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Mitigating the Impact of AIDS on Microfinance Institutions: Are We Making Progress?

This microNOTE *aims to share some of the thinking, activities, and experiences regarding the relationship between HIV/AIDS and microfinance in high-prevalence countries and regions.*

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INTRODUCTION

The HIV/AIDS pandemic has had a dramatic socioeconomic effect on developing economies in Sub-Saharan Africa, especially in southern Africa. With 38.6[1] million people globally living with HIV/AIDS—more than 24.5 million of them in Sub-Saharan Africa[2]—the crisis continues to take a devastating toll on the lives and livelihoods of those it touches.

Although more is understood about the socioeconomic impact of the increased number of individuals of productive age being infected, continued mother-to-child transmission, and drastic increases in the number of orphans and vulnerable children (OVC), we have yet to find workable solutions that provide families with adequate social safety nets to help them mitigate the financial risks associated with HIV/AIDS. There are now an estimated 12 million OVC in Sub-Saharan Africa,[3] but this number is anticipated to reach 50 million by 2010, overwhelming families, traditional support systems, and communities that will be depleted of assets, productive capacity, and needed skills. The chronic nature of HIV/AIDS leads to extensive additional costs to households in the form of medical expenses, more nutritive foods, funerals, and orphan care. In addition to these costs, household incomes are compromised due to illness and

[1] UNAIDS estimates that between 33.4 and 46 million people are infected with HIV. An estimated 4.1 million become infected annually.

[2] *A Report on the Global AIDS Epidemic: A UNAIDS 10th Anniversary Special Edition*, UNAIDS. May 2006.

[3] UNAIDS, May 2006.

death and by the necessity to provide care for sick household members.

Within this complex environment, the role of financial service providers has been less certain.

This *microNOTE* aims to share some of the thinking, activities, and experiences regarding the relationship between HIV/AIDS and microfinance in high-prevalence countries and regions. Microfinance providers will need to adequately manage their institutional risk to the worsened economic conditions resulting from affected clients.

MICROFINANCE AND ITS RESPONSE: EARLY THEORIES AND INNOVATIONS

At the start of the new millennium, microfinance professionals struggled with ways to respond to the economic problems exacerbated by AIDS. The microfinance community recognized that microfinance institutions (MFIs) have the potential to reach three sets of beneficiaries: their own staff, large groups of clients, and the families of clients and staff. The community sought solutions for ways in which MFIs could cope with the economic and health crises faced by these beneficiaries, particularly since these groups live at or below the poverty line and are most affected by AIDS. These coping and risk management strategies varied from:

- Expecting group-based microfinance programs to assume that the risks could be mitigated by the lending groups themselves (the "business as usual" approach); to
- Adopting more pro-active strategies in which new financial products were developed or existing ones modified to better meet institutional and client needs, and in which strategic partnerships were formed to address other internal or human resource issues (the "financial systems" approach); to
- Systematizing more holistic strategies in which clients were provided with prevention education or linked to treatment and care facilities by the MFI (the "activist" approach).

The responses and strategies mirrored the debates of decades ago: should MFIs continue to strive to achieve a more commercial, bottom-line orientation, or should financial services simply be part of a larger response that includes links to other services, such as education and health? These debates are also being waged globally by the private sector and organizations such as the Global Business Coalition, which promotes both social and bottom-line approaches to mitigating the risks associated with HIV/AIDS.

Different microfinance organizations applied these approaches according to their missions, values, and appetites for responding to HIV/AIDS. For its part, DAI, in partnership with the U.S. Agency for International Development (USAID), sought to promote approaches more oriented toward the bottom line, in line with its development philosophy. In 2000, DAI developed a training course[4] to help MFIs consider the bottom-line and institutional implications of HIV/AIDS. Designed for MFI managers and board members, the *Microfinance and HIV/AIDS: Defining Options for Strategic and Operational Change* course focuses on MFIs in countries with medium to high HIV prevalence rates (4.4–21.5 percent). The course aims to guide MFIs in effectively addressing the challenges of working with affected communities through promoting the:

- Formation of strategic alliances with local AIDS support organizations;
- Monitoring of the financial impact of HIV/AIDS on the MFI's portfolio and on clients' changing financial needs;

[4] Developed by DAI through the USAID-funded Microenterprise Best Practices project.

- Refinement of products to meet the changing market; and
- Development and changing of workplace policies to address employee rights and benefits related to HIV/AIDS.[5]

The course was piloted in Harare, Zimbabwe, in October 2001,[6] shortly before the Microenterprise Best Practices project was completed. Although the course was publicly available on the internet for several years, it was not actively promoted and very few institutions, networks, or donors used the materials. This limited use was also partially attributable to limited internet access, slow connection speeds, and limited marketing of the product in many target countries.

The Roll-Out of Defining Options *under AMAP*

Under the USAID-funded Accelerated Microenterprise Advancement Program (AMAP) Financial Services Knowledge Generation (FSKG) project, DAI proposed to roll out the course in at least five countries using trained Africa-based microfinance practitioners. The intent was to promote and use the training as a way to inspire and encourage institutions and USAID missions to foster greater experimentation and support for mitigation activities. In addition, DAI and ECI*Africa* created a companion guide to the training course—*Microfinance and HIV/AIDS: Tools for Making Institutional Changes in Response to HIV/AIDS*—to help institutions implement activities.

Working with USAID, local microfinance networks, and other industry practitioners, DAI drew up a list of potential locations in which to offer the training. Locations were selected based on the HIV/AIDS prevalence rate, the size and maturity of the microfinance industry, the presence of a local microfinance network or association that could organize MFIs and provide follow-up if needed, and the responsiveness and interest of project officers in USAID missions. The training was delivered by a cadre of Africa-based trainers who could also provide post-training technical assistance to these MFIs, which was considered critical to the success of the activity.

During the three-day course, a trained Africa-based microfinance facilitator and a local HIV/AIDS specialist led participants through exercises and training tools that assist them in thinking about, planning, and making institutional changes to address the economic impact of HIV/AIDS. Given the length of the course, DAI and its partners also felt it was important to reinforce new information learned at the training with the provision of some limited technical assistance to interested MFIs following the training course. As a result, the methodology for delivering the course changed to include two additional days of post-

Goals of the *Defining Options* Course

- Identify myths and present the facts about HIV/AIDS;
- Recognize the impact of HIV/AIDS on MFIs and their clients;
- Create strategies to mitigate the internal institutional and external operational risks of working in a high prevalence environment;
- Begin planning refinements to existing financial products or develop new products to meet changing client needs;
- Understand the institution's workplace options for responding to the disease and to staff needs; and
- Prepare for action with a better strategic understanding that will lead to operational improvements.

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[5] The training materials drew heavily from research conducted by MicroSave, Family Health International, a UNAIDS study on *The Role of Microfinance in the Fight Against HIV/AIDS*, and other best practice materials used in microfinance.

[6] The course was piloted in conjunction with the USAID-funded Linkages for the Economic Advancement of the Disadvantaged project.

Defining Options: Course Design

The course is designed in modular form, allowing it to be adapted for different audiences and to address a variety of issues that may have differing levels of importance depending on the audience. The six modules are divided into three parts:

- **Part I: Thinking about HIV/AIDS and Microfinance** (Modules 1 and 2) is focused on sensitizing the audience to HIV/AIDS. Because participants come to the training with varying degrees of knowledge, the intent is to get them all thinking about HIV/AIDS in the same way, specifically with regard to the impact of HIV/AIDS on businesses and on MFIs as businesses. Additionally, Module 2—the Facts and Myths of HIV/AIDS—is intended to be presented by a local health or HIV/AIDS educator. It includes local statistics and information on HIV/AIDS and its prevalence by region and gender. It presents the basic facts about HIV/AIDS, discusses common myths about the disease, and generally encourages open dialogue among the participants about the epidemic and its consequences. This part of the course should allow participants to confront their own knowledge gaps as well as discuss their own experiences.
- **Part II: Preparing to Meet the Challenge** (Modules 3–5) is focused on the markets in which MFIs operate, the external environment including collaborators and competitors, and the internal issues that MFIs must confront in coping with AIDS and its impact on their institutions.
- **Part III: Moving Forward: Strategic and Operational Planning to Mitigate HIV/AIDS** (Module 6) seeks to synthesize all of the information presented, help institutions determine if they are ready to consider internal changes, and sets up next steps,
- **Action Planning:** A fourth step was added that allowed institutions an additional half-day to begin working on a comprehensive action plan for their MFI, taking into account their capacity issues and priorities.

training assistance to work with participants on developing action plans for implementing mitigation activities.

Between August 2004 and September 2005, DAI and ECI*Africa* rolled out courses in five countries: Ethiopia, South Africa, Kenya, Rwanda, and Mozambique. The first course was offered in Addis Ababa, Ethiopia, in August 2004, piloting the updated materials. Offered in conjunction with the very active Association of Ethiopian Microfinance Institutions (AEMFI), the course drew 21 participants from 19 MFIs. In addition to the strong

microfinance network that helped organize and advertise the event, USAID/Ethiopia was an enthusiastic and supportive partner, attending the training and providing information to participants on locally available resources. More importantly, AEMFI has been active in providing training related to HIV/AIDS and its mitigation; it has sponsored workshops led by the Micro Credit Summit and the Dutch donor HIVOS on this topic.

The Ethiopia course allowed for further updating of the materials, which were then finalized for a training-of-trainers (TOT) course offered in Johannesburg, South Africa, in late September/ early October 2004. The main objective of the TOT was to train a cadre of Africa-based trainers who would be prepared to deliver this course in other countries. Trainers were selected based on their training background in microfinance, their experience and knowledge of HIV/AIDS or other health issues, and their interest and willingness to commit the time to the AMAP program going forward. Since the TOT, the course has been updated, translated into French and Portuguese, and made available on www.microLINKS.org.

RESULTS

Table 1 summarizes the participation in the courses offered in 2004 and 2005.

Each course built upon the lessons learned from the previous courses. For example, action planning around HIV/AIDS was added as a course activity after the

Nairobi, Kenya, course. This step allowed all institutions to begin developing a basic plan to address HIV/AIDS with assistance and input from the course instructors and the other participants. Furthermore, some of the participants in the last course, in Mozambique, were able to translate their action plans from idea to action with some very limited funding and technical assistance from USAID (through DAI/ECI*Africa*) and the Canadian International Development Agency (CIDA) (through Mennonite Economic Development Associates/Mozambique Microfinance Facility [MEDA/MMF]). The results of this activity will be available in early 2007.

A second area in which the training courses evolved and improved was in the inclusion of practical examples of MFIs supporting people living with HIV/AIDS (PLWHA) and linkages with AIDS Support Organizations (ASOs). In Rwanda, participants were able to visit Vision Finance Company,[7] which provides financial and other services to PLWHA. This innovative program allows clients to bring a relative to loan meetings to represent them to the MFI and in the business in the event of illness or death. The organization is also able to access food and limited treatment through government and donor programs.

In Mozambique, organizers brought in the Mozambique Network of AIDS Service Organizations (MONASO), a national network, to facilitate linkages between MFIs and service providers. MONASO made a convincing presentation to participants on the various services offered by its members and suggested ideas for linkages. By providing this type of facilitation with ASOs, MFIs were able to envision more concretely how to design interventions and forge new linkages with health sector organizations. In the future, a trade fair of ASOs would be a highly recommended addition to this training.

Table 1: Summary of Participation

Country	Date of Course	Number of Participants	Number of MFIs
Ethiopia	August 2004	21	19
South Africa (TOT)	September 2004	9	2
Kenya	January 2005	11	8
Rwanda	May 2005	19[1]	10
Mozambique	September 2005	17[1]	11
Total		**77**	**50**

Early Take-Aways from the Defining Options *Experience*

While still grappling with how to effectively bring about change in MFIs in response to HIV/AIDS, DAI and ECI*Africa* have a learned a great deal in the process of implementing these courses. Following are a selection of our observations.

HIV/AIDS is still not a motivating concern for most MFIs, even in the highest prevalence countries. For most, getting through the day-to-day operational challenges is enough. Despite the recognition by all MFI participants in the training courses that HIV/AIDS presents a serious health and economic threat to the businesses and communities in which they operate, they simply do not have the capacity—on their own—to strategically plan and implement activities that might reduce the risk associated with HIV/AIDS, such as higher credit risk (both transaction and portfolio risk), liquidity risk, human resources risk, fraud, and reputation risk. Most of the organizations that participated lacked the internal capacity to address complicated human resource issues, more sophisticated market research, and product development. Many were not familiar with the financial

[7] World Vision Microfinance.

ratios used in more competitive markets to monitor performance, and the presentation of them at the training was a distraction.

The right audience is critical to success. The most successful *Defining Options* courses were those in which the participants were MFI senior managers or board members who had the ability and authority to translate their knowledge into practical application. Junior staff were unable to convert ideas into action; they were not in a position to even successfully share information internally and galvanize support from senior management and the board. This resulted in their inability to translate HIV/AIDS mitigation into an institutional priority and an inability to have resources committed to the problem.

Knowledge at the management level remains surprisingly limited and stigma remains a demotivator. The understanding of how HIV/AIDS is transmitted, as well as distinctions between fact and myth, was limited even among the most educated MFI employees. The most common myths heard at the training courses included:

- Religious people will not get HIV.
- You can only get HIV after dark.
- HIV is more common among men than women.
- Having sex with a virgin can cure HIV/AIDS.
- HIV/AIDS in not common in my country; most people have tuberculosis.
- You can tell whether a person has HIV by looking at him/her.
- If a woman talks about HIV/AIDS with her husband, it means she has other sexual partners.
- You can get HIV from wet kissing.
- Condoms spread HIV.
- There is a cure for HIV/AIDS.

While many participants recognized the above statements as myths, most had never had any comprehensive education on how HIV is transmitted. Many participants could not distinguish between HIV and AIDS, but the majority knew the most common ways of HIV transmission. The least known method was mother-to-child transmission. Moreover, the discussion by managers often focused on the impact on clients rather than on individual staff members, suggesting some level of disassociation with the disease.

A strength of the training events was the presentation of Module 2 by a **local HIV/AIDS educator/ communicator** who was able to address local myths; provide concrete data on the prevalence nationally, regionally, and locally; and speak to local and national resources available to address the pandemic. In all cases, this expert was able to inform participants about the facts as they applied to the country, reduced some stigma among participants, and enabled participants to talk more openly about HIV/AIDS. Conveying this knowledge and reducing stigma within MFIs will nonetheless continue to be a challenge.

For those MFIs that do see HIV/AIDS as a motivating priority, the **most common product responses are the provision of credit life insurance** (often underwritten by a major insurer) and **credit with education.** Credit life insurance, in which the amount of the policy matches the loan balance, is designed so that a client's loan balance is paid off in the event of death.[8] This type of insurance benefits both the institution (which does not incur a loan loss) and the client's spouse or family, who is not burdened with debt repayment in the event he or she dies. Although this product is generally seen as a

[8] Variations on this product include insurance that pays out to the spouse in the event of the borrower's death and covers the cost of the funeral, coffin, or burial.

positive response for both the institution and the client, the client does bear a higher cost for the loan.

Credit with education has also been a popular product. In 2002, World Relief and Freedom from Hunger developed a credit with education module titled Facing AIDS Together: HIV/AIDS Prevention and Care (FAT). The awareness raising/prevention-oriented curriculum was designed for MFIs that already provide education or non-financial services as part of their core service offerings. Although the curriculum positively addresses the need to get more AIDS prevention knowledge out to poorer, less educated audiences who may not have access to such information from other sources, adopting the curriculum has posed numerous challenges for implementing MFIs, including:

- *The expulsion of good clients from groups*. Some clients who revealed their HIV+ status were expelled from their loan groups; others are now suspected of being HIV+ and face the threat of expulsion.
- *Increased job responsibilities for the loan officer*. Loan officers are often not prepared to deal with added burdens of their jobs after conducting the FAT curriculum. These burdens included providing ongoing psychological support to HIV+ clients, collecting repayments following the offering of the course, social or cultural discomfort after presenting some of the graphic information associated with the transmission of HIV (such as illustrations showing two adults kissing), and difficulty in providing more technical information regarding HIV/AIDS beyond the basics. Loan officers are also faced with the additional emotional and psychological burden of handling dual roles as both credit officer and educator (even counselor in some instances).
- *A higher cost structure for the MFI*. The cost of providing the education often means that the institution must charge a higher interest rate to cover the cost of implementing the education component.

Although there is still a belief that the provision of savings—particularly for households that become clients before or in the early phases after contracting HIV—could be the most beneficial product for HIV/AIDS-affected clients, most MFIs that attended the training are prohibited from legally offering savings. Moreover, recent surveys conducted by the World Council of Credit Unions (WOCCU) in Rwanda suggest that although savings is demanded on some level, most households would prefer to use formal credit or other financial services to pay for health emergencies than liquidate savings.

The adoption of HIV/AIDS-related workplace policies for MFI staff is happening, although these policies are further down the priority list, with the MFI often focusing on day-to-day business operations. In particular, the creation and installation of workplace policies that specifically address HIV/AIDS is being taken up by MFIs supported by larger microfinance network organizations. These organizations have recognized the vulnerability of their staff in the absence of a comprehensive policy that outlines their rights, provides them with additional assistance beyond their basic benefits packages, and offers job sharing and flexibility arrangements for caregivers or PLWHA. Moreover, in the implementation of new workplace programs, MFI managers were able to better determine the level of HIV/AIDS knowledge of staff and the level of demand for other HIV/AIDS services such as prevention training, voluntary testing and counseling (VCT), and other care. Although this is a very positive development, the major constraints to offering a more comprehensive workplace program seem to be financial limitations and a

lack of connection with an ASO. Forging a linkage with a local or international ASO may result in a mutually beneficial service relationship—one in which the MFI benefits from the development of a state-of-the-art workplace program and an ASO from the ability to reach a poorer, harder-to-reach client segment.

Some Considerations for Donors in Supporting Mitigation Activities

The challenges related to the mitigation of HIV/AIDS remain immense. On the health side alone, systems are under intense pressure to meet the treatment and care needs of large populations of PLWHA. In some countries, nongovernmental organizations (NGOs) and donors have played a strong role in assisting local governments to develop their capacity to provide treatment for opportunistic infections and to provide anti-retroviral therapy. Despite attempts by governments, donors, and NGOs, the immense demands for clinical treatment and care are not being met.

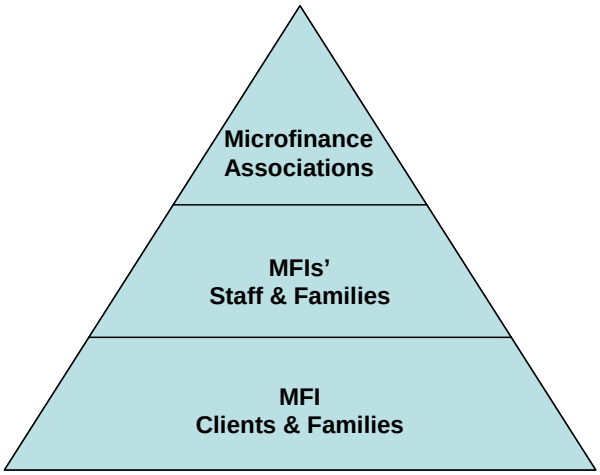
The donor community has a unique opportunity to tap into and leverage the capacity of MFIs to reach tens of thousands of affected clients and households with improved economic tools to face the HIV/AIDS crisis. MFIs in Sub-Saharan Africa, in particular, still respond strongly to donor cues and are among the most successful development institutions reaching poor households on a massive scale. A small investment in an MFI can influence its ability to address the issue of HIV/AIDS with a bottom-line orientation that will allow it to continue to operate and successfully serve large numbers of poor clients. Donors and investors can assist by:

- Continuing to **provide support to strengthen the internal capacity of MFIs** to provide better financial services and increase outreach, particularly to affected clients, who will in turn be better able to address and mitigate the impact of AIDS on their businesses and households. This support can come at the institution level or industry level, so long as it provides MFIs with the means to improve

Potential Leverage Through The Microfinance Sector

There is potential to reach thousands of poor household members on the subject of HIV/AIDS through the microfinance sector. MFIs can act as a leverage point to reach their staff, their clients, and the families of both staff and clients.

In Mozambique, there are approximately 32 MFIs that reach an estimated 100,000 microfinance clients. Through developing partnerships with ASOs, these individuals can be reached for education, testing, treatment, and care services.



These partnerships are important because microfinance clients are typically part of the at-risk population, for example, economically active women. In South Africa, for instance, there is greater access to finance in urban areas by economically active black men and women. At the same time, some of the highest prevalence rates are observed among economically active black women. This overlap makes the microfinance sector channel powerful in terms of both the number of people who can be reached and the ability to target a segment of the population that is at risk for HIV/AIDS.

internal performance monitoring, including the creation of systems and reports that allow them to track key indicators that show trends of the growing effects of HIV/AIDS; and improve their financial disciplines, including stricter monitoring of delinquent loans and full provisioning for those seriously past due. It is important to keep in mind that MFIs are effectively SMEs in terms of the number of staff they employ, and, like SMEs, they generally do not have the resources (human resources, knowledge, financial) to address this issue on their own.

- **Improving the ability of MFIs to address real human resource constraints** exacerbated by HIV/AIDS through the **creation of workplace programs**, but also through strengthening human resource management in the MFIs. MFIs invest a great deal in staff training and development and the loss of labor means that an MFI incurs significant costs.
- **Promoting strategic alliances** with other organizations that can provide additional services, such as savings and insurance (by commercial banks, insurance companies, and even the post office), but also prevention education, VCT, and palliative care (by ASOs).
- **Supporting product and other market research** with the ultimate goal of modifying and developing appropriate financial products for AIDS-affected communities. The USAID-funded WOCCU savings study is a good example of research that can be done to help develop appropriate products within a financial system. Additionally, donors and investors can support efforts to improve financial literacy so that clients can better understand these new products, be they insurance, savings, or other, more sophisticated trust mechanisms.
- **Adapting lessons learned from the broader financial services community**. The World Economic Forum has published case studies on how some of the largest financial service companies in Africa and elsewhere have supported internal AIDS mitigation initiatives. Donors and practitioners must learn from their successes, which include a clear, focused strategy from management, a comprehensive communication structure and message to staff on related activities, a dedicated staff committed to addressing these issues, and resources to implement them. A recent study by the World Bank, *AIDS and the Private Sector: Evidence from the Investment Climate Data*, suggests that foreign organizations carry a lot of sway in "morally coercing" business to "do the right thing."

NEXT STEPS: CONTINUING TO TEST AND INNOVATE

As mentioned earlier, DAI and ECI*Africa* are conducting an action research activity with MEDA/MMF in Mozambique. Leveraging funding from USAID and CIDA, the partnership has engaged with MFIs that participated in the *Defining Options* training in Mozambique to begin new mitigation activities. Both DAI/ECI*Africa* and MEDA/MMF are providing technical assistance in areas such as workplace program development, human resource management, product development and modification, and financial performance monitoring with four selected MFIs. This follow-on activity enables practitioners, donors, and investors to learn more about how to respond to the

challenges of HIV/AIDS and microfinance through resolving challenges faced by MFIs. The early stages of this activity show that each MFI has unique challenges and responses. Some member-based MFIs would like to review their group credit practices to include HIV/AIDS responses; another wishes to carry out market research to inform product refinement; and a third wishes to provide savings services to its clients. Although the greatest difficulty among all of the MFIs is their internal staff capacity in terms of both skills and time to respond to an appropriate response, we believe the outcome will show that the MFIs will see how their investment can produce quantifiable results to the mitigation of HIV/AIDS.

Relevant Publications and Websites

Microfinance and HIV/AIDS: Defining Options for Strategic and Operational Change: A Facilitator's Guide, updated September 2004

Microfinance and HIV/AIDS: Tools for Making Institutional Changes in Response to HIV/AIDS, September 2004

HIV/AIDS and Microfinance Systems Fact Sheet, GTZ, March 2005

Note from the Field: Ethiopia, November 2004

Note from the Field: Kenya, April 2005

AfriCap Guidebook: Partners and Action. Financial Institutions: Health and HIV/AIDS Risk Management, draft pending

Websites:

Family Health International: www.fhi.org

Global Business Coalition: www.businessfightsaids.org

MEDA: www.meda.org

MicroSave: www.microsave.org

SEEP Network HIV/AIDS and Microenterprise Development (HAMED) Working group: www.seepnetwork.org

World Economic Forum: www.weforum.org

UNAIDS: www.unaids.org