

**COSTS OF MICRO FINANCE INSTITUTIONS IN  
RESPONSE TO HIV AIDS CRISIS IN KENYA**

**BY**

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*Costs of micro  
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# DEDICATION

This work is dedicated to my wife and daughter for their support and patience throughout this project.

## **ACKNOWLEDGEMENT**

Many people contributed immensely in the process of coming up with this project for my MBA. Programme. I thank God for enabling me to start and complete my studies and for providing me with peace throughout the course period.

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## **ABSTRACT**

This study has examined the costs incurred by Microfinance institutions in late, early or no response to the HIV/AIDS pandemic in Kenya.

The general objective of the study was to investigate the costs of MFIs in response to HIV/AIDS crisis in Kenya. The basic objectives of the study are: to identify and analyze the costs incurred by MFIs in response to HIV/AIDS effects to their clients; to examine how staff administration costs are affected as a result of MFI staff being infected or affected by HIV AIDS crisis in Kenya; to identify and analyze the effect of a client's withdrawal of savings on an institution's borrowing costs and to identify the social responsibility cost for the purpose of disseminating information about HIV/AIDS

The analysis of the study shows the trend of costs that result on the responses. Such costs include writing off of bad loans, provisioning for bad and doubtful loans and declining liquidity of the Microfinance institutions which are on rise. The early responses strategies such as training the clients and staff and educating them about the pandemic, development of special products for PLWAs as well as developing HIV/AIDS policies are at very minimal level or completely lacks in some MFIs.

In conclusion MFIs should realize that HIV/AIDS is already having disastrous economic effects on their market segment leading to high costs on the responses. Early responses can drastically reduce the spread of pandemic and save the costs of late and non response. Early responses include training and educating the society about the pandemic. HIV/AIDS policy manuals should be developed to formalize the ways in which the pandemic can be contained. More over the institutions should join hands and fund events to disseminate the information about the pandemic.

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## LIST OF ABBREVIATIONS

|         |  |
|---------|--|
| AIDS    | Acquired Immune Deficiency Syndrome                            |
| HIV     | Human Immune Deficiency Virus                                  |
| MFI     | Microfinance institution                                       |
| MFI     | Microfinance Initiative  |
| SAMCAF: | Southern Africa Microfinance and capacity enhancement facility |
| HIVOS   | Humanistic Institute for Development Corporation               |
| NACC    | National Aids Control Council                                  |

# CHAPTER ONE

## 1.0.0 Introduction

### 1.1.0 Background of the Study

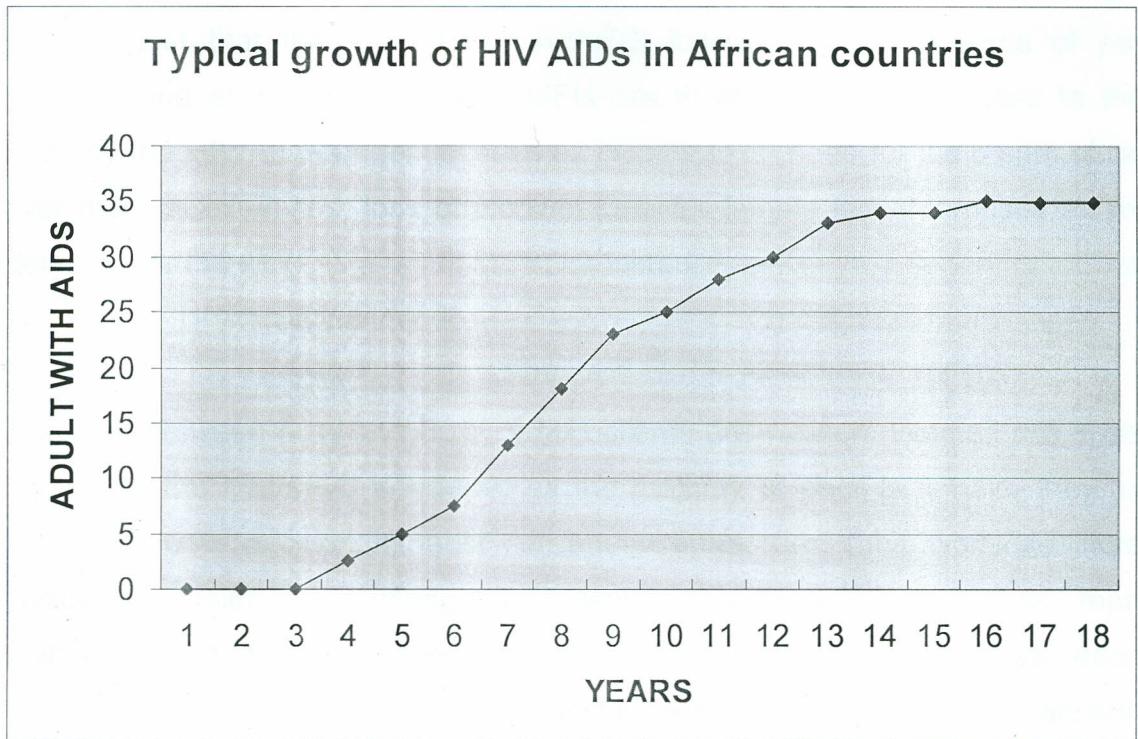
Issues related to HIV/AIDS tend to evoke an image of concern for health and community welfare. Yet, with HIV/AIDS prevalence, AIDS death and orphaning rates as high as they are in several African countries, it is given that the pandemic has serious economic effects among the general population as well (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 which 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 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 MFIs 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 MFIs performance in this difficult environment. Institutions have had to look critically at their client base, external environment, risk management strategies, trends financial performance, appropriateness of products and services, staff and the trends related to staff productivity and expense.



**Table 1**

**SOURCE: WORLD BANK (2000) 'HIV/AIDS IN AFRICA, World Bank Africa region Quarterly Newsletter, Vol. II, February/ March 2000.**

The figure above shows that Africa in general has been recording increment in HIV/AIDS related cases. This trend seam not to stagnate and over the last 20 years the pandemic is on increase.

Understanding the economic impact of HIV/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. (Parker 2000)

### **1.2.0 Principles and Assumptions**

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. These principles are based on “6 Cs”

- Character of the borrower,
- Credit history of the customer,
- Capability to repay of the customers business,
- Capital contribution by the borrower,
- Collateral coverage of the loan amount and
- Condition or status of the funded client business

The MFIs basic assumptions are basically;

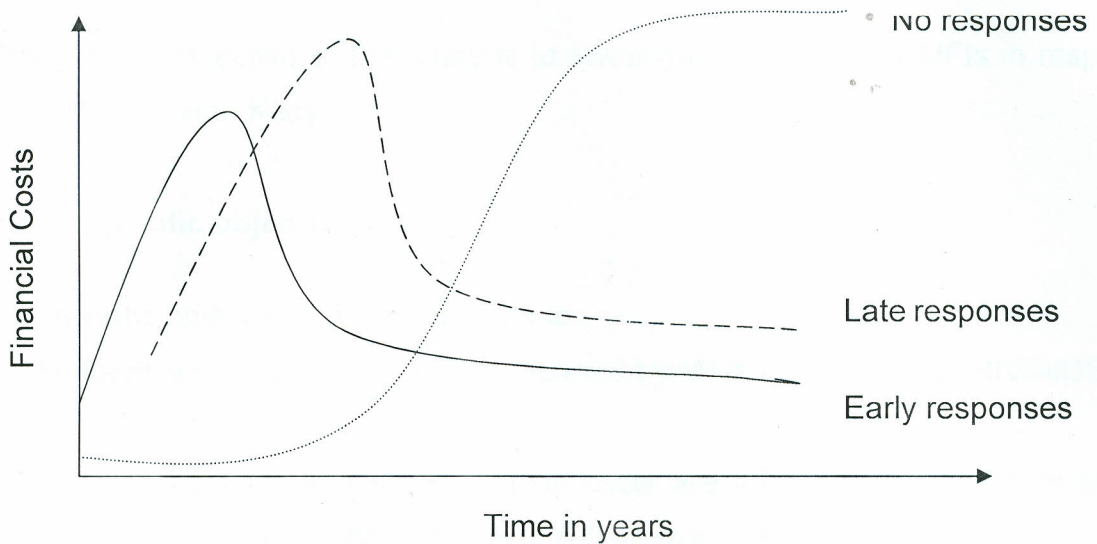
- That the customer will continue with business after the loan,
- That all the loan funds will be used in the business,
- That the customers will repay the loan in equal and regular installments,
- That the customer will borrow and save step wise.

MFI client groups include both affected and infected individuals, who face marked shifts in their personal and financial conditions. HIV/AIDS affected clients may not continue to borrow; and if they do continue to borrow, they may not do so in stepwise increments.

### **1.3.0 Statement of the Problem**

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. MFIs 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.

Table 2: CONCEPTUAL BUSINESS COST CURVES OF RESPONSES TO HIV/AIDS



**Source: Based on Aventin, L & Huard, P (1998) “HIV/AIDS and business in Africa” discussion paper No. 19, Management of social transformations UNESCO**

The figure above shows an increasing trend of business costs due to HIV/AIDS. The curves show financial costs of the responses and in cases of no response. The trend demonstrates a bigger increase in costs where there is no response by the businesses, as they lose staff, funds and customers over the years.

Delays in responding have the effect of increasing the initial intervention and ongoing costs, as shown in table 2. In such a scenario the return on investments in the prevention of HIV/AIDS far exceeds that of standard capital investments. Studies have indicated that these returns, in terms of cost savings through preventing HIV/AIDS, are as high as 3.5 to 7.5 times the cost of intervention.

As client exits increase, the cost of maintaining or expanding the MFIs 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.

#### **1.4.0 Objectives of the study**

##### **1.4.1 General objective.**

The general objective of the study is to investigate the costs of MFIs in response to HIV/AIDS crisis in Kenya.

##### **1.4.2 Specific objectives**

The specific objectives of the study are to:-

- 1) Identify and analyze the costs incurred by MFIs in response to HIV/AIDS effects to their clients.
- 2) Examine how staff administration costs are affected as a result of MFI staff being infected or affected by HIV/AIDS crisis in Kenya.
- 3) Identify and analyze the effect of a client's withdrawal of savings on an institution's borrowing costs.
- 4) Identify the social responsibility cost for the purpose of disseminating information about HIV/AIDS

##### **1.4.3 Research questions.**

The research questions are

1. What is the total and trend of cost incurred by MFIs as a result of HIV/AIDS effect to MFIs clients?
2. How have the Micro Finance institutions (MFIs) staff administration costs affected by HIV/AIDS crisis.
3. What is the effect of a client's withdrawal of savings to the institution's borrowing costs?
4. What are the social responsibility costs for dissemination of information about HIV/AIDS?

#### **1.5.0 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 of this study will be beneficial to the following:-

**The Researcher** : The researcher will gain useful skill and experience that will aid in carrying out future researches.

**The Micro-finance institutions:** The Micro-finance 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.

**MFI managers:** The research will assist MFI managers in assigning responsibilities to specific people and making them accountable for the responsibilities, determining realistic time frames for carrying out proposed activities, finding and establishing relationships with partners that can be of assistance to the MFI in achieving its goals.

**Scholars** The research will assist any scholars who might have an interest in developing the findings further or as a source of reference.

**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 the MFIs can play in the fight against the spread of the virus.

## CHAPTER TWO

### 2.0.0 Literature Review

#### 2.1.0 Introduction

Acquired Immune Deficiency Syndrome (HIV/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. By June 2000, it was estimated that 1.5 million people in Kenya had died of AIDS since the epidemic started early in 1980s. The cumulative number of deaths due to HIV/AIDS in Kenya may rise to 2.6 million by the end of 2008, if no interventions are introduced. The main modes of transmission of HIV/AIDS are sexual contact (90%), mother-to-child transmission (10%) and contact with blood (less than 10%). (NACC Strategic Plan 2000 – 2005).

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 HIV/AIDS related activities. If there are two care-givers in the family, the loss of household labor can be as much as 43 percent.

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 HIV/AIDS. (Stover and Bollinger 1999)

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 are 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).

### **2.2.0 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/AIDS 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, and Brazil. But no country has yet reached the crest of the HIV/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/AIDS 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.

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. (Ngwira *et al*, 2002).

### **2.3.0 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"

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 household's 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. (Donahue, 1998)

#### **2.4.0 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 occurs. 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. 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. (Donahue, 1998)

### **2.5.0 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 and Asia is \$300), usually short term (always less than one year, unless the client is of long standing, and often less than 90 days). ( Ringeera, R.W 2003).

### **2.6.0 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 Economic Impact of HIV/AIDS on clients of MFIS**

### **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 HIV/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) state 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 observed that 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 3: Productive Assets Available to MFI Clients

| Assets                    | Description of Liquidation Process   |
|---------------------------|--|
| 1. Savings outside of MFI | <ul style="list-style-type: none"> <li>• Liquid protective asset—the first port of call</li> <li>• Clients hesitate to access savings in the MFI as this can jeopardize future access to credit</li> </ul> |
| 2. Business income        | <ul style="list-style-type: none"> <li>• MFI clients protect their business capital because it is what will help them bounce back after the crisis.</li> </ul>   |

|                      |   |
|----------------------|---|
|                      | <ul style="list-style-type: none"> <li>• Diversion of MFI loan to avoid liquidating business capital</li> </ul>                               |
| 3. Household assets  | <ul style="list-style-type: none"> <li>• TV, radio, kitchen utensils, furniture</li> <li>• Chickens, goats</li> </ul>                         |
| 4. Productive assets | <ul style="list-style-type: none"> <li>• Business capital</li> <li>• Draft/dairy animals</li> </ul>   |
| 5. Land              | <ul style="list-style-type: none"> <li>• Affected households will only sell land when they have exhausted almost all other avenues</li> </ul> |

Source: *The impact of microfinance institutions on poverty alleviation – Wright et al (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. 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. (Anita, 1999).

### **2.8.0 Potential responses of MFIs- 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: (Barry (1995).

#### **2.8.1 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. 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. (Barry 1995).

#### **2.8.2 Action by the MFI itself v. linkages with other institutions:**

Sebstad, et al (2000) suggests that MFIs may choose to act strictly within their institutional boundaries or through linkages with non 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.

### **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. (Yamano et al 2002).

### **Option 2: Mitigation Activities**

Unfortunately, by the time the MFIs 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 ( Kim 2002)

#### **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 MFIs services if they come from an AIDS affected household.
- vii) Provide loan insurance, 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.
- v) Provide training on children's rights.

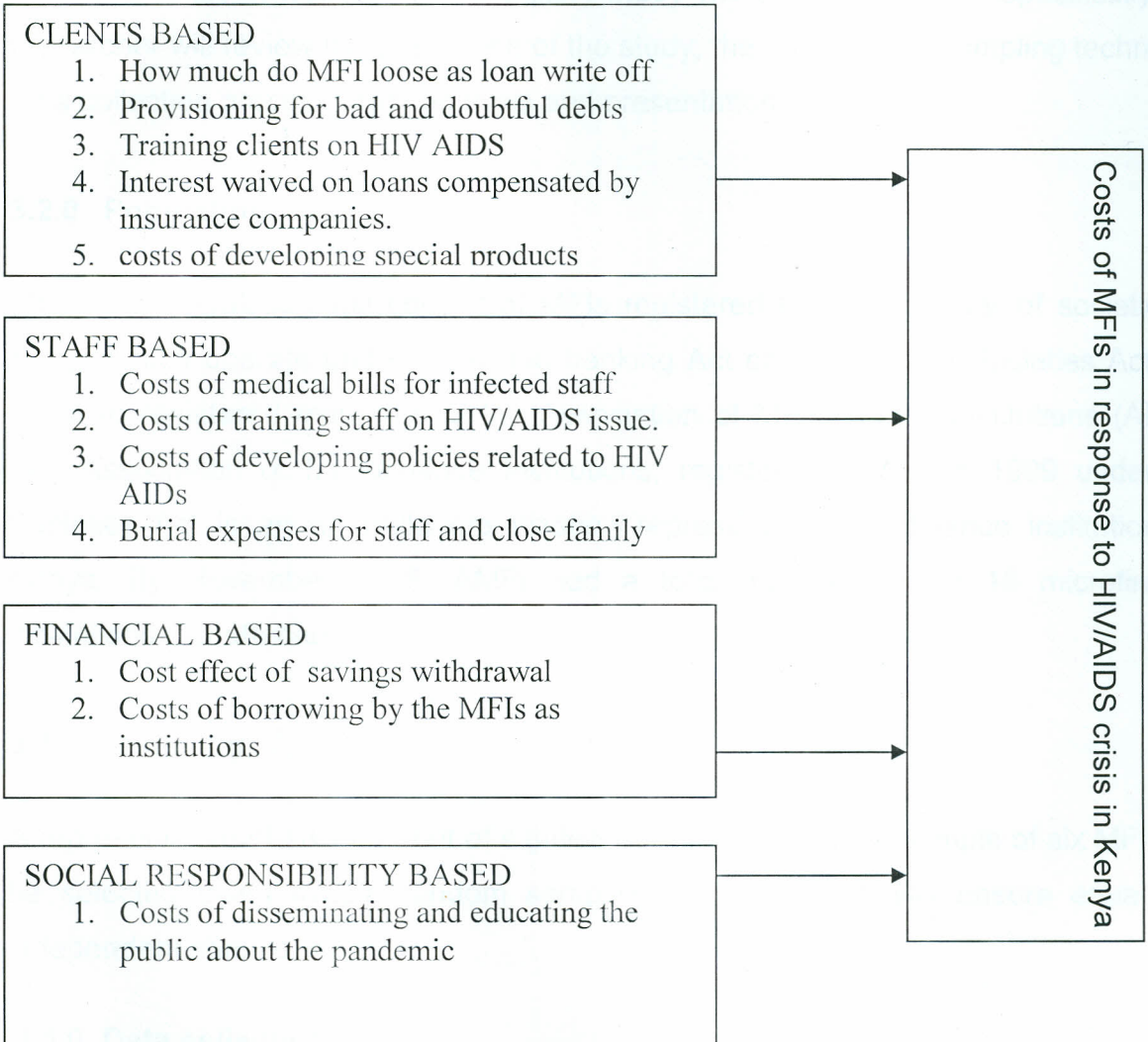
## 2.9.0 Summary

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 client's 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.

### 2.9.1 Conceptual Framework

In Kenya HIV/AIDS pandemic have has been declared a natural disaster. The impact of the disease has been felt in the business sector and micro finance institutions are part of the sector. Microfinance institutions have two options of responding to the pandemic by either preventing the spread of the disease or mitigating to relief the impact of the pandemic.



Independent variables

Dependent variables

## **CHAPTER THREE**

### **3.0.0 Research Methodology**

#### **3.1.0 Research design**

This section gives insight into how the research will be 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 will be undertaken. Specifically, the researcher will review the population of the study, the sample and sampling technique, data collection process, data analysis and presentation techniques.

#### **3.2.0 Population**

The study population will consist 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).

#### **3.3.0 Sampling**

A representative of six MFIs out of eighteen shall be used. The sample of six MFIs will be selected using simple random sampling method which will ensure equal and independent chance of MFIs.

#### **3.4.0 Data collection**

Both primary and secondary data will be collected. Secondary data on pertinent issues relating to the effects of HIV/AIDS on MFIs operations and the strategic interventions being undertaken will be derived from the literature to be collected from the following sources among others:- the internet, books, journals, newspapers, periodicals and magazines.

Primary data will be collected using a combination of the following tools:-

- i. A structured and undisguised questionnaire consisting of open and close – ended questions will be administered to the staff whose main duties include facilitation of service delivery to the clients. They will include savings, credit managers and supervisors and finance officers and human resources officers of the various MFIs.
- ii. In-depth personal interviews with the staff of MFIs will be conducted to not only seek more information and clarity of certain questions that will not have been adequately answered, but also to identify common trends, patterns and recurring issues.

### **3.5.0 Data Analysis**

The two major tools of analysis will be descriptive statistics (measures of central tendency and measures of dispersion) and factor Analysis.

The completed questionnaires will be analyzed using statistical measures such as averages, frequencies, cumulative frequencies, standard deviations, percentages among others.

Further, the researcher will use figures of expressions including tables, charts, and graphs specifically.

To perform factor analysis, the SPSS statistical package will be used, to analyze the impact attributes. This procedure has the advantage of improving the interpretability of the resulting factors. The analysis will be used to explain relevant variables in the data collected.

## CHAPTER FOUR

### 4.0.0 Data Analysis, Presentation and Findings

#### 4.1.0 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 is restricted to the MFIs costs in response to HIV/AIDS. Statistical package for social science (SPSS) has been used for analysis. The findings are presented in charts, graphs and tables and discussed in relation to the objectives and research questions investigated in this study.

#### 4.1.1 Response to the Research.

The questionnaires were administered to 50 management staff 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 year when most members of staff are extremely busy serving customer.

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.

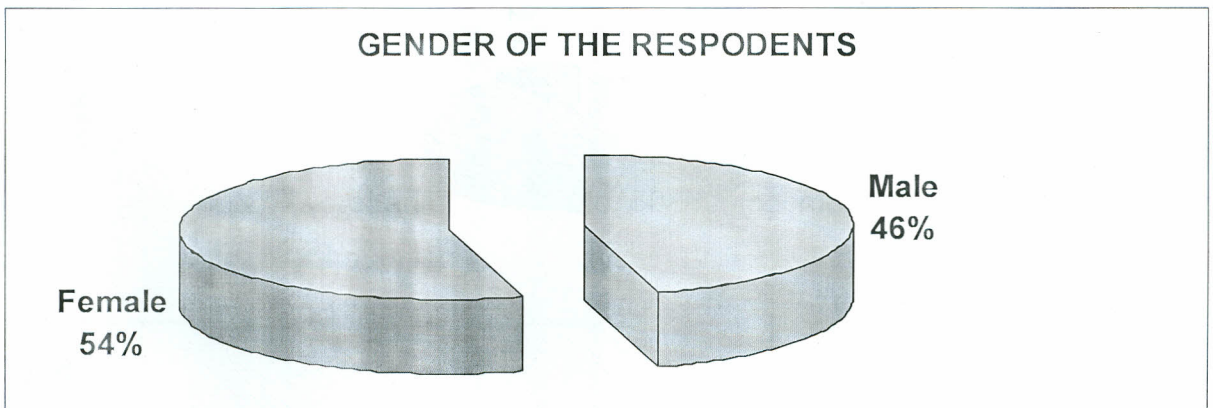


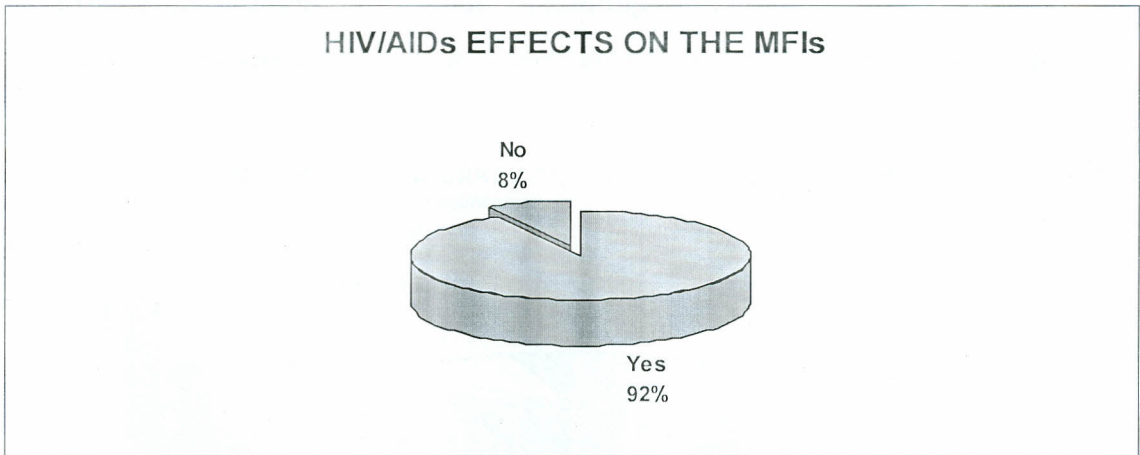
Chart 1

#### 4.2.0 Business Of The Organization

MFIs 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 its customers and conducts follow up on clients to ensure business continuity. Because of their characteristics MFIs clients are more vulnerable to the HIV/AIDS pandemic and without any doubt the pandemic has a major impact on the MFIs both on the level of clients and staff.

#### 4.3.0 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. For the 8% who said HIV/AIDS has no effect to MFIs they argued that since it is difficult to tell the person that has HIV/AIDS, hence they do continue giving credits and other banking services to customers that are HIV/AIDS positive unknowingly. The chart below summarizes the responses from the sample:



**Chart 2**

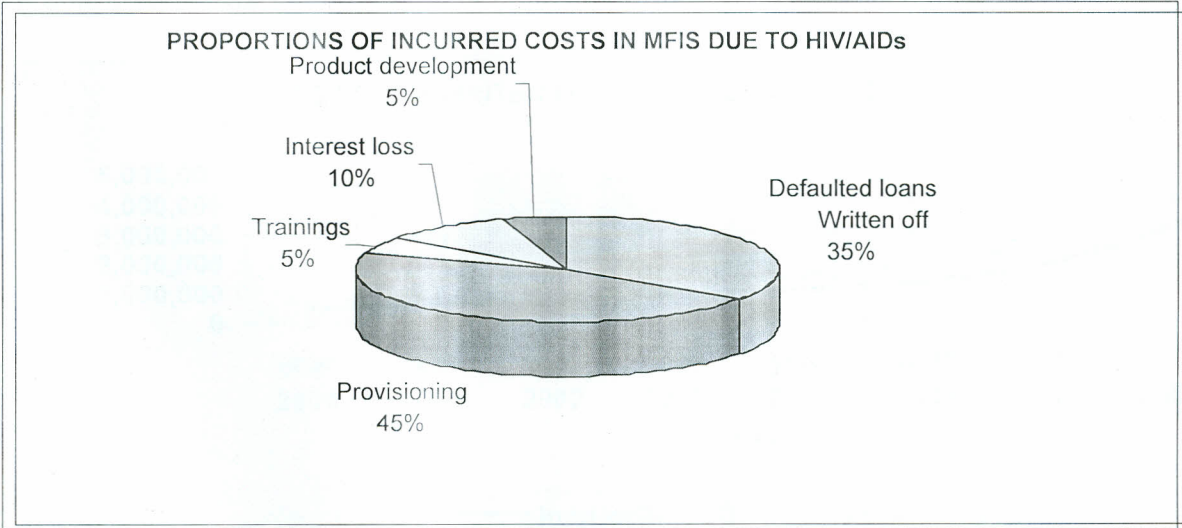
The assessment on those who qualify for loan does not include the health status of the potential client. Approximately 26% people in MFIs operational areas carry the virus though they don't know. The respondents also report having witnessed some of the members of staff being infected by HIV/AIDS and the consequences associated

with the disease. During 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 MFIs costs as discussed in this chapter to maintain and expand the client base. Infected or affected clients divert funds and time from the business leading to reduced repayment capacity, higher default rates and difficulties to meet compulsory savings requirements. The credit 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 HIV/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.

**4.4.0 MFIs Costs Per Annum in Response to Effects of HIV/AIDS to Clients**

The research findings below show percentages of costs incurred by MFIs in response to HIV/AIDS pandemic in Kenya. The chart below summarizes the findings



**Chart 3**

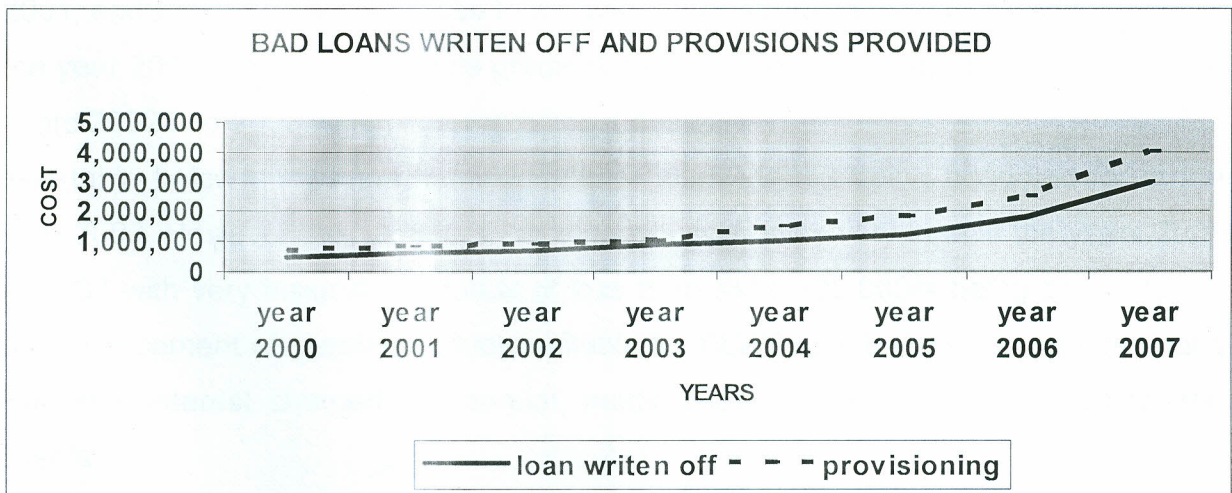
From the chart above, provisioning for bad and doubtful loans is non cash item in the financial statements of the MFIs. This non cash expense item represents 45% of the total expenses in the MFIs. Bad loans written off are represented by 35%. The interest lost on compensated loans is 10%. Total trainings cost and special products development represents 5% each.

#### 4.5.0 Analysis of the Costs in Response to the HIV/AIDS Pandemic.

##### 4.5.1 Provisioning for bad and doubtful loans and Bad loans written off.

The research findings revealed that bad loans written off are recording an increasing trend. The continuous schedule represents the loans written off while the dotted schedule represents the provisions for bad and doubtful debts. In combination both provisions and write offs take 80% of the total costs in financial statements of MFIs. Basically, provisioning has been set higher at 45% than the loans written off 35%.

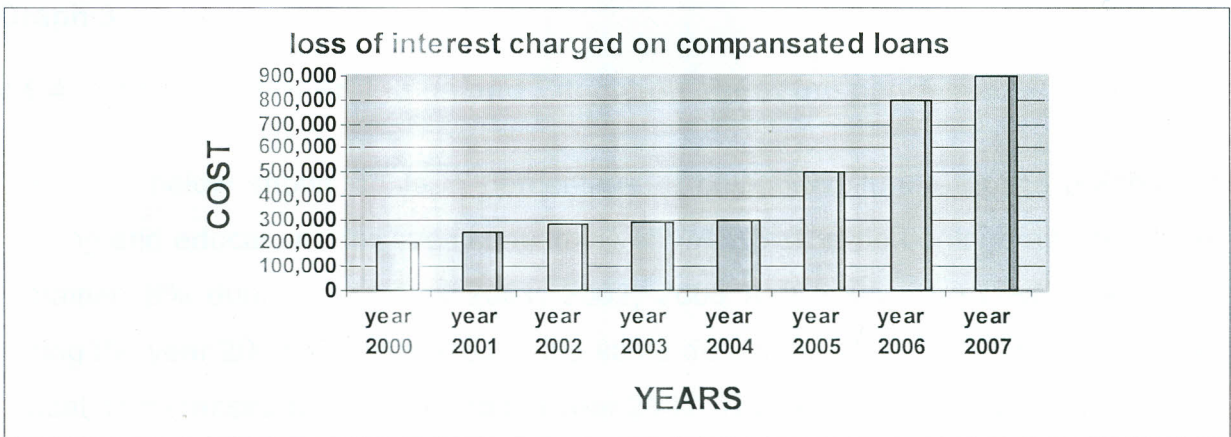
In the year 2003, provisioning was almost underprovided for. The financial institutions latter provided for doubtful loans at a more increasing gradient. The gradient becomes steeper from year 2005 to the year 2007. The bad debts written off increased with the same gradient in the same period. Both bad debts written off and provisioning are expenses in the financial statements of the MFIs. The table below summarizes the research findings.



Graph 1

#### 4.5.2 Loss of Interest on Compensated loans

The research findings established that after the pandemic was declared a natural disaster in the year 2002, the loans compensated for subsequent three years were very low. After the year 2005, the interest lost on the loans compensated increased more significantly and consistently throughout year 2005 to the year 2007. The years 2000 to 2003 recorded less than Kshs 200,000/= loss per annum. This was almost a quarter of the year 2007 incurred costs which was slightly higher than Kshs 800,000/=. A tremendous increase in the allocation started in the year 2005. The table below summarizes the findings

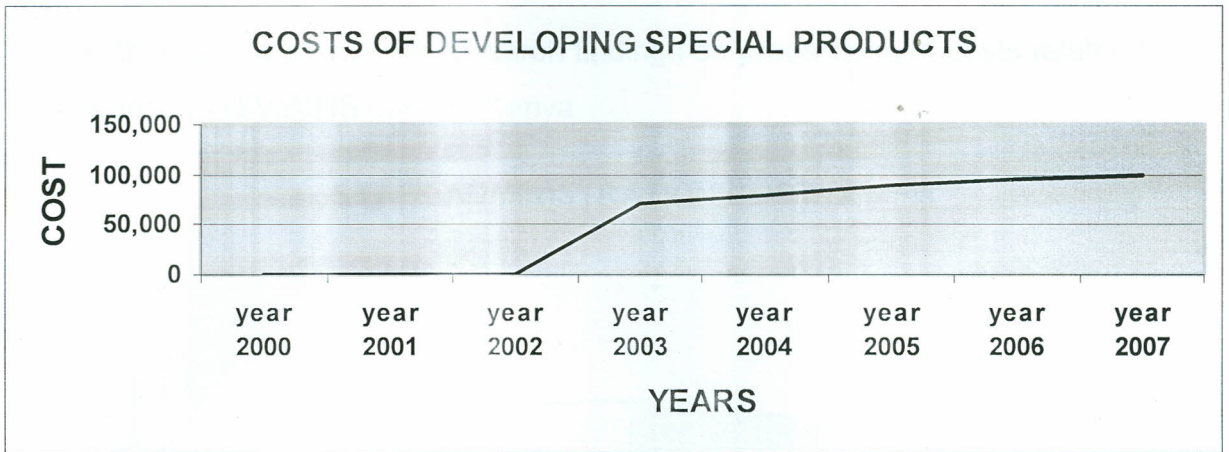


Graph 2

#### 4.5.3 Costs on Development of Special Products for PLWAs.

From the research findings, there were no funds allocation during the years 2000, 2001, and 2002. The amount rose to an average of approximately Kshs 70,000/= after the year 2002. The cost schedule gradient show a relatively steep gradient during the years 2002 and 2003 which latter reduces drastically.

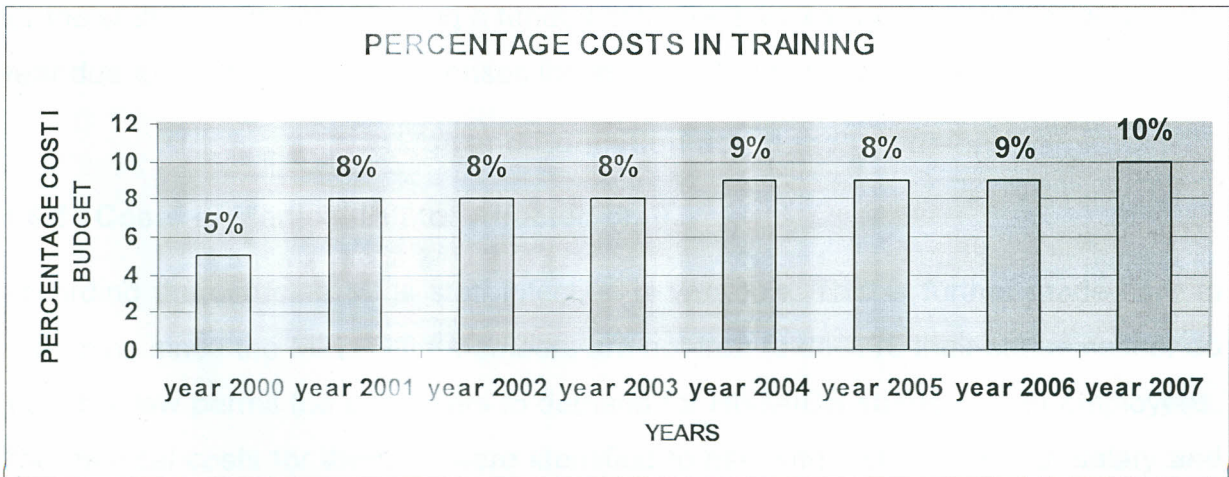
The table below shows that considerable amount started being budgeted for in the year 2003. However the budget of the institutions remains very lean in the years 2004 to 2007 with very insignificant funds of less than Kshs 100,000/= being committed to the development of special products suitable for PLWAs for instance short term loans with little interest charged per annum, medical loans and health insurance for the clients.



Graph 3

4.5.4 Costs on staff Trainings and Education about the pandemic.

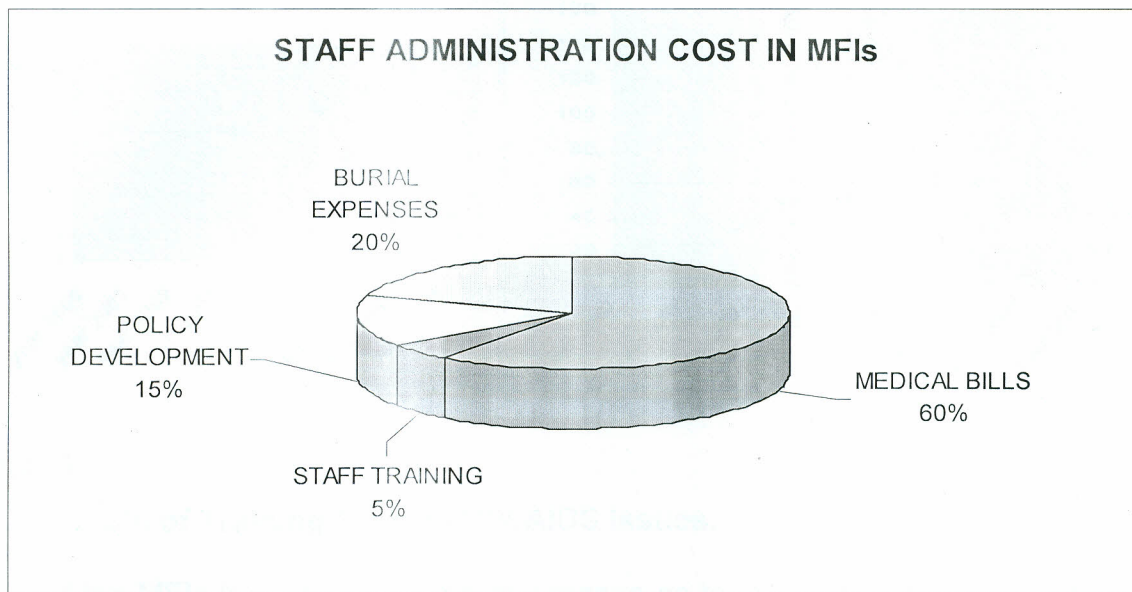
The table below shows costs in percentage of committed funds for the purpose of training and education on issues concerning HIV/AIDS. The percentage allocation has remained 8% during the years 2001, 2002, 2003 and 2005. The cost rose to 9% during the year 2004 and remained at the same during the year 2006. The percentage allocation increased to 10 % during the year 2007. The year 2007 training commitment recorded double the percentage allocation recorded in the year 2000. However the allocation is very minimal compared to other training costs in the MFIs. The costs could be rising slowly in pace with the inflation rates. The findings are summarized in the following table.



Graph 4

#### 4.6.0 Costs of Staff Administration in Response to HIV/AIDS Pandemic.

The chart below shows the research findings on proportions of costs related to staff in response to HIV/AIDS crisis in Kenya.



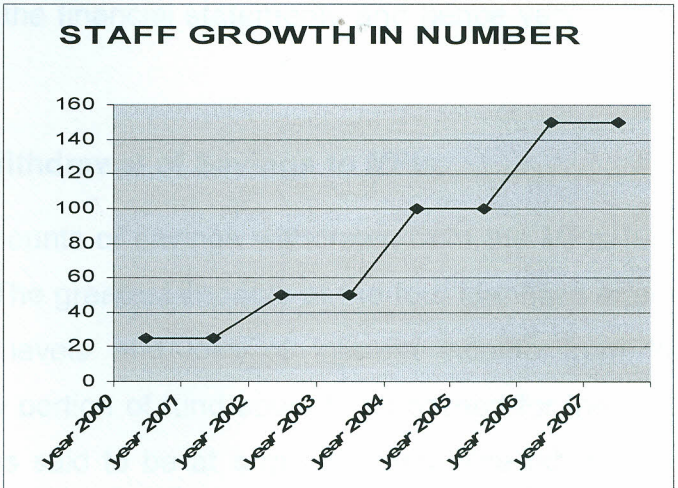
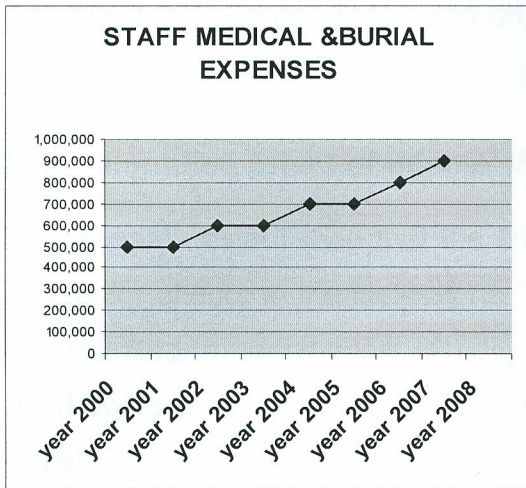
**Chart 4**

From the chart above, the medical benefits to the staff represent 60%, 20% is costs to burials for staff and close family members while HIV/AIDS policy development and staff training represent 15% and 5% respectively. The percentage of early response costs is represented by staff training and HIV/AIDS policy development. The costs related to late or no response is staff medical bill and burial expenses which reflect at least 80% of the costs in combination. For the MFIs which pool together medical funds for the staff benefit without using a funded scheme, they exhaust the funds early in the year due to the big medical expenses incurred related to the pandemic.

#### 4.6.1 Costs of Medical Bill for Affected staff.

According to the sampled MFIs staff infection is very low. This is further made hard to determine since the MFIs Staff members are not free to declare their status neither do the labor law permit the employers to demand for HIV/AIDS status of their employees. The medical costs for the staff were identified to rise with increments with salary and also at same pace with the increasing number of staff. The graphs below show the

number of staff growing at the same pace as the costs incurred for the staff medical and burial expenses.



**Chart 5**

**4.6.2 Costs of Training Staff on HIV/AIDS Issues.**

Most of the MFIs have not yet seen any reason as to why they should incur the costs of training their staff about the pandemic. They have hence remained none committed as far as the pandemic is concerned. Just a small minority has ever trained their staff on the pandemic with assistance from foreign development partners.

**4.6.3 Cost of Developing Staff HIV/AIDS Policies**

Most of the MFIs are lacking policies about the pandemic of all the interviewed MFIs none had a policy in place. Though some of them are in the process of developing with assistance from some development partners the document has not been taken with any seriousness. A small percentage of the MFIs have a policy in place which is not well understood by the staff members.

**4.6.4 Costs of Burial for Staff and Close Family Members.**

Most of the MFIs have not lost any of their staff members. The costs related to staff burials were very minimal and all of them were said to have been related to other causes other than HIV/AIDS. The MFI management argues that it has become very hard to know the cause of death since most of staff do not disclose their status even when sick or their close family members die out of the pandemic.

Most MFIs do not meet the burial costs and once staffs close relatives die they fundraise for the staff affected within the organization employees. The proceeds from the collections are not accounted on the financial statements and hence very hard to determine.

#### 4.7.0 Identified Effect of Clients' Withdrawal of Savings to MFIs.

The research established that the amounts of savings withdrawn from the MFIs have four major effects to the institutions. The greatest impacts of the four identified effects are reduced organizations liquidity levels and loss of interest income from the withdrawn savings. Interest which the portion of fund could have earned for the MFIs is lost. These losses to the MFIs was said to be at a great extent. The table below analyses the frequencies of response on the effects realized by MFIs when the victims of HIV/AIDS withdraw their savings from the MFIs to exit or to pay off their loans.

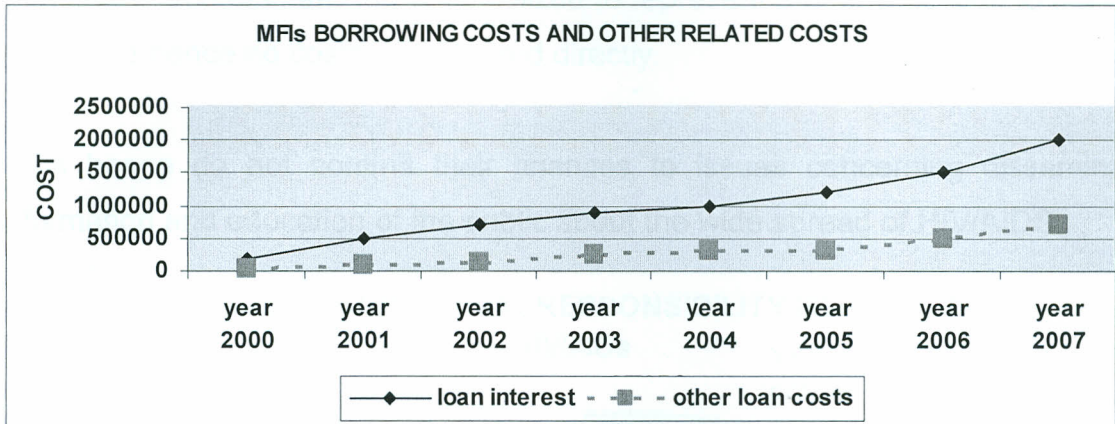
| EFFECTS OF SAVINGS WITHDRAWAL BY HIV/AIDS VICTIMS |  | Frequency<br>in number |
|---|--|------------------------|
| 1   | Poor Liquidity of the MFIs   | 16                     |
| 2   | Loss of interest charge profit from withdrawing customers                | 10                     |
| 3   | Higher costs for marketing for more customers reducing the profit margin | 12                     |
| 4   | Low growth of the MFIs portfolios and clientele due to the exits         | 6                      |
| Totals Number of Respondents                      |  | 44                     |

Table 4

#### 4.7.1 Analysis of Borrowing Cost Effects to MFIs due to savings withdrawal.

Research results show that the costs of borrowing are on increase. These costs include the interest on loan and loans bank charges. The continuous schedule on the chart below indicates loan interest charged to the MFIs when they borrow from banks and wholesale microfinance institutions. The dotted schedule represents the trend of costs related to borrowing which includes loan application fee and other bank charges related to the loans. Costs in year 2005 to 2007 in both the interest rates and other

costs have risen with steeper gradient than in the years 2002, 2003 and 2004. The interest rates are reflected to be increasing at a higher rate than other charges between year 2006 and 2007 due to higher interest rates charged on additional loans. Costs related to these loans remain the same as the banks charge a fixed percentage on any advanced loan. The table below summarizes the findings.



Graph 6

#### 4.8.0 Costs on Social Responsibility for HIV/AIDS pandemic by MFIs

The table below shows the commitment of the MFIs in disseminating information and educating the society about the pandemic. 80% of the interviewed managers responded by saying that they do not participate in educating the society about HIV/AIDS neither do they consider it a threat to staff fraternity. 20% said that their institutions do take social responsibility by participating in curbing the pandemic individually or on collaboration with other stakeholders within the same organizations or outside.

Majority of the MFIs reflect no any commitment to assist in the fight against the pandemic. The effect has not been realized despite the high rate of the HIV/AIDS prevalence among the MFIs clients. 80% of the MFIs have not realized the need to incur cost to create awareness about the pandemic to the society around them. This leaves only 20% of them engaging in very minimal activities in educating the society about the pandemic but only in areas where the prevalence is extremely high.

For the 20% of the MFIs which responded by saying that they have a budget for training and education on the HIV/AIDS pandemic, all of them uses the following as means of dissemination the information about the pandemic.

1. Brochures prepared locally and hanged at their signboards.
2. counseling during their groups meetings
3. Joining other organizations hand during national events educating the public about HIV/AIDS.

Costs related to social responsibility are however no accountable since the staff members in the field are the ones utilized to represent the organization to such charity walks and hence no costs are incurred directly.

MFIs hence do not commit their finances to issues concerning dissemination of information and education of the public about the wide spread of HIV/AIDS.

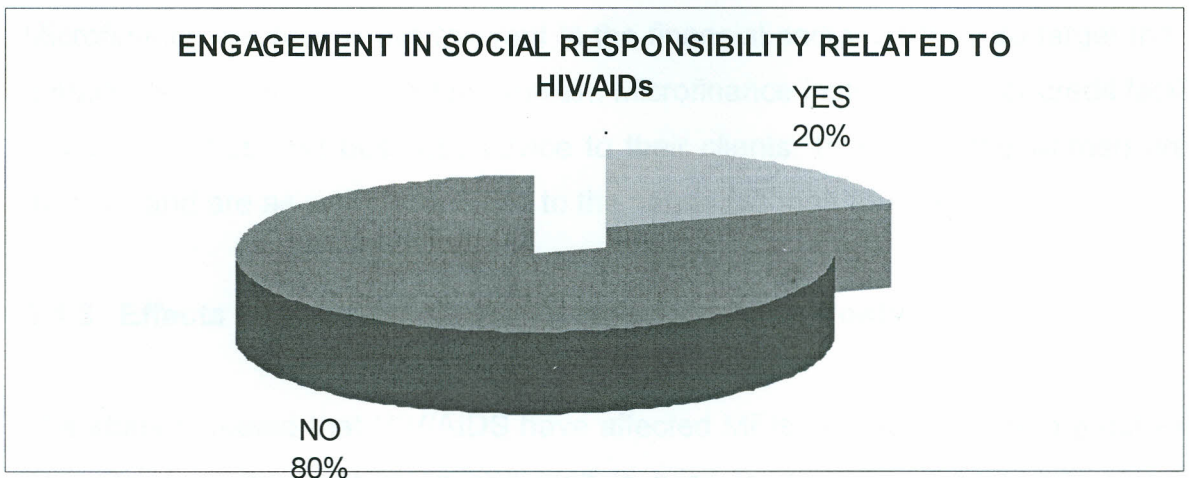


Chart 5

## **CHAPTER FIVE**

### **5.0.0 Discussion of Findings, Conclusions and Recommendations**

#### **5.1.0 Discussion OF the Findings**

##### **5.1.1 Introduction.**

The main focus/objective of this study was to assess the costs of responses of MFIs to the HIV/AIDS crisis in Kenya. The study sought to identify costs of action i.e. late, early or no response and attempt to give recommendations that can be implemented to mitigate the pandemic.

##### **5.1.2 Business of the MFIs**

Microfinance institutions are relevant in the financial sector as they do target the poor a market segment dominated by women. Microfinance institutions offer credit facilities, savings facilities and business advice to their clients. In Kenya, the women are the majority and are as well more prone to the pandemic than the men.

##### **5.1.3 Effects Of HIV/AIDS Crisis To MFIs Operating Costs**

The study revealed that HIV/AIDS have affected MFIs operation costs to great extent. The status of the customers and staff is hard to detect hence business continue without any precaution. HIV/AIDS infection and affection of the clients and family members has resulted to increased exits and subsequent breaking of many groups. Decrease in number of clients attended per officer has increased the MFIs costs of operations. This has called for aggressive marketing and more outreach to sustain the target number of active clients.

##### **5.1.4 MFIS Cost Per Annum As A Result Of Effects Of HIV/AIDS**

As more loans turn bad, the financial institutions are providing for more in their financial statements. Increasing number of cases has been reported per year since 2000 when the pandemic became a natural disaster in Kenya.

MFIs further incur losses on legal matters to recover the defaulted loans. A lot of time is wasted also. The insurance companies do not compensate for loans which had been in arrears so more losses are incurred on interest which could otherwise be earned. The training and special products development costs on significantly small as compared to the other cost a sign of non commitment in early responses.

#### **5.1.5 Bad loans Written off and Provisioning for Bad and Doubtful loans**

When a normal loan runs into arrears, MFIs try to recover the loan. However after five months the loans are categorized as watch, and subsequently to doubtful before declared bad. The bad loans are later removed from the books of the organizations and categorized as non performing loans which are written off. These categorizations give projections for provisioning in the planning. The projections are currently recording an increasing trend hence the MFIs are receiving signals that the pandemic is hitting the sector hard and mitigation measures are necessary.

#### **5.1.6 Loss of interest on compensated loans**

As a matter of policy insurance companies compensate only the principle not serviced by the deceased. This only happens for the dully insured loans. The trend shall definitely show an upward growth since the prevalence continues to be high in Kenya.

#### **5.1.7 Developing Special Products, Trainings and Education about AIDs**

The funds allocated for development of special products and training for the PLWAs are very minimal. The institutions with special products as low interest short term loans and medical loans have recorded improvement in operation costs. The percentage of allocated funds for the purpose of training and education on issues concerning HIV/AIDS has remained very small compared to other commitments.

#### **5.1.8 Costs to Staff Medical Expenses**

The costs related to staff medical benefits and burial expenses of the staff and close family members are on increase. Though the status of the staff is hard to determine,

MFIs could be missing important signals as they believe the illnesses suffered are not related to the pandemic. However the exhaustion of funds allocated to staff medication is being experienced very early in the year as an indication that the pandemic could be slowly hitting the sector employees.

#### **5.1.9 Identified Effect of clients' withdrawal of savings to MFIs.**

It was established that the withdrawal of savings has been to a great extent affecting the liquidity level of the MFIs. This has raised the operation costs as the MFIs are left to borrow from Banks and wholesale microfinance institutions and also loose the exiting customer's interest income. Aggressive marketing is derived from the urge to sustain a target level of clientele. Portfolios of many MFIs are also at a greater risk now than ever before.

#### **5.1.10 Analysis of the Borrowing cost Effects to MFIs due to Savings Withdrawal**

The exiting clients use the long time savings to pay off the loan balances before exit. With exits, the savings held reduce significantly leaving the institutions with little or no funds available to loan out to existing customers and for expansion. Refunds are also becoming hard to disburse due to liquidity difficulties. Costs incurred to borrow loans so as to pay off the savings are affecting the institutions as the lost cash is paid with a cost. These costs may rise even more steadily as the risk of the institutions on borrowing increases with exhaustion of cheap source of debts/ debentures.

#### **5.1.11 Social Responsibility Costs by the MFIs**

Most MFIs miss the important signal sent by the increasing prevalence of the pandemic. However research findings indicate that most microfinance institutions do not take seriously the social responsibility to disseminate information about the pandemic to the society either by educating the society or publishing the information. This is a very important activity which should be undertaken.

## 5.2.0 Conclusions

As development institutions with poverty alleviation goals, MFIs 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 leading to high costs on the responses they have at a late stage.

Lack of responses by MFIs leaves the spread of the pandemic without control. This happens as a result of lack of knowledge by the clients. It is worth to note that the pandemic spread faster in the rural areas where these MFIs get most of their customers. As majority of the customers are women who are more affected by the pandemic than men, laxity in response to the pandemic leaves the institutions exposed to great operational risks and high costs of operation.

Though late responses saves these institutions some costs, the costs remain high as more and more clients are infected or affected by the pandemic and continue withdrawing from the programme. Such responses includes development of special products which in actual sense do not attract as much interest as the other loan products and yet it is very risky product since the customers are terminally sick and can stop servicing them any time. More costs could also be incurred in an attempt to collect the watch category loans before they are categorized as bed loans.

Early responses can drastically reduce the spread of pandemic and save the costs of late responses like provisioning, writing off and interest lost of written off loans. Early responses include training and education about the pandemic. It is not ideal for the microfinance institutions to offer the services alone. They can network and collaborate with other stakeholders in the industry and come up with measures which can help in curbing the spread of the pandemic and the effect they have. HIV/AIDS policy manuals should be developed to formalize the ways in which the pandemic can be contained. More over the institutions should join hands and fund events to disseminate the information about the pandemic.

### **5.3.0 Recommendations**

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

MFIs should develop HIV/AIDS policies to mitigate its impact on employees and clients. This calls for assess on whether or not HIV and AIDS is a real issue for them and then develop appropriate intervention strategies.

There should be education and awareness in MFIs about the legal complexities in developing responses to the HIV/AIDS challenge. Most MFIs at this study 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. 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 is now a prerequisite in order to sustain businesses.

### **5.3.1 Additional Studies**

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/AIDS 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.

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## APPENDIX I

### QUESTIONNAIRE

This questionnaire has been designed to collect information from the credit manager's human resources managers and finance managers 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 - And above

3. What is your highest academic qualification?

(a) Secondary education  (b) College education  (c) 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 responsibility(s). \_\_\_\_\_

7. Name of organization \_\_\_\_\_

8. Period of operation \_\_\_\_\_

9. Physical location \_\_\_\_\_

10. Number of clients: Male \_\_\_\_\_ Female \_\_\_\_\_

#### Section B: Business of the organization

9. Have the operations in your organization been affected by the HIV/AIDS crisis?

(Please tick as appropriate)

(a) Yes

(b) No

10 Due to the effects of HIV/AIDS what is the approximate total expenditure incurred by the institution per year for the following budget codes.

|  | Parameter | Approximate |
|--|-----------|-------------|
|--|-----------|-------------|

|    |   | cost |
|----|---|------|
| 1  | Amounts of defaulted loans written offs   |      |
| 2. | Provisioning for bad and doubtful debts   |      |
| 2  | Training of clients on HIV/AIDS issues.   |      |
| 4  | Loan interest lost where insurance companies pays the loan after a client's death |      |
| 5  | Costs incurred in development of financial products e.g. medical bills.           |      |

10 (b). What are the expenditures per year for the above expenses since the year 2000 to 2007?

11 How have the Micro Finance institutions (MFIs) staff administration costs been affected by HIV/AIDS crisis.

|   |   | Approximate cost. |
|---|---|-------------------|
| 1 | Cost of medical bills for the infected staff                |                   |
| 2 | Costs of training staff on HIV/AIDS issues                  |                   |
| 3 | Costs of developing policies related to HIV/AIDS for staff. |                   |
| 4 | Burial expenses for the staff and close family members.     |                   |

12 What changes have been experienced since 2000 on MFIs borrowing costs due to client's withdrawal of savings?

| Year | Interest payable | Other related costs |
|------|------------------|---------------------|
| 2000 |                  |                     |
| 2001 |                  |                     |
| 2002 |                  |                     |
| 2003 |                  |                     |
| 2004 |                  |                     |
| 2005 |                  |                     |

|      |  |  |
|------|--|--|
| 2006 |  |  |
| 2007 |  |  |
| 2008 |  |  |

13 Does your institution engage in offering information/education to the community on matters related to HIV/AIDS?

A) Yes                      B) No

If yes, what tools do you use to deliver the information? \_\_\_\_\_

14 Do you believe early response to cases of HIV/AIDS among staff will reduce overall cost to the organization?

(a) Yes                                                            (b) No                     

If yes please explain \_\_\_\_\_

**Part C General Information**

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

1. .
2. .

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

1. .
2. .

17 Suggest measures that can be taken by MFIs affected by HIV/AIDS crisis to cope with the challenges caused so as to ensure effective services to clients is continuous.

1. .
2. .
3. .

THANK YOU

## APPENDIX II

### TIME PLAN

| <b>PERIOD</b>            | <b>ACTIVITY</b>  |
|--------------------------|------------------|
| July 2008                | Proposal writing |
| September –November 2008 | Data collection  |
| October- November 2008   | Writing project  |

### APPENDIX III

| ITEMS                               | COST IN KSHS |
|-------------------------------------|--------------|
| Traveling And Subsidiary            | 6,000/=      |
| Typing and Typesetting and printing | 10,000/=     |
| Photocopying                        | 8,000/=      |
| Stationery                          | 12,000/=     |
| Binding                             | 2,000/=      |
| Miscellaneous                       | 2,000/=      |
| TOTAL                               | 40,000/=     |

## APPENDIX IIV

### Members of the Association of Microfinance Institutions in Kenya

K-Rep Bank Ltd,

Kenya Women Finance Trust (KWFT)

Faulu Kenya,

WEDCO Enterprise Development

Ecumenical Church Loan Fund (ECLOF)

Pride Ltd,

Jitegemee Trust,

Cooperative Bank of Kenya,

Kenya Post Office Savings Bank,

Small and Micro Enterprise Project (SMEP)

K-Rep Development Agency,

Equity Bank.,

Plan Kenya, (BIMAS)

Kenya Agency to Development of Enterprise and Technology (KADET )

Women Economic Empowerment Consort ( W.E.E.C)

Oiko Credit EDO,

Microfinance Partners (Sunlink)

Micro Kenya Ltd.