RESPONSES OF MICRO-FINANCE INSTITUTIONS (MFIs) TO HIV/AIDS CRISIS IN KENYA

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DECLARATION

I, Joseph Waweru Ndiritu, hereby declare that this dissertation is my original work and has not been submitted for a degree in any other university.

24/11/06

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This dissertation has been submitted for examination with my approval as the University supervisor.

24/11/06

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DEDICATION

This work is dedicated to my wife, Ruth and sons, Richard and George for their support and patience throughout this project.

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LIST OF ABBREVIATIONS

AIDS : Acquired Immune Deficiency Syndrome

AMAP : Accelerated Micro enterprise Advancement Project

AMFI : Association of Microfinance Institutions in Kenya

CBO : Community Based Organization

DAI : Development Alternatives, Inc.

DOH : Department of Health

ECI : Ebony Consulting International

EGAT : Economic Growth, Agriculture and Trade

FHI : Family Health International

GBV : Gender Based Violence

HBC : Home-based care

HIV : Human immunodeficiency virus

IMAGE : Intervention with Microfinance for AIDS and Gender Equity

IPV : Intimate Partner Violence

LSHTM : London School of Hygiene and Tropical Medicine

MFI : Microfinance institution

MFRC : Microfinance Regulatory Council (of the Republic of South Africa)

MIS : Management information system

MRC : Medical Research Council

NGO : Non-Governmental Organization

NGO : Non-Governmental Organization

NHLS : National Health Laboratory Service

OI : Opportunistic infection

OMT : Oral Mucosal Transudate

PAR : Portfolio at risk

PLA : Participatory Learning and Action

PLWA : Person living with AIDS

PRA : Participatory Rural Appraisal

PWA : Person living with HIV/AIDS

PWR : Participatory Wealth Ranking

RADAR : Rural AIDS and Development Action Research Programme

SEF : Small Enterprise Foundation

SFL : Sisters for Life

STD : Sexually Transmitted Disease

STI : Sexually transmitted infection

TB : Tuberculosis

TCP : T¢shomi¢sano Credit Programme

UNAIDS : United Nations Joint Programme on AIDS

VCT : Voluntary counseling and testing

WOCCU : World Council of Credit Unions

ABSTRACT

Microfinance institutions provide small loans and in some cases saving products to low-income people. Their client base is dominated by people who are characterized by poverty, low literacy levels and poor access to information. Because of their characteristics microfinance clients are more vulnerable to the aids pandemic and without any doubt the HIV/AIDS crisis has a major impact on the microfinance institutions both on the level of clients and staff.

The infection of clients or their family members leads to higher number of dropouts, increased absenteeism from group meeting and breakup of groups increasing the MFI's costs to maintain and expand the client base. The sick clients or clients that have to care for the sick have to divert funds and time from the business leading to reduced repayment capacity, higher default rates and difficulties to meet compulsory savings requirements. The reduced business activity also lowers the demand for repeat loans. Some clients have to deplete their savings, business income and assets in order to buy medicines and take care of family orphans. The high numbers of aids victims among clients forces MFIs to write off outstanding loan balances increasing the overall costs.

The MFIs staff and their families are also affected leading to high staff absenteeism due to frequent attendance of funerals, sickness, caring for sick. Staff expenditures rise because of increased staff turnover, funeral assistance for staff, medical costs and costs of recruitment and training of new staff.

In response to the effects of HIV/AIDs crises, some MFIs have established HIV/AIDS policies; others have developed special loans funds for their clients who have been infected. Some MFIs have develop new products which are flexible for their client, some few MFIs allow family members to take over the loan of the diseased client in order to continue the business. Many MFIs have established loan insurance funds to offset loan balances for clients that passed away.

Also, some MFIs gives donations to children home which cater for HIV/AIDS orphans of whom some are HIV positive. There are also some few MFIs that are involved in creating awareness on issues related to HIV/AIDS though this is not their core business.

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the study

Issues related to HIV/AIDS tend to evoke an image of concern for health and community welfare. Yet, with HIV prevalence, AIDS death and orphaning rates as high as they are in several African countries, it is given that the pandemic has serious economic effects among the general population as well (Wright, 2000). This includes staff as well as (potential) clients of microfinance institutions (MFIs), the corporate sector and donor organizations operating in Kenya.

Corporations, MFIs and donor organizations 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. HIV/AIDS affects all people and all businesses. The economic and financial impact of HIV/AIDS can seriously hamper the operations of many businesses, even those with substantial resources. Microfinance clients, and the institutions that serve them, are particularly susceptible given the limited resources that the poor have to cope with any major financial crisis.

For microfinance institutions (MFIs), HIV/AIDS is one of the many factors that can negatively affect them and put significant financial and operational pressure on their limited resources. Because it influences staff, clients, and the institution's portfolio, HIV/AIDS's negative effects can create numerous pressures on an institution trying to maintain or achieve financial and operational self-sufficiency. If ignored, HIV/AIDS can ultimately compromise an MFI's operations, profitability, and long-term viability. Thus, MFIs, like other types of businesses, must perform some critical analysis and planning to mitigate the impact that the disease has both on the MFI s target market and on its own operations.

Over the past few years, MFIs in many countries have begun implementing changes to help them mitigate the impact of HIV/AIDS. These changes have required significant buy-in at high levels of the organization, analysis of the institution and its clients, and the foresight and strategic planning to implement new activities that will strengthen the MFI s performance in this difficult environment. Institutions have had to look critically at their client base, their external environment, their risk management strategies, their trends in their financial performance, the appropriateness of their products and services, and their staff and the trends related to staff productivity and expense.

Understanding the economic impact of AIDS could help ensure that corporations, MFIs and donors develop rational strategies to respond to the pandemic. This research project will look at the process resulting in the decision to pro-actively respond to the HIV/AIDS epidemic, the strategies that have been developed by MFIs and the challenges and ethical dilemmas faced. Focus will be on the developed strategies in relation to the economic activities of the MFIs (the external environment), i.e. the consequences for staff, and the internal organization will not be specifically addressed.

Microfinance institutions provide small loans and sometimes saving services to relatively poor groups that do not have access to mainstream banks. In some cases the MFIs also offer insurance services, merely as agents of insurance companies. Data suggest that the spread of HIV/AIDS follows existing patterns of poverty, inequality and exclusion. Clients of MFIs are therefore highly exposed to the risk posed by the HIV/AIDS endemic, such as income loss, need for lump sum of cash to cover medical expenses, loss of working time for female led enterprises as women often care for the sick. As a result MFIs, for instance, in Kenya, are confronted with the effects of the HIV/AIDS pandemic.

In general between 60 and 80% of MFI clients are women. Women are especially affected by the HIV/AIDS pandemic as the majority of poor is female, they have a more vulnerable position in most African societies, and their workload increases considerably given their caring role. Microfinance is widely seen as improving livelihoods, reducing vulnerability, and fostering social as well as economic empowerment. As a result microfinance institutions (MFIs) are particularly attractive as a tool to help the poor.

Parker (2000) asserts that microfinance services are best positioned to serve those that serve as the safety net for people living with AIDS. Microfinance is also important to households not affected by HIV/AIDS, but which, at any given time, may well become so. Having access to financial services will enable them to shore up their resources ahead of time in an effort to cope financially with any crisis that may arise.

To date however, the microfinance industry in Kenya has paid little attention to its role within a marketplace affected so severely by HIV/AIDS.

1.2 Statement of the problem

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, 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. (Phelps,1995). 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. Whereas many studies have been carried out in other countries, little is known about the effect of HIV/AIDS on the operations of microfinance institutions in Kenya and how they cope with the pandemic.

1.2.1 Objective of the study

The objective of the study is:-

Assessing the responses of MFIs to the HIV/AIDS crisis in Kenya.

1.2.2 Significance of the Study.

This study seeks to raise ideas and issues in the hope that MFI practitioners and persons directly addressing HIV/AIDS will continue the discussion. It does not presume to offer a prescription for the ideal combination of economic strengthening and social services for communities heavily affected by HIV/AIDS.

Specifically, the findings if this study, it is hoped, will be beneficial to the following:-

1. The Researcher - the researcher will gain useful skill and experience that will aid in carrying out future researches.
2. The microfinance institutions in medium and high prevalence HIV/AIDS environments will gain an understanding of the effects of HIV/AIDS on their growth and operations. It is further hoped that they will find the findings useful to their planning processes. The research also seeks to make recommendations for institutional changes to preserve MFIs and their client base.
3. This research project is also intended to give direction to MFI managers in assigning responsibilities to specific people and making them accountable for the responsibilities, determining realistic time frames for carrying out proposed activities, and finding and establishing relationships with partners that can be of assistance to the MFI in achieving its goals.
4. Scholars - the research will assist any scholars who might have an interest in developing the findings further or as a source of reference.
5. The Government - Having declared HIV/AIDS a national disaster, the Government will find the research useful as it will shed some light on the positive role of the MFIs can play in the fight against the spread of the virus.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

Acquired Immune deficiency Syndrome (AIDS) is a tragedy of devastating proportions in Kenya. The lives of infected individuals, their families and communities, the companies and agencies they work for, and the society as a whole are all affected by HIV/AIDS pandemic. The prevalence rate was at peak by year 2000 at 14% reducing to 7% in 2004. It is estimated that 1.5 million people in Kenya had died of AIDS since the epidemic started early in 1980s. Number of people leaving with Aids is estimated at 1.4 Million and the number of orphaned children `rising to 1.8 million. The cumulative number of deaths due to HIV/AIDS in Kenya may rise to 2.6 million by the end of 2005, if no interventions are introduced. The main modes of transmission of HIV are sexual contact (90%), mother-to-child transmission (10%) and contact with blood (less than 10%).(NACC Strategic Plan 2005 – 2010).

Hunter and William, 1997 state that approximately 75 percent of all HIV/AIDS-related deaths occur in the most economically productive age brackets (20-40 years). Often, these deaths occur among heads of households or other primary members of the family.

Caring for an infected family member is labor intensive. In a family with an HIV/AIDS-infected member, 29 percent of household labor on average is spent on AIDS-related activities. If there are two care-givers in the family, the loss of household labor can be as much as 43 percent. (Stover and Bollinger 1999)

Since the beginning of this century, the issue of HIV/AIDS in relation to microfinance is getting more and more attention. MFIs in Africa are also increasingly noticing the effects of the HIV/AIDS pandemic on its operations. MicroSave and Micro Insurance Centre have done research on this issue. SAMCAF organized a workshop for MFIs in Southern Africa on this issue, which was sponsored by Hivos.

At the same time, several international corporations have also realized the effects of the HIV/AIDS pandemic on their operations and have developed a number of strategies. Microfinance institutions (MFIs) do operate successfully in communities seriously affected by AIDS.(Stuart Rutherford, et al., 1999). Given the magnitude of the HIV/AIDS crisis, MFIs need to take an active, aggressive approach toward protecting themselves. Just as individual families need to build an array of coping mechanisms to deal with the HIV/AIDS crisis, so do MFIs. To date, there is not much literature suggesting that MFIs are fully aware of the threat posed to their survival by the HIV/AIDS crisis or that they have begun to develop effective best practices for managing the threat.

Wilkinson. B, 1999 suggests that to survive the HIV/AIDS crisis and the threat it poses to their portfolios, MFIs will need to adopt multiple strategies and tactics. Many of these strategies, and even the most important, may not be traditional MFI activities. What is required are strategies that address the factors that influence the client's relationships to the MFI.

Microfinance can strengthen a client's income-earning activities. In fact, it is one of the few interventions that show potential for doing so in a cost-effective manner. On the enterprise level, impact evaluations of microfinance services show that access to credit enables businesses to survive crises. At the household level, evaluations point to income and asset accumulation. (Sebstad, J. and Martha, A.C., 1996).

2.2. Understanding HIV/AIDS

There are common features concerning HIV/AIDS epidemics but there is also important variation. One common feature is that HIV/AIDS epidemics are long-wave phenomena, though the fact that there are several waves of HIV infection, opportunistic infections, AIDS, death followed by the impact wave -- may be less well understood. A few countries appear to be over the peak of the first wave, including Uganda, Thailand, Brazil. But no country has yet reached the crest of the AIDS mortality wave and the impact wave is only just beginning for the majority of affected countries. This fourth wave, which may include social and political destabilization, will engulf countries for decades to come. It will demand massive responses at many levels.

Yet, while HIV/AIDS is now global in its spread and devastating where it becomes generalized, it is important not to lose sight of the fact that what we confront is not a single uni-causal epidemic but many differentiated ones. The determinants of HIV.s spread are rooted in poverty and in inequality, and these create local situations of risk (Farmer, 1999). Infection rates and trends are sometimes found to vary dramatically, often over quite short distances (Ngwira *et al,* 2002).

The patterns of population movement and interaction, the locales where sex is transacted that determine risk are diverse in nature and may change with time. Access to food and livelihoods are often fundamental to people's choices. Similarly, the consequences of AIDS-linked illness and death, which reverberate through households, extended families, communities and beyond, are shaped by features of agricultural and livelihood systems -- for example access to labor-saving technologies or the nature of social safety nets -- and by pre-existing patterns of food insecurity.

2.3. 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 long-term 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.

2.4 Role of Microfinance Institutions

Poverty is closely related to vulnerability. Poor people have difficulties to cope with economic stresses that occur, implying that they are often caught in the poverty trap. They can come out of poverty but often fall back once economic stress occur. To reduce their vulnerability or exposure to risks and economic stress, people try to increase their income, to diversify their income sources and to build-up their asset base. Microfinance can be a useful instrument in assisting people to implement these strategies. A number of studies have demonstrated significant impacts of MFIs in reducing household poverty and vulnerability, and in improving livelihood security among those living at the margins of extreme poverty.

Microfinance institutions often offer *savings*. This is a way for clients to keep their money in a safe place. It reduces the risk of theft and diversion of income due to lack of discipline or social pressures. In addition microfinance institutions often promote savings by having a system in which clients save regularly.[1] Savings that are easily accessible are very relevant for clients facing a HIV/AIDS related or other crisis.

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 help clients avoid eating into their business capital.

However, loans lose their attractiveness to clients as a coping mechanism when a client is experiencing a HIV/AIDS related crisis and has too many competing demands for lump sums of cash. Closing of business to fulfill 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 to safeguard their future position in their solidarity groups. They see their business and access to loans as a ticket to "bouncing back" once the crisis is over; clients make a first connection between access to loans and the restoration of their business activities.

2.5. Operations of Micro finance Institutions

Micro finance institutions are set up in order to finance small and micro-enterprises, which are excluded from the traditional banking practices. Micro finance is the provision of financial services to low income, poor and very poor self-employed individuals. The main objective of MFIs is to alleviate poverty by providing these groups of people with loan (the threshold for loans in Africa, Asia and the Near is $300), and usually short term (always less than one year, unless the client is of long standing, and often less that 90 days). (Ringeera, R.W 2003).

2.6. The impact of HIV/AIDS on MFIs Operations

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, micro credit 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.

2.7.0 The nature of the economic impact of HIV/AIDS on clients of Microfinance Institutions

2.7.1 Impact of HIV/AIDS on clients Financial Patterns and income

The most immediate impact of an HIV/AIDS-infected family member is a sharp decrease in family income. The household initially loses the sick individual's income-generating power. With death, there is a permanent loss of the person's income. In addition to loss of income from the infected persons, the family loses at least part of the care-giver's earnings while he or she stays home to care for the ill person (Evans, A.C. 2002).

The care of family members with AIDS has tremendous financial repercussions in terms of lost business income because most care-givers reduce their income-earning activities and draw from their business capital to meet expenses. Donahue, J. et al (2001)

2.7.2 Impact of HIV/AIDS on clients expenses

As the income of families with an HIV/AIDS-infected person falls, their expenses rise. Medical expenses increase markedly during the intensive care period of an HIV/AIDS incidence. Studies indicate that in Ethiopia, the average cost of treatment, funeral, and mourning expenses amounted to several times the average household income. (Stover, J. and Bollinger, L, 1999)

Families that inherit the orphaned children of HIV/AIDS victims are faced with increased costs for food, school fees, clothing, and the like. (Hulme, D, 2002)

2.7.3 Impact of HIV/AIDS on clients Assets

Assets can be classified as savings, household assets, productive assets, and land. Families caring for an HIV/AIDS patient find their cash resources become constrained as incomes decline and medical costs rise. (Bonnard, P. 2002) These families will first cut back on consumption to free up cash for treating the sick person.

In Cambodia, families caring for an infected family member drew down, on average, 29 percent of their savings. In Thailand, 57 percent of AIDS-affected households used up all of their personal savings. (UNAIDS, 2003)

When these measures fail, families must resort to disposing other assets. The death of a family member because of AIDS often results in the stock of food grain to be depleted to provide food for mourners. Other burial-related expenses are met most often by selling livestock. (Stover, J. and Bollinger, L, 1999)

Chen and Dunn, 1996 sate further that liquid assets are consumed, the family sells off household assets. They will sell productive assets only when they have run out of other options because selling productive assets compromises future earning capacity. (Donahue, J. et al, 2001) Land is sold only as a last resort. One very important implication of this consumption of assets to meet current expenditures is that the family' collateral for borrowing disappears. The table below gives a highlight of this.

Table 1: Productive Assets Available to MFI Clients

Assets	Description of Liquidation Process
1. Savings outside of MFI	• Liquid protective asset—the first port of call • Clients hesitate to access savings in the MFI as this can jeopardize future access to credit
2. Business income	• MFI clients protect their business capital because it is what will help them bounce back after the crisis. • Diversion of MFI loan to avoid liquidating business

	capital
3. Household assets	• TV, radio, kitchen utensils, furniture • Chickens, goats
4. Productive assets	• Business capital • Draft/dairy animals
5. Land	• Affected households will only sell land when they have exhausted almost all other avenues

Source: The impact of microfinance institutions on poverty alleviation – Wright et at 1999).

2.7.4 Impact of HIV/AIDS on clients borrowing habits

Clients will initially attempt to take out larger loans to divert some of the cash for the treatment of the infected person. At the same time, the demand by these clients for loans related to running their businesses drops as they reduce business activities. Later, they will resort to borrowing that allows them rapid access to cash. The demand for instant cash loans was driven by a need to pay emergency expenses, especially medical bills, and the instant cash loans offered a quicker disbursement time. (Evans, 2002)

Because of the restrictions on withdrawing savings and the ready availability of emergency loans, credit union members can take out emergency loans up to the value of their shares and let the loan default in effect, withdrawing from membership.

2.7.5 Impact of HIV/AIDS on clients loan Servicing

Clients will initially continue to service the loan as best they can from savings, the sale of assets, and gifts from relatives and friends. (Anita,1999). MFI clients will actually go to great lengths to repay their loans to safeguard their future positions in their solidarity groups because they see their business and access to loans as the way to recover once the crisis is past.

If the crisis occurs midway through a loan cycle, the family is more likely to have invested the entire amount of the loan in the business, rather than diverting it. But if a crisis occurs at the beginning of a loan cycle, the greater the possibility the client diverts a significant amount of the proceeds to cover medical expenses. If the funds are diverted, the family is more likely to have difficulty repaying the loan.

2.7.6 Potential responses of micro-finance institutions - stepping beyond standard microfinance

The question that MFIs ought to ask themselves when confronted with the problem of HIV/AIDS is; What are the options in going beyond standard microfinance in an HIV/AIDS context? (Barry, 1995), 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:

2.7.7 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. Barry (1995). 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.

2.7.8 Action by the MFI itself v. linkages with other institutions:

Sebstad, et al(2000) suggest that MFIs may choose to act strictly within their institutional boundaries or through linkages with no 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 UNDP (1999). Non-financial services to MFI clients may provide an important opportunity for a linkage program – for the reasons described above.

2.7.9 Option 1: HIV/AIDS Prevention Activities

To date, the largest number of on-going MFI experiments revolves around providing HIV/AIDS prevention information. Yamano et al (2002). 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.

2.7.10 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 Kim (2002). 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.

a). Mitigation Activities Related to Financial Products and Services

Churchill (1996) highlighted the following mitigation activities related to financial products and services:-

i. Develop new financial products that are particularly helpful for sick clients:

- lump sum and flexible savings products;
- education trusts for minors;
- Emergency loan products; etc.

ii. Create linkages to other financial institutions if not able to offer savings or insurance internally. (These linkages adversely affect MFIs not specifically focused on HIV/AIDS mitigation).

iii. Allow a well adult in the household to replace a sick MFI client.

iv. Revise rules regarding clients' access to compulsory savings.

v. Allow clients to offset accumulated compulsory savings against loan balances outstanding.

vi. Allow younger clients or those newly establishing businesses to use the MFI's services if they come from an AIDS affected household.

vii. Provide death insurance, either in form of burial expenses, cash payment, or debt wipe-out.

viii. Create small loan program for members of sick person's family.

ix. Develop pre-paid medical payment products, designed to cover the cost of future medical treatment, drugs, or hospitalization.

b). Mitigation Activities Providing Non-Financial Services

Churchill (1996) further suggested the following mitigation activities providing non-financial services:-

i). Develop community-based programs for families caring for AIDS orphans.

ii). Work with Village Banks or Lending Groups to encourage mutual support relationships beyond repayment.

iii). Provide health care unit for terminally ill patients.

iv). Help clients with legal protection in case of spouse's death: inheritance laws and wills, etc.

v). Provide training on children's rights.

2.11 Conclusions

As financial institutions, MFIs should not provide AIDS support services or indeed 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.

Microfinance institutions and AIDS Support Organizations can best respond to the impact of 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 that MFIs are equipped to respond directly to the broad ranging social and medical impacts of HIV/AIDS.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Research design

This section gives insight into how the research was conducted. In order to carry out an investigation into the responses of micro-finance institutions (MFIs) to HIV/AIDs crisis in Kenya, an exploratory study was undertaken. Specifically, the researcher reviewed the population of the study, the sample and sampling technique, data collection process and data analysis and presentation techniques.

3.2 Population

The study population consisted of MFIs registered by the registrar of societies in Kenya which operate under either the banking Act or the Building Societies Act and are also registered members of the Association of Microfinance Institutions (AMFI). The Association of Microfinance Institutions, registered in March 1999 under the Societies Act is an umbrella organization representing microfinance institutions in Kenya. By November 2005, AMFI had a total membership of 18 microfinance institutions (list attached).

3.3 Sampling

Since the entire population of registered MFIs is sufficiently small, the researcher used census method to administer questionnaires. This ensured that the entire population of MFIs register was included. The method did enhanced confidence in the results arising from the analysis of data as regards to the entire population. The results were relatively unbiased and conclusions made from such information were considered representative of the sector.

3..4 Data collection

Surveys and questionnaires were administered by the researcher. Specific information was sought from the management and relevant staff of MFIs. Data collected included demographic information, effect of HIV/AIDs on MFIs, the opinions of management of the programs on future plans and ways of deal with the situations.

Surveys and questionnaires were administered on paper, in a structured or semi-structured format. Respondents were chosen from among a set of forced-choice (provided responses). Expected responses included both yes/no and scaled responses.

3.4.1 Advantages of this data collection method

- Less time consuming and expensive to administer than other methods
- Can be administered on large groups of individuals
- Effective for assessing effect of HIV/AIDS to the loans program satisfaction

3.5 Personal Interviews

Interviews were used to gather detailed, qualitative descriptions of how HIV/AIDS has affected MFIs programs. Interviews were conducted one-on-one.

3.5.1 Advantages of the interviewing method

- This method provided rich data that paint a broad picture

- It highlighted issues not previously considered or information that was useful for interpreting quantitative data collected through other methods

3.6 Data analysis

Data's were analyzed using the Statistical Package for the Social Sciences (SPSS), a popular software program utilized by social and behavioral scientists. Standard frequency distributions, descriptive statistic and cross-tabulations were computed for all the variable e.g. demographic data, factors that affect MFIs etc. Further, the researcher has used figures of expressions including tables, charts, and graphs. The analysis was used to explain relevant variables in the data collected.

CHAPTER FOUR

4.0 DATA ANALYSIS, PRESENTATION AND FINDINGS

4.1 INTRODUCTION

This chapter presents the findings on data collected through the use of questionnaires and interview schedule method from the MFIs visited by the researcher. The information gathered has been analyzed using the statistical package for social science (SPSS). The information is presented and discussed in relation to the objectives and research questions investigated in this study.

4.1.1 Response Rate

The questionnaires were administered to 50 employees of different MFIs selected as the study population, out of which 44 responded. This translates to 88.0% response. We consider this response rate to be statistically representative. Response rate was affected by the fact that the study was conducted at the end of the month when most members of staff are extremely busy serving customer.

4.2.0 BACKGROUND INFORMATION OF THE RESPONDENTS WHO PARTICIPATED IN THE SURVEY

4.2.1 Respondent's Gender

Achieving sustainable people-centered development requires a holistic policy approach. To realize this, the sampled MFIS were noted to have embraced gender sensitivity policies of employment. The survey confirmed since the male respondent's were 54.4.0% to 45.6% of female respondents. The chart below summarizes the findings.

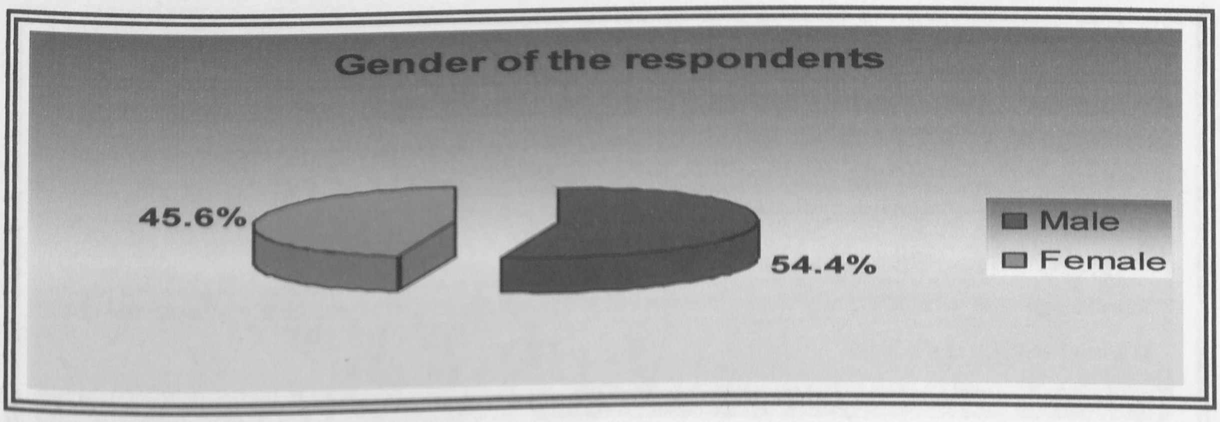

Chart 1

4.2.2 AGE OF THE RESPONDENTS IN YEARS

The findings of this study show that most of the sampled MFIs (36.0%) have employed youthful employees. This may be attributed to the fact that younger persons are more energetic and enthusiastic in their work. This can act as a very important factor for MFIs growth. The middle age was represented by 30% (28 years to 37 years). Those that were aged between 38 -45 years were 18% with mature persons aged between aged between 46 -55 years accounting for 11.0%. The least percentage of MFIs employees were aged above 56 years and represented 5.0% of the total sampled population. Most of the older members of staff were found to hold senior positions in the MFIs. This analysis shows that it take years for one to escalate to a position of leadership in banking hierarchy. During this period of growth (before promotion), one escalates to different position before one is made a team leader. The chart below summarizes the findings.

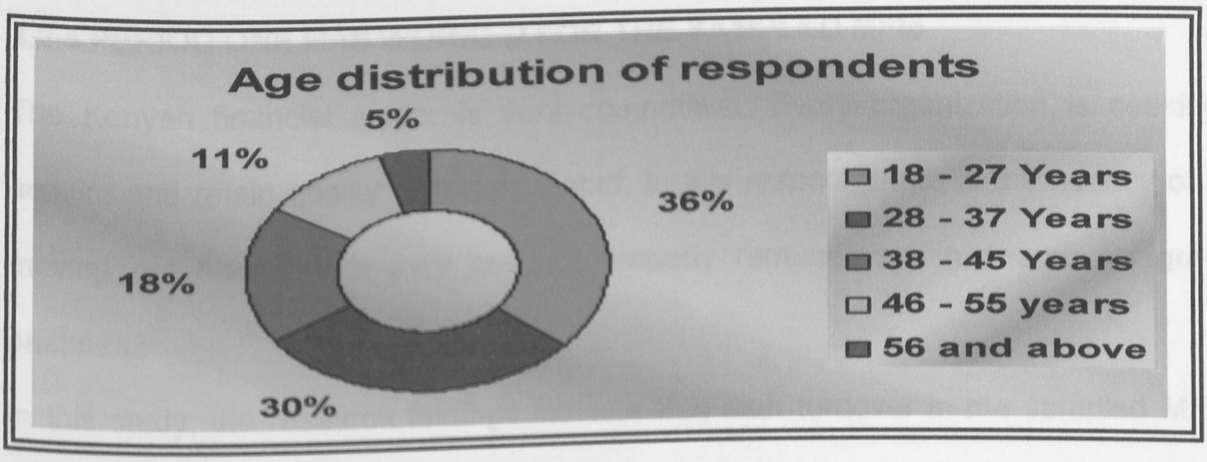

Chart 2

4.2.3 ACADEMIC QUALIFICATION OF THE RESPODENTS

There is high correlation between the levels of development of a nation, an institution or an individual with education level. The findings of this study show that 51% of the respondent staff had university education, 36% had attended middle level colleges while 13% had attained secondary education. The high level of literacy within the organization has given most MFIs a competitive edge in coping with challenges faced by the dynamic financial service sector in Kenya. Training is a continuous process and all MFIs ought to give it a priority as they expand. The chart below summarizes the findings.

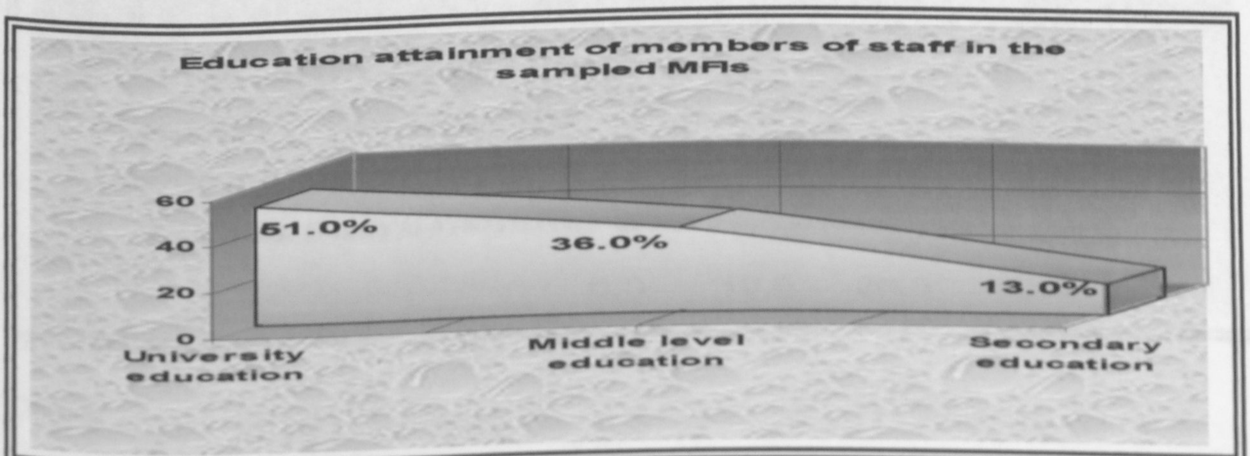

Chart 3

4.2.4 PERIOD ONE HAS WORKED FOR THE SAMPLED MFIs

The Kenyan financial sector is very competitive. Every organization is seeking to acquire and retain quality clients and staff. In this respect, there is a tendency of staff moving out from where they are not properly remunerated in search for greener pastures.

In this study, the research findings indicate that staff turnover in the sampled MFIs is very high. Twenty seven point nine (27.9%) of staff in the sampled branches had worked for the sampled MFIs for less than 6 months, 27% had worked for between 7 and 12 months, 26% had worked for between 13 and 24 months, 7% had worked for between 3 to 4 years while 11% had worked for over 5 years. This high staff turnover may be attributed to the fact that most of the sampled MFIs may not performing be very well. Their unexpected low performance result in poor remuneration. Staff tend to move out and look for job in other institutions that may offer better terms. The graph below gives a summary of the findings.

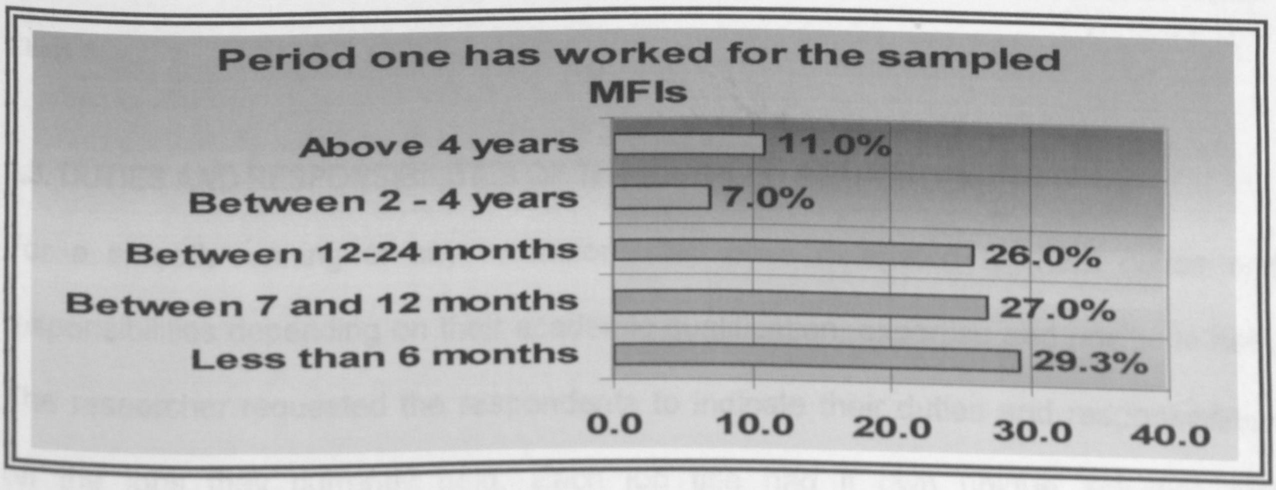

Chart 4

4.2.5 The current position held by the respondents

The researcher asked respondents to indicate the title that best describes their current position and found out that clerks were presented by (36.0%), supervisors were 7.0%, Managers were 27.0%, Assistant Managers were 5.0%, Tellers were 10.0%, System Administrators were 3.0%, Marketing Officers were 6.0%, credit officers were 7.0%, while customer service officers were 2.0%. The chart below summarizes these findings.

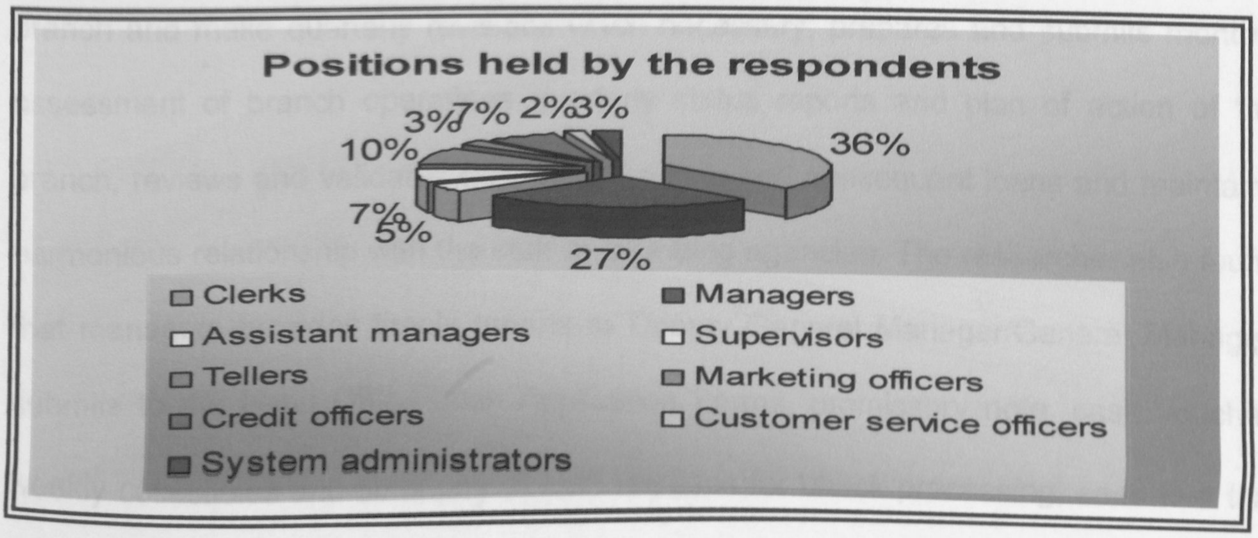

Chart 5

4.3. DUTIES AND RESPONSIBILITIES OF THE SAMPLED RESPONDENTS

For a smooth running of any institution, staff have delegated to them duties and responsibilities depending on their academic qualification, expertise and positions held. The researcher requested the respondents to indicate their duties and responsibilities on the jobs they currently held. Each job title had it own unique activities and characteristics relevant and contributing to the achievement of the organization's goals and objectives. Some of the sampled job titles include:

Branch manager: The branch manager duties are to coordinates program implementation at the branch level, sets branch policies and procedures congruent with over-all policies and guidelines, conducts regular supervision of branch staff in order to assess performance and identify problems. They also monitors weekly collectibles/repayment rate/portfolio at risk, conducts regular field visit to the branch area of coverage, conducts regular group/center assessment and provides recommendations as necessary, prepares and submits annual projected plan of the branch and make quarterly revisions when necessary, prepares and submits monthly assessment of branch operations quarterly status reports and plan of action of the branch, reviews and validates documents/reports and subsequent loans and maintains harmonious relationship with the staff and funding agencies. The researcher also found that managers provides timely reports to Deputy General Manager/General Manager, submits to the Head Office Loan Application Forms, promissory note, cash voucher, weekly collectibles and summary of loan releases for check processing, sees to it that Loans Monitoring System functions properly, Delivers remittances of branch cash collection to the Branch Office-Cashier including the summary of collection sheet, prepares/submits Branch Operations Update every 1st working day of the following month, checks daily cash position, reviews and finalizes Financial Report for submission to Deputy General Manager, traces and checks Adjusting Journal Entries and reviews cash/checks receipts and check disbursements. The roles assisted the researcher to get an insight of the effects of HIV/AIDs to the sampled MFIs.

Assistant branch manager: The duties of a branch manager were found to be formulation of recommendations to improve day-to-day operation of the branch, monitoring of groups'/centers' growth and development, monitoring of members' individual projects, maintaining harmonious relationship with all branch staff and members, preparation and submission of branch weekly updates, meeting weekly of facilitating weekly staff meeting and facilitating weekly branch staff meeting regarding project implementation. They are also involved in provision of technical assistance as required by staff, preparation of cash vouchers, weekly collectibles and summary of loan releases, preparation of Financial Report for submission to HO, monitoring of collection remittances by staff, and are responsible for the recruitment and management of Loans.

CASHIER/TELLERS: The duties of cashiers were found to be issuing official receipt for all cash received by the Branch Office, transact with the bank for deposit and withdrawal of funds, prepares daily cash report, prepares projection of cash position and to monitors branch bank balances. They also facilitates request for funds, keeps and controls accountable forms such as blank checks, use and unused official receipts, effects payments of payables, payroll & other disbursement in the area, acts as petty cash custodian and replenishes petty cash fund as needed and prepares/submits/maintains schedules of payables.

Clerk: These are junior staff whose main duties are to welcome the client and try to understand their needs. The clerk collects information from the client for action either by himself or a senior officer.

Credit officer: This is the person in charge of loans. The credit officer ensures that loans are properly disbursed with minimum risk. They are also responsible of ensuring that the loans are repaid.

Customer Service Officers: They ensure that clients receive the best services and advice customers when need be.

System administrator: This is the person in charge of information technology.

Supervisors: They ensure every department in the MFI is functioning as required.

Marketing officer: They market the services and products of the MFI

4.4 BUSINESS OF THE ORGANIZATION

Microfinance institutions provide small loans and in some cases saving products to low-income people and upcoming small entrepreneurs. Their client base is dominated by women who are characterized by poverty, low literacy levels and poor access to information. Micro finance also offers advisory services and training to it customers and conducts follow up clients to its orients to ensure business continuity. Because of their characteristics microfinance clients are more vulnerable to the aids pandemic and without any doubt the HIV/AIDS crisis has a major impact on the microfinance institutions both on the level of clients and staff.

4.5 EFFECTS OF HIV/AIDS CRISIS TO MFIs

In this study 92.0% of the respondents indicated that HIV/AIDs have affected their financial institution while 8.0% indicated otherwise. They sited that since it is difficult to tell the person that has HIV/AIDs, they continual giving credits and other banking services to customers that are HIV positive unknowingly. The assessment criteria on those that qualify for loan does not include the health status of the would be client. Approximately 26% people in MFI's operational areas carry the virus though they don't know. The respondents also report having witnessed some of the members of staff being infected by HV/AIDS and the consequences associated with the disease. The chart below summarizes the responses from the sample:

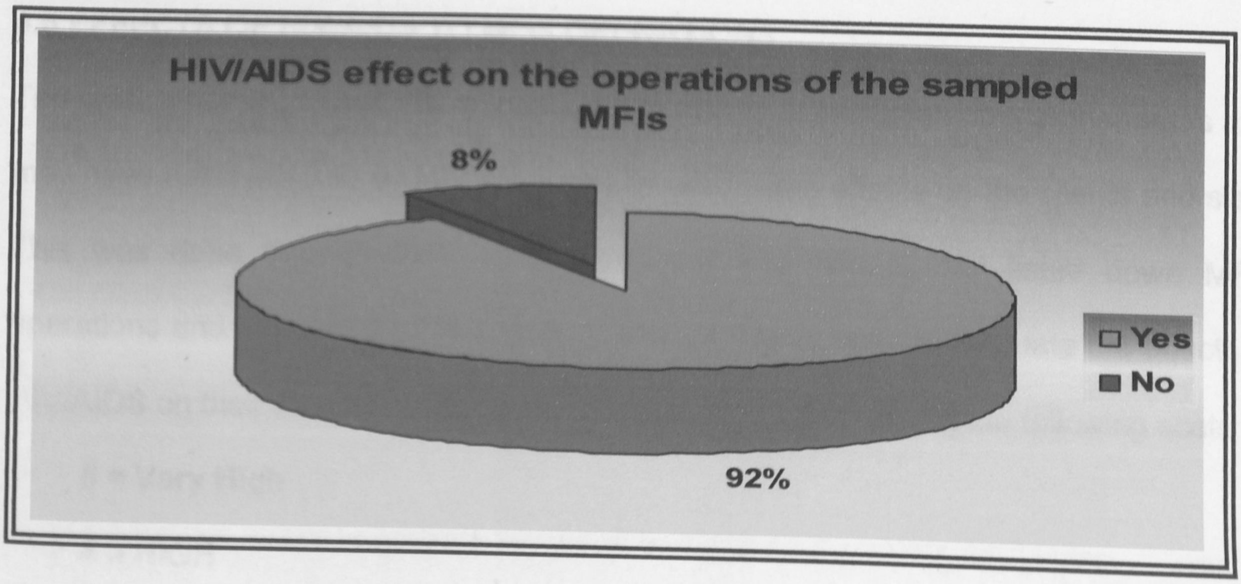

Chart 6

During personal interviews with MFIs managers, the researcher was informed that HIV/AIDS infection of the clients or their family members has led to higher number of dropouts, increased absenteeism from group meeting and breakup of groups increasing the MFI's costs to maintain and expand the client base. Sick clients or clients who have to care for the sick divert funds and time from the business leading to reduced repayment capacity, higher default rates and difficulties to meet compulsory savings requirements. The Branch Managers also sited that the reduced business activity also lowers the demand for repeat loans; clients have to deplete their savings, business income and assets in order to buy medicines and take care of family orphans. The high numbers of aids victims among clients forces MFIs to write off outstanding loan balances increasing the overall costs.

Infection on staff and their families lead to high staff absenteeism due to frequent attendance of funerals, sickness and caring for sick. The managers observed that staff expenditures rise because of increased staff turnover, funeral assistance for staff, medical costs and costs of recruitment and training of new staff.

4.6 EFFECTS OF HIV/AIDS TO MFIs OPERATIONS

The researcher requested the respondents to rate their institution operational areas that may have been affected by HIV/AIDs and its associated effects on the clients and staff. This was done through the use of structured questioners that listed down MFIs operations and areas of specialization. The respondents were to evaluate the effects of HIV/AIDS on their institution's operation by rating the effects using the following scale:

5 = Very High

4 = HIGH

3 = Moderate

2 = Low

1 = Not at All

Average responses are shown along with the percentage of staff who rated each operation as being either "Very high" or "Highly affected by HIV/AIDS. As can be seen, more than seven out of every ten MFIs staff surveyed indicated that HIV/AIDS has affected their operation as shown in the table below. These descriptive statistics were used to calculate the average response and additions of percentage score of the respondents who indicated "Very high" and "highly affected" in their responses. The table below summarizes the findings.

Table 2: Effects of HIV/AIDS to MFI operations

	Operations	Average Response (_)	Percent Rating as "Very High" or "High"
1	The loans amounts taken by clients	2.7234	91.5%
2	The savings withdrawal rate	2.4894	91.4%
3	The rate at which loan funds are diverted from the intended purpose	2.5.319	89.3%
4	The loan default rate	1.8696	84.8%
5	Rates of emergency loans requested to meet medication	2.1915	83%
6	The level of un serviced loans due to illness or death	2.1522	76.1%
7	The number of guarantors forced to re pay defaulted loans	2.0667	73.3%

Source: Field data

It was observed that most persons and households affected by HIV/AIDS epidemic belong to the same poor communities who are clients of MFIs or persons who qualify as potential clients. Increased illness and death among clients and their families' leads to reduced repayment capacity and cause a rise in exit rates and other operating costs of microfinance institutions. Nightly one point five percent (91.5%) the respondents indicated that the loans amounts taken by clients were highly affected by HIV/AIDS.

They cited that customers tend to ask for more money to enable them buy medicines and food. Although MFIs primary objective is to minimize losses that may be incurred as a result of bad debts while creating employment and eradicating poverty, most of them fail to realize this objective due to the high default rates occasioned by the HIV/AIDS pandemic.

91.4% respondents indicated that the savings withdrawal rate was highly affected by HIV/AIDS. Affected clients withdraw more money than they saved to assist them in meeting medical expenses for themselves or relatives.

Respondents who indicated that the rate at which loan funds are diverted from intended purpose was highly affected by HIV/AIDS were 89.3%. This is attributed to the fact that HIV/AIDS patient's treatment becomes a priority when funds are available.

Death from HIV/AIDS related cases have also affected the operations of the MFIs in that loan default rate is higher. This is why 84.8% of the respondents indicated that the loan default rate was highly affected by HIV/AIDS.

Where medical attention is required and funds are not available, borrowing from the MFIs to meet medical expenses, becomes an option. The perception of 83% of the respondents, was that this explains the increased rates of emergency loans requested to meet medication by those very highly affected by HIV/AIDS.

The level of un-serviced loans due to illness or death has also been highly affected by HIV/AIDS. 76.1% of the respondents indicated that among other reasons HIV/AIDS had an effect on the servicing of loans in their institutions.

Seventy three point three (73.3%) respondents indicated an increase in the number of guarantors forced to repay defaulted loans from those affected by HIV/AIDS. It is a common practice that the MFIs turn to guarantors with a view to recover the un serviced loans.

4.7 RATING MFIS SERVICES

The respondents were requested to rate tasks/services offered by the MFIs to their clients. The ratings of these tasks/services was to be scaled in terms of either "very good", "satisfactory"," poor" or "not sure". To evaluate/solicit responses the researcher used structured questioners. The table below summarizes the average responses along with the percentage of staff who rated each task/services as being either "Very highly or satisfactory.

The study shows that more than six out of every ten MFIs staff surveyed indicated that the tasks undertaken by MFIs are very highly meet the needs of the clients as shown below. These descriptive statistics were computed to calculate the average response and additions of percentage score of the respondents who indicated "Very highly" or "satisfactory" in their responses.

Table 3: Rating task/services offered by MFIs

	Task	Average Response (_)	Percent Rating as "Very satisfactory" or "satisfactory"
1	Services offered by microfinance institutions	1.703	68.8%
2	loans granted by MFIs	3.222	62.6%

3	The relationship between PLWAS and MFIs	1.741	40.3%
4	The rate at which loans are processed by MFIs	2.407	36.6%
5	The security measures taken against MFIs funds	2.222	30.3%
6	How well are the MFIs prepared to cope with loan defaulters	2.296	20.3%
7	How would you rate debt collection with MFIs	2.518	59.2%

Source: field data

68.8% respondents indicated that MFIs services are either satisfactory or very highly satisfactory. This low percentage may be attributed to lack of strong liquidity positions to enable MFIs to adapt to modern facilities and the impact of HIV/AIDs on its credit portfolio. Many of the respondent staff were of the opinion that the services offered by MFIs are highly required and relevant since they can reach people at grassroots. Such services are helpful in the fight against poverty and uplifting the quality of life in the target areas.

The loans granted by the sampled MFIs had a "satisfactory" rating of 62.6% by the respondents. This may be attributed to the fact that microfinance are able to process loans to client without stringent requirements as is done by mainstream banks.

40.3% of the respondents that indicated that the relationship between PLWAS and MFIs is satisfying. This may be attributed to the fact that most MFIs had not integrated HIV/AIDs policies in their operations. This is an areas that require attention from the different MFIs targeted in the study since HIV/AIDS is a cross cutting issue which needs every body to participate in addressing .

The rate at which loans are processed by MFIs was rated 36.6% respondents as satisfying. This is a clear indication that due to high loan default rate because of HIV/AIDs, MFIs may have stated more stringent vetting process, taking more time to investigate their client before giving them loans. This may help them to identify the history of the client and the availability of collateral.

Only thirty point three percent (30.3%) of the respondents thought that way MFIs are prepared to cope with loan defaulters is satisfying. This may be attributed to the facts that most loans given by MFIs are unsecured loans. MFIs needs to issue secured loans and engage professional debt collectors to recover loans in arrears.

The respondents were requested to give an opinion on some of the issues affecting their institutions. Their responses on the bases of agreeing or disagreeing are analyzed below:

	issue	Average Response (_)	Percent Rating as agreed or "strongly agreed"
1	Withdrawal of savings from MFIs to meet HIV/AIDS patients' needs is on the increase.	2.296	95.3%
2	Emergency loans are on the increase due to medication of PLWAS	2.134	93.3%
4	The rate at which guarantors are losing their property to MFIs has gone up due to HIV/AIDS	1.815	90.3%
5	Default rate has gone up as a result of HIV/AIDS	2.518	89.2%
6	HIV/AIDS has had an adverse impact on MFIs operations	2.197	60.3%

96.3% of the respondents indicated that they strongly agreed that the rate at which guarantors are losing their property to MFIs has gone up due to HIV/AIDS. This was attributed to the inability of client affected by HIV/AIDS and their families being unable to service the loans as they become due.

Respondents who strongly agreed that HIV/AIDS has had an adverse impact on MFIs operations were 60.3% while 59.2% of the respondents strongly agreed that default rate has gone up as a result of HIV/AIDS

	Task	Average Response (_)	Percent Rating as "always" or "some times"
1	Many MFIs run without adequate resources due to withdrawal of funds by members	2.7234	93.5%
2	MFIs decline loan applications of PLWAS due to risk involved	2.4894	21.4%
3	Members of the community refuse to join groups with PLWAS	2.5.314	76.3%
4	MFIs do not meet the financial needs of the PLWAS	1.8696	84.8%

Source: field data

It is a general consensus within the respondents that some of the MFIs run without adequate resources due to withdrawal of funds by members. 93.5% of the respondent indicated that this usually happens. Eighty four point eight percent (84.8%) of the respondents indicated that MFIs do not meet the financial needs of the PLWAS while 76.3% respondents indicated that Members of the community always or sometimes refuse to join groups with PLWAS.

Only a small percentage (21.4%) of the respondent indicated that MFIs always decline loan applications of PLWAS due to risk involved.

4.8 Challenges of dealing with HIV and AIDS in the context of Microfinance

The researcher requested the respondents to indicate the challenges faced by their MFI as they seek to address the HIV/AIDS effects on their operations. The following were expressed as key challenges by the respondents:

- How (MFIs) can fight effects of HIV/AIDS and still remain focused on providing microfinance services as a core and sustainable business.
- The lack of expertise in HIV/AIDS related issues both among staff and clients.
- The lack of expertise on developing HIV/AIDS policies in the context of microfinance.
- The lack of expertise on developing and using HIV/AIDS impact indicators, tracking and monitoring and evaluation.
- The sampled MFIs have limited financial and human resources
- Most MFIs focus on credit issues at the expense of staff issues.
- MFIs have poor monitoring of the pandemic among staff and clients.
- There is tension of 'empowerment versus credit discipline'
- Partnerships between MFIs and HIV non-governmental organisations have met with challenges e.g. (1) lack of understanding between sectors and (2) fundamental differences in scale and outreach between programmes.

- It is difficult to identify an insurance scheme which insures against AIDS including medication. Most of the schemes may assist to treat the attendant ailments but not the medication against AIDS.
- It is still difficult to make clients appreciate the concept of health insurance. Many clients do not realise the benefits of health insurance until they fall sick. In fact there is a number of clients who have dropped out of the insurance scheme because they claim that they are paying interest on health insurance loans yet "they do not use the loans for business"
- Another challenge is making the loan products more flexible in order to address the concerns related to AIDS, has some times compromised the controls necessary to ensure good loan quality.
- Most MFI clients have limited levels of education. This makes credit administration and training on AIDS related issues difficult.

4.9 MFIs Coping Mechanism (Coping With HIV/AIDS)

During personal interviews, with MFIs managers, the researcher was informed that Microfinance institutions (MFIs) operate with difficulties in communities seriously affected by AIDS. The managers have learned through experience that their institutions run into trouble when its staff tries to target loans to selected groups while trying to meet project goals.

Experience showed that Micro Finance programs work best when they rely on client self-selection and when they focus on packaging financial services to attract the desired clientele. To survive and thrive, most Micro-Finance try to reach all eligible clients in an area. If the potential client base is too limited, the organization will not be able to pay the costs of doing business in those areas.

Explicit targeting of clients with AIDS can also increase stigma and have negative outcomes. The researcher was narrated a case in which members originally came together to help one another cope with their HIV status especially women. They decided to try raising and selling vegetables to secure a source of income, but they discovered that no one would buy their vegetables because of the stigma associated with HIV/AIDS. This resulted in many of the affected clients asking for micro credit but did not start businesses but bought food and drugs.

Fifty four point six percent (54.6%) of the respondent (a high percentage indeed) indicated that their institution has done nothing to address HIV/AIDs even after being affected by the scourge. Few MFIs (15.3%) have experimented with special loan fund targeting exclusively aids patients. Eight percent (7.2%) have offered loans to family members to compensate for the loss of income of the diseased i.e. some MFIs allows family members to take loan of the diseased client in order to continual the business, nine point four percent (9.4%) have started to adapt their products and develop new products in order to provide more flexibility to their vulnerable clients including changes in repayment schedules, flexible access to forced savings and allowing clients to rest between cycles. Three point five (2.4%) have established loan insurance funds to offset loan balances for clients that passed away. Two percent (3.4%) has stared health insurance by working in partnership with insurance firms. Four percent (4.7%) of the respondents indicated that their institutions participated by giving donations and other assistance to aids patients and to children orphanage homes that cater for children who parents die out of the pandemic. Only a very small number of MFIs (3.0%) has developed HIV/AIDs policies in their institutions. The chart below summarizes the finding.

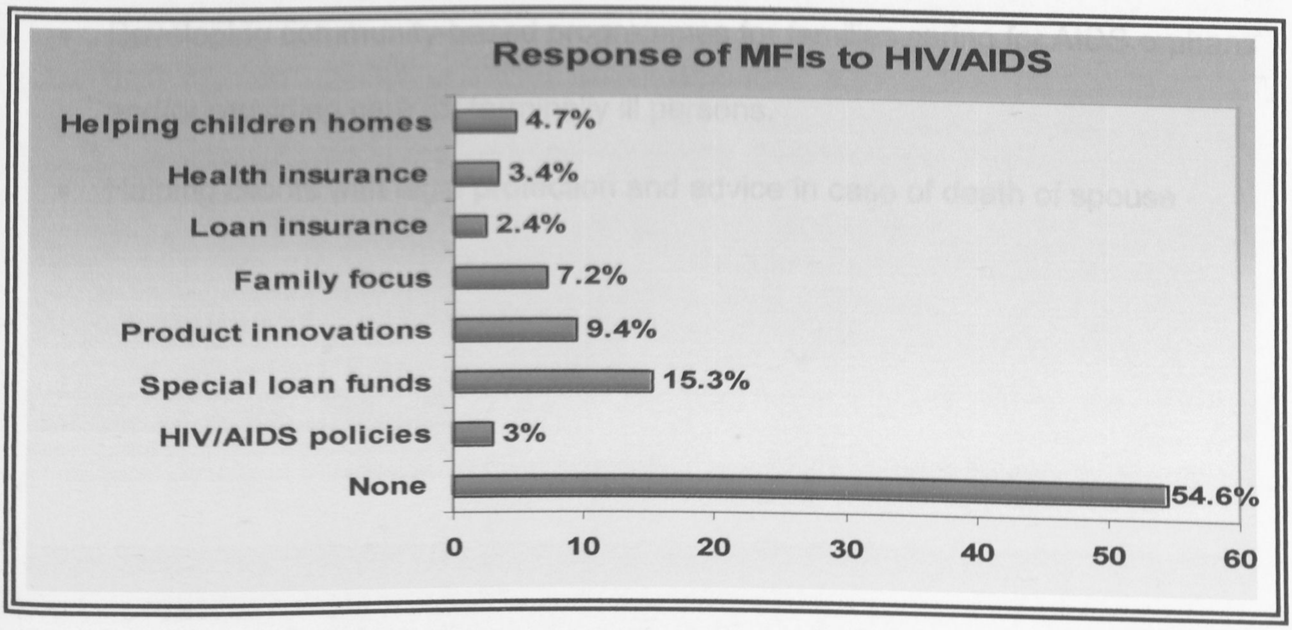

Chart 7

4.10 Measures that can be adopted by the MFIs to address HIV/AIDS

Respondents were requested to give suggestion/recommendations that can be adopted in order to address effects of HIV/AIDS on their institution's operations. The following responses were given.

- Developing products that are particularly helpful to sick clients (lump-sum or flexible savings products; education trust for minors; emergency loans etc).
- Allowing a healthy adult in the household to replace a sick microfinance client.
- Allowing clients to offset accumulated compulsory savings against outstanding loans.
- Allowing for selective debt relief to mitigate HIV/AIDS effects.

- Providing death insurance (burial expenses, cash payment or dept wipe-out).
- Creating small loans programme for members of a sick person's family.
- Developing pre-paid medical payment products.
- Developing community-based programmes for families caring for AIDS orphans and/or providing care for terminally ill persons.
- Helping clients with legal protection and advice in case of death of spouse

CHAPTER FIVE

5.0 DISCUSSION OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

The main focus/objective of this study was to assess the responses of MFIs to the HIV/AIDS crisis in Kenya. The study sought to identify areas of action and attempt to give recommendations that can be implemented to mitigate the scourge.

5.2 DISCUSSION OF THE FINDINGS

The findings of this study shows that most microfinance practitioners see HIV/AIDS pandemic as having nothing to do with them because of the apparent health and welfare focus. Yet, with the HIV prevalence, AIDS deaths and orphaning rates as high as they are in many areas in Kenya, it is a given that the pandemic has serious economic implications for the general population. This includes households that constitute the marketplace for microfinance institutions. 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.

Microfinance provides financial and non-financial services to the poor how cannot access those types of services from a main stream bank. The products they receive include small loans (hence the name microfinance), for business development. The loans are delivered in the form of individual loans or to groups (known as solidarity groups). They also offer savings facilities and some now offer micro insurance products. In Kenya and most other contrives in the world, microfinance sector is now widely recognized as an effective instrument for poverty reduction.

In the era of HIV/AIDS, micro Finance is now viewed as one of the coping mechanisms through which infected and affected households can get assistance from. Microfinance institutions can deal effectively with the HIV/AIDS epidemic by making their services accessible to the poor in general, without necessarily creating special clientele groups – for example, direct targeting of People Living with AIDS (PLWA).

As a sector which is dealing largely with the poor, most of whom are women, microfinance has a role to play in assisting their clients, staff and their families, deal with HIV and AIDS related challenges. This is why strategies should be developed to use microfinance to deal with HIV and AIDS among poor communities.

5.3 Why Is Microfinance Vulnerable To Hiv/Aids

During focused discussion with the MFIs managers, the researcher found out that Microfinance institutions are vulnerable to HIV/AIDS due to the characteristics of their clients. Their clients are largely characterized by the following:

- High prevalence of poverty
- Low levels of literacy and poor access to information
- Majority of MFIs customers are young (15-45 age bracket) how are sexually active and unfortunately the most economically productive.
- Most MFIs customers are of women in the client base
- The target market of most microfinance institutions in the region consists mainly of women who are still considered in cultural terms, inferior, and are therefore vulnerable to sexual abuse, thus exposing them to infection
- Inadequate resource base

5.4 Microfinance and HIV and AIDS: Key Issues of Concern in the context of Kenya

Although statistics on prevalence and death rates from HIV/AIDS indicate some decline, the pandemic is still a problem as rates of infection in most regions in Kenya are still high. In the context of the microfinance sector, major issues of concern are:

- There is a dearth of information and data on the magnitude of the HIV and AIDS pandemic on the sector despite the acknowledgment from the MFI practitioners that this was becoming a real problem for them as they had begun to witness staff members, clients and their families die from AIDS related illnesses. And without data, it is always difficult to plan interventions.
- Inadequate knowledge or lack of understanding of HIV/AIDS among both staff as well as clients. Consequently, MFIs do not seem to be knowledgeable about the magnitude of the problem within their institutions. In fact, some MFIs actually attributed their failure to track the impact of the pandemic on the institutions. No comprehensive strategies yet in place in most MFIs. Only a few MFIs have actually introduced policies and products to respond to the crisis. There is a clear lack of expertise on how to design insurance and health products.
- The greater proportion of practitioners are not monitoring the impact of the pandemic and also do not seem to have the know how about how to deal with the problem.
- Most MFIs have no policies on HIV and AIDS to protect the interests of both staff and clients
- The link between gender and HIV and AIDS is still a grey area .

- Strategic alliances between MFIS and Aids Support Organizations (ASOs) are still very weak. MFIs are to a large extent rather isolated from them and have failed to tap on the support and resources that those organizations have to offer.

  Despite the shortcomings cited above, given our knowledge about the high incidence of HIV infections and AIDS-related deaths, relative to the rest of the world, there should be cause for concern about the exposure of microfinance, a sector which:

- Targets the poor, who are the most vulnerable in situations of poverty and deprivation-a situation that characterizes the majority of the populations of the region.
- Targets mostly females who are more vulnerable due to cultural attitudes which have imposed upon them a dependent and subordinate position at the household, community as well as national levels.

  This study shows provide a testimony that HIV/AIDS is an issue which the MFIS practitioners should not afford to ignore anymore. It is therefore expedient for parishioners, their networks and supporters, to develop comprehensive strategies to address these challenges.

5.5 Impact of HIV and AIDS on the Microfinance Sector

In this study, the impact of HIV/AIDS on the MFI is observable at three different levels i.e. internal (within the MFI itself), at client level and the community level. The MFI client is affected by HIV and AIDS at two levels; the household and the business levels. At the household HIV and AIDS seriously undermines household safety net by eroding resources of family members, reducing family income (income earning activities reduced), affecting family asset base (disposal of family productive and non-productive assets), and school dropouts. At the business level HIV and AIDS impact is seen through absenteeism, increased expenses, decreased staff moral, increased staff turnover and fewer sales. At the community level, HIV and AIDS reduces labour force, demand for services and productivity in the economy.

HIV and AIDS also lead to increased costs for an MFI due to rising costs due to fall in productivity, increasing in costs of retraining and/or hiring of temporary staff, increase staff turnover, increase in medical expenses, expenditure on funerals, loss of human capital, loss of expertise and loss of institutional memory. The underlying factors behind:

- Decline in profitability, sustainability, efficiency levels, portfolio growth and increase in PAR (Portfolio At Risk)
- Reduced loan portfolio growth as clients dropout and default due to illness
- Decline in repayment rates
- Increased requests for sick leave and other forms of absenteeism, Declining work performance, Increased payouts from medical schemes
- Employee requires attention of human resources and employee assistance and personnel (care and support)
- Overall productivity of workforce declines through loss of skills, high cost of hiring and training, Declining labour market intellectual capital
- At the client level, the impact can be felt through some of the following indicators:
- Negative impact on household income

- Decline in assets (productive and liquid assets) – as clients dispose assets to meet rising expenses. This means that the client's collateral for any future borrowing is destroyed.
- Decline in maintenance of assets which reduces the quality of the asset. This ultimately impacts negatively on the client's business.
- Depletion of savings. This may lead to an increase in defaults in loan repayments
- High client turnover resulting in increased costs of recruiting new clients.
- Difficulties in meeting compulsory savings requirements by clients
- Increased absenteeism from group meetings
- Break-up of solidarity groups
- Increased portfolio at risk
- Development of bad borrowing habits where the client borrows from one MFI to repay a loan taken from another institution.
- Clients take larger loans to divert some cash towards HIV/AIDS related sicknesses and funeral expenses

In relation to staff, there is likely to be:

- Reduced staff morale due to high delinquency
- High operating cost and reduced profitability.
- Rising staff costs on recruitment and training due to high staff turnover.
- High expenditure on mitigation at household, public sector and private sector levels would result in reduced national savings which would impact negatively on investment.

During this study, the researcher found out that most 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. Clients' businesses are negatively impaired, and this leads to a reduction in capacity to use credit. This leads to wide spread drop out of clients from the program
- As the capacity to use credit is impaired, the capacity to pay the current loans also declines and this leads to deterioration of loan quality.
- 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 and micro insurance.
- 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 members 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/expanding the client base rises.
- Diversion of funds meant for business use to caring for the sick ones. This impairs the capacity to effectively use the credit.

- loss of confidence and social empowerment due to stigmatization of those infected.

One of the shocking revelations of the survey was that none of the five MFIs could tell if indeed they were being affected by HIV/AIDS and whether or not the institution was actually at risk. None of the institutions were actually tracking the situation. One manager remarked that he did not think that HIV/AIDS was a core business of microfinance institutions and for him it was the responsibility of other organizations in the market place.

5.6 RESPONSE OF MFIS TO HIV/AIDS

To respond to HIV/AIDS pandemic, some few MFIs have developed financial products aimed at cushioning the effects experienced; these products include:

Special loan funds: Some MFIs have experimented with special loan fund targeting exclusively aids patients. Other MFIs offer loans to family members to compensate for the loss of income of the diseased.

Product innovations: Several MFIs have started to adapt their products and develop new products in order to provide more flexibility facilities to their vulnerable clients . Such facilities include: changes in repayment schedules, flexible access to forced savings and allowing clients to rest between cycles. The offer of flexible and convenient savings products also has proven to be important for clients to deal with the unexpected expenditures in relation to aids in their families.

Family focus: Some few MFIs allow family members to take over the loan of the diseased client in order to continue the business.

Loan insurance: Few MFIs have established loan insurance funds to offset loan balances for clients that passed away. Additional research is necessary to investigate whether these funds are covering all costs and are managed effectively in the light of the pandemic. At the same time investigations are difficult because many families are not willing to disclose the real cause of death.

Health insurance: Some MFIs have formed partnerships with insurance companies. Partnerships enable the insurer to reach economy of scale maximizing their client base and minimizing administrative costs while reducing the lending risk of the MFI and increasing client retention.

HIV/AIDS Workplace Policies: Very few MFIs have developed HIV/AIDs policies in their workplace. This has resulted in some staff not disclosing their positive HIV status to avoid lose of employment and other restrictions.

5.6 Conclusions

As financial institutions, MFIs should not provide AIDS support services or indeed 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.

Microfinance institutions and AIDS Support Organizations can best respond to the impact of 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 that MFIs are equipped to respond directly to the broad ranging social and medical impacts of HIV/AIDS.

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. These elements can have the same effect as financial capital on strengthening a care taking client's safety net and avert a final slide into destitution.

5.7 Recommendations

HIV and AIDS is a challenge which microfinance institutions need to take seriously. A fundamental strategy should be that of raising awareness and equipping microfinance practitioners to manage the risk posed by HIV/AIDS and also to help clients cope, prevent and mitigate the effect.

Fundamentally as well, MFIs should take the issue of HIV/AIDS within the broader framework of human rights, gender equality, sustainability and poverty reduction. Training is necessary to achieve this as the level of knowledge on some of these issues is limited.

MFIs should develop HIV/AIDS policies to mitigate its impact on employees and clients. However before a policy is developed, there is need for MFIs to assess whether or not

HIV and AIDS is a real issue for them and then develop appropriate intervention strategies. At the moment, it appears that institutions do not know the magnitude of the problem and this explains why few have actually developed and implemented interventions.

There should be education and awareness in MFIs about the legal complexities in developing responses to the HIV/AIDS challenge. Most MFI practitioners at this study on effect of HIV/AIDS on microfinance really had difficulty accepting the issue about disclosure. For them, disclosure of clients' status is a necessary step in dealing with the problem. Thus, training of MFIs should also deal with how they can fight HIV/AIDS without necessarily violating the rights of the infected and affected persons.

MFIs should develop products to mitigate the effects HIV/AIDS. Any responses to HIV/AIDS should be gender based.

Consultants maybe handy in developing products to mitigate HIV and AIDS.e.g. insurance. Strategic alliances are necessary in finding solutions to HIV and AIDS. This will enable MFIs to balance empowerment with credit discipline.

Research on HIV/AIDS is important and networks should facilitate that for their members. Tracking of the impact of HIV/AIDS in MFIs using appropriate tools and indicators is now a prerequisite in order to sustain businesses.

The HIV/AIDS statistics are alarming, given that the region is still to reach the epidemic stage. Some of the major causes of the spread of HIV in Kenya are poverty, immigration and gender inequalities. MFIs should streamline HIV/AIDS into their operations (micro credit).

5.8 RECOMMENDATIONS FOR FURTHER RESEARCH

The findings have implications for future studies. First, studies similar to this one ought to be undertaken in a more stable economic environment. In such instances, the economic impacts of HIV/AIDS on households and of microfinance on affected clients may be more apparent, since these will not be commingled with negative macroeconomic factors. These studies might try to distinguish between microfinance as an intervention before and after a household is affected by HIV/AIDS.

Second, methodologically rigorous longitudinal studies should be undertaken to better understand the distribution of HIV-affectedness, the ways affected households are negatively impacted, and ways these households respond to the negative impacts. The longitudinal studies would permit a better understanding of the sequence of negative impacts and the sequence of the types of responses, and how these might differ by household characteristics, such as per capita income level. The results would better enable development organizations to develop appropriate mitigation measures.

5.9 Limitations of the study

a) The questionnaire as a tool was a limitation since it was based on self reporting and the researcher could only assume that the responses were made with sincerity.

b) The researcher did not have direct control of the independent variables such as gender, age, status, academic level, experience since their manifestation had already occurred and due to the fact that they could not be manipulated.

c) Some MFIs required some payment to be made before they could respond to the questioner which made it difficult for them to give objective answers.

d) Isolating HIV/AIDS as an independent variable and its effects was not easy for the respondents. This is because the competences of most MFIs are restricted to the business they are in and that health matters are mostly restricted to organizations providing health services.

Whereas the target clients of MFIs are the poor, the poor seem to be affected by a host of other social problems besides the HIV/AIDS pandemic. Their vulnerability increases the environmental dynamic that affect their relationships with the investing MFIs. The understanding of these environmental factors would require more time and resources than was available in the study. It would involve the study of particular client groups and other methodologies used by the MFIs to serve their clients.

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APPENDIX I

P.o.Box 9532-00300
Ronald Ngala,
Nairobi,
Joseph W Ndiritu
Tel: 891201
Cell Phone: 0721-375791
4^{th} August, 2006

Dear sir/Madam,

RE: REQUEST FOR RESEARCH DATA

I am a final year postgraduate student in the faculty of commerce, University of Nairobi majoring in finance. I am undertaking a research on the response of micro Finance Institutions on HIV crisis in Kenya.

In order to undertake the research, you have been selected to form part of my study. This is therefore to request your assistance in filling the attached questionnaire ass truthfully as you can. The information you give will be treated in the strictest confidence and is needed purely for academic purposes. Even where a name has been provided, it will not under any circumstances appear in the final report.

Your assistance and co-operation will be highly appreciated

Yours sincerely

Joseph Nderitu

APPENDIX II

QUESTIONNAIRE

This questionnaire has been designed to collect information from the officers of Micro finance institutions and is meant for academic purposes only. The questionnaire is divided into three sections. Please complete each section as instructed. Do not write your name or any other form of identification on the questionnaire. All the information in this questionnaire will be treated in confidence.

Section A: Background information

1. What is your gender? (Please tick as appropriate)

   (a) Male ☐

   (b) Female ☐

2. What is your age in years? (Please tick as appropriate)

   (a) 18 – 27 years ☐

   (b) 28 - 37 years ☐

   (c) 38 - 45 years ☐

   (d.) 46 – 55 years ☐

   (e). 55 years and above ☐

3. What is your highest academic qualification?

   (a) Primary education ☐

   (b) Secondary education ☐

   (c) College education ☐

   (d) University education ☐

   Any other please specify............................

4. For how long have you worked for the organization? ____________________________

5. What is your current position? ____

6. Please list your current duties and responsibilities ______________________________

____

____

____

____

____

7. Name of organization ______________________________

8. Period of operation ______________________________

9. Physical location ______________________________

10. Number of clients: Male ______________ Female ______________

Section B: Business of the organization

1. Please list the services you offer to the clients

____

____

____

____

2. Have operations of your organization been affected by the HIV/AIDS crisis? (Please tick as appropriate)

(a) Yes ☐

(b) No ☐

3. To what extents has the following operations of MFIs been affected by the incidence of HIV/AIDS:

		Very high	High	Moderate	Low	Not at all
1	The loans amounts taken by clients					
2	The savings withdrawal rate					

3	The rate at which loan funds are diverted from the intended purpose					
4	The loan default rate					
5	Rates of emergency loans requested to meet medication					
6	The level of un serviced loans due to illness or death					
7	The number of guarantors forced to re pay defaulted loans					

4. How do you rate the following activities:

		Very good	Satisfactory	Poor	Not Sure
1	Services offered by microfinance institutions				
2	loans granted by MFIs				
3	The relationship between PLWAS and MFIs				
4	The rate at which loans are processed by MFIs				
5	The security measures taken against MFIs funds				
6	How well are the MFIs prepared to cope with loan defaulters				
7	How would you rate debt collection with MFIs				

5. How do you rate the following effects:

		Agree	Strongly agree	Neutral	Disagree	Strongly disagree
1	HIV/AIDS has had an adverse impact on MFIs operations					
2	Default rate has gone up as a result of HIV/AIDS					
3	The rate at which guarantors are losing their property to MFIs has gone up due to HIV/AIDS					
4	Emergency loans are on the increase due to medication of PLWAS					
5	Withdrawal of savings from MFIs to meet HIV/AIDS patients' needs is on the increase.					

6. How do you rate the following?

		Always	Some times	Seldom	Not Sure
1	Many MFIs run without adequate resources due to withdrawal of funds by members				
2	MFIs decline loan applications of PLWAS due to risk involved				
3	Members of the community				

	refuse to join groups with PLWAS				
4	MFIs do not meet the financial needs of the PLWAS				

7. Please list and explain the challenges your organization faces in serving clients that result from the HIV/AIDS crisis.

8. Please explain how your organization copes with the challenges caused by the HIV/AIDS crisis.

9. Please suggest measures that can be taken by MFIs affected by HIV/AIDS crisis to cope with the challenges caused so as to continue serving clients effectively.

THANK YOU!

APPEDIX III

Members of the Association of Microfinance Institutions in Kenya

1. K-Rep Bank Ltd,
2. Kenya Women Finance Trust (KWFT)
3. Faulu Kenya,
4. WEDCO Enterprise Development
5. Ecumenical Church Loan Fund (ECLOF)
6. Pride Ltd,
7. Jitegemee Trust,
8. Cooperative Bank of Kenya,
9. Kenya Post Office Savings Bank,
10. Small and Micro Enterprise Project (SMEP)
11. K-Rep Development Agency,
12. Equity Building Society,
13. Plan Kenya,
14. Kenya Agency to Development of Enterprise and Technology (KADET)
15. Women Economic Empowerment Consort (WEEC)
16. Oiko Credit EDO,
17. Microfinance Partners (Sunlink)
18. Micro Kenya Ltd.