HIV/AIDS and Microfinance

Interagency Coalition on AIDS and Development
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Background

Microfinance is described as the provision of financial services (savings and credit services) to low-income people. Microfinance Institutions (MFIs) only recently began to strategize how to face the challenges involved in providing financial services in high prevalence HIV/AIDS areas. Not surprisingly, the first experiences were gained in countries that are most affected by HIV/AIDS—Sub-Saharan Africa. Literature on this issue is still nascent. Discussions have focused on two important questions:

- Is microfinance an appropriate tool for prevention and mitigation of the effects of an HIV/AIDS-affected population?
- How can the microfinance industry remain sustainable in high-prevalence HIV/AIDS areas?

Introduction to Microfinance

The microfinance industry has grown substantially over the last decade. The Micro Credit Summit held in Washington, DC (1997) identified 100 million new poor clients as the outreach target for MFIs in 2005. The appeal of microfinance is that it can reach the poor in a sustainable way. It is not yet clear, though, to what extent microfinance contributes to poverty reduction. Those who benefit most from microfinance services are the poor who have economic opportunities and who operate in the informal sector: petty traders, street vendors, artisans, service providers, and small farmers. Microfinance is not effective in cases of extreme poverty.

Microfinancial products include the following:

- Small loans (micro-credit), typically for working capital. The provision of micro-credit is the most common microfinancial service.
- Compulsory savings, used as a guarantee against loans. These savings cannot be withdrawn before the loan has been reimbursed.
- Voluntary savings. In many countries, bank regulations prohibit non-banking institutions from mobilizing savings. However, many MFIs found creative ways to provide flexible savings products. Savings services proved to be critical for the very poor, in helping them cope with livelihood shocks and using them for investment. It is not surprising that the very poor tend to want to safeguard what they have, rather than risk their savings by taking credit.
- Microinsurance, which is a relatively new product in microfinance. Products include life, health, disability, loan, property, and funeral insurance. Microinsurance can either be provided by the Microfinance Institution (MFI) itself or by an insurance company in close cooperation with the MFI. Microinsurance is expected to increase the ability of clients to repay their loans and, consequently, protect the portfolio quality of the MFI.

Microfinancial services are delivered by informal providers, non-governmental organizations (NGOs), credit unions, governmental and commercial banks, or non-banking financial institutions. Some NGOs provide microfinance in combination with other services (training, health education, business advisory services). At present, organizations are encouraged to separate financial services from non-financial services, to increase the

MFI's efficiency. An MFI operates as a business; cost recovery is vital for its survival. Loan interest rates are higher than bank lending rates, as the transaction costs of small loans—often provided at or near the clients' homes—are higher than those of larger loans provided by traditional banks.

Another important difference between traditional banks and MFIs is that MFIs accept alternative collateral, including, for example, household equipment, jewellery, or peer pressure of solidarity groups, who cross-guarantee each other's loans.

Although the microfinance industry has grown, informal providers of microfinance—including moneylenders, pawnbrokers, rotating savings and credit associations and funeral insurance associations—reach a much larger proportion of the poor. Research on the role and significance of these informal providers in terms of the HIV/AIDS epidemic is scarce.

Microfinance and HIV/AIDS

Research has revealed that clients see risk management as a major goal of participating in a microfinance programme, citing illness or death of a household member as reasons for seeking assistance. Savings and loans strengthen the safety net of a household by diversifying income and enabling the building of assets. Participation in a microfinance program reduces the risk that households in crisis situations turn to coping strategies such as selling assets or keeping children from attending school in order for them to contribute to the household.

HIV/AIDS has a severe impact on livelihood. Household incomes drop, on average, by 40% when an adult becomes sick with HIV/AIDS and household medical expenses rise by 400%. Household food consumption drops by 30%. There is considerable risk that HIV/AIDS-affected clients will default on their loans, may not continue to borrow, or will want to withdraw savings. Those affected include not only the HIV/AIDS-infected, but also household or family members of the infected, who have lost income or have to care for the sick or for orphans.

MFIs operating in high-prevalence HIV/AIDS areas are inevitably affected by the increased number of clients facing crises. A survey conducted in several countries in Africa found that 41% of MFIs interviewed indicated that their overall cost structure increased due to the impact of HIV/AIDS. The three most frequently cited causes were: increases in loan loss provision (27% of respondents); increases in staff benefits, e.g. reimbursement of medical expenses (27%); and new client induction costs (14%).

Continuing to operate in high-prevalence HIV/AIDS areas can threaten the sustainability of MFIs. Product innovation is an expensive endeavor, but is needed to mitigate the impact of HIV/AIDS. Some MFIs have proved that by adapting their products it is possible to reach sustainability in this environment. MFIs can opt to cease their involvement in high-prevalence HIV/AIDS areas. They are, however, well positioned to engage in HIV/AIDS prevention and mitigation efforts for a number of reasons:

- The client base of microfinance is the poor, while HIV/AIDS-affected individuals are likely to come from poor communities.
- Many MFIs target women. In Sub-Saharan Africa, the HIV infection rate among women is much higher than among men. Young women outnumber infected males by a ratio of 2 to1. A microfinance programme may reduce the vulnerability of women to HIV/AIDS by offering an alternative to high-risk behaviour based on economic necessity. This behaviour does not only include prostitution—it includes engaging in sex

with men in exchange for support, such as payment of school fees.

- Microfinance can support the financial activities of healthy family members.
- Microfinance can strengthen the household safety net that can be drawn upon in the later stages of AIDS.
- Microfinance works frequently with groups, which can be used to transmit prevention information about HIV/AIDS and organize discussions on HIV/AIDS-related problems.
- It is likely that the effects of the HIV/AIDS epidemic will be felt for decades to come. Sustainable Microfinance Institutions will be able to provide financial services for the duration and beyond.

HIV/AIDS Prevention and Mitigation Activities

Looking at the experiences of MFIs thus far, programmes addressing the HIV/AIDS crisis have included implementing prevention or mitigation activities, or a combination of both. Most innovative products are designed by smaller MFIs that offer a mix of financial and non-financial services. These MFIs often lack the scale of operation of organizations that focus solely on financial services, but are valuable incubators of new products for the whole microfinance industry.

Education

Village banking or solidarity groups can be used as an avenue for HIV/AIDS education. This can be carried out by the MFI itself, or by linking with an organization which specializes in implementing HIV/AIDS programmes.

The Foundation for International Community Assistance (FINCA) in Uganda, for example, linked with the Church of Uganda Doctors to conduct HIV/AIDS awareness seminars among the village banks. The cost for travel, preparation and presentation are borne by group members. These seminars represent an expansion of FINCA's empowerment programmes.

The Foundation for Credit and Community Assistance (FOCCAS) in Uganda uses a "credit with education" methodology, supported by Freedom from Hunger. Loan officers deliver training as part of weekly village bank meetings. The education curriculum includes six health and nutrition topics, including HIV/AIDS, and four better business topics. FOCCAS considers this integrated approach cost-efficient and impact-effective, although it recognizes that the quality of both services may be slightly compromised.

Mitigation

HIV/AIDS mitigation activities implemented by MFIs include the innovation of microfinancial products and delivery methodologies, the review of operational procedures and linking with other services. Some mitigation activities are still at the concept stage; others have been implemented.

MFIs need not develop new products, but can change their existing products to better meet the needs of HIV/AIDS-affected households. Small changes can make a considerable difference. Organizations that focus solely on providing microcredit must review their strategies in light of HIV/AIDS-affected clients, who require greater flexibility. New products developed by MFIs include brokering services with burial societies, microinsurance and trust funds.

Parker et al's survey (2000) found that 57% of responding MFIs encountered increased difficulties in loan repayments, while 27% indicated a higher demand for smaller loans. In addition, clients

diverted enterprise loans more frequently to health care and funeral expenses and tended to temporarily suspend the use of microfinance services.

Generally, MFIs provide small initial loans, with amounts rising for subsequent loans. In order to respond to the needs of clients who must reduce their business because of illness, MFIs can allow clients to continue take out smaller loans, rather than "graduate" to larger loans.

In most microfinance programmes, clients must take out a new loan after finishing a loan cycle (loan disbursement and reimbursement) in order to remain within the programme. MFIs can allow clients to take a rest between cycles while staying in the programme and thereby maintain access to the MFI's services.

The MFI can provide short-term emergency loans. Opportunity International is considering ways to provide loans for emergencies, including loans for health reasons. Provision of emergency loans to clients who also have an outstanding enterprise loan can lead to unmanageable debt. MFIs can also encourage village banking and solidarity groups to build up funds to be loaned for emergencies. The advantage of these group-managed funds is that group members are in a better position than the MFI to judge loan requests, although social and cultural issues may influence peer groups to deny loans to certain members.

Innovation of Delivery Methodologies

- Solidarity groups

Solidarity group members are responsible for the repayment of debts of members who are unable to pay. Strategies of solidarity groups to cope with group members affected by illness include:

* Continuing to operate the business of the affected member
* Advise the ill member to choose somebody outside the group to run the business
* Raise funds to cover the loan

Solidarity, however, has its limits. Solidarity groups may disintegrate when group members become more frequently ill; healthy group members may also start to default because of the hopelessly high group debt. Moreover, groups may exclude HIV/AIDS-affected members because of the high risk they represent.

The MFI can limit the liability of each solidarity group member in case of default, which may prevent the drop out of healthy group members. It may also prevent the exclusion of HIV/AIDS-affected people from solidarity groups, but also means that the MFI must limit its protection against default.

- Team loans

Loans can be made to a team of people running the same business. When one member becomes ill or dies, the other members can continue to operate the business and can complete loan repayments. Additionally, the MFI can require that team members are all women from the same family; the oldest and the youngest family members are less likely to get infected and the business can be passed on to those who survive.

- Credit to younger clients

Due to the HIV/AIDS epidemic, a growing number of households are headed by children and adolescents. Typically, MFIs lend to people who are already involved in business and are an average of 30 years of age. MFIs can make younger people eligible for loans and link them to basic skills and training.

Innovation of Savings Products

HIV/AIDS-affected clients need easily accessible savings services. If a household started to save before they became affected by HIV/AIDS, they could draw on these savings when HIV/AIDS-related costs rise and income streams diminish or fall. Nearly half of the MFIs involved in Parker et al's survey reported that their clients increasingly wanted to access their compulsory savings and were even prepared leave the programme to be able to retrieve these funds. Providing savings services can reduce the client exit rate and reduce the diversion of enterprise loans to emergency expenses.

- Voluntary savings in combination with compulsory savings:

FINCA in Uganda allows clients to deposit savings above the amount required to guarantee the loan. These voluntary savings are available for clients when needed.

- Trust Funds:

Several MFIs are exploring the possibility of creating trust funds that allow HIV-positive clients to save for the benefit of their children after their death. Opportunity International is considering establishing an education trust for minors.

- ROSCAs and emergency funds:

The MFI can encourage client participation in informal ROSCAs (Rotating Savings and Credit Associations) or Savings Associations to strengthen their safety net. ROSCA members contribute a fixed amount into a pool and the total amounts are distributed at fixed intervals on a rotating basis. The existence of ROSCAs is an almost universal phenomenon. Members of savings associations save in order to assist each other in case of emergency. Solidarity groups can be encouraged to establish internally managed emergency funds.

Insurance

The provision of insurance products to the poor in a high prevalence HIV/AIDS environment is a challenge—premiums are generally very costly. Several MFIs, though, are experimenting with a variety of health and credit insurances, provided through a partnership with a formal insurance company or by the MFI itself.

- Health insurance reduces the risk of serving clients in a high prevalence HIV/AIDS environment. To keep the insurance affordable for poor clients, the provider should carefully set premiums, co-payments and limits of coverage. FINCA in Uganda introduced a pilot health insurance which provides health care to clients, their spouses and dependents through a partnership with a hospital in Kampala. Demand for this product is high. FINCA counts on attaining sustainability by reaching a high number of participants and keeping the up-front premium relatively low, coupled with a co-payment of out patients. The burden of cost is therefore placed on those who use the product most. The insurance does not cover, among other things, HIV/AIDS medication.
- Credit Insurance covers outstanding loans at the time of death and, as a result, protects the MFI's portfolio against non-repayment due to death. It also removes the debt burden from other solidarity or village bank group members and can prevent groups from excluding group members with health problems. FINCA in Uganda offers credit insurance, on a voluntary basis, through a multi-national insurance company. CARE's Pulse in Zambia requires that all borrowers contribute 2% of the loan amount to a Borrowers' Protection Fund. Opportunity International requires a one-time fee. In addition to the credit insurance, FINCA developed an accidental death insurance that covers the client, his or her spouse

and their children. In case of accidental death, a payment is made to family members who are pre-designated by the client.

- Informal funeral or death benefit insurances are fairly common in Africa. Funeral costs can be high: a survey in South Africa indicated that households spend approximately 15 times their average monthly household income on a funeral. MFIs can link clients to these insurance schemes, or provide the insurance itself. Opportunity International is planning to offer its clients a death benefit insurance that would cover burial and related costs for clients and up to five dependents through a local insurance company, which would receive a commission for each new policy.

Other Services

MFIs can link with other organizations to provide services that mitigate the effects of HIV/AIDS, such as counselling, training for the care of sick family members, or legal advice to ensure that women and children have legal protection when the husband dies (Parker et al. 2000).

The Zambuko Trust in Zimbabwe and Opportunity International in Uganda, Zambia and Zimbabwe cooperate with organizations that give advice to women on social issues and basic rights, such as inheritance and wills.

Operations

To cope with HIV/AIDS-related impact, MFIs operating in high-prevalence areas are forced to review operational procedures such as staffing, monitoring and evaluation (McDonagh 2001).

Staffing

Evidence suggests that MFI staff in high-prevalence HIV/AIDS areas is also affected by consequences of the disease. Parker et al's survey reported that MFIs most frequently reported the following changes: increase of the size of staff households as a result of the care for orphans; increases in staff absenteeism and illness (Microenterprise Development 2000).

Some MFIs choose for a policy of over-staffing, to cope with absenteeism and future deaths. While this policy increases costs, it also ensures continuity in client monitoring and service delivery (Versluysen 2000). Another MFI in Southern Africa reports that it hires less skilled staff who demand lower salaries (Microfinance Best Practices 2000).

Monitoring and Evaluation

In order to understand the effects of HIV/AIDS on clients, MFIs will likely need to adapt their monitoring and evaluation systems. MFIs in Africa reported that they started to track data on the number of dependents per household, number of households caring for orphans, and the number of female-headed households (Parker et al 2000). Additionally, MFIs began to track information on the impact of death and illness on clients' households and on reasons for dropping out of the programme (Microenterprise Best Practices 2000).

Implications for Programming

It is clear that Microfinance is not a panacea for HIV/AIDS-related problems. Some cautionary notes for programmers and practitioners:

- HIV/AIDS-affected clients should neither be targeted nor excluded. Targeting HIV/AIDS-affected clients is not compatible with MFI aims of sustainability. Moreover, in most cases it will be impossible to know how many or which of an MFI's clients are affected by HIV/AIDS. The clients themselves might not know and—because of cultural taboos—it might be impossible to discuss this with them.

- MFIs can target HIV/AIDS-affected areas. However, microfinance programmes should not be launched in environments with few economic activities inadequate markets.
- Microfinance initiatives should not be launched within an HIV/AIDS- focused program; rather, links with microfinance institutions can be established. Microfinancial services are best provided by specialized institutions.
- The focus should remain on the sustainability of the microfinance institution to guarantee continuity of the services. Non-financial services directed at HIV/AIDS prevention or mitigation can undermine an institution's sustainability.
- Provision of grants or free goods should not be combined with loans. Experience shows that microfinance institutions operating in communities where free goods are handed out encounter difficulties with loan repayments.

What Can Donors Do

MFIs seem to underestimate the impact of HIV/AIDS on clients and, hence, MFIs themselves (Versluysen 2000). Donors can raise concerns with MFIs, encourage information exchange with MFIs, and insist that MFIs become knowledgeable about HIV/AIDS. Donors can also provide funds to test product innovations, to assess their impact, to create better monitoring systems, and to develop strategic partnerships (Parker et al 2000.)

Conclusion

Microfinance clearly has a role to play in the fight against HIV/AIDS, as it contributes to strengthening a household's safety net. It is still questionable as to what extent microfinance can be an appropriate component of a prevention and mitigation strategy in high HIV/AIDS-prevalence areas, where MFIs are forced to adapt strategies, develop new products to address clients' needs, and ensure the sustainability of the organization. It is essential, though, that MFIs remain focused on their status as financial institutions and, consequently, on their efficiency and cost recovery. Attempting to define what "best practices" means is premature—experiments are still in the concept or pilot phase, and availability of information on costs, risks or benefits of engaging in HIV/AIDS prevention or mitigation activities is limited.

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Web Sites

The virtual library on microfinance:
gdrc.org

Synergy AIDS Resource Center:
www.synergyaids.com

USAID Microenterprise Innovation Project (MIP):
www.mip.org

The Small Enterprise Education and Promotion (SEEP) Network:
www.seepnetwork.org

Sustainable Banking With the Poor:
www.worldbank.org

Consultative Group to Assist the Poorest (CGAP):
www.cgap.org

PlaNet Finance:
www.planetfinance.org

The Microcredit Summit Fulfilment campaign:
www.microcreditsummit.org

The Special Unit for Microfinance (SUM):
www.uncdf.org/sum

Rural Finance Group in the Food and Agricultural Organization (FAO):
www.fao.org

Social Finance Unit, International Labour Organization (ILO):
www.ilo.org

Women's World Banking:
www.womensworldbanking.org

The Foundation for International Community Assistance (FINCA):
www.villagebanking.org

Opportunity International:
www.opportunity.org

Development Alternatives:
www.dai.com

UNAIDS:
www.unaids.org

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Funding for this publication was provided by Health Canada. The views expressed herein are solely those of the authors and do not necessarily reflect the official policy of the Minister of Health.

Additional copies are available on the ICAD Web site at www.icad-cisd.com

Le feuillet "VIH/sida et microfinance" est disponible en français.

November 2001