Can Microfinance Programs
Reduce HIV Risk in Developing Countries?

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What is microfinance in developing countries?
Microfinance is a general term that refers to the provision of financial services for the poor who historically have been excluded from the formal banking sector. Microfinance encompasses a range of services including credit, savings, insurance, business training, and small business development. It has been hailed as a tool for poverty alleviation by increasing access to financial services and thus assisting poor households in meeting their basic financial needs, providing protection against risk, and developing social and economic empowerment (Matin, 2002).

History
There have been several ‘waves’ of microfinance initiatives, reflecting evolving conceptualizations of who the poor are, the nature of poverty, and changing development policies. In the early development decades (1950s to 1970s), the poor were seen as households of small-scale (male) farmers, and state-mediated or subsidized agricultural credit was used to raise productivity and incomes. However, this initial wave of microfinance was countered by international development policies to deregulate markets so that later initiatives devolved from state-led institutions to a bottom-up approach (Matin, 2002). Beginning in the late 1970s and early 1980s, non-profit organizations such as Opportunity International in Colombia and Grameen Bank in Bangladesh began offering small loans to the poor with low interest rates (Easton, 2005). Such loans were offered to groups of clients who kept each other accountable for repayments, allowing access to larger loans. Notably, women were targeted as loan recipients because it was recognized that they comprised a large proportion of the poor, were more likely to spend income on their families, and were more accountable for returning borrowed money than their male counterparts (Cheston, 2002). Microfinance was seen as a way to both economically and socially empower women. More recently, the poor have been conceptualized as a heterogeneous group of vulnerable households with complex livelihoods and varied needs. From such a perspective, microfinance is seen as a means of achieving household priorities, reducing vulnerability, and/or increasing income (Matin, 2002). By the late 1990s, more than 8 million households were receiving microfinance services (Morduch, 1999).

Providers
Of the three basic types of financial services providers: formal, semi-formal, and informal providers, the poor are most likely to engage with the latter two given various economic and geographic constraints. Informal providers are most useful for emergencies, as they are easily accessible and the transaction can be quick, while semi-informal providers are often used for longer-term needs such as investment in income-generating activities or meeting basic household needs like school fees.

- **Formal providers** refer to financial sectors that are subject to the banking laws of the country of operation, including government institutions or private banks. There are numerous factors that prevent access to this type of credit for the poor, including urban biased credit allocation, poor clients’ lack of collateral, higher transaction costs faced by small borrowers, restrictions on formal lenders’ interest rates, high and volatile inflation rates, and corruption (which raises the cost of each transaction and undermines client confidence) (Easton, 2005).

- **Semi-informal providers** refer to microfinance institutions (MFIs) that have a commitment to serving clients traditionally excluded from the formal banking sector. MFIs are usually registered as non-governmental organizations (NGOs) or are banks with a special charter (i.e. Grameen Bank). MFIs function by allowing borrowers to access lump sums through loans,
which are then repaid in small, frequent installments. Borrowers are encouraged to repay through accountability and incentives such as availability of larger repeat loans, access to loans for other group members, and access to cash-back and saving services upon repayment (Matin, 2002; Lee, 2006). Some NGOs include microfinance services in their programs, but are not primarily MFIs. These NGOs can work independently or in partnerships with MFIs or commercial banks.

- **Informal providers** refer to traditional credit such as moneylenders, pawnbrokers, and traders with unregistered sources of credit. Informal microfinance also includes loans from friends and relatives, or microcredit based on traditional informal groups. Informal providers tend not to have a formal workplace and maintain few records. Loans are usually in small amounts (relative to other providers) but they are almost always available immediately. Often, the price for such easy access is very high interest rates making it difficult to escape the debt cycle.

**Microfinance models**

There is tremendous diversity in how microfinance programs are operationalized. MFIs can vary across a number of parameters such as products and services offered, types and numbers of clients targeted, loan size, loan length, repayment schedules, repayment incentives, interest rates and fees, collateral requirements, group or individual lending, and reliance on donor or external funding (Anderson, 2002). However, overall, there are three basic ways in which groups, public or private, have set up microfinance in developing countries. The most popular models are community-based and solidarity groups, although there are increasingly more initiatives using a partner-agent model. In reality, many services are a combination of different microfinance models shaped to the context of its clients and the need for financial sustainability (Matin, 2002; Lee, 2006; Churchill, 2006).

- **Community-based model or “village banking”**: These are non-profit schemes whereby membership is voluntary and the community plays an important role in the design and implementation of the program, including the establishment of lending, repayment, and accountability conditions. Typically, a community is defined by its geographical location (i.e. village) and it interacts with the MFI as a community unit. The MFI carries monetary reserves through its portfolio of clients.

- **Solidarity group or “in house” banking**: These are non-profit schemes whereby the MFI conducts transactions directly with groups of individuals. A solidarity group is self-organized and usually consists of five women who will vouch for each other. Members of a solidarity group are accountable for each other; such that members of the group will have to help each other repay loans. The MFI also carries monetary reserves through its portfolio of clients.

- **Partner-agent model**: These are for-profit schemes whereby the MFI acts as a mediator between low-income borrowers and an established financial institution. Some consider it a “win-win-win” situation because the formal financial institution manages reserves while the MFI works as an intermediary between informal and formal sectors. The strength of this method is its financial sustainability. However, others have criticized this type of partnership because the formal financial institution is fundamentally for-profit, thus it only includes risk-worthy participants and sets conditions on loans that do not necessarily meet the needs of the poor but rather that of small entrepreneurs (Lee, 2006; OneWorld South Asia, 2007).
Successes of microfinance in developing countries

Research points to a range of successes for microfinance programs in developing countries:

1. **Microfinance increases access to financial services where such access may not otherwise exist.** According to the *State of the Micro-credit Summit Campaign 2001 Report*, 74% of the world’s poorest women (19.3 million) now have financial access through microfinance (Cheston, 2002).

2. **Microfinance offers economic growth for some participants.** Evidence from various MFIs in Bangladesh indicates that microfinance reduces the economic vulnerability of members, particularly for women (Develtere, 2005; Khandker, 2005). In a study of four MFIs in Bolivia, all had positive impacts on income and asset levels, although clients’ average debt-service ratios were quite high (Mosley, 2001). In Zambia, borrowers who obtained a second microcredit loan experienced higher average growth in business profits as well as household income (Copestake, 2001).

3. **Microfinance may build communities and social capital.** While there is little empirical research on the impact of microfinance programs on social capital and community building, numerous researchers posit a positive relationship between the two (Anderson, 2002; Quinones, 2000; Rankin, 2002). Preliminary evidence suggests that women’s involvement in microfinance groups has stimulated collective action against broader public issues (Velasco, 2004).

4. **Microfinance may increase women’s agency in intra-household decision-making.** Some microcredit programs have been shown to increase women’s ability to exercise agency in intra-household processes, including inter-spouse consultation, autonomy, and authority (Mahmud, 2003; Amin, 1998). Survey data from South India illustrates that when microcredit involves group membership, women tend to be more likely to exhibit joint and female decision-making in the household, a pattern that strengthened with longer-term group membership, the frequency of group meetings and intensity of training (Holvoet, 2005). Still, other studies have shown only modest improvements in decision-making status, arguing that social norms are difficult to change in the short term (Sharif, 2004).

5. **Microfinance may foster the broader empowerment of women.** In a study of the two largest and most well-known MFIs in Bangladesh, the Grameen Bank and the Bangladesh Rural Advance Committee (BRAC), the duration of membership in either MFI was positively associated with empowerment as defined by meeting five of the following seven indicators: ability to make small purchases, large purchases, or both; decision-making power in the household; mobility; ownership of assets; self-control and self-determination within the household; knowledge of legal rights; involvement in political protests (Hashemi, 1996).

6. **Microfinance may improve child health and welfare.** In Bangladesh, microfinance has been shown to lead to improvements in the nutritional status of children as compared to non-participants (Khandker, 1998).

7. **Microfinance may increase contraception use among participants.** In Bangladesh, microfinance participants have been found to be more likely to use contraception than non-participant controls (Schuler, 1994). However, findings from another study in Bangladesh showed no increase in contraceptive use among female participants, and a slight increase for male participants (Pitt, 1999).
8. Bundled microfinance and health initiatives may have compounding benefits. Microfinance programs that incorporate health education or other health initiatives may positively impact health as well as economic outcomes. In a study comparing three communities in the Dominican Republic receiving a health promotion program, a microfinance program, and both programs simultaneously, results indicated that the community receiving both programs had the largest changes in 10 of 11 health indicators (Dohn, 2004).

Challenges of microfinance in developing countries

While microfinance may prove successful for some participants in certain contexts, other research calls into question the extent of these successes:

1. Microfinance may not reach those most at risk. A common criticism of microfinance programs around the world is that they fail to reach the poorest of the poor. A study in Bangladesh revealed that although three-quarters of households were eligible for microcredit, less than a quarter participated. Factors associated with nonparticipation included lack of female education, small household size, and landlessness (Evans, 1999). Similarly, in Bolivia, most of the poor households captured by five MFIs were near the poverty line, or the “richest of the poor,” with borrowers most likely to be from urban, rather than rural areas (Navajas, 2000).

2. Microfinance does not alleviate poverty, and may even perpetuate it. Some researchers question whether microfinance truly addresses the problems facing clients, or whether it simply offers the illusion of a quick fix. They argue that the fundamental causes of poverty cannot be tackled solely by capital injections, but require structural changes to the conditions that perpetuate poverty and define informal sector activity (Buckley, 1997; Elahi, 2004; Eversole, 2004; Ahmad, 2003; Shaw, 2004). Additionally, the expansion of microfinance in developing countries may even have the potential to create private groups for whom there is a vested interest in perpetuating prevailing poverty (Elahi, 2004).

3. Microfinance does not appear to have wider impacts on local financial markets. Microfinance alone may not spur more macro-economic development. A study in the small town of Karatina in Central Kenya concluded that between 1999 and 2003, microfinance institutions did not increase competition or demonstration effects, whereby other financial providers change their products or services to mimic those of an MFI (Johnson, 2004).

4. Competition between microfinance institutions may decrease repayment rates. In a study of Uganda’s largest MFI, the entrance of other MFIs into the market did not increase client dropout rates, but instead induced a decline in repayment rates and the amount of savings deposited, suggesting an increase in the number of clients taking on multiple loans (McIntosh and de Janvry, 2005; McIntosh and Wydick, 2005).

5. Microfinance may not be financially sustainable without government subsidies. Although microfinance has been presented as a win-win situation, MFIs have relied heavily on government involvement until recently, and currently rely on ongoing subsidies allowing them to exist. One survey shows that even poverty-focused programs committed to financial sustainability cover only about 70% of their full costs. Many donors feel that subsidies should cease, although MFIs could not survive without them (Morduch, 1999). For MFIs in the “social welfare camp” believing that education, literacy, health services, and training skills should be provided along
with financial services, subsidies are regarded as an acceptable trade-off in order to ignite broader social change (Morduch, 1999).

6. **Microfinance may have limited, or even negative influences on the empowerment of women.** Participation in microcredit programs may increase women’s agency in household decision-making, but it has limited impact in altering gender-based access to resources within and outside the household (Mahmud, 2003). One study found a negative relationship between improved economic success and empowerment indicators in a microenterprise program in India (Kantor, 2005). Some studies have also pointed to the potential backlash effect of increased domestic violence rates spurred by the participation of women in microfinance programs (Schuler, 1998; Cheston, 2002).

**Microfinance as a tool for HIV prevention in developing countries**

There are three main ways in which microfinance and HIV/AIDS intersect: 1) The HIV/AIDS epidemic has a financial impact on MFIs, 2) microfinance has the potential to reduce the negative impact of HIV/AIDS on household incomes, and 3) microfinance may play a role in HIV prevention (Pronyk, 2005). With regard to the first point, in a survey of 22 MFIs in 14 African countries, the HIV/AIDS epidemic has begun to negatively affect loan performance and increase staff costs (Parker, 2000). However, the majority of the literature on microfinance and HIV/AIDS revolves around the potential of microfinance to fight the economic impact of HIV/AIDS on households, and the need to make available relevant financial products to meet the needs of households living with HIV/AIDS. Microfinance is viewed as a form of social protection or safety net for HIV/AIDS affected households, covering expenses for medical treatment, counteracting reduced economic productivity of a sick family member, or providing funeral costs (Mathison, 2004; Parker, 2000). Recommendations for MFIs dealing with HIV/AIDS affected populations include reducing compulsory savings requirements, making repayment schedules more flexible so that clients may make withdrawals for health emergencies, etc., and increasing the flexibility of loan sizes (Mathison, 2004; Parker, 2000).

With respect to the third main way in which microfinance and HIV/AIDS intersect, given the potential economic and social benefits of microfinance participation, researchers, donors, and practitioners have begun to suggest that microfinance could in itself be used as a form of HIV prevention (Pronyk, 2005). However, little research has been done in this area, leaving a paucity of evidence to support such claims. Some MFIs have begun to pair HIV/AIDS prevention activities with the ongoing activities of microfinance solidarity groups. Regular meetings of solidarity groups are used as an avenue to distribute health services, provide information on the prevention of HIV/AIDS, legal advice to women on inheritance rights and children’s rights, counseling, training to care for sick family members, and other non-formal adult education on issues of health, nutrition, and business (Parker, 2000; Sherer, 2004). Typically such health, legal, and social services are provided by partner NGOs or hospitals, although in some cases loan officers themselves receive HIV/AIDS education or training. Such MFIs therefore pursue a “double bottom line” including both financial sustainability and client welfare (Parker, 2000).

One of the most well-known examples of a study using microfinance to address HIV/AIDS is the Intervention with Microfinance for AIDS and Gender Equity (IMAGE) Project in South Africa, which was an evaluation of a randomized community trial of a microfinance-HIV prevention and gender equity pilot initiative. The aim of IMAGE was “to develop and evaluate an innovative approach to the prevention of HIV/AIDS – one which explicitly addresses key structural factors
driving the epidemic, such as poverty, gender-based violence and broader gender inequalities” by integrating and mainstreaming a program on gender awareness and HIV education into an existing microfinance initiative. The program had two phases: the first for structured participatory training sessions and the second for community mobilization. The participatory training sessions, known as “Sisters for Life”, integrates issues of gender and HIV/AIDS including culture, gender roles, women’s work, body, domestic violence, gender and HIV, knowledge of power, and empowering change. In the second phase, key women identified as natural leaders from the training sessions were provided with further training on leadership and community mobilization, and they work as facilitators/ training-of-trainers (TOT) for other women (Kim, 2002). Results from the IMAGE study reveal that experiences of intimate partner violence among program participants declined by 55% and there appeared to be a positive intervention effect on household economic well-being, social capital, and empowerment (Pronyk, 2006). Nonetheless, there was no change between intervention and control groups in school enrollment for household children, condom use with non-spousal partners, or HIV incidence, which the authors attribute to several methodological limitations of the study (Pronyk, 2006).

In Nairobi, Kenya, a similar microfinance program developed by the STD/AIDS Control Project of the University of Nairobi and Improve Your Business-Kenya provided small loans, business training, and HIV/AIDS education via weekly repayment meetings to female sex workers. Women were organized into loan guarantee groups of 5-25 and given loans averaging $133 with repayment over 12 months. A year after receiving loans, only half (111) of the established microenterprises remained operational. However, in a context where the HIV prevalence among female sex workers in Nairobi has been estimated to be between 33 and 80 percent, sexual risk behavior appeared to have declined among participants. Seventeen percent of participants left sex work, and of those who remained in sex work, the average number of clients declined by two-thirds, STI rates fell by 50 percent, and their average weekly income from sex work decreased by 50 percent as it was supplemented by income from their microenterprises (Costigan, 2002; Odek, 2002). Notably, while dependence on sex work appeared to decrease, few metrics were included to determine whether women’s overall economic vulnerability declined. The overall loan repayment rate at 18 months was only 72 percent (Costigan, 2002; Odek, 2002). This project has since been expanded to support 600 sex workers in the area between 2002 and 2007 (Odek, 2004).

In short, while the literature is divided on the benefits and drawbacks of microfinance programs and how best to structure the myriad forms of microfinance in developing countries, there is increasing interest in microfinance as not only a mechanism for reducing economic vulnerability, but also for building social capital, empowering women, improving health, and reducing HIV risk.
References


