

**DISCUSSION PAPER: MICROFINANCE AND HIV/AIDS**  
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*This Discussion Paper is written for microfinance practitioners worldwide. Its purpose is to heighten awareness of the impact of HIV/AIDS on microfinance institutions and the communities they serve. The paper does not propose recommendations on how MFIs can directly fight HIV/AIDS. It does, however, point out a range of options open to MFIs that decide to play a proactive role in HIV/AIDS-affected communities. This effort is funded by US Agency for International Development's Global Bureau, Office of Microenterprise Development.*

**INTRODUCTION**

As HIV/AIDS continues to spread through Africa and elsewhere around the world, microfinance institutions (MFIs) operating in heavily HIV/AIDS-affected areas have discovered that – because of the disease – some of their operating principles and initial assumptions no longer hold. MFI client groups include both affected and infected individuals<sup>1</sup>, who face marked shifts in their personal and financial conditions. What are the effects of these changes on the microfinance institutions? Individual MFIs have reported the following changes:

- HIV/AIDS-affected clients may not continue to borrow; and if they do continue to borrow, they may not do so in stepwise increments.
- As the disease progresses, HIV/AIDS-affected clients are likely to need access to a wider range of financial services, especially safe and flexible savings.
- Affected clients' willingness to continue in programs may depend on their ability to stop borrowing for a period, or on having flexible access to accumulated savings.
- MFI costs rise because staff are from affected households as well, leading to increased benefit costs, increased absenteeism, and increased staff deaths.
- Portfolio quality may change due to increased delinquency, particularly if affected households have been encouraged to borrow beyond their ability to repay.
- As client exits increase, the cost of maintaining or expanding the MFI's client base rises.

So the question arises: What can MFIs do in the face of a potential, or growing, or established HIV/AIDS crisis? How can they strengthen their institutions so that they can continue to serve communities affected by HIV/AIDS, and how can they better serve their clients throughout? This is the topic of this discussion paper, and also of MBP's<sup>2</sup> on-going research initiative on microfinance and HIV/AIDS.

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<sup>1</sup> Infected clients are those who carry the HIV/AIDS virus. Affected clients include not only the infected, but individuals who care for the sick, who have lost family members, who have lost income due to the illness or death of someone in the household, or who care for AIDS orphans.

<sup>2</sup> MBP is the 1996-2001 USAID-funded Microenterprise Best Practices Project, managed by Development Alternatives, Inc. (DAI), Bethesda, Maryland.

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First, a cautionary note: It is not possible to know how many or which of an MFI's clients are either infected or affected by HIV/AIDS. First, social taboos make it difficult to discuss the disease – and in most cases impossible to ask directly about a particular households or individual's status. Second, the HIV/AIDS epidemic is a moving target, where the number of households affected and the type of effect on the household will both alter over time. Importantly, though, MFIs do not need to know the exact cause of client behaviors. The main point is for the MFI to remain aware of and sensitive to changes in client behaviors that may stem from the household's experience with illness, care-taking, or death.

### **THE VALUE OF FINANCIAL SERVICES IN AFFECTED COMMUNITIES**

As Jill Donahue of Displaced Children's and Orphans' Fund (DCOF) outlined in "Community-Based Economic Support for Households Affected by HIV/AIDS" (Donahue, 1998), the overall effect of HIV/AIDS on the economic well-being of affected households depends on the availability and size of household financial safety nets. For households without a financial safety net, HIV/AIDS can draw the household from relative stability to catastrophe, as income earners fall sick or die, and as costs of household maintenance rise. The stronger the household safety net, the better the chances that the household can withstand the crisis without resorting to coping behaviors such as liquidation of longterm assets, reduced purchases of basic necessities, removing children from school, or migration of family members. The size of the household safety net depends on two factors: the initial financial standing of the household, and the ability to build a financial base over time. Microfinance – both credit and savings – strengthens the second of these: offering households opportunities to build assets, diversify income sources, and generally strengthen their financial footing. *So even in its most basic form, access to microfinance services gives households a way to both prepare for and cope with crises.*

### **THE DANGERS OF BUSINESS AS USUAL**

Microfinance institutions can therefore be confident that their long-term presence in an affected community will provide more, not fewer, financial opportunities for households, particularly for those in an early stage of the disease. But it would be naïve to stop there. HIV/AIDS inevitably changes the market for microfinance services – though this shift may take place one household at a time. Over time, household effects become aggregate shifts at the community level. In communities with larger household safety nets, these trends may take longer to emerge. Likewise, in communities where strong community-level safety nets exist, evidence of the crisis may emerge more slowly.

Those MFIs that specialize in loan products are likely to be most affected by the changes of a growing HIV/AIDS pandemic. As outlined in the Introduction above, as the disease progresses, households may have a reduced ability to repay or reduced ability to absorb increasing amounts of debt. Clients may urgently need to withdraw savings, and may leave programs in significant numbers in order to do so. Thus, over time, microcredit institutions that have taken a "business as usual" approach are likely to find that their services progressively match a smaller percent of the market's needs. This will translate into a smaller financial bottom line, and a lower positive outcome in the community at large. For these reasons, it is in MFIs' interest

to consider how to widen services to match the changing needs of their client base, which – simply by watching demographic trends – is likely to include an increasing number of HIV/AIDS-affected households.

### **STEPPING BEYOND STANDARD MICROFINANCE**

What are the options in going beyond standard microfinance in an HIV/AIDS context? A small but growing number of microfinance institutions have begun to experiment with programmatic changes to address the HIV/AIDS crisis. Looking at their experiences thus far, programming options can be examined in terms of three choices:

- *HIV/AIDS prevention v. mitigation activities:* This choice has much to do with timing of the intervention. If the MFI acts when the epidemic is considered “nascent” (where the prevalence is less than 5% of all known high-risk populations), prevention messages may be what clients most need. At more progressed stages of the epidemic, however, prevention messages may need to be combined with mitigation efforts – those that aim to provide care and support to households affected by HIV/AIDS.
- *Action by the MFI itself v. linkages with other institutions:* MFIs may choose to act strictly within their institutional boundaries or through linkages with non-microfinance institutions. Linkage options range from simple referral services to strategic partnerships. Creation of linkages is often chosen as a way for MFIs to avail their clients to the most appropriate health-related services in the most cost-effective manner.
- *Financial services v. non-financial services:* MFIs have multiple opportunities for action even when focusing solely on financial services. Alternatively, MFIs may decide to step beyond the boundaries of financial services, and facilitate or provide non-financial HIV/AIDS services such as training, advice or even health care. Non-financial services to MFI clients may provide an important opportunity for a linkage program – for the reasons described above.

In the initial investigations on this topic, MBP discovered several combinations of the three choices above. Grouping these cases by prevention v. mitigation efforts, the section below describes the MFI experiments now either underway or in the concept stage.

#### **Option 1: HIV/AIDS Prevention Activities**

To date, the largest number of on-going MFI experiments revolves around providing information on HIV/AIDS prevention. Typically using regular village bank or group meetings as a natural forum for disbursing information, these programs create partnerships with HIV/AIDS health specialists to meet with clients, provide information, and encourage safe behaviors. If based on a strategic partnership with health organizations, these programs appear to be relatively straight-forward and low-cost (but not cost-free) to design and implement. They may be particularly valuable if implemented before the disease is widespread and entrenched.

## Option 2: Mitigation Activities

Unfortunately, by the time an MFI's management decides to take action on HIV/AIDS, prevention messages may be an insufficient response. The MFI may be feeling the real effects of the epidemic on client and staff behaviors. At this stage, mitigation activities – those that focus on the care and support of individuals and households affected or infected by HIV/AIDS – become increasingly important. While prevention messages may still slow the rate of the disease's progression, their effectiveness now depends on the community's access to mitigation services. But what role can MFIs play in mitigation efforts?

MFI mitigation options can be divided between those related to financial products – which are in keeping with a strictly financial service mandate – and non-financial efforts, which go beyond financial services. The two tables below outline both on-going experiments and new ideas on financial and non-financial mitigation activities that have emerged within the microfinance industry.

**Table 1: Mitigation Activities Related to Financial Products and Services Experiments Believed To Be Currently Underway Ideas Believed to be in the Concept Stage**

<b>Experiments Believed To Be Currently Underway</b>	<b>Ideas Believed to be in the Concept Stage</b>
Develop new financial products that are particularly helpful for sick clients: lumpsum and flexible savings products; education trusts for minors; emergency loan products; etc.	Create linkages to other financial institutions if not able to offer savings or insurance internally. (These linkages have already appeared in MFIs not specifically focused on HIV/AIDS mitigation).
Allow a well adult in the household to Replace a sick MFI client.	Revise rules regarding clients' access to compulsory savings.
Allow clients to offset accumulated compulsory savings against loan balances outstanding.	Allow younger clients or those newly establishing businesses to use the MFI's services if they come from an AIDS-affected household.
Provide death insurance, either in form of burial expenses, cash payment, or debt wipe-out.	
Create small loan program for members of sick person's family.	
Develop pre-paid medical payment Products, designed to cover the cost of future medical treatment, drugs, or hospitalization.	

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**Table 2: Mitigation Activities Providing Non-Financial Services Experiments Believed To Be Currently Underway Ideas believed to be in the Concept Stage**

Experiments Believed To Be Currently Underway	Ideas Believed to be in the Concept Stage
Develop community-based programs for Families caring for AIDS orphans.	Work with Village Banks or Lending Groups to encourage mutual support relationships beyond repayment.
Provide health care unit for terminally ill patients.	
Help clients with legal protection in case of Spouse's death: inheritance laws and wills, etc.	
Provide training on children's rights.	

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It is important to note that – of the financial product adaptations listed in Table 1 – only one involves a strategic partnership: providing linkages for savings or insurance. The other activities clearly fall within the mandate and decision-making authority of an individual MFI. However, these actions may require specific skills, such as those required to develop new products; or they may entail higher risks as rules set up for the MFI's safety are relaxed.

On the non-financial mitigation actions listed in Table 2, the first two on-going experiments are being implemented by multi-sector institutions – those with financial service units as well as relief or community development units. In these cases, the MFI has a sort of “internal” strategic partnership on which to draw to provide these high-cost services. The second two on-going non-financial efforts can be provided at lower cost – but are again offered by multi-purpose organizations with an MFI component. Thus far, there are few – if any – strategic partnerships emerging between MFIs and health organizations on this front. This may reflect the lack of awareness on the part of MFIs about both the need for and the availability of non-

financial mitigation services for HIV/AIDS-affected households within their client base.

### **Proposed Initial Guidelines for MFI Action**

Because these experiments are either new or still at the conceptual stage, there is very little information on the costs, risks, or benefits of undertaking either prevention or mitigation efforts. These are significant issues to be addressed before proceeding with recommendations or defining “sound practices” for MFIs. It may be, however, that there are some basic guidelines that can be put forward on how to bring HIV/AIDS activities into microfinance institutions. This paper suggests the following five guidelines as a starting point:

- Start by listening more carefully to clients – through their aggregate behavior as seen in portfolio indicators, through loan officer stories, or through direct attempts to discuss health issues and HIV/AIDS with the clientele as a whole.
- Look for opportunities for institutional linkages to health organizations that allow MFI clients access to as much high-quality information as possible – both for prevention and mitigation – at the lowest cost possible.
- Understand the stage of the HIV/AIDS epidemic, and base programmatic choices on that reality.
- Think broadly, then act strategically in modifying products and procedures to respond to changing client behaviors.
- Document and share institutional experiments – even for seemingly small programmatic modifications. Example: explain the conditions under which a healthy family member can take over a sick individual’s place as client in the MFI, and what is required to make that transition.

Again, to end on a cautionary note: It is important that microfinance institutions retain their integrity as financial institutions, regardless of what HIV/AIDS activities they undertake. The magnitude and horror of the HIV/AIDS epidemic pulls individuals and institutions into action. But there is always some danger that “good works” could draw MFIs away from their long-term mandate and compromise achievement of the long-term financial goals. Following the above five suggestions may help MFIs do both: provide needed services to clients in crisis without forfeiting long-term financial sustainability.

### **NEXT STEPS**

There is still very little information available about MFI actions in the HIV/AIDS context. The on-going MFI experiments discovered thus far have not yet been documented for the wider industry. Therefore, this Discussion Paper will be closely followed with a questionnaire for all interested MFIs – asking for better information about what they are now doing to respond to the HIV/AIDS crisis. The MBP Project will collect and collate the information from this questionnaire, and make it available to interested parties upon request. For more information, contact Joan Parker via e-mail: [joan\\_parker@dai.com](mailto:joan_parker@dai.com), or by fax at 301-718-7968.

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