MICROFINANCE AND MITIGATION OF THE IMPACTS OF HIV/AIDS: AN EXPLORATORY STUDY FROM ZIMBABWE

AIMS

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Introduction

Microfinance has been advocated as a strategy to help households mitigate the negative economic impacts of HIV/AIDS. This study addresses the following questions:

- What effect does HIV/AIDS have on microentrepreneurs and their households?
- Does microfinance assist the households of microentrepreneurs to mitigate the negative economic effects of HIV/AIDS?
- How do illness and death affect the operations of microfinance institutions and participation in their programs?
- What can microfinance institutions do to lessen the impact of HIV/AIDS on their organizations and clients?

Study Focus and Methods

The study focuses on Zambuko Trust (Zambuko), a non-governmental organization that provides credit and business management training to microentrepreneurs. It operates primarily in urban areas and small towns, and more than three-fourths of its clients are women. Zambuko loans to microentrepreneurs who join together in groups to co-guarantee loans to its members, and to individual microentrepreneurs with an individual guarantor.

The study surveyed 338 clients of Zambuko and 241 non-client microentrepreneurs in 1997 and again in 1999. Because Zimbabweans are reluctant to discuss household members with HIV infection, proxy indicators were used to classify respondent's households as HIV- affected. The proxy indicators included chronic illness or death of an adult household member, and taking in orphans or sick persons.

Also, focus group sessions were held with 140 randomly selected clients and with 33 Zambuko staff and officers, and interviews conducted with senior managers of Zambuko. The implications of the quantitative and qualitative findings were discussed at a forum, in September 2001, attended by 32 representatives of microfinance institutions, HIV/AIDS service organizations and donor organizations in Zimbabwe.

Findings and Conclusions

The survey findings reveal that 40 percent of both client and non-client households were possibly affected by HIV/AIDS between 1997 and 1999. The HIV-affected households differed significantly from the unaffected households: the monthly income for affected households was Z$535 less; the proportion of household members who were not economically active was greater in the affected households; and affected households were less likely to seek medical treatment due to lack of funds. It appears that the affected households had been able to cope in spite of these negative impacts so that the schooling of their children and their food consumption patterns were not disrupted.

The analyses indicate that microfinance assists microentrepreneurs' households to mitigate the negative economic effect of HIV/AIDS. When affected clients were compared to affected non-clients, the households of affected clients had a greater number of income sources, indicating that credit had permitted these households to pursue an income smoothing strategy. Also, a significantly greater proportion of boys ages 6 through 16 living in affected client households were in school,

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suggesting greater investment in the household's human resources. Participation in Zambuko's program also positively influenced the financial management patterns of affected clients.

Zambuko has instituted a number of policies to manage risks to its financial portfolio. For example, it strictly enforces the group co-guarantee of loans. In January 2001, it began charging a mandatory insurance fee of one percent to cover the outstanding loan of deceased clients.

In the opinion of Zambuko clients and staff, loan repayment problems in 2000 were due more to economic conditions in the country than to illness and death. (The value of the Zimbabwe dollar dropped 50 percent between 1997 and 1999). When illness or death cause a group member to have difficulty meeting her loan installments on time, as long as she had been a member in good standing prior to crisis, the loan groups normally allow her to remain for the next loan cycle.

There was general agreement among Zambuko staff and clients that a loan to someone in the midst of a crisis was more of a burden, than help. Caregivers are normally unable to devote adequate time to their enterprise and have extra expenses to meet. For similar reasons, both clients and staff felt that Zambuko's policy of only loaning to economically active microentrepreneurs was justified.

Loan officers and clients participating in the focus groups made a number of suggestions on ways microfinance programs might better assist clients affected by chronic illness and death. The representatives from microfinance institutions, HIV/AIDS service organizations, and donor organizations attending the forum on microfinance and HIV/AIDS also suggested ways that microfinance organizations might better address the impact of HIV/AIDS on their institutions and clients. Moreover, they called for a permanent forum to facilitate information-sharing and collaboration.

Recommendations

The following recommendations arose from the study and the forum with key stakeholders. Additional program level recommendations are provided in the report.

- Microfinance institutions operating in countries with high inflation rates need to ensure that their interest rates and fees keep pace with inflation, so that their capital base is not eroded.
- Development assistance organizations should focus more attention on assisting governments to strengthen policies that directly influence the ability of households to mitigate the negative economic impact of HIV/AIDS on them.
- More attention should be given to the regulatory framework of microfinance institutions to enable them to broaden their products and services to meet the demands of HIV/AIDS affected households and safeguard client deposits.
- A set of simple tools should be developed to enable organizations to estimate HIV/AIDS affectedness and poverty among their clients.
- MFI managers and boards of directors need to consider HIV/AIDS from the standpoint of the organization, its outreach and its client base. They need to actively focus on ways to manage the potential risks of loan delinquency and defaults. Also, managers need latitude to experiment with different services and products to better address the needs of affected households.
- MFIs might pilot test criteria and procedures that lessen the burden on loan groups when members are unable to make an installment due to chronic illness or death in the household.
- Mandatory insurance against death of a borrower appears to be a prudent measure for MFIs to adopt, but the funds should be managed in a transparent manner.
- Participatory approaches should continue to be used to identify ways to ameliorate the negative economic impact of HIV/AIDS on households and to stimulate collaboration among organizations.
- A similar study should be undertaken in a more stable economic environment to better understand the potential of microfinance to ameliorate the negative economic impacts of HIV/AIDS on households.