cons of microcredit
- What to expect when approaching a MFI
- When and how credit can benefit their businesses.
- How a business needs access to ongoing credit possibilities
- Why MFIs normally do not target start-ups
- Why MFIs are focused on sustainability
- Why it is important for potential clients to contract financial services from a potential sustainable institution
- The need for equity in a business
- The importance of savings at the household level and the business level

Disabled self-employed persons also need information on other non-credit financial issues on how their businesses can improve (se annex # 1).

Generally speaking we believe that DPOs are not well suited to conduct the type of training needed, but they can serve as excellent facilitators of seminars etc. The training should be done by experts in micro enterprises with in-depth knowledge also in microfinance. However in some cases DPOs can, if they have the right attitude and willingness to learn, be responsible for programs aiming at increasing disabled persons knowledge regarding micro-financial and micro-entrepreneurial issues. Such programs would require specialized staff and a commitment by the DPO to engage in 100% market based approaches where no special conditions for disabled persons are to be promoted. For many DPOs such approaches will be difficult to venture since their members traditionally often have pledged for special conditions. We therefore believe that if a DPO's involvement is to be efficient this must be in coordination with expert in micro enterprises and microfinance.

If the informational approach promoted in this report is to be successful we believe that it is important to have coordinated efforts at both the supply (MFIs) and demand (disabled persons) side. We therefore recommend establishing close contact between those influencing the MFIs and those influencing the disabled population. Donors can play an important role in this bridging process.

The DPO themselves with their core leaders is also an important target group for programs aiming at informing the disabled self-employed on the pros and cons of microcredit. As already mentioned DPOs seem misinformed, they often act as paternalistic organizations and they often promote special conditions for disabled persons even when these are facing market forces. This does off course not mean that DPOs should not advocate for the rights of disabled persons. But when it comes to increasing the outreach of microcredit, we believe that more will be achieved if the MFI can take on such clients on regular market conditions. DPOs should therefore be informed on these issues.

14. WHAT CAN DONORS DO?

Donors play a key role to enable increased outreach of microcredit to disabled persons. In the following we provide a list of ideas for donors interested in achieving such an objective.

- Promote long term solutions like self helping microfinance or institutional microfinance. Avoid being involved in ad-hoc microcredit solutions. Don't finance microcredit initiatives operated by DPOs or similar. DPOs should be used as *promoters* of microfinance not *providers* of microfinance.
- Do not jeopardize the sustainability of the MFIs
- Chose possible sustainable MFIs as partners for intervention
- Do not promote microcredit to disabled persons that do not possess the necessary resource base
- Understand that microcredit is microdebt
- Promote "microfinance good practices"[20] also when it comes to disabled persons
- Influence MFIs and search for their commitment to being inclusive in practice
- Influence DPOs and search for their understanding for the need of a market approach when it comes to microcredit
- Bridge between MFIs and DPOs
- Finance initiatives that oppose the situation of asymmetric information currently hindering increased outreach of microcredit to self-employed disabled persons
- Promote a wide range of initiatives to improve the efficiency of self-employment. Microcredit is in many cases not the most efficient intervention.
- Promote a wide range of microfinance services, not only microcredit
- Coordinate efforts with national microfinance networks like AMFIU (Uganda), FINRURAL (Bolivia), RFR (Ecuador), AMFI (Kenya) etc.

[20] The donor resource centre at www.cgap.org is a good place to start if not familiar with accepted good practices.

- Influence international microfinance networks on disability issues. E.g. Women World Banking, Accion International, Procredit, Opportunity International, Finca International etc.
- Promote the inclusion of a session on disability in microfinance conferences
- Promote the inclusion of a microfinance and self-employment session in disability conferences.
- Influence donors to microfinance to emphasize that that all donations and subsidies the MFIs receive require an active commitment to include disabled persons, and not only a passive acceptance of a non-discrimination policy.
- Influence microfinance "think tanks" like C-GAP, Imp-Act, "Ohio School" etc.
- Try to get disability on the agenda of the promoters of microfinance for special groups.[21]
- Promote the inclusion of members with disability in a self helping savings and credit group or in a village bank. This can be done through the elaboration of a special chapter in the manuals of for instance Care International (Mata Masu Dubara model), Pact International (Worth model), Opportunity International (Trust banks), Finca International (Village Banks), Freedom from Hunger (Credit with Education), SEWA (Savings and credit groups) etc.
- Promote research efforts on how to increase outreach of microfinance to disabled persons
- Promote research efforts on how to increase efficiency of self-employment for disabled persons. Such research could for instance include the efficient use of microgrants, venture capital, networks, incubators etc.
- Promote research efforts on how to evaluate the resource base of a disabled person.
- Particularly the use of microgrants for start ups should be assessed, but in close coordination with action researchers so that lessons learned can be documented.

[21] There are currently considerable efforts taking place to take microfinance further, particularly to poorer segments. www.yearofmicrocredit.org, www.microcreditsummit.org, www.cgap.org and www.impact.org are all important initiatives where advocates for equalization of opportunities for persons with disabilities should try to influence.

A general recommendation to donors is not to finance what we have called “burden costs” if these can not be minimized after the financed period.

15. CONCLUSION

As a conclusion to this report we now want to turn to C-GAP's key principles for microfinance and their relevance for disabled self employed persons. Throughout the report we have had these principles in mind and we will now use these principles to summarize the report.

1. Poor people need a variety of financial services, not just loans

As mentioned, financial services is much more than just loans, but also savings, insurance, cash transfer etc. At the same time financial services is not only for self employed, but also for employed and unemployed disabled persons.

2. Microfinance is a powerful tool to fight poverty

Disabled persons, as non-disabled persons, benefit from financial services and can move from everyday survival to planning for their future.

3. Microfinance means building financial systems that serve the poor.

Microfinance is often seen as a marginal sector - a "development" activity that donors, governments, or social investors might care about, but not as part of the country's mainstream financial system. However, microfinance will reach the maximum number of poor clients only when it is integrated into the financial sector. This means that if microfinance is really to benefit disabled persons, these must be integrated into mainstream microfinance institutions.

4. Microfinance can pay for itself, and must do so if it is to reach very large numbers of poor people.

Strong institutions need to charge enough to cover their costs. Cost recovery is not an end in itself. Rather, it is the only way to reach scale and impact beyond the limited levels that donors can fund. If disabled persons want access to permanent financial services and to be included as mainstream clients, they should expect to pay the same price as regular clients.

5. Microfinance is about building permanent local financial institutions.

Finance for the poor requires sound domestic financial institutions that provide services on a permanent basis. These institutions need to attract domestic savings, recycle those savings into loans, and provide other services. As local institutions and capital markets mature, there will be less dependence on funding from donors and governments, including government development banks. Disabled persons and their organizations and advocates should not expect that the current donor interest in microfinance continues through time. Many donors are already withdrawing from this field.

6. Microcredit is not always the answer. Microcredit is not the best tool for everyone or every situation.

As assessed above there are different categories of disabled persons, and their potential benefit from microcredit varies according to their situation. There are also different intervention strategies available to strengthen poor persons self employment initiatives. Microcredit for disabled persons is not always the best tool to alleviate poverty.

7. Interest rate ceilings hurt poor people by making it harder for them to get credit.

It costs much more to make many small loans than a few large loans. Unless microlenders can charge interest rates that are well above average bank loan rates, they cannot cover their costs. This knowledge is particularly important for disabled persons and their organizations and advocates often used to promoting or expecting special conditions. The interest rate on microcredit is high, and if disabled persons expect to be included as regular clients in mainstream MFIs they should be willing to pay the involved price.

8. The role of government is to enable financial services, not to provide them directly.

National governments should set policies that stimulate financial services for poor people, but their role is not to provide directly such services. This includes the disabled population. Disabled persons need for financial services should be served through mainstream MFIs to secure efficient services in the long run

9. Donor funds should complement private capital, not compete with it.

Donors provide grants, loans, and equity for microfinance. Such support should be temporary. This should also be the case when it comes to interventions aiming on increasing the outreach of microcredit to disabled persons. Support that does not aim on including disabled persons in mainstream MFIs will only end up in unsustainable programs with little long term effect. However, we want to highlight that such inclusion is a difficult task and donors should be willing to invest considerable amount to secure the inclusion of disabled persons in the long run.

10. The key bottleneck is the shortage of strong institutions and managers.

Microfinance is a specialized field that combines banking with social goals. Today most MFIs are not sustainable and most of them probably never will be sustainable due to governance and management challenges. This is a major challenge when it comes to including disabled persons. First of all donors and advocates should make sure that disabled are included in potential sustainable institution. Second donors and advocates should know that they can easily jeopardize the sustainability of an institution by offering solutions that in the short run might seem efficient, but in the long run might postpone the institutional sustainability.

11. Microfinance works best when it measures—and discloses—its performance.

Accurate, standardized performance information is imperative, both financial information (e.g., interest rates, loan repayment, and cost recovery) and social information (e.g., number of clients reached and their poverty level). Donors, investors, banking supervisors, and customers need this information to judge their cost, risk, and return. Nevertheless we question any efforts to measure the number of disabled clients reached if such measurement is not included in more comprehensive social information measurement systems. Measuring only number of disabled clients reached in isolation will not be cost effective and will only be a donor led initiative.

ANNEX # 1: MICROCREDIT, ONLY ONE OF MANY MICROFINANCE SERVICES

Insurance

Many disabled are not born as disabled but becomes disabled due to accidents, war, sickness etc. For such persons savings and insurance are of particular interest. If savings were accumulated or disability insurance service was contracted (by the disabled himself or by his parents) before the occurrence of the disability, the disabled person would be in a much better economic position.

Savings

Generally speaking savings has been the "missing link" within the microfinance movement. Fortunately this is about to change. This report is mainly concentrating on microcredit due to the widespread of such services and the urgent need to assess such services when it comes to the disabled population. However, we want to highlight that disabled persons, as non-disabled persons, need savings services as much, and maybe even more, than loan opportunities. (For a better understanding of savings for poor people see Matin et al., 2002., Rutherford, 2003, Rutherford, 2000)

When it comes to disabled persons, access to safe savings services is important regardless of when the disability occur. Many disabled has a clinical situation that aggravates through time. Many might be able to work normally for some years, but as time goes by they will be forced to decrease their economic activity. Hence, access to convenient and safe savings facilities during their "good years" is of utmost importance. Persons with disabilities that depend on others, e.g. parents, are often in a critical situation when their parents can no longer provide for them. These persons would be much better of if their guardians, during their economic productive years, could accumulate some savings for the future benefit of the disabled person.

Money transfer

Remittances is today one of the main income for many developing countries. With an international market, legal and illegal, for workers, millions of citizens from developing countries have immigrated to “the west”. According to the World Bank remittances to developing countries is rapidly growing and totaled in 2001 some $72 billion, exceeding development aid from all sources (World-Bank, 2003). Also within practically all countries there has during the last decades been a substantial migration from rural to urban areas. This has created an enormous market for money-transferring systems. Nevertheless there is a considerable lack of safe and convenient systems available. If there is any system available at all, this is often very expensive. The cost involved for sending low amounts, e.g. 100 dollars, may easily amount to 10-15% of the amount involved.

Efficient systems for money transfer are particularly important for disabled persons since they often have family members and friends that provide for them. As persons with disabilities born in the rural area often do not move to the city as many other family and village members might do, many of their supporters often live far away. In a globalized world, it is also more and more common to have relatives abroad that send home money to their beloved ones. Persons with disabilities will often have particularly many that would like to support the person if efficient and convenient money transfer systems are available.

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