Microfinance and HIV/AIDS

Improving MFI and donor response

CGAP

The consequences of the HIV/AIDS virus are exponential, according to a briefing document published by the Consultative Group to Assist the Poor (CGAP) (www.cgap.org), a consortium of 28 public and private development agencies working together to expand access to financial services for the poor.

Entitled, *Helping to Improve Donor Effectiveness in Microfinance – Microfinance and HIV/AIDS*, the briefing says that over 40 million people worldwide are living with the HIV/AIDS virus, and 15,000 are newly infected every day. The consequences, says CGAP, touch not only those infected with HIV/AIDS, but also deplete the economic and social resources of entire families and communities. In countries heavily affected by HIV/AIDS, microfinance institutions (MFIs) and the donors that support them are struggling to combat the impact of the epidemic on clients and MFI institutional viability.

Affected households, says CGAP, can use financial services as one way to protect and build their economic resources. Launching a financial intervention specifically to target persons with AIDS, however, would not be appropriate, given that financial services depend on the on-going ability of clients to earn income. MFIs that operate in hard-hit regions can serve the families and supporters of infected people and can benefit by planning for the institutional risk posed by HIV/AIDS. They can also build effective links to specialised providers of health and insurance services.

In the last issue of *New Horizons* ("HIV/AIDS and microfinance", p.1) we reported on the microfinance work of ECLOF Zimbabwe (ZECLOF) with those living with HIV/AIDS, and in particular ZECLOF's association with the National AIDS Council and the introduction of loan schemes linked to HIV/AIDS.

As a further contribution to the response to the HIV/AIDS pandemic, *New Horizons* is pleased to be able to reproduce the following extracts from the briefing paper.*

How does HIV/AIDS affect poor households?

About 95 percent of new HIV infections occur in the developing world, triggering a vicious cycle for poor communities. As poverty deepens, poor people's vulnerability to the disease increases, and their ability to protect themselves against further economic losses decreases. Households where one or more persons suffer from prolonged HIV/AIDS-related illnesses experience a decline in income for three reasons:

- lost income of a sick adult;
- lost economic productivity of the healthy adults who become caregivers;
- dramatic increases in household expenses, especially for medical care.

Households handle economic stress in different ways, depending on their initial resource base. Economically diversified households are usually better able to cope. Other families are forced to liquidate their savings, reduce food consumption, borrow from informal and formal sources, and cut back on non-essential expenses (including school fees and non-emergency health needs). As a last resort, households may sell their assets such as household items, tools, livestock, and land – leaving them less able to earn income in the future.

How can financial services best be used in communities grappling with HIV/AIDS?

Financial services alone cannot solve the repercussions of HIV/AIDS. However, access to a broad range of financial services – especially savings – can help households build a safety net to deal with the impact of the disease.

The more vulnerable a household, the less likely it will be able to use microfinance effectively. When faced with a crisis, families may find it impossible to continue investing in productive activities, saving, paying insurance premiums, or repaying loans. Social services or grant programmes may be better alternatives for such directly-affected poor households.

Who can use financial services in regions affected by HIV/AIDS?	What products and policies are responsive to their needs?
individuals who are HIV-positive, but still productive;	flexible savings;
productive family members of HIV-positive individuals;	education trusts for minors;
surviving spouses, children, or parents;	emergency loans;
households unaffected by HIV/AIDS.	burial insurance;
	loan insurance (in case of death);
	acceptance of younger and older clients.

How can financial institutions be effective in heavily affected HIV/AIDS areas?

Linkage approach. MFIs can leverage their relationship of trust and proximity to clients to provide basic messages on HIV/AIDS prevention and care. Beyond that, MFIs can serve as brokers, referring clients to specialised providers of health and insurance services. The linkage approach allows each institution to focus on its core competencies. For example, FINCA/Uganda negotiated an insurance plan for its clients with Microcare, a health plan provider that offers coverage of acute HIV/AIDS-related episodes, plus three weeks of hospital care every four months. The fee-based plan is offered as an option to MFI clients.

Portfolio diversification. MFIs can operate successfully in communities seriously affected by HIV/AIDS by maintaining a diverse portfolio. Explicitly targeting persons living with AIDS, however, can overly concentrate the portfolio and severely impair an MFI's ability to achieve sustainability and scale. This approach can also overburden clients with debt they cannot

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manage. In 1999, World Relief/Rwanda launched a pilot lending programme for people with AIDS. The programme was halted after 100 percent of clients in one borrower group defaulted on their loans.

Risk management. Financial institutions need to develop risk management strategies to prepare for the impact of HIV/AIDS. Such strategies include advance planning on how to respond to clients in crisis (i.e. clients who default due to illness); planning for reduced savings rates; monitoring for higher dropout, absentee, and (possibly) default rates; strengthening management information systems; and adjusting loan-loss provisioning.

What can donors do to support an effective microfinance response to the HIV/AIDS crisis?

- **Avoid pushing MFIs to launch operations in markets specifically to respond to the HIV/AIDS crisis.** A more appropriate role is to help MFIs, already working in heavily affected regions, manage the risks. Alternatively, donors may support organizations able to provide grants instead of financial services.

- **Facilitate the exchange and dissemination of lessons learned across the microfinance community.**
  - Better understand the prevalence of HIV/AIDS and its impact on clients and MFIs;
  - Improve the ability of MFIs to respond to the crisis (e.g., workshops on operational planning);
  - Reduce the social stigma of HIV/AIDS;
  - Develop guidelines on non-discriminatory HIV/AIDS workplace policies.

- **Support financial institutions that are focused and specialised.** Only sustainable, efficient MFIs can provide communities affected by HIV/AIDS with permanent access to financial services. MFIs that directly integrate non-financial components into their microfinance activities are likely to incur high costs and overstretch the capacity of management and staff. Most integrated programmes have poor results for clients with regard to both the quality and appropriateness of financial and HIV/AIDS services.

- **Encourage innovations in linkages and broker strategic partnerships** between strong MFIs and organizations providing HIV/AIDS-related services, including seed funding for cross-sectoral collaboration, such as experimenting with separate-but-linked finance and health projects.