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Microfinance and households coping with HIV/AIDS in Zimbabwe: An exploratory study

Horizons Program

RESEARCH SUMMARY

Microfinance and Households Coping with HIV/AIDS in Zimbabwe: An Exploratory Study

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The widespread prevalence of HIV/AIDS in sub-Saharan Africa adversely affects millions of households. In recent years, microfinance has been proposed as a strategy to help the households of microentrepreneurs respond to the negative economic impacts of HIV/AIDS. This attention to the potential role of microfinance builds upon earlier research that shows that microfinance institutions (MFIs) that charge commercial rates of interest and use sound business practices can become operationally self-sustainable (Christen 2000) and help improve the lives of the poor and vulnerable non-poor (Sebstad and Cohen 2001). This type of MFI generally offers small-sized loans, often combined with savings services. An MFI may also offer business management training, health and nutrition education, and other types of services.

This study, conducted in Zimbabwe, sought to better understand the relationship between a microfinance program, Zambuko Trust, and how microentrepreneurs' households cope with the impact of HIV/AIDS. The study also examined how HIV/AIDS is affecting Zambuko's operations and what MFIs can do to lessen the impact of HIV/AIDS on their clients and operations.

Study Methodology

The study involved reanalysis of survey data collected under USAID's Assessing the Impact of Microenterprises Services (AIMS) Project (Barnes 2001). The AIMS assessment focused on Zambuko Trust, a nongovernmental organization (NGO) that provides small-sized loans and business management training to Zimbabwean microentrepreneurs. The survey covered 338 Zambuko clients and 241 matched non-client microentrepreneurs who were interviewed in 1997 and re-interviewed in 1999. The non-client respondents were randomly selected among those who met Zambuko's basic eligibility criteria,[1] and non-clients were matched with clients according to gender, enterprise sector, and neighborhood.

Because of the sensitivity of the topic and the difficulty of measuring directly whether households are affected by HIV/AIDS, proxy indicators were used to classify the survey respondent households as HIV-affected or non-affected. The proxy indictors included chronic illness of an adult household member, death of an adult household member, and absorption of orphans or sick persons into the household.

The respondents resided in Harare, Chitungweza, Bulawayo, and Mutare. The survey data were supplemented by focus groups in these same urban areas with 140 randomly selected Zambuko clients and with 33 Zambuko loan officers and branch managers in late 2000 and early 2001, and by interviews with senior managers of Zambuko. At a September 2001 forum in Harare, representatives of MFIs, HIV/AIDS service organizations, and donor organizations in Zimbabwe discussed the implications of the findings.

[1]The individual must own an enterprise that is at least six months old, not be employed full-time elsewhere, and not have a loan for their enterprise from any other source.

Horizons conducts global operations research to improve HIV/AIDS prevention, care, and support programs. Horizons is implemented by the Population Council in partnership with the International Center for Research on Women (ICRW), the Program for Appropriate Technology in Health (PATH), the International HIV/AIDS Alliance, Tulane University, Family Health International, and Johns Hopkins University.

Key Definitions

Microfinance refers to relatively small-sized loans and/or savings services.

Microenterprises are very small, informally organized business activities (not including crop production) undertaken by low income people. These enterprises have ten or fewer employees, including the owner-operator and any paid or unpaid workers. (USAID n.d.) The owner-operator is defined as a ***microentrepreneur.***

Country Context

The macroeconomic and social environment influences circumstances, options, and choices of households and owners of microenterprises. The larger environment also influences the operations of MFIs.

Zimbabwe's annual inflation rate as measured by the Consumer Price Index (CPI) soared during the study period. In the 12 months after launching the survey in September 1997, the CPI rose 32 percent. Between September 1998 and September 1999, inflation was 70 percent, and the following year it was 62 percent.

The negative influence of the macroeconomic environment has been exacerbated by the high prevalence of HIV/AIDS in Zimbabwe. In 1999 an estimated one-quarter of Zimbabweans age 15-49 were infected with HIV (UNAIDS and WHO 2000).

Zambuko Loan Products

Group-based Loan. Given to individuals in a self-selected group of five to ten individuals who co-guarantee the loans to its members. A non-essential movable asset is pledged by each member against his or her loan. Prior to formal loan application, individuals must attend a half-day training session that covers basic business management. Loans are usually for nine to twelve months, repaid on a monthly basis. Informal business management advice from loan officers is provided.

Individual Loan. Individuals must have a personal guarantor and pledge a movable asset against the loan. Loans tend to be from nine to twelve months, with monthly loan installments. Prior to formal loan application, the person is required to attend a half-day training session that covers basic business management. Informal business management advice from loan officers is provided.

Trust Bank Loan. Self-selected groups of ten or more individuals that co-guarantee loans to its members; targeted to the poor. A potential borrower must attend a one-hour training session for eight weeks prior to receipt of the loan, and bi-weekly meetings during the loan cycle. Loan size is smaller than other products and the loan lasts for six months, with monthly installments.

Zambuko Trust

Zambuko is the largest microfinance program serving microentrepreneurs in Zimbabwe. Begun in 1992, it had branch offices in all of the major urban centers as well as key secondary towns by 1999. Its legal status as a money lender does not permit it to accept voluntary deposits.

Approximately 45 percent of its clients are traders and 40 percent of its clients are engaged in manufacturing, such as knitting sweaters and sewing. The others are engaged in services, agriculture (livestock rearing and market gardens), and food preparation.

In 1997, the average Zambuko loan was Z$2,537 (equivalent to US$213) and carried a 32 percent per annum interest rate. In 2000, the average loan size was Z$10,162 (equivalent to only US$185, due to the decline in the value of the Zimbabwe dollar). By late 2000, the interest rates rose as high as 52 percent, depending on the loan cycle and repayment record, as a result of Zimbabwe's high rates of inflation.

Characteristics of the Survey Sample

Most survey respondents were women, since Zambuko loans primarily to women. In 1999, the respondents on average were 41 years old, with eight years of education. The majority were married, and 16 percent were widowed. Two-thirds of the respondents' households were poor, measured by global standards for determining per capita, per day income and taking into account purchase power parity.

In 1997, 60 percent of the client respondents were on their first loan. After completion of that loan, approximately half of the 1997 clients took an additional loan. The analysis of the client respondents included both those who took an additional loan and those who had left the program. The average sum of all loans taken by the HIV-affected clients—Z$5,821—did not differ significantly from that of the other clients, Z$6,435.

Key Findings

Forty percent of microentrepreneurs' households may be affected by HIV/AIDS.

In 1999, 40 percent of both client and non-client households were possibly affected by HIV/AIDS, according to one or more of the study's proxy indicators. Between 1997 and 1999, half of the affected households had an adult member (20 years or older) who was seriously ill, and 34 percent had experienced the death of an adult member. Also, nearly one-third of the households had absorbed a new member since 1997. The new member was taken in due to illness or death in their previous households or because the person was ill. At the time of the 1999 interview, one-fifth of the households had a member who was chronically ill during the past six months.

HIV/AIDS adversely affects the financial status of microentrepreneurs' households.

When the affected households were compared to non-affected households, these differences were apparent in 1999:

- The proportion of household members who were not economically active was greater in HIV-affected households (40 percent vs. 32 percent; $p<.01$).
- HIV-affected households (18 percent) were less likely than others (9 percent) to seek medical treatment when needed due to a lack of funds ($p<.01$).
- The monthly income for HIV-affected households was less (Z$3,344 vs. Z$4,142; $p<.05$).

Table 1 Impacts of microfinance on affected clients and their enterprises suggested by the ANCOVA analyses of the survey data

Findings (1999 compared to 1997)[1]	Statistical significance (p value)
At the household level, HIV-affected clients compared to HIV-affected non-clients had:	
A greater number of household income sources (+.23)	<.01
A higher proportion of the household's boys aged 6-16 in school (+5%)	<.10
At the enterprise level, HIV-affected clients compared to HIV-affected non-clients:	
Worked fewer hours the previous week in household enterprises (-8 hours)	<.05
Had a greater proportion insisting on a deposit when extending credit to customers (+13%)	<.10
At the individual level, HIV-affected clients compared to HIV-affected non-clients had:	
Were more likely to have an individual savings account with a formal institution (+16%)	<.01
Saved in more ways (+.43)	<.01

[1]These estimates are derived from the impact analysis that was conducted on the four comparison groups. The analysis controlled for specific initial differences in 1997, including household poverty level, household economic dependency ratio, and whether or not the household had a crisis due to illness or death of a member between 1995 and 1997.

The lower monthly income among HIV-affected households appears to reflect a smaller amount earned from the household's enterprises. The monthly net revenue from the household's enterprises was $521 less for the HIV-affected households ($p<.05$), when matching households to control for differences in 1997 in poverty status, economic dependency ratio, whether the household had been affected by serious illness or death between 1995 and 1997, and for level of monthly net revenue from household enterprises.

The findings suggest that chronic illness and death influence the amount of income the household earns from its enterprises, which in turn affects their overall monthly income level. The results imply that less attention is devoted to the household's enterprises when the owner and other households members have to address illness or death in the household.

OPPORTUNITY INTERNATIONAL

By 1999, HIV-affected clients had greater financial constraints than HIV-affected non-clients.

Affected client households had more members and a higher ratio of members who were economically inactive. More affected clients (16 percent) than affected non-clients (9 percent) had become widowed since 1997, and there was greater loss of wages as a source of income among the affected clients. Possibly related to these other factors, a lack of funds caused more households of affected clients (22 percent) than affected non-clients (13 percent) not to seek medical services when needed during the six months prior to the 1999 interview.

Participation in a microfinance program can lead to income smoothing and better financial management.

The results of the impact analysis that controlled for selected initial differences suggest that participation in Zambuko's program had a positive effect on the HIV-affected client households (Table 1). Given two households with the same poverty level, the same number of income sources, the same economic dependency ratio, and same status related to illness or death in 1997, the household with a Zambuko client had a significantly higher number of income sources than the affected non-client household in 1999. This impact result indicates that credit had permitted the client households to pursue an income diversification strategy to smooth the flow of household income, since enterprise earnings normally vary from month to month.

Participation in Zambuko's program also positively influenced the savings patterns of the clients from affected client households. Compared to affected non-clients, they tended to save in more ways, which is important since each savings mode usually has a different intended use, and a greater proportion had an individual savings account with a formal institution. These results are probably attributable to the financial management skills acquired through the training clients received and the discipline acquired through meeting loan repayment schedules.

Caring for the Chronically Ill and Departing the MFI Program

An elderly Bulawayo microentrepreneur stopped taking loans from Zambuko because her unmarried son was ill with tuberculosis and she relocated to the rural areas to care for him. When the son died, she moved to Masvingo to care for an ill son-in-law. Spending time caring for the sick meant that her business activities were disrupted so she was unable to continue in Zambuko's program.

Zimbabwe's economic situation contributed more to repayment problems than illness and death.

In the focus group discussions, both Zambuko officers and clients felt that the deteriorating economic situation in the country was more of a factor than illness and death in contributing to loan repayment problems in 2000. Also that year, the tense political situation had a negative impact on clients who had customers on commercial farms and in other rural areas. The general opinion was that if economic conditions had been better, households would have been better able to cope with the economic impact of illness and death. Nonetheless, clients and Zambuko officers who participated in the focus groups also felt that loans are a burden when the client is seriously ill or has to care for a person who is chronically ill.

Instituting mandatory insurance fees and providing HIV/AIDS information to clients are among Zambuko's responses.

Zambuko does not have a basis for estimating the impact of HIV/AIDS on its program and clients, but it has taken measures to reduce risks to its financial portfolio that are associated with HIV/AIDS and other factors. In January 2001, Zambuko instituted a mandatory insurance fee of one percent to cover the outstanding loans of borrowers who die. Other policy changes that have helped Zambuko manage risks include a mandatory savings requirement and strict enforcement of group co-guarantees of loan installments.

Other proactive measures have been taken by Zambuko's Trust Bank Program, which targets the poor. HIV/AIDS specialists have attended meetings of Trust Bank clients to discuss ways to care for an HIV-infected person. Other experts talked about legal issues facing women, such as dealing with relatives' claims on a deceased husband's property.

Proposals to help MFIs respond to client needs include training, new loan products, and networking.

A number of suggestions were made in the focus groups with clients and Zambuko staff. These include:

- Provide smaller, shorter-term loans (e.g., six months) to reduce the risk of loan defaults since the economic situation and prevalence of HIV/AIDS make it difficult to predict if individuals can meet their loan obligations over a 9- to 12-month period.
- Educate clients about HIV/AIDS-related issues.
- Train loan officers in communications skills to better enable them to respond to the HIV/

Political Disturbances Affected MFI Program Participation

A former Harare client's enterprise was doing well until the political disturbances on the commercial farms in Mazowe disrupted her activities. Most of the farm workers fled due to problems on the farms, and some of those who left owed her money. Because she lost her main customers, she stopped borrowing from Zambuko.

AIDS-related situations they encounter.
- Encourage clients to teach teenage sons and daughters how to manage their enterprises, so that the child could operate the business if the owner became ill or died, or had to focus on caring for a sick person.

Representatives of MFIs, HIV/AIDS service organizations, and donors participating in the forum stated that the forum should be regarded as the launching of networking and collaboration between MFIs and HIV/AIDS service organizations. They suggested a role for a permanent forum and identified a facilitator. The participants also suggested a number of ways that MFIs might better address the impact of HIV/AIDS on their institutions and clients. For instance, they suggested that MFIs work together to combat the denial of HIV/AIDS in Zimbabwe. There was general agreement that MFIs should develop new products and take actions to ensure that their clients are better educated about HIV/AIDS-related topics. The education might be provided by the MFI or by establishing linkages with an HIV/AIDS service organization.

Conclusions

This study was one of the first of its kind to explore the relationships between participation in a microfinance program by microentrepreneurs with established businesses and the household's ability to mitigate the economic impacts of chronic illness and death. The findings indicate several small yet important ways that MFI programs help microentreprenuers and their families respond to these impacts, advantages that are associated with access to credit and business management training.

The following recommendations emerged from the study and have policy, program, and research implications for MFIs, AIDS service organizations, donors, and governments.

Recommendations

- A set of tools should be developed and tested that would permit MFIs and other programs to better estimate HIV/AIDS-affectedness among their clients and target groups.

- Despite the growing financial needs of households coping with chronic illness and death, MFIs operating in countries with high inflation must keep their interest rates and fees in line with inflation or risk eroding their capital base.

- MFIs need to consider HIV/AIDS from the standpoint of the organization, its outreach, and its client base. They should focus on ways to manage risks (e.g., mandatory insurance fees) and experiment with measures and services to ameliorate the impact of HIV/AIDS on their target populations. Operations research should be undertaken to determine the feasibility of new programs, services, and products.

- The legal framework for non-banking microcredit organizations should be changed to enable them to collect voluntary deposits, such as savings and funeral funds.

- MFI loan officers should be trained in communication techniques to enhance their ability to respond to the HIV/AIDS situations they encounter. Also, they should be given basic counseling skills or be informed about existing services to which they can refer individuals.

- A similar study ought to be undertaken in a more stable economic environment. The economic impacts of HIV/AIDS on households and of microfinance on affected clients may thus be more apparent, since these will not be co-mingled with negative

macroeconomic factors.

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The full report is available under AIMS publications at www.mip.org.

Additional Resources

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