Systemic Risk and HIV/AIDS in Microfinance

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Why DAI and HIV/AIDS?

- USAID Microenterprise Best Practices Project (MBP) – Crisis Management Research
- H/ART (HIV/AIDS Response Team) – Cross-cutting, Multi-Sectoral HIV/AIDS Initiative
- Tanzania NMB response
- Zimbabwe LEAD Project
- Other MF Industry Building Projects (Haiti, Brazil, Bolivia, El Salvador, Ukraine, Kenya)
- Shared Interests of the DAI Group
  - ECI in Southern Africa
  - Bannock’s SME work
Three Big Topics – Briefly Considered

- The HIV/AIDS Crisis
- HIV/AIDS and microfinance
  - Economies
  - Customers
  - MFIs
- How to Respond?
  - Donors and Investors
  - MFIs
  - Analysts and Experts

"Not Enough Time." 1999
Tim Lonergan
Artwork by artists living with HIV/AIDS

The HIV/AIDS Crisis: What is HIV/AIDS?

- HIV is a viral infection caused by the Human Immunodeficiency Virus (HIV)
- HIV attacks and gradually destroys the immune system and usually leads to Acquired Immune Deficiency Syndrome (AIDS)
- AIDS diagnosed from one of the opportunistic diseases associated with the virus
- AIDS almost always result in death.
HIV/AIDS: How is it Transmitted?

- HIV transmitted through unprotected sexual contact, re-use of contaminated needles, blood transfusions, other exposure to infected blood, and infection from mother to child
- Transmission starts in high-risk populations
  - Injecting Drug Users – IDU
  - Commercial Sex Workers - CSW
- Transfers to their sex partners which triggers epidemic
- The 3Ms of transmission - men, money, and mobility

From Transmission to Epidemic

- Epidemic increasingly involves the poor
  - most vulnerable - most likely to engage in high-risk activities and least likely to get accurate information and appropriate care
  - Transmission higher for those with secondary infections, poor nutrition, and generally compromised health
- AIDS symptoms develop on average 8 to 10 years after initial HIV infection
  - 90% of the infected unaware
  - Disease often advanced before recognized
  - Spreads far before impact seen – a slow wave event
- Flash point: “the 5% rule” - once HIV rates hit 5% of general population, epidemic takes off
- Not clear how the epidemic ends.
The number of people living with HIV or AIDS at the end of the year 2000 is 36.1 million -- 50% higher than projected by the UN and WHO in 1991.

21.8 million cumulative deaths due to HIV/AIDS, 3.0 million in 2000

In 2000, 5.3 million people were newly infected with HIV, 95% in developing countries

Regional variations are significant and important.
The News is Not All Bad...

- Possible signs HIV incidence stabilizing in sub-Saharan Africa, but data suspect
- More countries acknowledging problems and starting to act
- Breakthroughs in *Anti-Retroviral* drug distribution
- Public and private resources starting to flow
- ...but, the crisis will get worse, much worse, before it gets better....

HIV/AIDS and Microfinance

- The impact on nations and economies
- The impact on customers
- The impact on MFIs
Impact on Nations and Economies

- Declines in economic growth (GDP)
- Diversion of public attention and resources to crisis management
- Risks to political stability and rule of law
- Progressively depleted workforce, increased cost of doing business, reduced competitiveness
- Future generations – all of the above

Impact on Households - Issues

- Infected and Affected
- Impact varies over time
  - Infection and Pre-illness
  - Illness and Dying – progressive decline
  - Death
  - Those left behind
- Data Complexities

"Living With the Epidemic,”
1997, Judy Ann Seidman
Artwork by artists living with HIV/AIDS
Impact of HIV/AIDS on Urban Households – The Côte d’Ivoire Research

Francs CFA

-5000 0 5000 10000 15000 20000 25000

General Population Families Living with HIV/AIDS

- Monthly Income per Capita
- Monthly Consumption per Capita
- Savings/Dissavings

Source: UNAIDS, Simulation-based on data from Bechu, Delcroix and Guillaume, 1997

HIV Prevalence for Low-Risk Urban Women

<table>
<thead>
<tr>
<th>Country</th>
<th>HIV Prevalence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>43.0%</td>
</tr>
<tr>
<td>South Africa</td>
<td>32.5%</td>
</tr>
<tr>
<td>Lesotho</td>
<td>31.3%</td>
</tr>
<tr>
<td>Malawi</td>
<td>30.4%</td>
</tr>
<tr>
<td>Swaziland</td>
<td>30.3%*</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>28.0%*</td>
</tr>
<tr>
<td>Zambia</td>
<td>27.1%</td>
</tr>
<tr>
<td>Namibia</td>
<td>22.7%</td>
</tr>
<tr>
<td>Rwanda</td>
<td>19.0%</td>
</tr>
<tr>
<td>Burundi</td>
<td>18.6%</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>17.6%</td>
</tr>
<tr>
<td>Kenya</td>
<td>15.9%</td>
</tr>
<tr>
<td>Uganda</td>
<td>13.8%</td>
</tr>
<tr>
<td>Tanzania</td>
<td>13.7%*</td>
</tr>
<tr>
<td>Mozambique</td>
<td>9.9%*</td>
</tr>
</tbody>
</table>

"The Destitute" Artwork by artists living with HIV/AIDS
Changing Customer Behavior

- Enterprise takes backseat to crisis management
- Difficulty with debt during extended care-giving phase of crisis
- Tendency to divert loan capital to medical needs
- Desire for smaller loans
- Increasing demands for “special treatment”

The Impact on MFIs

- Portfolio Quality
  - Repayment Capacity
  - “Diversion”
- Deposits at risk
- Staff and Employees
  - Absenteeism
  - Productivity, Attention, and Morale
  - Turnover and retraining
- Fringe Benefit Costs
  - Life Insurance
  - Health Insurance
  - Sick and Caregiving Leave
- Risk of fraud and increased control costs
How to respond?

- Donors and Investors
- MFIs
- Analysts and Experts

Donors’ Response

- Keep expectations low on ability of microfinance to help those now affected by HIV/AIDS
- JUST SAY NO to microfinance as a solution to HIV/AIDS
- Be realistic about cost structures in AIDS-affected countries
- Reward MFIs that monitor impact of HIV/AIDS on portfolio and plan accordingly
- Support cautious experimentation
Investors’ Response

Just another systemic risk?

MFIs’ Response: *The Big Five*

1. Acknowledge and Measure HIV/AIDS risks
2. Refine and Align Products
3. “Risk-proof” Operations
4. Refer Clients to AIDS-Related Services
5. MFI Workplace Policies
1. Acknowledge and Measure HIV/AIDS risks

- Understand HIV/AIDS prevalence in market
- Monitor patterns in customer behavior
- Add HIV/AIDS indicators to loan applications or renewals
- Share information with others in industry

2. Refine and Align Products

- Savings, savings, savings
- Product innovations?
  - life insurance on loans
  - product to help smooth health expenses
  - long-term trust fund product to hold assets of sick clients for their children
- Review product requirements.
3. “Risk-proof” Operations

- Track staff absenteeism and changes in fringe and operating costs
- Tighten fraud controls
- Portfolio insurance
- Staff redundancy planning

☞ Higher prices for higher risk populations?

4. Refer Clients to AIDS-Related Services

- HIV prevention education for clients and their families
- Care referral for those with HIV/AIDS
- Legal and financial planning to protect assets for surviving family members
5. MFI Workplace Policies

- Establish HIV/AIDS non-discrimination policy
- Staff HIV/AIDS education program
- Provide risk-reducing services to staff
- Review fringe benefits and revise as necessary

Experts’ and Analysts’ Response

- Become informed about HIV/AIDS
- Recognize need for multi-sectoral response
- Bring informed support to microfinance industry
- Incorporate HIV/AIDS planning as integral with, not a threat to, “best practice” work.
Concluding Remarks

- HIV/AIDS is a **real** concern
- HIV/AIDS **will** affect the microfinance business (much more than microfinance will affect HIV/AIDS)
- HIV/AIDS is a systemic risk to our industry, but one that we are able to prepare for.