

Inclusion of People with Disabilities in Mainstreaming Microfinance Service

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August 2012

## **Introduction**

The Millennium Development Goals call on every stakeholder to take actions toward achieving eight key developmental goals by 2015 (United Nations, 2010). It calls for actions for all people, including the most vulnerable groups – women, elderly, children and people with disabilities.

The Goals focus on reducing extreme poverty, improving health and education, to generally improve the lives of the world's poorest population. Another report from the World Bank estimates that 10-12 percent of the world's population, over 600 million people, have some form of disability, and that people with disabilities are highly over-represented among the poor, with 82 percent of them live below the poverty line (World Bank, 2006). It is thus safe to say that people with disabilities should be prioritized in order for a country to achieve fully inclusive developmental goals called by the United Nations. One thing to keep in mind is that disability-related statistics in Ethiopia are not reliable at all. According to Lewis and his UNESCO report, it has not been possible to establish accurately the number of disabled (Lewis, 2009). There has been lack of efforts to create precise statistics for people with disabilities, no matter on governmental or non-governmental level. However, agencies such as the World Health Organization (WHO) or the Handicap International assume that there are about 8 million people with some form of disability in Ethiopia. Based on the fact that there are 80 million Ethiopians, about 10% of Ethiopian population has some form of disability.

Supposedly, microfinance institutions (MFIs) exist to help the poorest among the poor, and to eradicate poverty (Mochona, 2006). In Ethiopia, there are 30 MFIs serving the poorest not only in Addis Ababa, the capital city, but also many rural regions under the guidance and support of Association of Ethiopian Micro Finance Institutions (AEMFI) and the National Bank of Ethiopia (NBE). According to the report provided by the AEMFI, the total capital of all MFIs as of

## Financial Inclusion of People with Disabilities

December 2011 is over 3 billion Birr, which is over 160 million USD (\$1 USD = 17.85 Birr), and the number of clients is over 2.4 million people (Appendix 1). The Development and Poverty Profile of Ethiopia that was compiled based on the data collected in 1999 and 2000 reports that 44.2 percent of Ethiopia's whole population live in "absolute poverty", which means they are unable to meet the most basic needs. It also reports that 37 percent of the absolute poverty population lives in urban settings (). Microcredit loan was invented with intention of alleviating poverty by creating jobs and allowing people to engage in income generating activities. What is interesting is that since the 1970s, when the first microfinance service was provided, women were the main targets of the service due to series of factors in this fairly conservative culture. Also, before the law clearly prohibited nongovernmental organizations (NGO) to give out loans, many NGOs' target was group of women to start their own business. However, people with disabilities have not yet been a main target of the service due to heavy stigma that has been associated with them. According to my investigation (interviews with local MFIs), most of the MFIs consider people with disabilities as "risk" because they "lack skills and education to pay back the money". Thus in nearly 40 years of history of microfinance business in Ethiopia, there has been lack of access to MFIs for people with disabilities. Despite that it is virtually impossible to conclude the number of people with disabilities in absolute poverty due to lack of statistics, there is presumably a huge portion of people with disabilities in the population since it is hard for them to participate in regular income generating activities, which lead to more potential clients for all MFIs in Ethiopia. According to a report from the United States Agency for International Development (USAID), challenges related to disability work in Ethiopia include: limited awareness of the needs of people with disabilities and their ability to fully participate in society; negative attitudes towards people with disabilities; inaccessible information and

infrastructure; limited capacity and resources of local organizations and the government to achieve their objectives; limited and unbalanced availability of services and supports; and limited educational and employment opportunities. People with disabilities in Ethiopia face a “double barrier” of not being able to find a job due to lack of awareness, and not being recognized and appreciated as reliable borrowers to the mainstreaming financial institutions. Therefore, they seek for both governmental and nongovernmental financial support, which makes them more and more dependent to the unreliable system, and unable to get out of poverty. It is the mission of all microfinance institutions to “be made available on a scale accessible to low-income people” (Eversole, 2000). If the only reason that prevents people with disabilities from getting loans from microfinance institutions is stigma, it should be changed. Eversole also mentions that it is not “possible to design a single program that will help the whole range of microenterprises” due to diversity among microenterprises, thus this article introduces a pilot project that was done by Ethiopian Center for Disability and Development (ECDD) and the Specialized Financial Promotional Institution (SFPI) in Addis Ababa, Ethiopia.

### **Precedents**

There are some international and Ethiopian precedents that helped people with disabilities to be more independent and self-reliant through microfinance services. The Ethiopian Federation for Persons with Disabilities (EFPD), International Labor Organization (ILO) and Gasha Microfinance Institution (Gasha) set up a guarantee fund that subsidized half of the interest rate to facilitate access for people with disabilities to microfinance services. It also helped them with half of the obligatory savings, which had been an obstacle for people with disabilities to apply for the loans. While the project deposited US\$15,000 at Gasha as to serve as the guarantee fund,

## Financial Inclusion of People with Disabilities

which mostly enabled women with disabilities to start their business, EFPD provided six-day training with intention of improving their business skills. The credit officers at Gasha had random visits to their business as to ensure that they are fully engaged in income generating activities, and to give any additional advice needed. The repayment rate of beneficiaries of this loan was slightly lower than other clients at Gasha (84 percent versus 95 percent). However, it just took longer than other clients, and the full recovery was achieved eventually. The ultimate goal of the project was to lessen the burden of interest rates for people with disabilities, and to enable them (particularly women) to start their own business. Internationally, there are abundant of cases where loan beneficiaries with disabilities make enough money to repay with proper assistance from DPOs. For example in Columbia, the Oportunidad Latinoamérica (OL), a microfinance provider, realized that there was a high incidence of people with disabilities among the vulnerable populations, and decided to specifically target this group as a specific market segment. In order to achieve this goal, they designed a flexible methodology that would make it easier for people with disabilities to have access to the loan: Accepting smaller solidarity groups if they included people with disabilities, gave smaller loans than their usual ones for people with disabilities, and accepted to provide loans for start-ups, which is a rare thing to do for the rest of their clients. The average loan was US\$190 with a monthly interest rate of 1.89 percent. As a result, they now have reached 450 people with disabilities, representing six percent of OL's clients.

### **Microfinance for People with Disability in Ethiopia**

As stated above, microfinance service to people with disabilities can hardly be seen in Ethiopia. The project by ILO, EFPD and Gasha Institution was one, but there is no scholarly article that

discusses microfinance service exclusive to people with disabilities. Despite the lack of statistics, the general assumption of number of people with disabilities in Ethiopia is about eight million. Among these eight million people, not everyone can finish basic education (primary school to 10<sup>th</sup> grade), nor can every family can help them financially. Thus potential client number of microfinance institutions is presumably very high. However, the biggest obstacle is that most MFIs still do see people with disabilities as financial 'risk'. The precedent of Gasha proves that the assumption is not only incorrect, but also dangerous. The USAID "adopted a groundbreaking policy with the goal of advancing a clear vision and framework for the Agency's effort in the area of disability and inclusive development ... to implement the United Nations Convention on the Rights of Persons with Disabilities" (USAID/Ethiopia). Not only the USAID or the UN agencies, but many other NGOs also have started to include disability issues in their development agendas. In the Article 20 of Proclamation 40/1996 of government of Ethiopia, it states, "every MFI shall devise and execute a policy whereby the low-income section of society, especially in rural areas, get access to credit and to this end" (K.O., 2005). Both public and private sectors try to help the poorest of the poor, and like in many developing countries, the poorest of the poor would be people with disabilities (Handicap International, 2006). Despite the demands are clearly abundant – Eight million people with disabilities who could not get properly paid job, there is little room for them. Inaccessible infrastructure in Ethiopia makes lives of people with disabilities harder, and they generally have lower level of education. Because of many rejections in the past, people with disabilities have their own uneducated biases towards microfinance institutions as well. They are misinformed about the MFIs, do not generally understand the advantages and disadvantages of microfinance loans, are lack of saving habits, and tend to think that MFIs are a type of social office, not a banking institution. MFIs, on a same

## Financial Inclusion of People with Disabilities

context, have their misconceptions towards people with disabilities. Some of them have not thought of including people with disabilities, have biases towards people's abilities to do business, misunderstand disabilities in general, or simply view people with disabilities as loan risks. Again, these negative attitudes or lack of knowledge of disabilities can lead to serious problems. Due to the link between poverty, disability and development, poverty eradication cannot be fully achieved without institutional assistance to people with disabilities. The World Bank estimates that 20% of the world's poorest people have more than one disability, and UNDP estimates that over 80% of people with disabilities live in developing countries. A study in India shows that at least 32 million people had some sort of disabilities in 1991, but the number of people who were affected indirectly by disability was about four to five times more – 130 million, and these figures are likely to be greatly underestimated. The reason for including people with disabilities in the mainstreaming microfinance services is simple: To reach the Millennium Developmental Goals fully, and the total inclusion for greater development. It is, however, not being fully achieved at any level of institution in Ethiopia. The reasoning behind the demand for better accessibility to microfinance varies. Firstly, inclusion of people with disabilities in the mainstreaming society requires rehabilitation, which requires economic improvement. In Ethiopia, economic improvement requires self-employment most of the time, and self-employment requires initial capital. The capital they need is comparably not large; rather, it is something within the microcredit loan's boundary. For this very reason and other negative societal attitudes, people with disabilities need access to MFIs like any other people in financial needs. Apart from the moral obligation and other reasons to include people with disabilities in the services, another big motivation is the big number of potential clients for MFIs. MFIs charge interests to be sustainable and try to find clients because that is how they make profits. If the

service is open to more people, it inarguably means more clients for MFIs, which means greater profits. As stated above, there are about eight million people with disabilities, and 20% of those eight million are the poorest of the poor. If they are provided with some BBS and financial training, and if the only obstacle of accessibility to MFIs were negative societal attitudes, not the actual facts, then people with disabilities would be a tremendous group of potential clients. If the MFIs start providing the same service to people with disabilities, and if the DPO sets up a guarantee fund that will cover MFI's loss only if people with disabilities fail to repay, then it is a win-win situation. MFIs will a new layer of client group and will serve the most needed people as its mission states, DPOs will serve their mission of financial inclusion of people with disabilities. There needs to be careful planning between the two parties; however, if both parties agree on doing such thing, it can aim to help more people with disabilities when the MFIs expand their clients to a whole new group.

### **Mustard Seeds Project**

This project has been initiated by the ECDD with intention to help people with disabilities in Ethiopia become more self-reliant, participate in income generating activities, change the stigma that is attached to them, so that people with disabilities in this country can eventually go to MFIs or banks freely to borrow the money. The process is quite simple. Basically, after assessing the needs and fundraising, Disabled Persons' Organization (in this case, ECDD) and a local MFI will both sign a Memorandum of Understanding (MOU), specifically stating its purpose (in this case, it is that the guarantee fund that will recover MFI's loss only if people with disabilities fail to repay). DPO's role is to provide the borrowers proper business training and financial advice so that the business is profitable and sustainable whereas the MFI will charge the borrowers




## Financial Inclusion of People with Disabilities

reasonable interest rate and recollect the money on time so that the fund itself is sustainable. It has also been a good pilot project for the local MFI and Ethiopian Center for Disability and Development (ECDD) since the initial fund is small and project-oriented. As for the local MFI, ECDD met with managers at the Specialized Financial and Promotional Institution (SFPI) to discuss the possibility of collaboration. After the discussion, I found that they were quite understanding, sympathetic and felt responsible to include people with disabilities, who are the most marginalized group, as their clients as their mission statement indicates. After verbal agreement of establishing a special fund for people with disabilities, ECDD drafted the Memorandum of Understanding (MOU) specifically stating that this fund will only be available for people with disabilities. Both parties revised and signed on the MOU, the ECDD issued a check of US\$1,500 to SFPI to create a guarantee fund. ECDD will recommend them a group of people with disabilities (about 20-25 people), and if they go through SFPI's selection process, they will receive the regular loan to start a business. After they start a business, employees at the ECDD and a credit officer from SFPI will visit them without prior notice as to ensure that they are making profits and answer any questions they may have. In this process, it is crucial for the MFI to keep it confidential. Due to many precedents, the loan beneficiaries may have an idea of that this is another charity for them to start a business, not a formal loan that came from a local microfinance institution. If the beneficiaries have a notion of that the fund was raised by ECDD as grant, then they may lack attempts to pay back the money. All loans have to be repaid for the fund to be as sustainable as possible. At a discussion with SFPI, the ECDD explained that this is a 'win-win' situation. The MFI gets more clients and much more potential clients, and the people with disabilities who have awaited for the loan are now able to start their own business, and the ECDD serves more people. This model has the minimal risk because of below factors:

The beneficiaries do not acknowledge that the money is from the ECDD, thus they will do their very best to repay the money; the MFI gets more clients and they can serve their very purpose of helping the poorest of the poor; the ECDD will provide the Basic Business Skills (BBS) training and any financial advice needed to beneficiaries as to ensure the repayment. The guarantee fund at the SFPI will serve as an exemplary collaboration model between a DPO and a MFI to ensure inclusion of people with disabilities in microfinance services.

## Appendix 1

|  <b>Association of Ethiopian Microfinance Institutions (AEMFI)</b><br><b>MFIs Outreach for the 4th Quarter December 31, 2011</b> |              |                        |                      |                      |                    |                      |                       |                      |                      |
|---|--------------|------------------------|----------------------|----------------------|--------------------|----------------------|-----------------------|----------------------|----------------------|
| No.   | Name         | No of Active Borrowers | Loans Outstanding    | Voluntary Saving     | Compulsory Saving  | Total Saving         | Total Asset           | Total Liabilities    | Total Capital        |
| 1   | ACSI         | 711,790                | 2,051,912,046        | 1,101,000            | 333,809            | 1,434,809            | 3,447,717,000         | 2,407,933,000        | 1,039,784,000        |
| 2   | ADCSI        | 167,287                | 560,829,000          | 138,126,000          | 73,057,000         | 211,183,000          | 807,396,000           | 404,641,000          | 402,755,000          |
| 3   | Aggar        | 7,460                  | 28,871,137           | 17,523,610           | 3,970,895          | 21,494,505           | 34,064,636            | 26,293,428           | 7,771,208            |
| 4   | AVFS         | 13,555                 | 15,218,282           | 881,174              | 5,363,486          | 6,244,661            | 20,982,953            | 9,001,234            | 11,981,719           |
| 5   | Benshangul   | 28,874                 | 51,762,087           | 8,946,458            | 11,787,676         | 20,734,134           | 68,423,657            | 48,829,270           | 19,594,387           |
| 6   | Bussa Gonofa | 42,319                 | 54,431,690           |                      | 10,973,272         | 10,973,272           | 73,226,645            | 37,214,545           | 36,012,101           |
| 7   | DECSI        | 381,920                | 1,953,869,102        | 945,530,230          | 68,134,297         | 1,013,664,527        | 2,770,484,637         | 2,066,607,882        | 703,876,754          |
| 8   | Dire         | 5,662                  | 15,467,979           | 2,459,986            | 5,366,673          | 7,826,659            | 50,876,217            | 18,672,494           | 32,203,723           |
| 9   | Digaf        | 436                    | 504,320              | 103,435              | 236,171            | 339,606              | 818,530               | 372,090              | 446,440              |
| 10  | Eshet        | 25,709                 | 45,161,566           |                      | 8,053,838          | 8,053,838            | 47,808,936            | 34,804,462           | 13,004,474           |
| 11  | Gasha        | 6,991                  | 14,736,312           |                      | 5,298,377          | 5,298,377            | 20,732,067            | 15,952,049           | 4,780,018            |
| 12  | Ghion        | 233                    | 286,268              |                      | 311,112            | 311,112              | 492,236               | 319,805              | 172,431              |
| 13  | Harbu        | 20,115                 | 30,664,757           | 6,275,292            | 6,218,154          | 12,493,446           | 44,006,619            | 27,111,084           | 16,895,535           |
| 14  | Letta        | 958                    | 6,277,980            | 473,260              | 1,941,920          | 2,415,180            | 7,404,790             | 3,119,050            | 4,285,740            |
| 15  | Meket        | 2,286                  | 2,247,204            | 214,134              | 89,002             | 303,136              | 3,072,154             | 842,908              | 2,229,246            |
| 16  | Mekilt       | 14,224                 | 23,029,053           | 2,318,819            | 6,333,899          | 24,749,112           | 19,152,812            | 16,316,428           | 2,836,384            |
| 17  | Metemamen    | 11,694                 | 11,811,600           | 235,900              | 3,505,600          | 3,741,500            | 17,581,780            | 4,258,600            | 13,323,180           |
| 4   | Ocssco       | 502,540                | 1,300,292,246        | 288,340,595          | 42,902,816         | 331,243,411          | 1,765,927,748         | 1,301,476,276        | 464,451,472          |
| 19  | Omo          | 327,888                | 585,102,740          | 133,736,807          | 242,781,752        | 376,518,559          | 713,468,141           | 484,388,720          | 229,079,421          |
| 20  | PEACE        | 18,581                 | 48,231,160           | 1,561,584            | 12,482,951         | 14,044,535           | 61,217,410            | 34,952,720           | 26,264,690           |
| 21  | SFPI         | 32,645                 | 59,650,498           | 4,141,644            | 18,635,669         | 22,777,313           | 87,327,889            | 51,118,852           | 36,209,037           |
| 22  | Shashemene   | 1,744                  | 10,342,773           | 1,566,486            | 1,720,506          | 3,286,992            | 15,501,342            | 7,699,638            | 7,801,704            |
| 23  | Sidama       | 47,810                 | 28,334,552           | 5,028,331            | 6,222,633          | 11,250,963           | 36,267,057            | 24,665,404           | 11,601,654           |
| 24  | Wasasa       | 56,171                 | 115,973,094          | 20,802,475           | 18,027,600         | 38,830,075           | 142,929,844           | 92,175,908           | 50,753,936           |
| 25  | Wisdom       | 48,738                 | 116,319,154          | 14,023,584           | 23,304,456         | 37,328,040           | 209,036,608           | 97,582,200           | 111,454,408          |
| 26  | Harar        | 3,159                  | 13,701,540           | 24,270               | 1,076,640          | 1,100,910            | 26,709,039            | 16,726,503           | 9,982,536            |
| 27  | Lefayeda     | 291                    | 560,847              | 228,047              | 166,266            | 394,313              | 808,001               | 479,494              | 328,507              |
| 28  | Dynamic      | 261                    | 2,224,932            | 966,990              | 553,534            | 1,520,524            | 3,005,065             | 1,605,404            | 1,399,661            |
| 29  | Gambella MFI | 880                    | 1,173,831            | 60,351               | 73,657             | 134,008              | 1,537,441             | 367,909              | 1,169,532            |
| 30  | Tesfa        | 269                    | 407,041              | 14,460               | 51,544             | 66,004               | 862,000               | 262,800              | 599,200              |
| <b>Total in 9-30-2011</b>   |              | <b>2,482,490</b>       | <b>7,149,394,791</b> | <b>1,594,684,924</b> | <b>578,975,204</b> | <b>2,189,756,522</b> | <b>10,498,839,254</b> | <b>7,235,791,156</b> | <b>3,263,048,098</b> |

Source: Association of Ethiopian Microfinance Institution (AEMFI), 2012