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Funding for self-employment of people with disabilities. Grants, loans, revolving funds or linkage with microfinance programmes

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Summary *In 2005, Handicap International*[1] *commissioned a study on the practices of funding for self-employment activities of people with disabilities (PWD), with a special focus on access to microfinance. The overall goal of the study was to produce a framework document highlighting good practices, strategies, tools and operational methods that guarantee the efficiency and sustainability of self-employment projects for PWDs.*

The first phase of the study consisted of a literature review and a worldwide survey. Through this first phase the research team identified the most innovative programmes for further analysis through field visits. In the second phase field visits were conducted in Afghanistan, Bangladesh, Ethiopia, India, Kenya, Nicaragua and Uganda, while regional workshops were organised in Dhaka and Nairobi. Phase three involved consolidation and analysis of the information and finally drafting of the framework document.

This paper summarises the findings and good practices as presented in the framework document, based on the results of the literature review, the survey and the field research. It is not a scientific paper, i.e. it doesn't contain a discussion of the literature reviewed or systematic reference to sources, the same as the document on which it is based, as it is primarily meant for 'practitioners'.[2]

A main finding of the study was that there is no single 'best solution' to funding of self employment activities. While inclusion of PWDs in existing microfinance institutions (MFIs) is the preferred strategy, guaranteeing efficiency, sustainability and future access to funding for the target group, it was found that in reality many PWDs do not have access to microfinance programmes.

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[1]Handicap International (HI) is an international non-governmental organisation which works to improve the conditions and quality of life of people with disabilities in the developing world and in post-conflict zones. HI works with local partners to deliver programmes in over 55 countries in the south and have sections in Germany, Luxembourg, Belgium, Canada, Switzerland and France. Its work includes emergency relief in times of disasters and conflict as well as longer term development support.

[2]A discussion of the literature can be found in: 'La micro finance est-elle un outil adapté de réduction de la pauvreté pour les personnes handicapées dans les pays en développement?' by: Marie-Cécile du Mesnil. October 2006. Master-thesis. ENGREF (Ecole National du Génie Rural des Eaux et des Forêts) and Handicap International. It reports on the first phase of the study, i.e. the literature review and the survey.

This can be explained by stigmatisation of PWDs by staff of MFIs, who do not believe in their income earning and repayment capacity, and self-exclusion by PWDs. To fight against it projects have been set-up linking MFIs with programmes for PWDs, focusing on better information exchange between both parties respectively on disability for MFIs and the characteristics of microfinance for programmes for PWDs. Other programmes experiment with special credit lines or guarantee funds, placed at the disposal of MFIs and earmarked for loan disbursement for PWDs, to facilitate their inclusion.

Another reason for non-inclusion is the vulnerability of many PWDs. Many of them have no prior business experience, while many MFIs only provide loans to clients with an existing business. Vocational and/or business training and raising of their self-confidence, to be assured by a programme for PWDs, is often required prior to setting-up of a self-employment activity and taking a loan. If not prepared to run a 'business' successfully, taking a loan will present a too great a risk for themselves, getting indebted, and for the MFI.

'Start-up' grants for business-starters and revolving funds managed by PWD programmes, are other approaches practised by PWD programmes, of which the pros and cons are discussed in the study.

A major weakness of many MFIs is that they do not reach the most vulnerable clients, including many of the PWDs, and their weak presence in rural areas especially in Africa. MFIs have to look for innovative approaches to deepen their outreach. The self-help group approach in India, starting with the clients' own savings from which loans can be disbursed to the group members while linking the well-performing groups to banks for access to bank loans, is such a new approach. It is practised by The Leprosy Mission Trust in India. In Africa, some international NGOs started with similar 'community based saving and lending groups'.

Introduction

It is estimated that about 10% of the world's population has some kind of disability. They are highly over-represented among the poor; about 80% of them live below the poverty line, and are often unemployed. Participation in economic life is aspired by many of them, to earn a living and contribute to the support of their families, but also to enhance self-fulfilment and self-esteem. Work offers people with disabilities the opportunity to be recognised as contributing members of their community.

Like the rest of the population in developing countries, most people with disabilities turn to self-employment because of a lack of opportunities in the job market. Although many would prefer to have a job with a regular income, self-employment is often the only option available. To be successful, self-employed people need, among other things, access to financial services, in particular microcredit. Through its experiences around the world, Handicap International realised the importance of working towards finding accessible, affordable and sustainable financial services for people with disabilities. Therefore it decided to conduct a research on 'Good Practices for economic inclusion of people with disabilities, and funding mechanisms for self-employment'.

Methods

The research was carried out over a year and was divided into three phases. The first phase consisted of a literature review[3] and a worldwide survey. Four hundred and sixty three organisations were contacted, of which 107 responded to the questionnaire.[4] Of these 58 were organisations of/for people with disabilities and 50 were microfinance providers. Through this first phase, the research team identified the most innovative programmes for further analysis through field visits. Programmes identified as innovative used loans (instead of grants) to fund the self-employment activities, and preferably had linkages with microfinance institutions.

The second phase consisted of field visits in Afghanistan, Bangladesh, Ethiopia, India, Kenya, Nicaragua and Uganda, and regional workshops that were organised in Dhaka and Nairobi. The choice for the countries depended on the response on the survey (no. of responses per country), the presence of innovative programmes, and practical considerations such as available time and travel distances in and between countries. The original aim of the research was to focus on programmes for land mine victims (see footnote[5]); therefore also Afghanistan was included in the field visits, although few responses were received on the survey, neither from programmes having an innovative approach. The field visits allowed the research team to compare the practices from the field with the results of the survey and the literature review, and to deepen their understanding. 'Non-innovative' programmes were also included in the field visits, so the different approaches could be compared.

Phase three involved consolidation and analysis of the information. A first draft of the research report was discussed during a workshop in Geneva, in which practitioners from the microfinance and disability sectors met. The final outcome of the project was a publication entitled 'Good Practices for the Economic Inclusion of People with Disabilities in Developing Countries. Funding Mechanisms for Self-Employment'.[6]

Need for a multi-sector approach

Funding is just one of the requirements to be fulfilled to enable people with disabilities to become successfully self-employed. PWD's born with an impairment or disabled at an early age have often lived in social isolation and been deprived of education, and consequently may lack self-esteem, self-confidence and educational, social, occupational or business skills. People who have contracted a disability at an older age - war and landmine victims, injured in an accident, or leprosy patients - might be less vulnerable in these respects, but they have to

[3]See: Annex References.

[4]The list of the 107 organisations that responded to the questionnaire is added in the annex.

[5]The study was financed by the Department of Humanitarian Aid of the Swiss Agency Development and Cooperation within the framework of the International Convention on the Ban of Landmines. However the response on the survey of programmes targeting landmine victims was limited. Also, after the survey it was concluded that to further explore innovetive approaches for the economic inclusion of PWDs the study could better concentrate on programmes for PWDs in general. This choice was consistent eith the general strategy of HI, according to which landmine victims are not considered as a seperate group form people with disability.

[6]The report (English and French version) is available at the internet at: www.handicap-international.fr > page 'insertion'. Or: www.handicap-international.org.uk

learn to accept their handicap, to deal with their trauma, and obtain proper physical rehabilitation and assistive devices, before they can start to (re)make their living. Last but not least, society has to accept equal participation of people with disabilities in social and economic life.

The research found that in almost all programmes for economic inclusion, funding for self-employment was part of a multi-sector approach. Depending on the needs of the client group, different activities were developed: physical rehabilitation, provision of assistive devices, activities aimed at raising the self-awareness, vocational and/or business training, community awareness programmes addressing stigmatisation of people with disability, lobbying at governmental services or other organisations, and finally access to funding.

No organisation can do all these activities on its own. A programme for people with disabilities has to decide what activities it will do itself (its core activities), and what services can be provided by others. It has to search for partnerships with other organisations or governmental agencies, after analysing what are the requirements to be fulfilled to guarantee successful economic inclusion of the clients, identifying who can provide the appropriate services, and negotiating or lobbying for provision of these services.

Funding mechanisms

Self-employment activities can be financed through grants (gifts), loans, own savings or a combination of these. Loans can be disbursed to clients at an interest rate covering the costs for the organisation. Or they can be disbursed at a 'subsidised' rate, that is to say the interest rate doesn't cover all the costs of provision, monitoring and recovery of the loans, and thus the activity has to be partly subsidised by the organisation. In this case we talk about 'subsidised' loans.

Funding for self-employment projects can be provided to clients by an organisation of/for people with disabilities itself, through a grants programme or the creation of a revolving fund for the provision of loans, or a partnership can be sought with a specialised microfinance organisation. For instance the organisation of/for PWDs assists the clients through building of self-awareness and self-confidence, vocational or business training, physical rehabilitation, provision of assistive devices etc, but leaves the provision of funding to an MFI. PWDs thus become regular clients of an MFI.

- Among the organisations of/for disabled persons that responded to the survey, in the first phase of the study, almost 80% provided direct funding to their clients. Only 20% of the respondents had established a partnership with an MFI, for the provision of loans. Another 20% reported having tried to establish a partnership with an MFI, but without success.
- 20% of the organisations of/for PWDs provided grants to their clients to finance self-employment activities; 30% of the organisations used a combination of grant and loans. The majority however (50%) used loans; in most cases these loans were subsidised. One third of the respondents disbursing loans charged no interest on the

loans, the rest of the organisations charged between 10–24% per year which can be considered to be below the 'cost recovery rate'[7] for micro credit; only one programme reported to charge market interest rates.

The research focused on identifying good practices for accessible, affordable *but also sustainable* financial services for people with disabilities. Grants and subsidised loans can be appropriate means to increase the accessibility and to guarantee the services are affordable, but not to reach sustainability. The services can be provided only for a limited time or as long as external subsidisation is guaranteed.

Yet the great majority of the programmes for PWDs opted for grants, a combination of grants and loans, interest free loans or subsidised loans. A main argument was that PWDs couldn't afford loans or pay higher interests on loans. As a large part of the clients were starters there is reason to believe it is true since starting-up a business needs time, to gain experience, get to know the market, get customers etc. while the client might not have sufficient financial reserves to bridge such a period. Repayment of a loan, at a high interest, while he/she also has to provide for her/himself or to support a family, might be too demanding.

Grants approach. Trickle Up Programmes.

Trickle Up is a US based funding agency,[8] supporting a number of programmes for PWDs. It developed a grants approach for very low income people, which is also applied for vulnerable PWDs.

Clients receive a seed grant, always in combination with business training. The conditional grants (usually US $100) are typically distributed in two instalments of $50. The clients receive the first grant instalment after preparing a business plan. After three months, or the first business cycle, they complete a business report showing whether they have established a viable business and met programme requirements. If these conditions have been met, they receive a second grant instalment.

Trickle Up encourages the clients to build up their own assets through savings; it also tries to link the clients to microfinance institutions, where possible and appropriate, for access to credit for further investments.

Yet it should not be concluded too easily that PWDs are not capable to repay a loan, or need 'subsidised' loans. PWDs represent a heterogeneous group. The research project initially planned to focus on war and landmine victims;[5] it was concluded many of them didn't belong to the most vulnerable groups, since they were well educated, had prior work or business experience and sometimes had a high social status in their communities. Also among other groups of PWDs the vulnerability differs between individuals.

[7] It means that the costs of the provision of micro credit can be covered by the programme's income, consisting mainly of interest payments.

[8] See: www.trickleup.org

Some disadvantages of grants, or subsidised loans, as expressed by participant organisations in the study (survey, field visits, and workshops) are:

- They may reinforce the idea among PWDs that they need 'charity' and can not be expected to repay a loan, as other people do. It may create dependency on the part of the beneficiaries.
- Beneficiaries of grants often do not put the necessary efforts into their projects because they do not risk their own capital and do not have to repay a loan.
- The programmes are short-lived and serve a limited number of people since they depend on permanent subsidies from external sources.

For such reasons most programmes visited in the field had adopted loan programmes. A main warning for programmes for PWDs choosing a loan approach is that management of a loan programme requires proper expertise and an appropriate attitude of the programme's staff. Contractual obligations, especially repayments, have to be observed. Leniency in this respect easily leads to the programme's failure. Programme's staff and its clients should observe a business-oriented attitude. Loans disbursed to clients whose economic activities are not viable can lead to the client's indebtedness instead of their lives' improvement.

A main advantage of a grants' approach, besides its accessibility for more vulnerable persons and for 'starters', is also that it is easier to manage. Some organisations that had carried out a loan programme but failed, had changed to a grant approach for that reason.

Practical recommendations for the provision of grants

1. ***Careful selection.*** Select the clients according to their poverty and vulnerability level, but also by identifying their skills, capacities and training requirements, and by analysing the market constraints or opportunities
2. ***No free hand outs.*** Generate a real commitment on the part of the recipient to develop an economic activity successfully. Grants should be understood as a one-off 'push' for investments. Therefore do not provide a second grant to the same person. If indeed successful further investments can be paid from own savings or applying for a loan advancing to a microfinance programme.
3. ***Adequate training.*** Provide training prior to the disbursement of grants according to the needs of the grant client. It may cover topics such as basic accounting, marketing and customer relations, but also vocational training or more specific skills.
4. ***Constant monitoring.*** Identify problems before they become irreparable. Follow up the clients' economic activities as the business develop and prevent or correct any problems or challenges
5. ***Savings component.*** Encouraging savings is a way to train the beneficiaries to plan for the future and to manage their assets. Some programmes encourage or require the clients to contribute with their own savings before receiving a grant; others require their clients to start saving as soon as they have received the grant and earn an income.

Practical recommendation for the provision of loans

As for grants, loan applicants and the income generating activities they want to develop should be properly assessed taking into account the applicant's skills and capacities and the profitability of the proposed economic activity, analysing the market constraints or opportunities. Adequate training might be required prior to the disbursement of a loan. Extremely vulnerable clients at great risk of indebtedness might be better assisted first with a grant, or by joining saving and credit groups, before applying for a loan.

Further recommendations are:

1. ***Assessment of borrowers' debt capacity.*** To decide on the loan amount, do not take into account only the financial needs for the proposed economic activity, but assess also the borrowers' debt capacity (assets, other sources of income) and the income the activity is expected to raise. If his/her earnings or financial reserves are not sufficient to reimburse, the borrower may default increasing his/her vulnerability.
2. ***Charge interest – the less subsidised, the better.*** Even when your programme's primary goal is to assure direct access to financial services for PWDs, and you are less concerned about its long-term financial sustainability, as a loan provider you should charge interest rates – both to support the operations and to prepare the borrowers for future inclusion in other microfinance programmes making them understand that loan services have a price.
3. ***Follow up and monitor the loans constantly.*** Identifying problems in early stages is essential. If the borrower is facing problems managing his/her loan, corrective measures can be taken before debt accumulates. A proper loan monitoring system provides the programme staff with an overview of repayment figures, allowing for rapid corrective actions.
4. ***Repayment discipline.*** Only if loans are properly repaid, a loan fund can continue providing new loans. This requires strict observance of the repayment discipline. If some clients do not repay and no corrective action is taken, it will easily grow into non-repayment by larger numbers, and finally lead to breakdown of the programme.
5. ***Strict application of rules.*** Many programmes for PWDs have got into troubles because programme staff felt they can not insist on the collection of repayments or collateral in case of default. However, people with disabilities have the same rights and obligations as everyone else; if they commit themselves to a loan programme they must also be held accountable in case of default. Proper explication of the borrowers' contractual loan obligations prior to disbursement of a loan and strict application of the rules is essential.
6. ***Evaluate the pros and cons of different microfinance service providers.*** There is no single 'best solution'. While some PWDs may be better served by special programmes others are able to join mainstream microfinance programmes. Explore first if mainstream microfinance programmes are present in the region, which are willing and capable to serve your clients before starting a financial service programme on your own.
7. ***Financial administration.*** If you decide to set-up a revolving fund programme, remember that many of such programmes have got into problems because the fund's management and money were not adequately separated from those of other areas of work. The fund, but also its staff, transport, expenses and revenues and administration should be administered separately from other programme components. Further proper loan portfolio monitoring systems should be applied.

LINKING WITH MICROFINANCE PROGRAMMES

Seeking for partnerships with MFIs, assigning the disbursement of loans to specialised institutions instead of managing the funding component by themselves, is the preferred strategy for programmes for PWDs. Specialised institutions can ensure sustainability, i.e. permanent access in future for PWDs to financial services. It is also in line with the inclusive strategy promoted by many organisations of/for people with disabilities, since it fosters inclusion in mainstream services instead of setting up parallel services exclusively for PWDs.

Yet it was found few PWDs make use of the financial services of MFIs. Many of the MFIs that responded to the survey answered they had PWDs among their clients but did not know how many since this was not registered. But the MFIs that could provide such data reported that no more than 0·5–2% of their clients were PWDs, which is considerably less than the average of 10% of the total population estimated to be PWDs. Also the programmes for PWDs visited reported that it was difficult for their clients to get access to MFIs, unless they had succeeded to make special arrangements with an MFI.

Several reasons can explain why the poorest, including many PWDs, are excluded from the services of MFIs: They are well summarised in a paper by A. Simanowitz.[9] Many of these constraints were also referred to in the study (survey, field visits and workshops).

- *Self-exclusion.* Economic and financial conditions of the poorest are characterised by great insecurity which often leads to risk-avoiding behaviour. Poorest people fear to take loans, being afraid for indebtedness if they fail. The poorest, and also many programmes for PWDs, consider the services of MFIs too costly and the interests rates excessive
- *Exclusion by the programme or its staff.* Internal mechanisms in MFIs lead to risk-avoiding behaviour. Credit officers are often rewarded for good repayment figures among their clients. Assessment of high-risk clients, and future follow-up and assistance, requires more of their time. Such factors lead to avoidance of the poorest. Due to prejudices regarding the income-earning capacity of the poorest, staff of an MFI will often deliberately or unconsciously exclude them.
- *Exclusion by other members.* Many micro finance programmes use group methodologies. Formation of the groups is based on self-selection: members select their co-members. Often all members are jointly liable for each individual's loan. More vulnerable persons, as they represent a too high risk for their co-members, are therefore often excluded.
- *Exclusion by design:*
  - Many micro finance programmes do not lend to persons who have not yet started an economic activity. This is one of the major bottlenecks, to get access to their services. Many of the poorest, and many PWDs, have no prior business experience.
  - If an MFI requires collateral as loan security, this will exclude many of the poorest.
  - Obligatory savings can exclude them, especially if the required amounts are too high.
  - Many MFIs do not provide the appropriate mix of products. Savings are not included: it is argued savings are often of more importance for the poorest than credit services.
  - Many MFIs do not reach rural areas (especially in Africa), nor the poorest. Saving capacity and loan needs of the poor are minimal; cost-recovery of services to them (small saving and loan amounts) is therefore difficult. Setting-up of a services'

[9]'Microfinance for the Poorest: A review of issues and ideas for contribution of Imp-Act'. Thematic Report No. 4. Imp-Act. November 2001. By: Anton Simanowitz. (See: www.imp-act.org)

The importance of savings

Saving services are important to clients for:

Income smoothing: Income comes in irregularly through the year. This is typical for agriculture but also for many other economic activities. In contrast expenses have to be made throughout the year. Saving can prevent that the money is spent the moment it is earned resulting in shortages later in the year.
Safe place: In the absence of a bank or an organisation where one can deposit savings, many households lack a place where money can be kept in safety.
Liquidity: Many people save in kind, for example through the purchase of animals. Saving in kind has however the disadvantage that is not always easy to sell the goods/animals the moment one needs cash, or it is not an appropriate source for liquidity when one needs only small amounts.
Insurance: Money can be set aside to cope with emergencies (health, poor harvest), instead of relying on contracting a debt to deal with it.
Financial provisions: Social events such as funerals or marriages, or children's education require high occasional expenses, which can be provided for by savings.
Investments: To save for working capital or investment instead of relying on loans/debts to finance it.

infrastructure is too costly if the target group lives dispersed, as in many rural areas in Africa, or if the fraction of economically viable clients in an area is too small.

Exclusion of PWDs by MFIs can be explained on the one hand by the fact that they belong to the poorest sections of the population, which are beyond reach of many MFIs, on the other hand by stigmatisation of PWDs by staff and clients of MFIs and by self-exclusion of PWDs.

Programmes for PWDs have developed the following strategies to address such questions.

PROMOTION OF INFORMATION EXCHANGE BETWEEN MFIS AND PROGRAMMES FOR PWDS

- PWDs and their organisations should have a proper understanding of microfinance. MFIs charge an interest to guarantee their financial sustainability, their continued existence and thus permanent access for their clients to their services, also in future. The interest rates of MFIs are rather high also in comparison with commercial banks, often around 35% per year. But service delivery to small clients involves small loan and savings amounts and requires more intensive loan (and business) monitoring, and therefore is costly. PWDs should understand this, to be prepared to become clients of MFIs. Instead they often stay away from MFIs, whose service' costs they characterise as excessive.
- On the other side organisations of/for PWDs can show to MFIs that people with disabilities can successfully undertake economic activities, thus taking away stigmatisation and prejudices, if proper support is provided by self-confidence building, technical and/or business training, business monitoring etc.

Information exchange between MFIs and organisations for PWDS, Uganda

In 2005, the Association of Micro Finance Institutions of Uganda (AMFIU) and the National Union of Disabled Persons in Uganda (NUDIPU) launched a pilot project. The project goals were:

- To raise awareness among MFIs about the largely unexploited market for financial services among PWDs
- To raise awareness among organisations for PWDs, and eliminate fear and misconceptions regarding MFIs

To achieve this goal, activities included:

- Organising two-day workshops at district level with PWDs organisations and MFIs. The workshops created a positive attitude among participants and showed successful examples of entrepreneurs with disabilities.
- Creating an award for the most 'disability-friendly' MFI
- Implementing a survey among AMFIU members to analyse their knowledge and experience on equalisation of opportunities for PWDs.

NEGOTIATING AND FUNDING OF SPECIAL LOAN CONDITIONS FOR PWDS

If there are good reasons to believe that he loan and/or saving conditions imposed by an MFI are prohibitive for the clients, special conditions can be negotiated by the PWDs programme.

- The Ethiopian Federation for Persons with Disabilities (EFPD) had a programme whose main objective was to develop entrepreneurship among women with disabilities. EFPD assured vocational and business skills training while for the provision of loans they entered a partnership with an MFI. To facilitate access for their clients, EFPD subsidised half of the interest rate for their clients and covered half of the obligatory savings, which had been found to be an obstacle for the clients wishing to apply for loans.

Good reasons for loan subsidies may be that the clients (starters) need some time to develop their business or, not being used to taking a loan and management of a loan and thus fearful, subsidised loans might help them to overcome their hesitations acquainting them to a loan system. However pre-conditions for subsidised loans are that for successive investments the clients are expected to apply for a standard loan, and that the economic activity is profitable, also if relying in future on regular loan conditions.

Other special loan conditions provided by programmes of/for PWDs for their clients were: a longer repayment period, a longer grace period i.e. a longer time before the first instalment had to be repaid, and special guarantee arrangements (mostly group guarantees).

Sometimes MFIs require savings prior to disbursement of the loans and/or obligatory savings during the repayment period. In the study no agreement was found regarding whether PWDs could afford savings prior to taking a loan. Some argued that even the most vulnerable are able to save, although probably the saving amounts should be lower, or that friends and relatives could contribute. This would have the additional advantage that their commitment gives moral (and real) support for the PWD. Others however had serious doubts that PWDs could afford prior savings. The principle of encouraging or enforcing savings after the start of an economic activity, from the extra income earned, and of building up own assets instead of relying only on loans, was however supported by most organisations.

Another clear outcome of the study was that MFIs are reluctant to subsidise loans, or create other special loan conditions. MFIs argue they can not afford it; it would jeopardise the financial sustainability of their programme. Another reason put forward is that if a client depends on subsidies one can have serious doubts about the economic viability of the activity. Will he/she be able to continue the activity once he/she depends on standard loan conditions for further financing?

All programmes working in partnership with MFIs, which had introduced special loan conditions, were financing the extra costs, or subsidies, themselves.

Minimising the financial risks that MFIs may perceive in serving PWDs

Special funding arrangements can be negotiated with MFIs to overcome their reluctance to serve a target group that they perceive as risky.

Some organisations put special funds, a *credit line*, at the disposal of an MFI designated exclusively for PWDs. The programme for PWDs assures special training, self confidence building etc. to equip the clients to undertake their economic activities successfully, while the MFI is in charge of loan disbursement, loan monitoring and repayments. Sometimes the MFI also is fully responsible for selection of the clients; mostly it was a shared responsibility between the MFI and the PWDs programme. Business monitoring can also be entrusted to the MFI, but was more often done by the PWDs programme.

Another funding instrument is *guarantee funds*: the PWDs programme deposits a fund at the MFI, that can be called upon by the latter in case of non-repayment by (one of) the clients. Thus the risk of non-repayment is covered by the PWDs programme.

The disadvantage of such special funding arrangements is that the MFIs might be less committed to properly select and follow-up the PWDs clients, since their risks are covered by a guarantee fund or credit line. In case of business failure or non-repayment they will not suffer the losses.

The best arrangement remains to reduce the risks for an MFI by properly preparing the PWDs for their economic activities, assuring they do not present an unacceptable risk. The best way to gain the confidence of an MFI, and assuring inclusion of PWDs in their regular programme, is to demonstrate that PWDs are successful and fully capable to manage a loan.

Pro-poor orientation of MFIs

Although microfinance is set up to serve the poor, it has been demonstrated that many MFIs reach the upper strata of the poor and are less successful in reaching the lower strata, to which also many of the PWDs belong. Therefore some MF providers, especially development agencies with a microfinance section, are experimenting with new ways to reach the 'poorer among the poor'. In linking with an MFI it is important for a PWD programme to identify an MFI that is really oriented to reach the poor (pro-poor orientation). Among those institutions, the willingness to search for ways to include PWDs will be greater.

SELF-HELP OR COMMUNITY BASED SAVING AND LENDING GROUPS

It was concluded before that many MFIs do not reach the poorest, especially in rural areas. Their saving capacity and loan needs are minimal, thus the saving and loan amounts are very small, making it difficult to recover the costs of serving them. Setting-up of a services' infrastructure in rural areas where people live dispersed, and are often only marginally integrated in the market economy, is also costly. One of the alternatives being developed to address these weaknesses are the self-help groups, as they are known in Asia, or community based saving and lending groups, the term commonly used in Africa.

In self-help groups or community based saving and lending groups the members start with savings. The savings amounts are decided by the group and can range from a few cents to a few dollars a week, depending on the financial capacity of members. The group size can differ from 3–4 to 20–30 members. Once the accumulated capital from the internal savings has grown sufficiently, loans can be disbursed from it to the group members. Management of the loans, selection of beneficiaries, monitoring of the repayments, decision making on loan conditions (interest rate, repayment period), is done independently by the group.

In India the government has promoted a self-help group - banking model. After showing they are successful in mobilising members' savings, disbursing of loans from their internal funds, and managing of these loans, self-help groups have access to bank loans. In 2005, the programme had reached 1·4 million self-help groups with 21 million members from the lowest strata of the rural population. Some 36·000 bank branches and primary cooperatives provided deposit services and credit to the self-help groups, while some 3·100 governmental and non-governmental agencies with experience in group development acted as facilitators for the establishment of new or strengthening of existing self-help groups.

The Leprosy Mission Trust in India succeeded in benefiting from this programme. As part of its CBR-programme it organises its clients in self-help groups, whose members also get access to bank loans.

Self-help group model: The Leprosy Mission (TLM) Trust India

TLM carries out CBR (Community Based Rehabilitation) programmes in 11 states across India. Facilitating access to mainstream resources and networking with like-minded NGOs, to ensure that people affected by leprosy and persons with non-leprosy disabilities receive the support they need within the ordinary structures of education, health, employment and social services, is central in its strategy.

Clients get together into self help groups (SHGs), mixed (male/female) groups of disabled persons (and family members) with a maximum size of 20 persons. The SHGs developed a responsive microfinance system, with saving and credit to serve the members. Members have to save for a period of 6 months before the groups are entitled to receive external loans, from TLM or banks. The group members among themselves decide on the amounts of the savings. At the start it is mostly 25 Rps/month (= 0·5 €) per member, but many SHGs have increased the saving amounts later on to 50–100 Rps/month after the members had boosted their incomes. The savings are deposited at the bank. Saving deposits of some SHGs ranged from 10·000–30·000 Rps.

Within the SHGs loans can be distributed from the own internal capital fund. Loans from the internal funds can be drawn on for social as well as economic purposes: to pay for medicines or school expenses, but also for agricultural production. The size of the internal loans is mostly relatively small. Most groups charged an interest on the loans (2% on average). The group itself decides on the loan terms such as the interest rate or the repayment period (varying from 3–10 months).

The SHGs had also access to bank loans. The first loans, issued to the SHGs and managed by them, amounted to Rps.15·000 (ca. €300). In addition to this loan the Government provided a grant of Rps.10·000, meant as an incentive to encourage the SHG movement. After repayment SHGs were entitled to a second loan of Rps.50·000–100·000, while the third loan had a maximum of Rps.300·000.

Loans disbursed by the self-help groups from their internal funds existed side by side with loans from the banks. Many members did not apply for bank loans, since the SHG loan did meet their needs. But for others, the SHG loan prepared them to start-up their business. With the larger loans provided through the banks they could expand their activities.

In Africa some international NGOs, for example CARE,[10] experiment with similar systems called 'community based saving and lending groups'. This approach seems extremely useful especially for the most vulnerable groups, including PWDs:

- It is well adapted to the financial capacity and needs of the poor. Since savings can range from a few cents to a few dollars a week, access can be assured for even the lowest income groups.
- Often loans can be taken for a variety of purposes: production, trade, but also for emergencies (health expenses), school fees, social occasions such as weddings etc. The system responds to a broad spectrum of needs, not just the immediate economic ones.
- In some programmes savings can be withdrawn after an agreed period of time; capital needs are covered by own savings instead of loans, which reduces the vulnerability of the beneficiaries.
- Since the groups are self-managed the operating costs are minimal. This allows for low-interests on loans, although it depends on the group what interest-rates they agree on.
- Self-organisation can also lead to empowerment of the group and its individual group members. The group offers a forum for exchange of experience, mutual support, and for joint actions.

[10]See also: 'Village Savings and Loan Associations (VS&Las) in Africa' Programme Guide 1. February 2006. by Hugh Allen. www.vsla.net

A disadvantage of the self-help group approach is that it can take a long time before sufficient capital is accumulated that will allow for loan disbursements or for loan volumes that can really benefit the group members. To reinforce their capital, and thus compensate for this limited capacity to mobilise capital, some organisations provided seed-capital (as a grant) to the groups, after they had shown their effectiveness being able to mobilise savings of their members for a period of time.

Self-help groups can also be linked to banks or MFIs, similar to what is practised in India. In discussions with some MFIs it was concluded that the model seemed very attractive to them, since it prepared the group members to management of savings and loans, and they could start economic activities with the loans disbursed from the internal loan funds and thus gain experience, before being referred to them.

A disadvantage of the approach is also that sustainability of the self-help groups is uncertain. Much depends on the quality of the leadership of the group and the commitment of the group members. They should receive adequate training, monitoring and support focusing on these aspects (group formation and dynamics, leadership), in addition to training on the set-up of saving and lending systems, procedures, record keeping etc.

CONCLUDING REMARKS

Improved self-esteem scored highest on the questions in the survey concerning the impact of the income generating projects for their clients. Also during the field visits it emerged as one of the most striking results of the programmes. Clients were proud they could generate an income of their own: it made them less dependent on others, they could contribute to the family's income, it could help them out of extreme poverty, and they were regarded differently in their communities. Some persons expressed that it was only through their economic inclusion that now they were socially accepted and genuinely integrated in their communities.

Other important findings of the study were:

- Funding is only one aspect of a mix of instruments required to achieve economic inclusion of PWDs: a multi sector approach is needed.
- An organisation for PWDs should carefully consider its role in the implementation and management of the funding component of an economic inclusion programme, and what the best funding instruments are: grants, subsidised/ unsubsidised loans, or own savings.
- There is no single 'best solution' that can guide an organisation on what to choose. It depends on many factors, such as the vulnerability of the client and their prior 'business' experience, the availability of MFIs in the region and their willingness to serve PWDs, the pro-poor orientation of the MFIs etc.

Management of a loan programme by a PWDs programme on its own has proven to be difficult and has often led to failures. Inclusion of PWDs in MFI-programmes therefore appears a better solution: MFIs have a far greater chance to be sustainable and thus can guarantee their clients future access to financial services. But it was found that one of the main bottlenecks for such an approach is that PWDs are denied access to MFI-programmes.

The study wanted to contribute to finding a solution; therefore both PWDs organisations and MFIs have been involved. It is expected that better understanding on both sides will lead to better cooperation. On the one hand MFIs have to recognize that PWDs have economic capacities when pre-conditions for their economic inclusion have been fulfilled, on the other hand PWDs and their organisations should understand the conditions required (interest rate, criteria for client selection, repayment policies) to develop microfinance programmes that are sustainable. To develop successful partnership both parties should understand and clearly define their complementary roles in programmes for economic inclusion of PWDs.

But it is also required that MFIs develop approaches guaranteeing lower strata of the poor access to their services. It was concluded that PWDs are denied access to their services not just because they have an impairment (stigmatisation) but also because many MFIs do not reach the poorest of the poor, to which many of the PWDs belong. For them the self-help or community based saving and lending group approach, presents an alternative.

In this paper the findings, lessons drawn and recommendations presented in the publication on good practices for economic inclusion of PWDs, are only partly summarised. Important issues such as the advantages and disadvantages of inclusion of PWDs in mixed groups of disabled and non-disabled persons or formation of separate groups, practical recommendations for the programme identification phase of an economic inclusion programme, etc. were not discussed. Persons interested finding out more on the subject can download the publication on www.handicap-international.org

Annex: References to literature reviewed in the 1st phase of the study

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Annex: List of organisations that responded to the survey

Organisations of/for people with disabilities	Specialised microfinance providers
1 SERVE, Afghanistan	1 Care-Afghanistan, Afghanistan
2 Victims of Mines and Weapons (VMA), Albania	2 Azerbaijan Credit Union Association, Azerbaijan
3 Fundacion PAR, Argentina	3 Pro Credit Bank (PCB), Albania
4 Karbala Gram Unnayan Kendro (KGUK), Bangladesh	4 Shaki Foundation for disadvantaged women, Bangladesh
5 Sangjong, Bangladesh	5 Bandhu Kaliyan Foundation, Bangladesh
6 Soc. Assist. & Rehab. for the phys. vulnerable (SARPV), Bangladesh	6 Srizoni, Bangladesh
7 Save the Planet and Disability (SPD), Bangladesh	7 PROSHIPS, Bangladesh
8 Action in Development (AID), Bangladesh	8 Crecer – credito con educacion rural, Bolivia
9 NARIZ, Bangladesh	9 BancoSol, Bolivia
10 Bangladesh Protibandi Kaliyan Somity (BPKS), Bangladesh	10 Oportunidad Latinoamérica, Colombia
11 Ass. for Women Empowerment and Child Rights (AWAC), Bangladesh	11 EKI, Bosnia-Herzegovina
12 Village Initiative for Empowerment of Women (VIEW), Bangladesh	12 MCO Mikrofin, Bosnia-Herzegovina
13 Bangladesh Poor Women Development Ass. (BPWDA), Bangladesh	13 Mercy Corps, Bosnia-Herzegovina
14 Adopt a Minefield (AAM), Bosnia-Herzegovina	14 BOSPO, Bosnia-Herzegovina
15 Landmine Survivors Network (LSN), Bosnia-Herzegovina	15 CRS, Burkina Faso
16 Etre comme les autres (ECLA), Burkina Faso	16 MUFEDE, Burkina Faso
17 World Vision (WV), Cambodia	17 Women's World Banking – Cali, Colombia
18 Disability Development Services Pursat (DDSP), Cambodia	18 Oportunidad Latinoamérica, Colombia
19 Vietnam Veterans America Foundation (VVAF), Cambodia	19 CAPES, Congo (DRC)
20 Handicap International (HI), Central Africa	20 Paidek, Congo (DRC)
21 Landmine Survivors Network (LSN), El Salvador	21 FAEF, Congo (DRC)
22 Relief Organisation for Handicapped (ROH), India	22 COAC Maquita Cushunquic, Ecuador
23 Family of Disabled (FoD), India	23 COAC Accion Rural, Ecuador
24 Leprosy Mission Trust - CBR South India (LMT-south), India	24 ALFAES, El Salvador
25 Leprosy Mission Trust - IDC-CBR (LMT-IDC), India	25 CAM-FINCA, El Salvador
26 Gramin Jan Kalyan Samiti (GJKS), India	26 Micredito, El Salvador
27 Tiljala Shed (T. SHED), India	27 ESHET Microfinance institution, Etiopía
28 Assoc. for the Physically Disabled Kenya (APDK), Kenya (Mombassa)	28 PRAYAS, India
29 Assoc. for the Physically Disabled Kenya (APDK), Kenya (Embu)	29 FOCUS, India
30 Assoc. for the Physically Disabled Kenya (APDK), Kenya (Kisii-branch)	30 SAATH, India
31 World Concern (WC), Laos	31 Mercy Corps, Kyrgyzstan
32 Lebanese Welfare Association (LWA), Lebanon	32 Credit Epargne Formation (CEFOR), Madagascar
33 Norwegian People's Aid (NPA), Lebanon	33 Entreprendre à Madagascar, Madagascar
34 Akanin'ny Maray 1 (AM) – paper production unit, Madagascar	34 Handicaiss, Mali
35 Akanin'ny Maray 2 (AM) – individual projects, Madagascar	35 Compartamos, México
36 Handicap International (HI), Mali	36 FINCA, México
37 Union Malienne des Aveugles (UMAV) 1, Mali	37 ProMujer, México
38 Union Malienne des Aveugles (UMAV) 2, Mali	38 ACODEP, Nicaragua
39 Handicap International (HI), Nicaragua	39 FAMA-ACCION, Nicaragua
40 FURWUS Polus Centre, Nicaragua	40 ProMujer, Nicaragua
	41 FUDEMI, Nicaragua
	42 Arab Centre for Agricultural Development, Palestine
	43 Caja Nor, Peru
	44 NORFIL, Philippines
	45 CJSC Finca, Russia
	46 Micro Development Fund (MDF), Serbia and Montenegro
	47 ORA International, Tajikistan
	48 Microfund, Togo
	49 SUFFICE programme, Uganda
	50 COFAC, Urugua

continued

Organisations of/for people with disabilities	Specialised microfinance providers
41 ADRN Nacional, Nicaragua – Managua	
42 ADRN Juigalpa Chontales, Nicaragua – Juigalpa	
43 Maricela Toledo Nacional, Nicaragua	
44 Fundacion Solidez, Nicaragua	
45 Asociacion Nacional de No Videntes ANNV, Nicaragua	
46 Handicap International (HI), Senegal	
47 World Rehabilitation Fund (WRF), Sierra Leone	
48 Leonard Cheshire International (LCI), Tanzania	
49 Tanzania Association of the Disabled (TAD), Tanzania	
50 Vocational Training Project for PWD's (YOMBO), Tanzania	
51 AVSI, Uganda	
52 National Union of Women with Disabilities (NUWODU), Uganda	
53 COMBRA, Uganda	
54 Canadian Physicians for Aid and Relief (CPAR), Uganda	
55 Association for Aid and Relief (AAR), Vietnam	
56 Medical Committee Netherlands – Vietnam. (MCNV), Vietnam	
57 Quang Tri Charity Association (QTCA), Vietnam	
58 ADRA, Yemen	