

MicroSave Briefing Note # 11

HIV/AIDS—Responding to a Silent Economic Crisis¹

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Background

Many microfinance practitioners see HIV/AIDS as a health and welfare issue. But microfinance institutions (MFIs) may be missing important signals from their clients that would help them manage the risk of operating in an environment heavily affected by HIV/AIDS.

“Our clients are not mere transactions. They are valuable in good health and ill health—we must make an investment in them.”

On the other hand, microfinance is widely seen as improving livelihoods, reducing vulnerability, and fostering social as well as economic empowerment. This makes it particularly attractive as a tool to help the poor. In the rush to mitigate poverty worsened by the impact of HIV/AIDS, donors may pressure some microfinance institutions into activities without an adequate assessment of the implications to institutional sustainability.

Nature of economic impact and coping mechanisms

As the effects of the disease and care giving demands evolve within a household, there are distinct financial pressure peaks. In general, focus group participants defined these points as: (a) **early stages** when the family is first called on for assistance or the first signs of AIDS appear, (b) **frequent hospital visits**, where the person living with AIDS (PLWA) is in and out of hospital, (c) **bedridden** - either at home or in the hospital, (d) **death** and burial and (e) **care for orphaned children** including payment for their education. The most severe economic stress occurs:

- Before the care givers and the person infected with HIV know their sero-status when the family and the person with HIV spare no expense in looking for a cure;
- When the family member with AIDS is bedridden and the care giver assumes the financial burden for health and child care at the expense of time in her/his business; and
- When a care giver assumes responsibility (particularly school fees) for the children whose parent(s) have died.

The economic degradation experienced by care giving clients is not much different from that experienced by the person with AIDS.

Clients' coping strategies

Clients described a very clear sequence of asset liquidation in order to cope with the impact of HIV/AIDS. They liquidate savings and protective assets first and sell productive assets only when they run out of other options. The sequence is as follows: 1. Savings accumulated outside of the MFI; then 2. Business income; then 3. Household assets; then 4. Productive assets; and finally 5. Land.

“AIDS does not kill suddenly, but it comes and takes a lot of money away with it.”

While individual assets and income play an important role, poor communities have developed a range of informal mechanisms that enable them to respond to crises. However, their economic burden continues after the person dies in the form of the responsibility for the orphaned children and repaying debts or outstanding hospital bills of the deceased. The severity of economic impact depends on:

- The economic resources (including strength of business) a client has when the crisis begins to affect her/him;
- The duration of a given crisis, how many crises occur and the timing in between them;
- The relationship between the care giver and the infected person (clients caring for their spouse or children are generally affected more than the extended family);
- Quality and number of coping mechanisms available to the client; and
- Networks that client belongs to (especially informal) and knowledge of the resources available to her/him (both formal and informal).

The factors that participants felt contributed to improving coping strategies were:

- Access to microfinance to start, improve or diversify their business activities;
- Better money management skills and savings discipline;

¹ This Briefing Note was developed on the basis of a full paper by the same name available on **MicroSave**'s website: www.MicroSave.net under the Study Programme Section.

- More and better-organised informal support groups where members pool savings; and
- More readily available information about treatment for family members with AIDS, which enables care givers to manage their family member's AIDS-related illnesses more rationally.

Role of microfinance

Microfinance loans serve a critical role that enables clients to enhance their business' volume and/or diversify their economic activities. The resulting increase in income facilitates the creation of savings and asset accumulation. Loans also provide an important source of lump sums of cash, which helps clients avoid depleting their business capital. However, loans lose their attractiveness to clients as a coping mechanism when a client experiencing HIV/AIDS related crises has too many competing demands for cash. Closing the business to fulfil care giving responsibilities exacerbates this situation because it disrupts the flow of income to the household. Nonetheless, clients go to great lengths to repay their loans in order to safeguard their future position in their solidarity group. They see their business and access to loans as the ticket to "bouncing back" once the crisis has passed. Clients make a firm connection between access to loans and the restoration of their business activities.

"Loans are only good if there are no problems. When there are serious problems, the loan becomes a burden; in fact, you may have to sell an asset to make repayments."

Product or service development² and refinement should capitalise on clients' ability to:

- Plan for future crisis (anticipate needs for lump sums of cash);
- Improve and maintain income flows;
- Avoid selling productive assets, which would undermine future income earning capacity; and
- Retain access to financial services, particularly post-crises.

Conclusions

As financial institutions, MFIs should not provide AIDS support services or relax lending discipline. On the other hand, as development institutions with poverty alleviation goals, they cannot afford to disregard the fact that HIV/AIDS is a major contributor to poverty and one that is already having disastrous economic effects on their market segment. Eliciting client feedback on how

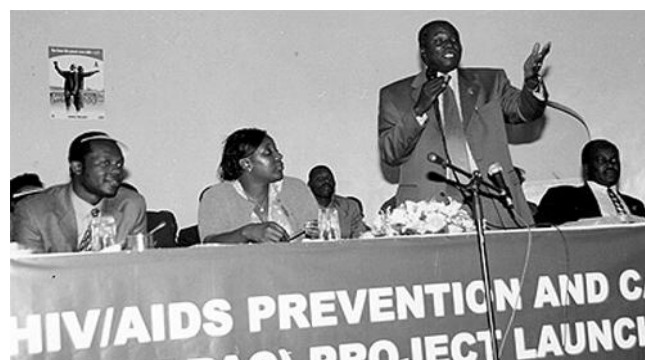
products mitigate (or worsen) this impact can reveal innovative ways to refine services. Similarly, seeking to understand clients' economic coping strategies provides an opportunity for MFIs to develop new products that reflect what clients value and find relevant.

MFIs and AIDS Support Organisations can best respond to HIV/AIDS by building on their respective institutional and technical strengths. Supporting income generation is important, unfortunately those who implement HIV/AIDS health and social based projects are not equipped to accomplish this with respect to systems, education and experience any more than MFIs are equipped to respond directly to the broad ranging social and medical impacts of HIV/AIDS.

"You don't inherit the skills or the business of the person who died, just their responsibilities."

The two most important individual resources to prepare for a crisis are savings or easily liquidated assets, and business volume or diversity in business activities. Clients also prefer mechanisms that provide regular and reliable access to lump sums of cash that do not negatively affect their future income earning capacity. Where individual, financial capital (savings and/or business assets) is weak or drained, a variety of informal and community-based coping mechanisms can provide a substitute buffer.

MFIs should not specifically target HIV/AIDS infected/affected people. Explicit targeting compromises the integrity and sustainability of their services. Client loan groups can absorb some losses, but concentrating the potential for defaults within loan groups undermines their viability. In addition, targeting client segments within a broader clientele with preferential loan terms or products tends to increase stigma when others feel that they also warrant special consideration.



² For more on the product development process see Wright, Graham A.N., "Market Research and Client Responsive Product Development" available on *MicroSave's* website: www.MicroSave.net under the Study Programme section.