
# CHALLENGES TO MICRO-FINANCING PLWHA CLIENTS IN RWANDA

## A STUDY BASED ON VISION FINANCE, A WORLD VISION MICRO FINANCE INSTITUTION - KIGALI BRANCH

A Research Project submitted to Larenstein University of Applied Sciences, in partial fulfilment of the requirements to obtain the degree of Master in Management of Development

Specialization:

Rural Development and HIV AIDS
(MOD - RDA)

By

Bosco Muyinda

Wageningen, The Netherlands
September – 2008

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## Dedication

To the poor, who are resolute in the struggle with the impacts of HIV/AIDS

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Many individuals have contributed intellectually, materially or morally to the successful completion of this thesis. I am grateful to each of them. I extend my profound appreciation to Larenstein University administration and academic staff for the invaluable knowledge imparted to me.

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My gratitude to all Larenstein community, I will always cherish the good moments we have had together.

## Abstract

The study was conducted on Vision Finance a microfinance institution of World Vision in Rwanda. The major research question focussed on determining the factors that have contributed default on loans disbursed to PLWHA clients by Vision Finance. To gather this information, focus group discussions, and in-depth interviews along with field observations were conducted between July and August 2008. It was adequately supported by the existing secondary data. The study was conducted on three associations of PLWHA from three districts of Kigali city.

Results show that chronic illness and death disrupt businesses, resulting in higher rates of default when clients are too ill to work, caring for ill family members or death. In such a situation, loans have been diverted to urgent needs of PLWHA, affecting their capacity to meet loan repayment requirements. The findings of the study reveals further that lack of initial loan to fund the start-up activities is affecting the real loan investment value. This is coupled by the loan size disbursed which was considered too small by clients to continue working and compete for business in Kigali city.

On its part, discrimination and stigma has made PLWHA income generating activities more vulnerable to losses through ostracize of their businesses by clients. Findings show that some customers shun buying products from PLWHA entrepreneurs when they learn of their HIV status. This has fraught their capacity to meet loan repayment requirements as businesses collapse, resulting in defaulting on the loans. As well, high rates of inflation and increasing prices of commodities have placed economic stress on their businesses. With increasing prices of commodities such as food, the study revealed that, loans are diverted to meet expensive food and health requirements.

Another factor that has contributed to the loan default is the lack of prior business management experience of clients. It was found out that many PLWHA clients lack entrepreneurial skills in running their businesses. It is exacerbated by inadequate training offered prior to the start of the business. Additionally, the absence of insurance and savings products to cover the risks that affect clients has contributed to loan defaulting. It was discovered that, clients have not been able to have enough savings which can be drawn on during financially stressful time thus diverting disbursed money. To a certain extent, propaganda among clients that loans are ‘‘free money’’ which should not be repaid contributed to default, as some clients intentionally refused to repay.

The study findings have important policy and programmatic implications. To improve on loan repayment, the study argues for new innovations by Vision finance rather than developing new products because it is a lower cost option both for the PLWHA clients and Vision Finance. Such innovations should be to put more attention on how to manage risks, extend the training to another member of a family, promote easily accessible savings services, and look into the possibility of introducing a health insurance reduces. One initial loan is also vital to fund the start-up activities.

**Table of Contents**

## List of Tables



## List of Figures

## List of Acronyms

| | |
|---|---|
| AIDS: | Acquired Immune Deficiency Syndrome |
| ART: | Anti retroviral Therapy |
| HIV: | Human Immune Virus |
| MFI: | Microfinance Institution |
| NACC: | National HIV/AIDS Control Commission |
| NBR: | National Bank of Rwanda |
| NISR: | National Institute of Statistics of Rwanda |
| PLWHA: | People Living with HIV/AIDS |
| RWF: | Rwandese Francs |
| UNAIDS: | United Nations Programme on HIV/AIDS |
| GDP: | Gross Domestic Product |
| USAID: | United States Development Agency |
| WHO: | World Health Organisation |
| MINECOFIN: | Ministry of Finance and Economic Development |
| NGOs: | Non Government Organisations |

## 1.0 CHAPTER ONE: INTRODUCTION

HIV/AIDS is a disease that is ravaging millions of people in the World today. According to the researcher's observation, the disease is depriving families of their loved ones, rendering households and communities poor, and is causing a lot of anxiety, fear, despair and hopelessness. To date HIV/AIDS has no cure and is continuing to spread unabated**.**

Since 1980s, HIV/AIDS has become a global problem. Different stakeholders have intensified efforts to address the AIDS epidemic, through increased access to effective treatment and prevention programs, but the number of people living with HIV continues to grow, as does the number of deaths due to AIDS (UNAIDS (2006). It is estimated that, a total of 39.5 million people were living with HIV in 2006, 2.6 million more than in 2004. Sub-Saharan Africa continues to bear the brunt of the global epidemic, with two thirds (63%) of all adults and children with HIV globally live in sub-Saharan Africa. It is estimated that in 2006 34% of all deaths due to AIDS occurred there (UNAIDS 2006).

UNAIDS observes that HIV/AIDS is one of the major causes of poverty in Africa and notes thus; *HIV/AIDS cannot be described simply as a disease of poverty, it affects both rich and poor…AIDS creates poverty, AIDS deepens poverty, and AIDS makes poverty harder to escape from (UNAIDS 2006).*

The first cases of AIDS in Rwanda were identified in the year 1983 at Kigali Centre Hospital. The first study on HIV prevalence carried out in 1986 among the general population revealed the prevalence rate of 17.8% in urban settings and 1.3% in rural areas. The second survey on HIV prevalence which was conducted by Demographic and Health Survey (DHS) in 2005 among the female population aged between 15-49 and male population aged between 15-59 showed a prevalence rate of 3% at national level (CNLS: 2005).

Since its first identification in Rwanda in 1983, HIV/AIDS has had a devastating impact on the country's economy. It has greatly increased households' poverty, death toll, and social impacts such as stigma and social exclusion, has weakened social unity among the community. The Rwanda HIV/AIDS Control Commission (CNLS) notes that, it is a severe health burden and a grave development problem (CNLS: 2005).

The HIV/AIDS epidemic in Rwanda has been accompanied by a large number of donor agencies and Non Government Organizations (NGOs) which support the government to finance the rapid scale-up of HIV/AIDS services. Alongside bio-medical and behavioural change responses, the Government of Rwanda together with the donor community and other stakeholders have realised that poverty is a key factor that leads to susceptibility to HIV infection and also it exacerbates the vulnerability to the impacts of HIV/AIDS.

Of recent, the Rwandan government adopted a multi-sector approach, not only aimed at reducing the susceptibility to HIV infection, but also to mitigate the impacts of HIV/AIDS and strengthen the resilience of both HIV/AIDS afflicted and affected households. As such several NGOs also followed suit for example World Vision an international NGO, through Vision Finance institution has included the economic security support to its programmes through the provision of loans to credit groups of PLWHA especially women in Kigali city for income generating activities. With a

special loan program specifically for PLWHA Vision finance charge an interest rate of 15% annually which is half of the interest charged on other clients. This institution has proven itself to be a solid investment - one that is aimed at producing high yields with low risks. Its services are aimed to promote holistic transformation in the lives of PLWHA.

The support also entails training them in entrepreneurship traits and skills to create and manage small income generating activities. The aim is to improve their incomes and strengthen their groups in order to address issues such as comprehensive care, discrimination, stigmatization, adherence to antiretroviral regimens, and also to link families or close friends to the productive activities of those living with HIV/AIDS. The support has been invested in a range of income generating activities involving in commercial, service and production sectors.

## 1.1 Research Problem

From 2003 Vision Finance introduced special program providing loans to people living with HIV/AIDS working in groups to strengthen their resilience to the impacts of the disease. It uses a group lending method based on risk management that relies on peer pressure and the solidarity of members to support each other in order to repay the loan. Under the special program, the interest rate of 15% charged annually is half the rate charged on other clients. Vision Finance concerned of high and default on loans disbursed to PLWHA clients. This affects the sustainability of the program and the capital base of the Vision finance.

## 1.2 Research Objectives

1. To investigate the underlying factors that have contributed to loan defaulting loans by PLWHA clients.
2. To determine effective strategies that can be used to improve on the repayment of loans disbursed under Vision Finance special program.

## 1.3 Research Questions

1. What are the factors responsible for defaulting on loans disbursed to PLWHA clients by Vision Finance?
2. What are effective strategies that can be used to improve loan repayment by PLWHA clients?

### 1.3.1 Sub-Questions

1. What are the credit products, terms and conditions of loans disbursed to PLWHA and the post-credit support services offered in the special program?
2. In which ways are the credit conditions under Vision Finance special program adapted to the situation of PLWHA members?
3. What challenges do PLWHA credit groups face in managing and investing loans disbursed by Vision Finance?
4. Through what avenues have the members addressed the issue of poor loan repayment and defaulting?
5. What are social, political and economic environment under which credit groups of PLWHA operate?

## 1.4 Justification of the Study

Microfinance has been promoted for its potentially positive impact on poor households including those faced with the risk of becoming HIV infected or affected, and those already affected. The study builds on Vision Finance, which is a branch of World Vision, an International NGO in Rwanda. The assessment centred on Vision Finance special program for loans specifically for PLWHA working in three associations in Kigali city. Loans to PLWHA are its main product, supplemented by orientation training on business management and business management advice by loan officers.

More attention has been tended to focus on role of microfinance in strengthening the resistance and resilience to HIV/AIDS and the dynamics within loan co-guarantee groups to determine if the groups explicitly exclude individuals infected and affected by HIV/AIDS. Little has been done to understand whether PLWHA can sustain their income generating activities and the reasons for loan defaulting. Since members of loan groups serve as gatekeepers to loans, the internal dynamics of these groups as well as the Vision Finance special loan policies, terms and conditions are important to understand any factor that might hinder PLWHA members paying back promptly and the increased default on the loans obtained from the special credit program.

## 1.5 Research Design and Methods

This section makes a detailed account of methodological approach that was used in assessing factors for the poor loan repayment and defaulting of PLWHA beneficiaries of the Vision Finance special program. It considers, the process through which data was gathered using various data collection techniques, analysed and interpreted to draw significant conclusions.

### 1.5.1 Study Strategy

The study was qualitatively conducted as a case study on Vision Finance special program on three associations of PLWHA. It was carried out in two phases, the first phase focussed on literature study, aimed at collecting theories on the available literature to understand the concepts of micro finance and HIV/AIDS. The research theory was used to develop interview topics for the study. The second phase entailed determining respondents for the study.

### 1.5.2 Methods of Data Collection and Sample Size

The data was collected through in-depth interviews, focus group discussions, and unstructured field observations. With 24 participants selected randomly from different credit groups in three associations, three focus group discussions were held each comprising of 8 PLWHA clients. In addition, six association leaders (2 from each association) were sampled purposively because of their leadership roles and they were interviewed in-depth using a carefully designed guide. Finally, information obtained from PLWHA clients, was supplemented by information gathered from four key informants who were selected purposively from Vision Finance. They include; the manager of Vision finance Kigali branch, the head of Vision finance special project and two officials in charge of loan recovery.

During the research, the existing documents were also identified which helped the researcher to understand the functioning of Vision Finance special program for

PLWHA, money disbursed to each credit group, savings made by beneficiaries and the loans repaid, arrears, and loans defaulted. These documents included monthly activity reports, and financial aging reports. Information which was derived from existing documents was used to support the information obtained through focus group discussions and the interviews. As an additional source of data, field observations were made on PLWHA activities to ascertain the nature and the size of their businesses.

## 1.6 Operational Definitions of Concepts

In the research, a number of concepts were used and played an important role, in the clarification on what the study is all about and also the direction the study is intended to go. This section therefore, elaborates the definition of key concepts which were used in the research.

**HIV**
HIV is an abbreviation for Human Immunodefiency Virus. HIV attacks and slowly destroys the human immune system by killing the importance CD4 and T4 cells that control and support the immune system. HIV causes AIDS (Nortje and Associates, 2000). HIV/AIDS is predominantly a sexually transmitted disease. It causes illness and death among people. The institute for Health and Development Communication (IHDC (2000) define HIV as follows;
H – Stands for Human – it is only found in human beings.
I – Stands for Immune – The body's system that fights against infection and disease.
V – Stands for Virus – Something that destroys the immune.

**AIDS**
AIDS is another abbreviation for Acquired Immune Deficiency Syndrome. AIDS is ''acquired'' in the sense that it is not hereditary. AIDS is not a specific disease, but it is a collection of several conditions that occur as a result of damage the virus causes to the immune system. People do not die of AIDS but die of opportunistic diseases and infections, which attach the body when the immunity has been weakened. AIDS is the final stage of HIV (Nortje & Associates, 2000).

**Microfinance**
Another concept that was important in this study is Micro finance. Thomas F. et al. (2002) define micro finance as one of the tools of development which can reach the poor people and allow them to work their own way out of poverty. Chen, Martha and Donald Snodgrass (2001) define microfinance as the provision of small loans (micro-credit) or savings services for people excluded from the formal banking system. In this study, the researcher applied micro finance concept as integrated range of services to include micro credits, managerial and technical inputs and other post credit services to improve the incomes of HIV/AIDS afflicted households.

## 1.7 Organisation of the Report

The thesis is organised into five chapters. Chapter one provides an over view of the research with a back ground information on HIV/AIDS situation in Rwanda, PLWHA and the role of micro finance to strengthen their resilience. Chapter one further presents the research problem, the research questions, research objectives, methodology used, aim and the scope if the study.

Chapter two captures the conceptual frame work that guided the study and link key concepts used which are; HIV/AIDS and microfinance. It also presents related literature from diverse researches. Chapter three elaborates the characteristics of Gikondo, Nyarugenge and Kicukiro districts which includes economic, social, culture, and people of the district focusing more on the three associations. Further this chapter elaborates Vision Finance project activities in the area more especially the special program for PLWHA. Chapter four brings out the findings of the study and interpretation of data, while chapter five presents the discussions basing on the findings. Chapter six which is the last chapter provides conclusions and recommendations basing on the findings.

## 2.0 CHAPTER TWO: MICROFINANCE IN THE CONTEXT OF HIV/AIDS

The subject of Microfinance and HIV/AIDS has attracted much scholarly thought especially in the Sub-Saharan Africa, where it is a serious health and a development issue. Studies in this area have mainly focused on how micro finance can strengthen both resistance and resilience to the impacts of HIV/AIDS and the context under which micro finance can best empower economically PLWHA and its limitations. The researcher reviewed available literature along major concepts of the study which are; HIV/AIDS and microfinance.

### 2.1 HIV/AIDS: A Global Epidemic

***"****Like a pebble dropped in a pool, HIV sends ripples to the edges of society, affecting first the family, then the community, and the nation as a whole****"*** (UNAIDS: 2006)., HIV/AIDS is a development challenge of global proportions facing human societies. The impact of the HIV/AIDS epidemic on both national development and household economies has compounded a whole range of challenges surrounding poverty and inequality. The HIV/AIDS epidemic continues to claim thousands of lives even as massive campaigns to halt and reduce its spread continue (UNAIDS: 2006).

HIV/AIDS has created a development crisis of devastating scale – for households, communities, countries, and entire regions. Estimates of the economic impacts of HIV/AIDS show that it has reversed many of the gains in development created over the last 30 years (World Bank, 2000). Poor families are among the most vulnerable, as they have few strategies to cope with the economic impacts of the disease. And families who climbed out of poverty are pushed backwards by HIV/AIDS, as they lose productive adults, face crippling health expenditures, and expand household size to take in children left behind (Ibid). The table below shows the global estimates of AIDS epidemic by UNAIDS in 2007.

Table 2.1 Global summary of the AIDS epidemic (December 2007)

| | |
|---|---|
| **Number of people living with HIV in 2007** | |
| Adults | 30.8 million [28.2–33.6 million] |
| Women | 15.4 million [13.9–16.6 million] |
| Children under 15 years | 2.5 million [2.2–2.6 million] |
| Total | 33.2 million [30.6–36.1 million] |
| **People newly infected with HIV in 2007** | |
| Adults | 1.7 million [1.6–2.1 million |
| Children under 15 years | 330 000 [310 000–380 000] |
| Total | 2.1 million [1.9–2.4 million |
| **AIDS deaths in 2007** | |
| Adults | 1.7 million [1.6–2.1 million] |
| Children under 15 years | 330 000 [310 000–380 000] |
| Total | 2.1 million [1.9–2.4 million] |

*Source: UNAIDS 2007, AIDS epidemic update*

## 2.2 Epidemic update

UNAIDS (2007), observes that every day, over 6800 persons become infected with HIV and over 5700 persons die from AIDS, mostly because of inadequate access to HIV prevention and treatment services. It argues that, the most affected demographic are those in the productive ages of 24-49.

Patterns of infection have also shown that while people in all economic groups are affected, the disease has disproportionately impacted the poor. While there is no direct link between poverty and HIV/AIDS, studies have shown that poverty contributes to, and is a consequence of HIV/AIDS. The World Bank (2000) recognizes a relationship between GNP per capita, income inequality and HIV infection. High HIV infection rates occur along with high-income inequality; whereas countries with a high GNP per capita have lower rates of infection.

Research has also shown that there is a strong link between poverty and poor health. According to UNAIDS (2006), poor families are likely to be less educated, more vulnerable to the myths surrounding HIV/AIDS transmission, increasing their likely exposure to unsafe sexual practices; are likely to work as migrants and therefore at greater risk because they cannot live with their families. Some poor children see sexual work as a means of survival. Many poor are also disenfranchised, and are least likely to have reliable access to information, health care, nutritious food and other important resources for less vulnerable lifestyles.

## 2.3 Poverty and HIV/AIDS

Poverty is no stranger to many people in Africa. In fact, for most households, either avoiding poverty or slipping further into poverty subsumes other issues related to AIDS. The disease is not the only cause of poverty, but poverty intensifies its impact. Whether or not households can cope with the consequences of HIV/AIDS or other emergencies largely depends on the state of their resources before, during, and after a crisis.

Poverty is one of the root causes of HIV/AIDS and also one of its effects. The most affected demographic are those in the productive ages of 24-49. Patterns of infection have also shown that while people in all economic groups are affected, the disease has disproportionately impacted more the poor (World Bank: 2000).

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UNAIDS (2006) argues that, there is a strong link between poverty and poor health. Poor families are likely to be less educated, more vulnerable to the myths surrounding HIV/AIDS transmission, increasing their likely exposure to unsafe sexual practices; are likely to work as migrants and therefore at greater risk because they cannot live with their families. Some poor children see sexual work as a means of survival. Many poor are also disenfranchised, and are least likely to have reliable access to information, health care, nutritious food and other important resources for less vulnerable lifestyles.

HIV/AIDS is a health emergency, but it has created a development crisis of devastating scale – for households, communities, countries, and entire regions. Estimates of the economic impacts of HIV/AIDS show that it has reversed many of the gains in development created over the last 30 years (World Bank, 2000). Poor families are among the most vulnerable, as they have few strategies to cope with the economic impacts of the disease.

In the right environments according to Chen and Snodgrass (2001), microfinance can accomplish the following in the fight against poverty;

1. Broaden poor people's economic choices;
2. Diversify household incomes, to make households less vulnerable to downturns in the economy or personal or health set-backs;
3. Smooth income flows within households to improve quality of life throughout the year;
4. Strengthen the economic position of women so that they can take greater control of decisions and events in their lives;
5. Build household assets: from houses to business equipment to land;
6. Sometimes provide savings: allowing poor households to accumulate safe but flexible cash accounts to draw on when needed;

## 2.4 Microfinance and Development

Microfinance has become a major tool of development, and it is fast developing as an international industry, with its own associations, dedicated finance, training and other support organisations. Estimates show that microfinance serves approximately 2 million African households, with aspirations for significant further expansion.

Dunn et al., (2001), notes that, the upsurge in interest has been accompanied by attention to the sustainability of the microfinance services provided by non-governmental organizations, through charging commercial rates of interest and using sound business practices. This type of microfinance institution offers small-sized loans and may also provide business development services, health and nutrition education, and other types of services.

Chen and Snodgrass (1999) stated that, most of the clients of micro finance hover around the poverty line, slightly above and below it and that MFIs provide a valuable source of credit for these households. Some programs reach the very poor, but they are not normally the main group accessing the services. Recent impact studies by Sebstad and Cohen (2001).have documented the positive impact of MFI programs, but the impacts have tended to be more modest in scale than often assumed.

According to Sebstad and Cohen (2001), microfinance strives to "scale up" to serve as many households as possible. Among the range of possible micro-financial services, micro-credit has predominated, on the assumption that it will deliver higher incomes and increased assets to the poor through micro-enterprises. Indeed injecting capital into existing micro enterprises or creating new ones may enhance that their poor owners face.

Thomas et al., (2002) argues that, by delivering financial services at a scale, and by mechanisms appropriate to them, micro-credit can reach poor people. By providing the poor people with credit for micro-enterprises it can help them work out their own way and by providing loans rather than grants the micro-credit provider can become sustainable by recycling resources over and over again.

However, to Hulme and Mosly (1996) far less attention has been paid to the need to reduce the risk, perhaps the most pressing need especially for the poorest households. They argue that, a proportion of micro-credit clients have become worse off after accessing micro loans. The need to reduce risk is why poor people would prefer regular wage labour than managing their own micro-enterprise, if only such opportunities were available (Ibid).

Micro-credit alone is not enough service to empower the people economically. Rutherford (2000) elucidate that, It is paramount to look beyond micro-credit and frame it in terms of including micro-financial services other than credit for micro enterprises: savings, consumption loans and insurance in particular. A range of those financial services are important to meet the needs of poor people, both protecting them from fluctuating incomes and livelihoods.

While microfinance providers emphasise investments of working or fixed capital in micro-enterprises, the reality is that many clients use the credit for consumption, smoothing, especially as most funds are fungible within a household. Such consumption-smoothing can allow households to cope more effectively, but it also runs the risk of pushing them further into debt if they cannot repay the loan out of enhanced income streams. More appropriate financial products for this purpose are savings, insurance and loans to allow poor people to repay the loans and interests. And yet these have received far less attention than micro-credit for micro-enterprises. (Rutherford: 2000)

With strong focus on micro-credit for micro-enterprises, it is perhaps surprising that less attention has also been paid to linking poor people to the growing market opportunities and to enhancing control they can exercise over their economic environment. In terms of greater control within the economic environment, the ownership of assets in particular significantly reduces risks to households in the face of fluctuating incomes or expenditure demands. However as individual micro-entrepreneurs, most micro-credit clients remain as vulnerable to economic circumstances as they were before taking any micro-loan (Ibid).

## 2.5 Overview of HIV/AIDS epidemic in Africa

In Africa, HIV/AIDS affects millions of households. More than 20 million Africans have died, 12 million have been orphaned, and 29.4 million are living with the virus. The infection and death of a household member creates economic stresses at the household and community levels (UNAIDS: 2006).

Sub-Saharan Africa remains the most affected region in the global AIDS epidemic. Although just over 10% of the world's population live in this region, more than two out of three (68%) adults and nearly 90% of children infected with HIV live here. More than three in four (76%) of global deaths due to an AIDS-related illnesses in 2007, occurred in sub-Saharan Africa UNAIDS (2007). The table 2.2 below shows the regional summary of HIV/AIDS epidemic in 2007.

Table 2.2: Regional summary of HIV/AIDS epidemic in 2007

| | Adults and children living with HIV | Adults and children newly infected with HIV | Adult prevalence (%) | Adult and child deaths due to AIDS |
|---|---|---|---|---|
| **Sub-Saharan Africa** | | | | |
| 2007 | 22.5 million [20.9 million–24.3 million] | 1.7 million [1.4 million–2.4 million] | 5.0% [4.6%–5.5%] | 1.6 million [1.5 million– |
| **Middle East and North Africa** | | | | |
| 2007 | 380 000 [270 000–500 000] | 35 000 [16 000–65 000] | 0.3% [0.2%–0.4%] | 25 000 [20 000–34 000 |
| **South and South-East Asia** | | | | |
| 2007 | 4.0 million [3.3 million–5.1 million] | 340 000 [180 000–740 000] | 0.3% [0.2%–0.4%] | 270 000 [230 000–380 000] |
| **East Asia** | | | | |
| 2007 | 800 000 [620 000–960 000] | 92 000 [21 000–220 000] | 0.1% [<0.2%] | 32 000 [28 000–49 000] |
| **Oceania** | | | | |
| 2007 | 75 000 [53 000–120 000] | 14 000 [11 000–26 000 | 0.4% [0.3%–0.7%] | 1200 [<500–2700] |
| **Latin America** | | | | |
| 2007 | 1.6 million [1.4 million–1.9 million] | 100 000 [47 000–220 000] | 0.5% [0.4%–0.6%] | 58 000 [49 000–91 000 |
| **Caribbean** | | | | |
| 2007 | 230 000 [210 000–270 000] | 17 000 [15 000–23 000] | 1.0% [0.9%–1.2%] | 11 000 [9800–18 000 |
| **Western and Central Europe** | | | | |
| 2007 | 760 000 [600 000–1.1 million] | 31 000 [19 000–86 000] | 0.3% [0.2%–0.4%] | 12 000 [<15 000] |
| **North America** | | | | |
| 2007 | 1.3 million [480 000–1.9 million] | 46 000 [38 000–68 000] | 0.6% [0.5%–0.9%] | 21 000 [18 000–31 000 |
| **TOTAL** | 33.2 million [30.6 million–36.1 million] | 2.5 million [1.8 million–4.1 million] | 0.8% [0.7%–0.9%] | 2.1 million [1.9 million–2.4 million |

*Source: UNAIDS 2007, AIDS epidemic update*

The region's epidemics vary significantly in scale with national adult (15–49 years) HIV prevalence ranging from less than 2% in some countries of the Sahel to above 15% in most of southern Africa. In sub-Saharan Africa an estimated 1.7 million people were newly infected with HIV in 2007, bringing to 22.5 million the total number of people living with the virus. However adult (15–49 years) HIV prevalence declined from 5.8% in 2001 to 5.0% in 2007. Unlike other regions, the majority of people living with HIV in sub-Saharan Africa (61%) are women (UNAIDS 2007).

## 2.6 Innovation of Microfinance Delivery Methodologies

Barnes, Carolyn. (2001) identified three types of micro finance delivery loans; solidarity groups, team loans and credit to young clients as below;

**(a) Solidarity groups**
Solidarity group members are responsible for the repayment of debts of members who are unable to pay. Strategies of solidarity groups to cope with group members affected by illness include: Continuing to operate the business of the affected member, Advise the ill member to choose somebody outside the group to run the business, and raise funds to cover the loan.

**(b) Team Loans**
Credits can be made to a team of people running the same business. When one member becomes ill or dies, the other members can continue to operate the business and can complete loan repayments. Additionally, the MFI can require that team members are all women from the same family; the oldest and the youngest family members are less likely to get infected and the business can be passed on to those who survive.

**(c) Credit to Younger Clients**
Due to the HIV/AIDS epidemic, a growing number of households are headed by children and adolescents. Typically, MFIs lend to people who are already involved in business and are an average of 30 years of age. MFIs can make younger people eligible for loans and link them to basic skills and training.

## 2.7 Microfinance and HIV/AIDS

Many of the world's poor earn their income from self-employment. Poor entrepreneurs are more likely to be working in the informal sector and have a greater need for microfinance services. The clients fit the profile of those at most risk of contracting HIV/AIDS. To prevent falling levels of income, investment and consumption, innovative ideas regarding the role of microfinance in responding to the HIV/AIDS crisis are beginning to emerge. It is seen as an effective anti-poverty tool.

World Bank (2000) observes that, families who climbs out of poverty are pushed backwards by HIV/AIDS, as they lose productive adults, face crippling health expenditures, and expand household size to take in children left behind. Microfinance is designed to fight poverty by strengthening the economic position of households at or below the poverty line.

Some micro credit programs in Sub-Saharan Africa are beginning to target those impacted by HIV/AIDS, particularly women clientele, as a way to empower them to participate in economic prosperity where they had been excluded in the past. Scully (2004) concludes that, HIV/AIDS afflicted households especially women headed households may differ from other poor women in that their lives thus, they are shaped not only by their gender and poverty but also by their HIV status.

Microfinance has been advocated as a strategy to help households manage risks, including the negative effects of HIV/AIDS. To stress this point Parker & Hattel (2000) revealed that microfinance is a form of social safety net for HIV/AIDS-affected households to strengthen their resilience, with more flexible repayment schedules to meet their extra expenses.

Dunford (2001) elucidated that, creative collaborations can be conducive to disseminating HIV/AIDS-related information and brokering strategic partnerships with separate projects that may provide links to healthcare, insurance or other fee-based plans. While MFI's should not be averse to operating where the AIDS crisis is most pronounced, the brief cautions against targeting people with HIV/AIDS as a single

client group. As with any higher risk population, it is necessary to maintain a diverse portfolio to lessen the chance of a large number of default borrowers and to ensure operational sustainability (Ibid).

It is imperative to note that, risk management is a major goal of participating in a microfinance program, citing illness or death of a household member as reasons for seeking assistance. Savings and loans strengthen the safety net of a household by diversifying income and enabling the building of assets. In the view of the above Dunn et al., (2001) says that participation in a microfinance program reduces the risk that households in crisis situations turn to coping strategies such as selling assets or keeping children from attending school in order for them to contribute to the household.

Access to microfinance may also contribute to the stemming of the spread of HIV/AIDS as poverty in areas of high prevalence may prove to be lethal if there are few or no economic opportunities. A study by Human Rights Watch (2003) tells how women and girls in regions with unequal property and inheritance laws, though understanding the risks, may still resign themselves to engaging sex in exchange for money or food. The report quotes a Kenyan girl saying, "*I may have to go into prostitution, and then I know I will get HIV and die; I would rather have a real business, but it is not easy*."

Basing on the above story, it can be premised that, access to microfinance can mitigate this desperation and provide additional choices so dangerous decisions that fuel the spread of HIV/AIDS. It can also lessen these gender-based abuses particularly in sub-Saharan Africa where women bear the majority of AIDS cases.

Cohen (1999) acknowledges that a person with HIV/AIDS who is still able to participate in the workforce might encounter discrimination in the workplace or even when trying to begin income generating activities. Taking on HIV/AIDS in the context of micro entrepreneurship poses special challenges especially in Africa as many traditional African societies ostracize people with AIDS, making it difficult for them to run their micro-enterprises.

Micro credit has been promoted for its potentially positive impact on those faced with the risk of becoming HIV infected or affected, and those already affected. Outside the health sector, microfinance community has been in the forefront in addressing HIV/AIDS prevention, care, and mitigation of the impacts and new financial products have emerged including preventive education, loans, health and life insurance (Donahue et al., 2001).

## 2.8 When can Microfinance help in the AIDS Context?

Chen et al., (2001) argues that, sorting out when microfinance is - and is not - an effective tool is the first step in properly mobilizing microfinance practitioners in the fight against HIV/AIDS. They further argued that, microfinance is most useful to households before they are deeply affected by AIDS. At an early stage, households can still make use of loans and can still save money. At this point, microfinance services play an important role in strengthening households' economic safety net to draw upon in the later stages of AIDS. Through its focus on women, microfinance may also play a role in reducing a vulnerability to HIV/AIDS by keeping women and their daughters out of high-risk behaviours based on economic necessity.

Once HIV/AIDS gains a foothold in a household, the role of microfinance changes. In this stage according Chen et al., (2001) the role of microfinance is primarily to

support the productive activities of non-sick family members: those that care for the family's sick and for any orphans living with the family. In this situation, as long as the household operates income-earning activities, there may be a role for loan services to help these activities along. The greater the ability of the household to maintain an income stream during this period, the more likely they are to withstand the economic devastation of the disease without selling land or other assets, taking children from school, or breaking up the family.

Finally, after AIDS sweeps through family, survivors – often grandparents and older children – must rebuild the economic base of the remaining household. As these individuals become prepared to take on the tasks and risks of entrepreneurship, there may again be a role for microfinance to support these efforts Chen: 2001).

## 2.9 Targeting Microfinance Clients in an HIV/AIDS Context

Microfinance services have been promoted as a tool that strengthens the economic coping strategies of all eligible households in areas heavily affected by HIV/AIDS. Increased economic stability in turn can bolster family safety nets and mitigate the effects of the disease.

Thomas, F. and M.S. Sriram 2002 concludes that, MFIs throughout the world have learned through experience, though, that the institution runs into trouble when their staffs try to target loans to groups they select to meet project goals. Microfinance programs work best when they rely on client self-selection and when they focus on packaging financial services to attract the desired clientele. Artificially engineering or predetermining the composition of groups undermines the delicate mix of peer pressure and group accountability on which the success of lending programs must be built. Finally, to survive and thrive, microfinance must try to reach all eligible clients in an area. If the potential client base is too limited, the organization will not be able to pay the costs of doing business in those areas.

It is important that MFIs are efficient enough to cover their costs. The industry has learned that long-term subsidies for credit projects are unacceptably expensive. In addition, clients who become accustomed to running their businesses with subsidized services cannot maintain their businesses in a market environment when the subsidies are withdrawn.

## 2. 10 Comparative Advantages of Microfinance

Today there is some debate over how active microfinance institutions should be in the fight against HIV/AIDS. Most observers and practitioners agree that, the most important role of microfinance is to continue to serve those households that can make use of financial resources. Looking at the experiences of MFIs thus far, programs addressing the HIV/AIDS crisis have included implementing prevention, mitigation activities, or a combination of both.

Given its pro-poor orientation, and the fact that particularly poor people benefit from microfinance services Patel and Buss (2003) argues that, microfinance sector plays an important part in reducing susceptibility to HIVAIDS and in mitigating the economic effects of the HIV/AIDS epidemic. Microfinance services can enable households to maintain or increase their income and to withstand the economic pressure of the disease. It can prevent the sale of land and of other essential assets and it can contribute to food security and help families cover school and health expenses (Ibid).

By focusing on women, microfinance can play a key role in fighting gender inequality, one of the essential determinants of the spread of HIV/AIDS, by enabling them to pursue income generating activities rather than being forced, into commercial or transactional sex. Patel and Buss (2003) asserts that, when the poorest especially women receive credit, they become economic actors with power; power to improve not only their lives but also the lives of their families, their communities and communities of nations. But HIV/AIDS may unravel women's progress, not to mention the progress of men and families, as they struggle to become economically independent.

MFIs can go further than their traditional role, offering a range of additional services to their clientele. Barnes (2001) expounded that, because microfinance often uses a group lending methodology that brings groups of poor people predominantly women together on a regular basis, it is seen as an effective avenue for distributing health services, such as prevention information about HIV/AIDS, care and support to HIV/AIDS afflicted households. However, most innovative products are designed by smaller MFIs that offer a mix of financial and non-financial services. These MFIs often lack the scale of operation and focus solely on financial services. (Donahue, J., 2001).

When provided through a partnership with a health organization, health services may be added to basic microfinance transactions at a minimal cost to both the MFI and its clients. The same argument according to Bauman (2005) may extend to other services that are important in an HIV/AIDS context. Bauman gives example of legal advice to women on inheritance and children's rights; counselling; or training on the care of sick family members. If provided through a strategic partnership, these services may be channelled to MFI clients at little or no additional burden to the MFI.

Microfinance institutions need to make innovations in their core practice area: improving the fit of financial products to better meet the needs of HIV/AIDS affected households. Chen (1999) argues that, such innovations may mean reducing compulsory savings requirements often required as collateral for micro credit which may be out of reach of many HIV/AIDS-afflicted households' financial status. It may mean loosening the conditions under which clients may make withdrawals from their compulsory savings accounts for health emergencies; or may imply greater flexibility on loan sizes and payment schedules.

Finally, as clients become sick Chen (2001) recommends that, MFIs should consider allowing healthy teenage or adult children to take over the business and the loan for a sick parent perhaps with mentoring from others. MFIs may also add new financial services to their portfolio, brokering relationships with burial societies, creating trust funds, or linking clients to insurance. However he makes a cautionary note that, health and life insurance products are very difficult in an HIV/AIDS environment, as the necessary premiums are generally too costly for poor households to bear.

## 2.11 Impacts of HIV/AIDS on Microfinance Clients

Affected households go through often predictable cycles when a member is infected. Barnes C. (2002) in her exploratory study in Zimbabwe tries to link up the impacts of HIV/AIDS to four stages of HIV/AIDS. There are periods after infection, but prior to illness (8-10 years) when a household can save and build up their business assets. However, the family may already be experiencing some financial strain from indirect AIDS related causes, for example, it is estimated that 75% of households in sub-

Saharan Africa are affected by AIDS. Households may have taken on the economic burden of supporting extended family or orphaned children.

In the second stage, there may be frequent, but not serious, illness. In this stage according Barnes C. (2002) there are infrequent absences in meetings, some loans may be late, and the household may start to experience evolving financial needs. Such households continue to build assets and remain productive, but may also start to divert some loan money to offset some reoccurring costs, apply for an emergency loan, withdraw savings or save less than usual. Clients with access to health insurance will be able to use this to offset their medical costs.

In the third stage where there is full-blown AIDS, a household faces chronic illness, increased medical costs and often, prolonged hospitalization of the ill household member. If the ill household member was the productive member, they will have stopped the business activity by now and cannot bring in any income. At this stage, increased and constant financial pressure leads to withdrawal of savings, often complete default on loans and eventually client dropout. Assets are also liquidated at this point to pay for expenses. A client may also be asked to leave a group, especially if group members have exhausted their resources from supporting the affected member (Ibid).

This last stage which often leads to death and a funeral with related expenses using up any income or assets left in the household or as is most often the case, using borrowed funds to cover this expense. Barnes C. (2000) argues that, the stress continues in pressure to provide for the household, including school fees for children and possibly orphans taken in earlier, without the financial support from the deceased breadwinner or major financial contributor.

The impact of HIV/AIDS does not stop with individuals who contract HIV, cope with prolonged AIDS-related illnesses, and, finally, die. The consequences are exponential. Repeated bouts of illness and the death erode the financial resources of immediate and extended families as they try to pay for multiple hospital trips, medical expenses, and funeral costs. A family may reduce or halt its income-earning activities as the demands of caring for someone with AIDS mount. This reduced economic capacity increases the likelihood that the household will have to sell productive assets such as land, draft animals, equipment, or fixed capital from a business. In effect, the financial consequences seriously undermine the household safety net (Stanecki, 2004).

In a household coping with AIDS, children are affected, too. Not only do the children lose one or both parents, but the reduced resources of their caretakers often mean that they can no longer attend school or receive proper health care. The loss of productive adults also means that, as a matter of survival, children have to engage in income-earning activities or take over work in the family field. Some children become household heads and must care for younger siblings (Ibid).

## 2.12 The Limits of Microfinance Actions in the context of HIV/AIDS

The client-driven microfinance agenda has moved the industry discourse from its traditional focus on quantity to one that includes both quantity and quality of the services delivered. This requires a greater in-depth understanding of clients, something that until now many MFIs have ignored or relegated to impact studies and dismissed as having no operational relevance.

Literature reveals that, while microfinance is young and likely to grow significantly over time institutional capacity is limited, as is funding for expansion of existing programs**.** Chao-Beroff (2001) argues that, there is an inherent tension in microfinance between "scale'' – the number of clients served, and "scope" – the depth of services provided to clients. MFIs that have successfully scaled up their services to above 15,000 clients according to Chao-Beroff have done so primarily by standardizing and mass-producing a few services. Those MFIs that have been willing to provide auxiliary services to clients such as education, may do so at some cost in terms of numbers of clients served. Dunn et. al., (2001) supports the above argument that, increasing the scope of services in an AIDS context, may improve the ability of households to withstand crises – a core goal of microfinance and the fight against HIV/AIDS.

According to Hulme and Mosley (2001), microfinance cannot serve the most needy. It is premised on the explicit agreement between MFI and client that loans will be repaid in full and on time. In short, each micro loan is a commercial financial transaction. For this reason, households most negatively affected by HIV/AIDS may need to leave the microfinance institution until they are back on their feet. Indeed, accepting additional loans under those conditions may further exacerbate the already weaker household's economic position. At this point, a household may shift from microfinance to a grant or other form of relief, often provided by churches, community groups, governments, or non-governmental organizations leaving behind unpaid loans (Ibid).

Sebstad and Cohen, (2001) expounded that, even though most MFIs serve a wide range of clients, the majority of PLWHA especially in sub-Saharan Africa, are clustered just above and just below poverty line. While poverty targeted programs tend to reach a higher percent of lower income clients, significant poorer populations self-exclude or are denied access.

Rogaly et al., (1999) underscores some of the limitations of Microfinance that, it is a limited product industry, whose principal products are short-term working capital loans and involuntary savings. A few programs provide fixed asset loans. These features have been at the core of the "micro-credit for enterprise" approach that has dominated microfinance for the last two decades. A fewer number of MFIs offer voluntary savings services, some loan insurance, while an even smaller minority have attempted to address other insurance needs, such as health, disability, life or property insurance.

As HIV/AIDS takes its toll on the number of adults at reproductive age, the ability of affected families to pay back their arrears in time diminishes. At the later stages of the epidemic, the client groups' preparedness and capacity for small business investments, and the proportion of productive clients, will steadily decline. This negatively impacts on the productivity of MFI and will gradually undermine their financial sustainability (Sebstad and Cohen, 2001).

Indeed Donahue et al's survey (2001) found that 57% of responding MFIs encountered increased difficulties in loan repayments, while 27% indicated a higher demand for smaller loans. In addition, clients diverted enterprise loans more frequently to health care and funeral expenses and tended to temporarily suspend the use of microfinance services. In order to respond to the needs of clients who must reduce their business because of illness, MFIs can allow clients to continue take out smaller loans, rather than "graduate" to larger loans.

## 3.0 CHAPTER THREE: VISION FINANCE SPECIAL PROGRAM

This chapter makes a detailed account of Vision Finance special program; looking at the four year program objectives, products offered to PLWHA clients and a brief background of the studied associations. However, the chapter first introduces Rwanda; a country where the research was carried out, specifically looking at demographic structure, economy, overview of HIV/AIDS epidemic and microfinance in Rwanda's context.

### 3.1 Background of Rwanda

The Republic of Rwanda is a small, land-locked country in East Africa with one of the highest population densities in the world. National Institute of Statistics of Rwanda (NISR) put the population to 9,241,661 with a density at 344 people per square kilometre. The population is relatively young, with 42.1% of the total population under 15 years old, 55.2% in the 15-49 year age bracket and only 2.7% of the population 65 years old and older (NISR: 2002).

Rwanda's demographic structure has also changed, so that women today account for about 52 per cent of the population. As a direct consequence of the genocide, many households are headed by women, others by orphans. Close to 14 per cent of rural dwellers have become landless peasants living in conditions of extreme poverty. A large number of demobilized young soldiers have swelled the ranks of the unemployed (Ibid).

The population increase has not been matched by an increase in agricultural productivity. Rough terrain and erosion combined with a lack of modern technology place serious constraints on agricultural development. Finally, the country has no ocean access, and the closest port is 1,500 km from the capital. The resulting transport costs, together with the other constraints, keep poor farmers from earning sufficient income from agriculture (MINECOFIN, 2007).


Kigali – The area of study

**Figure: 3.1 Administrative map of Rwanda**

The gross domestic product (GDP) per capita is $250 making Rwanda one of the poorest countries in the world. With a current human resources crisis and a desperate need for qualified health professionals, addressing the HIV epidemic has been a difficult challenge. Ministry of Health (MOH) highlights that, there is only one doctor for every 50,000 people and one nurse for every 3,900 people. The problem is much worse in rural areas (MOH, 2006).

The genocide in 1994 and conflicts in 1996 through to 2000 have had a devastating and lasting effect on the country. However, the Government is focused on increasing production and reducing poverty while creating an environment of good governance. A strong political leadership in HIV and AIDS has acted as a critical catalyst for action on a nationwide level.

Kigali is the capital and largest city of Rwanda with a population of 851,024. It is situated in the centre of the nation, and has been the economic, cultural, and transport hub of Rwanda since it became capital at independence in 1962. The city is coterminous with the province of Kigali City, which was enlarged in January 2006 as part of local government reorganization in the country. The city's urban area covers about 70% of the municipal boundaries (NISR: 2002).

## 3.2 Overview of HIV/AIDS Epidemic in Rwanda

In the more than one and a half decades of fight against HIV&AIDS activities in Rwanda, collective efforts have been unable to significantly reduce the consequences of HIV/AIDS on the individual, the family and the community levels. Nevertheless, one may observe that the HIV epidemic is still spreading through out the country producing harmful effects on health, the social fabric and the economy at individual, household and at the community levels.

In the nationally representative population-based survey carried out in 2005, adult HIV prevalence was found to be 3.0%. Sentinel Surveillance results from 2005 show that prevalence among urban populations is around 6.2% compared to the RDHS where the prevalence is estimated at 7.3%. Kigali continues to show a very high rate of prevalence (12.8%), while a prevalence rate of 5% is observed among other towns and one of 2.2% among the rural areas. In spite of the differences by location, given how densely populated Rwanda is and the relative ease of movement within this small country, the 83% of the population that is based in rural areas is at risk for increased infection due to frequent contact with populations in urban areas (NACC, 2005).

### 3.2.1 Variations of HIV/AIDS by Gender

Substantial differences in prevalence were found between men and women when the RDHS was conducted in 2005. HIV prevalence among men was 2.3% while HIV prevalence among women was 3.6%. A complex combination of social, economic, and biological factors increases the vulnerability of women to HIV. NACC (2005) argues that, given the increasing feminisation of the epidemic in Sub-Saharan Africa, examination of these factors in the local context and appropriate tailored interventions are critical.

NACC (2005) argues that, while the level of education of women in Rwanda is one of the highest in the region, economic development and equitable distribution of wealth remains a great challenge. Women’s choices and negotiating power are still largely

limited by gender-based social expectations within marriage. Constraints are thus placed on a woman's ability to negotiate safer sex.

The experience of violence remains a fact of life ingrained in the experiences of women across Rwanda, most often occurring in the home. Among women, 31% have experienced violence since the age of 15, most often from a husband or partner. Many women also experienced sexual violence during the genocide in 1994 when HIV was transmitted to countless women through rape. However, the experience of sexual violence did not end in 1994. In the first three months of 2007, of all crimes reported, the crime that outnumbered all others was rape. When considering the fact that rape is consistently the most underreported crime across the world, these numbers do not even begin to quantify the numbers of women who actually experience rape (Ibid).

### 3.2.2 Most-at -Risk Populations

The information available about most-at-risk populations in Rwanda is limited. Although the existence of sex workers in Rwanda is increasingly being acknowledged and behavioural surveillance was recently conducted for a small sample of female sex workers, to date there has been no systematic collection of HIV sero-prevalence data for male or female sex workers.

Data from Population Services International (PSI) project sites show a prevalence of 18.9% among sex workers accessing Voluntary Counselling and Testing (VCT) services. This data refers to select groups of sex workers, thus it is not possible to generalise the findings to the entire population of sex workers (PSI, 2004).

Truck drivers, prisoners and military personnel are also considered highly at risk in Rwanda. Knowledge, attitudes and practices (KAP) study in several prisons revealed an urgent need for comprehensive prevention and VCT services within prisons (PSI, 2007). Data from PSI project sites shows that 16.1% among truck drivers and 4.6% among prisoners participating in VCT were HIV positive. As this data comes from select groups of truck drivers and prisoners, the results are not able to be generalised.

## 3.3 Microfinance in Rwanda

The outreach of the banking sector in Rwanda is very limited with a small number of bank branches (35 branches nationwide for a total population of around 9 million) that mostly concentrate around the capital city. Only about six percent of the population has a bank account (4 percent in rural areas). MFI's have a total of about 1 million deposit accounts. They hold about 60 percent and 11 percent of total commercial bank deposits and credits, respectively (BNR, 2006).

According to BNR (2006) primary sources of microfinance services in Rwanda are savings and credit cooperatives with a total of 130,000 members and NGOs relying on foreign donor assistance. Data from BNR reports that, there are six commercial banks and they are relatively new entrants in the microfinance sector. In addition, there are a few regional and rural banks engaged in deposit-based microfinance operations, but these have been limited in scope because these banks have lacked a branch network. Among non bank financial institutions, the Rwanda Postal Bank has used its country-wide network of post-offices to promote and mobilize savings, provide transfer and remittance services, and a loan guarantee service to small borrowers to cover a part of the necessary security requirement of their loans.

Microfinance in Rwanda has relied heavily on local communities to support the development of MFIs, outside the formal banking sector as MFIs operating outside the formal banking sector have to find their own sources of funds. BNR (2006) argues that, in Rwanda, Rural and Community Banks, which are unit banks owned by members of the community (through purchases of shares), account for the largest share of microfinance services, while the Savings and Loans companies are the second largest type of MFIs. Modern cooperative societies have also started expanding services to non-members, in order to overcome the resource constraint to their development. More generally, many institutions have relied extensively on establishing participatory cooperative groups.

## 3.4 Vision Finance Special Program

Vision Finance is a donor managed microfinance institution in Rwanda. It is a branch of World Vision an international non government organisation. It was registered as Micro finance institution in 2000 with an over all objective to use low interest loans and change the lives of people in need. With a low arrears rate of two percent, this institution has proven itself to be a solid investment - one that produces high yields with low risk. Its services promote holistic transformation in the lives of the economically productive vulnerable Rwandese through the development of sustainable income generating activities.

It started to disburse its first loans in 2002. The institutions clients live in different provinces of the country, especially in rural areas of Rwanda, where more than 80% live below poverty line. Among its microfinance services, it provides business loans and other financial products for poor entrepreneurs (80 percent of are women), business counselling services and job training, provide education in HIV/AIDS prevention, awareness and mitigation of its impacts and educate in social responsibility and peace-building. Because of the woes of the 1994 Rwandese genocide, where many women were systematically raped, their husbands killed or fled the country; women constitute the majority of PLWHA especially in Kigali. Inequalities in gender run parallel to inequities in income and assets. Thus women are more vulnerable to the economic impacts of HIV/AIDS than Men.

In addition to its existing Micro credit Program; Vision Finance started a special program in 2003 to target PLWHA living in the three districts of Kigali City. Under the special program Vision Finance uses a group solidarity lending method to serve their clients. Group lending methods are based on risk management that relies on peer pressure and the solidarity of members who support each other. The strength of groups is evident when members, for example, make payments for another member who may temporarily be unable to make their payments in order to ensure that the group remains in good standing with the scheme and continues to receive loans.

Under the special program, potential borrowers attend a one-hour training session a week for a period of six weeks prior to the receipt of the loan. The training includes attention to good business management practices with the following objectives;

1) To empower PLWHA in business identification options available in their communities;
2) To change their attitude from a gift mentality into acquiring entrepreneurial skills;
3) To train them on loan management;
4) To orient clients in business identification options available in their communities;
5) To train them on how to market their produce profitably;

Loans are disbursed to PLWHA individuals in a self-selected group of 6-10 who co-guarantee the loans to its members. Loans are small usually for a period of eight to twelve months, with a prospect of upgrading to a bigger loan upon prompt repayment of the previous loan. The project charges offers a grace period of one month after the loan has been disbursed and it charges an interest rate of 15% annually, which is half the normal interest rate, charged on other borrowers. It also charges a late fee of 2%.

### 3.4.1 The four-year Project Objectives

From 2003, Vision Finance launched a four year plan with the following objectives;

1) Expand its existing community banking program that grants loans to groups of individuals who share the responsibility of paying back loans with interest;
2) Promote employment and increased incomes through sustainable income generating activities;
3) Empower women through loans and other programs to reduce their vulnerability;
4) Teach loan recipients about HIV/AIDS awareness and prevention;
5) Incorporate programs that teach loan recipients how to care for widows and vulnerable children and how to work toward peace-building and reconciliation;
6) Become fully operational sustainable and financially self-sufficient;
7) Provide proper documentation of activities undertaken;

## 3.5 Background of the Studied Associations

The project targeted three associations of PLWHA in three different districts of Kigali city and these are: Ihumure, Agape and Urukundo Rw'imana associations. The following section presents a brief background of each association and their operation mechanism.

**(a) Ihumure Association**
Ihumure association is located in Biryogo sector, Nyarugenge district. The association has 61 active members working in 8 credit groups. 85% of its members are women; most of them are widows and single mothers. The association was started in 2000, with the objective to mobilise resources and create income generating activities that will employ them and earn a living. The groups' activities are predominated by petty trade including the sale of dry fish, tailoring, and hawking second hand clothes, and fruits. The association also has a small maize mill, and this is their biggest investment.

**(b) Agape Association**
AGAPE association is located in Kicukiro district with 82 active members. It's a dual sex association with almost 90 % of its members being female. The association was formed in 2004, with an objective of joining hands to cope with the impacts of HIV/AIDS and advocate for their rights, fight against stigma and discrimination among others. The group has 6 credit groups. Their activities include petty trade in merchandise, tailoring and embroidery.

**(c) Urukundo rw'Imana**
The third association is Urukundo rw'Imana with 88 members and 7 credit groups, making it the biggest among the studied associations. 90% of its members are women. The association was founded in 2002 and it is located in Gikondo district. Among the three associations, Urukundo Rw'imana was better organised with fully

functional leadership structures. The group has an office and a centre where they meet once a week for counselling, sharing experience, reviews progress and the way forward for their development. To encourage men to also participate, Urukundo rw'Imana formed one credit group with in their association specifically for men.

Credit groups have their operation mechanisms which include norms, values, and principles that underlie their working arrangements. The factor that plays a significant role in credit group formation in all the three associations, was sharing long periods of common residence in order to build a relationship of trust, honesty and hard working. These were key elements in the formation of credit groups. Members in credit groups meet once a week and association members meet once every two weeks to evaluate on their activities. To the clients, trustworthiness means a commitment to meeting obligations. It also implies that the person will be diligent in meeting loan obligations. Hardworking relates to the effort put into the enterprise to generate revenue and savings, which enables the client to repay his loan.

Administratively, the studied associations have their rules for compliance based on their norms. They have a leadership structure composed of a president, a vice president, a treasurer, and a secretary. Leaders are elected internally from among members for a term of one year with a prospect of extending it depending upon the performance of a leader.

## 4.0 CHAPTER FOUR: FINDINGS AND DISCUSSIONS

The study involved analysis of data collected under Vision Finance credit special program for PLWHA. Vision Finance is branch of World Vision, a nongovernmental organization that provides small-sized loans and business management training to vulnerable clients in Kigali city. Loans are disbursed to individuals in a self-selected group of 6-10 members who co-guarantee the loans to its members. Loans are usually for eight to twelve months pay back period. The project offers a grace period of one month and charges an interest rate of 15% annually, with a late fee of 2%. It should be noted that, the exchanging rate by the time of the research was 1 Euro = 830 Rwandese francs (Rfw).

In this chapter therefore, the researcher endeavours to disclose various research findings on loan defaulting and subsequent inferences got from the data collected in respect to the study objectives and research questions. The field work was conducted between 15 July and 2 August, 2008 by the researcher. It involved three focus group discussions for 24 respondents, and semi-structured interviews administered to 6 leaders of associations, and 4 key informants from Vision Finance. The presentations are in form of descriptions, statistical tables and figures.

### 4.1 Demographic Characteristics of Respondents

The collected data reveals the age distribution, gender distribution, marital status, and education levels of respondents from the three studied associations. Demographic characteristics of respondents are presented in tables 4.1 and table 4.2. The education level of respondents is presented further is presented in table 4.3 below.

**Table: 4.1 Age Distribution and Sex Composition of Respondents**

| *Age group* | *Male* | *Female* | *Total* | *Percentage* |
|---|---|---|---|---|
| ***20-29*** | - | 2 | 2 | 7% |
| ***30-39*** | 1 | 6 | 7 | 23% |
| ***40-49*** | 3 | 12 | 15 | 50% |
| ***50-59*** | 2 | 4 | 6 | 20% |
| ***60+*** | - | - | - | - |
| ***Total*** | 6 | 24 | 30 | 100 |

*Source: Field data*

Table 4.2 above shows that, the majority of respondents (80%) were women, between the age group of 40-49. In an interview with Vision Finance officials, they revealed that women living with HIV/AIDS are their primary focus under the special program because women not only constitute the majority of PLWHA especially in Kigali, but also are more vulnerable to the impacts of HIV/AIDS than men for social, political and economic reasons.

The above findings correspond with the findings of CNLS that, women in Rwanda have experienced the greatest losses and burdens associated with impact from HIV/AIDS. The epidemic has exacerbated social, economic and cultural inequalities which include the economic need, lack of employment opportunities, poor access to education, health and information, which define women's status in the Rwandese society (CNLS 2006). Women living with HIV/AIDS have therefore been the focus of

Vision Finance special program because they are more vulnerable to the impacts of HIV/AIDS than men.

### 4.1.1 Marital Status of Respondents

It was imperative for the researcher to investigate the marital status of respondents in order to find out whether there is a correlation with the poor repayment and default on the loans disbursed. Single, married, widowed, and separated constituted the sample as indicated in the table below:

**Table: 4.2 Marital Statuses of Respondents**

| *Marital status* | *Frequency* | *Percentage* |
|---|---|---|
| ***Single mothers*** | 3 | 10% |
| ***Married*** | 10 | 33% |
| ***Separated*** | 6 | 20% |
| ***Widows*** | 11 | 37% |
| **Total** | 30 | 100 |

*Source: Field data*

It can be seen from table 4.2 above that the majority of respondents are widows (37%) and married with a percentage of 33%. The above findings indicate that widows and married PLWHA are very much attracted to the Vision Finance special program because they are constrained by the lack of alternative options to mitigate the impacts of HIV/AIDS. Respondents argued that, many widows have orphans to look for, yet they don't have any one to supplement their meagre incomes to meet the household requirements. They are therefore poised to take and utilise the loans regardless whether they are capable or not, to invest it, pay back the loans and subsequent interest rate accrued to it. It was also found out that, no relevance of client's marital status to the loan defaulting.

### 4.1.2 Education Level of Respondents

The education level of respondents was investigated by the researcher. This is because education [formal & informal] is one of the important aspects which determine people's livelihood strategies. In this particular study, the researcher aimed at finding out whether the levels of education correlates with PLWHA desires to join Vision Finance special project.

**Table: 4.3 Education Levels of Respondents**

| *Levels of education* | *Frequency* | *Percentage* |
|---|---|---|
| ***No formal education*** | 4 | 13% |
| ***Primary*** | 17 | 57% |
| ***Secondary*** | 5 | 17% |
| ***Others*** | 4 | 13% |
| **Total** | 30 | 100 |

*Source: Field data*

From the data presented above in table 4.4, 55% of all respondents were able to attend primary school, with only 17% managed to reach secondary level. This has an implication that most beneficiaries of Vision Finance special program are PLWHA

with very low education levels. Respondents revealed that their low levels of education inhibits them from alternative employment opportunities thus turning to low interest loans for small income generating activities from where they can earn a living moreover the study found out that, for the few who are qualified compete employment opportunities face with discrimination and stigma which is still rampant on the job market. It is argued that, micro-credit has become an alternative livelihood strategy in Rwanda where people with low levels of education depend on small income generating activities for self-employment.

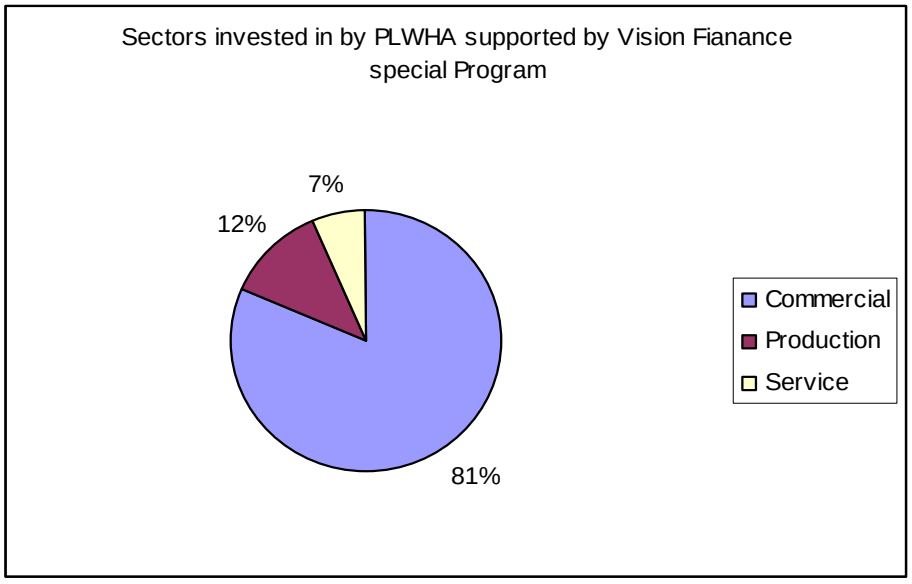
## 4.2 Loans disbursed, savings and outstanding loans

The researcher investigated the nature of activities in which Vision Finance clients invest the disbursed loans. The available secondary data which included Vision Finance aging reports, and financial reports revealed savings made by groups, arrears and outstanding loans. The findings are presented in the following section.

### 4.2.1 Income Generating Activities by PLWHA Clients

PLWHA supported by vision finance operate different income generating activities. They include hawking second hand clothes, handcraft, embroider, tailoring, hair dressing, restaurant and poultry keeping among others. The activities can broadly be categorised into commercial, service and production sectors. Many credit groups have invested their loans in commercial activities and very few in service and production respectively as indicated in the figure below.

**Figure: 4. 2 Activities per sector**




*Source: Vision Finance, 2008*

According to figure 4.1 above, substantial amounts of loan disbursed by Vision Finance to associations have been invested in commercial activities like hawking petty goods, and small merchandise with 81% of all activities, compared to production (handcraft and embroider activities) which contributes only to 12% and lastly service sector mostly dominated by Tailoring and hair dressing services.

The above findings imply that PLWHA consider activities which do not require a lot of labour, investments, and skills which can bring in quick income as one of the anonymous respondent put it,

> *"I invested the first loan of 50,000 Rfw in making doughnuts, which I used to hawk around schools in Gikondo. I opted for the business because it doesn't require a lot of capital and the pay back period is very short. I have a piece of land in the village, but I did not want to invest in agriculture because it requires lots of labour, and big amounts of money moreover the pay back period is very long and it is prone to natural vagaries" Anonymous respondent, of Ihumure association, 26th/July 2008.*

### 4.2.2 Loan disbursement and repayment rate

Vision finance has disbursed loans to credit groups in different phases. By the time of research approximately 75 percent of the respondents under the special program were on their sixth loan. Amounts disbursed to each credit group vary according to the income generating activity and the prompt repayment of the previous loans. The sums of all loans taken differ significantly between the three associations. Savings made, arrears and outstanding loans also differ as indicated it table 4.4 below.

**Table 4.4 Loan Disbursement and Repayment rate**

| No | Association | Amount disbursed | Arrears | Outstanding loans | % of outstanding loan |
|---|---|---|---|---|---|
| ***1*** | Ihumure | 9,320,000 | 4,109,169 | 4,109,169 | 44% |
| ***2*** | Agape | 2,470,000 | 1,165,915 | 1,165,915 | 47% |
| **3** | Urukundo | 3,315,000 | 1,078,647 | 1,078,647 | 33% |

*Source:Vision Finance, 2008*

Table 4.4 above shows the total loan value that has been disbursed to all three associations under Vision Finance special program. Many credit groups have defaulted repayment. The loan repayment target according to the project final report was 90.9%; however the actual repayment performance was only 58%, making an outstanding loan of 42%. AGAPE association appear to have big outstanding loans than other associations with 47% of outstanding loan. However, given the amount of loans disbursed, Ihumure has a very big outstanding loan than other associations.

## 4.3 Factors for the Poor Repayment of Disbursed Loans

This section looks at different factors that have contributed to the poor repayment of loans of PLWHA under the Vision Finance special project. Vision Finance has been a viable strategy for improving the ability of PLWHA to respond to the negative economic factors associated with HIV/AIDS. It has done this through presenting them with options for protecting themselves against these forces and improving financial management skills. However, loans appear to be a burden when it comes to repay.

From the findings, a number of factors have contributed defaulting of loans. The factors are classified in three categories: Vision Finance related factors, client related factors and external factors.

### 4.3.1 Client related factors

Through focus group discussions and interviews, the researcher found out that illness of a client, death, propaganda, and disintegration of groups are client related factors which contribute to the loan default. Data was obtained in the form of ranking what respondents consider the most serious problem in their respective credit groups.

**Table: 4.5 Client Related Factors to Loan Default**

| ***Causes of drop out*** | ***Rank*** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1 | | 2 | | 3 | | 4 | | Total |
| | fr. | % | fr. | % | fr. | % | fr. | % | |
| ***Illness*** | 11 | 37 | 9 | 30 | 6 | 20 | 4 | 13 | 30 |
| ***Death*** | 8 | 26 | 10 | 33 | 7 | 23 | 5 | 17 | 30 |
| ***Propaganda*** | 6 | 20 | 7 | 23 | 8 | 27 | 9 | 30 | 30 |
| ***Group lending*** | 5 | 17 | 4 | 13 | 9 | 30 | 12 | 40 | 30 |
| ***Total*** | 30 | 100 | 30 | 100 | 30 | 100 | 30 | 100 | |

*Source: Field data*

From table 4.5 above, among client related factors respondents ranked illness and death as the main cause for loan defaulting. Propaganda also appeared to have played a role, and the group lending method used to disburse loans.

### a) Chronic Illness and Death

Respondents observed that illness over an extended period and deaths have led clients dropping out leaving their business an attended. In the table 4.5 above, chronic illness and death were ranked highest with a score of 37% and 33% respectively. In the focus groups respondents reported that loans help micro-entrepreneurs to improve their ability to cope with future illness and death. However, many group members consider loans a burden if serious illness or death occurs when the micro-entrepreneur has an outstanding loan. Their view is also held by Vision Finance loan recovery officers. They echoed that the loan repayment have been defaulted especially to borrowers who have been coping with chronic illness, that is, when the client is seriously ill or has to care for a sick spouse or another member of the family or in case a client dies. One anonymous respondent remarked that;

> *I stopped my business to relocate to the village to care for my sister who was ill with Tuberculosis; she died, by the time I came back after six months, I had no where to begin with my business, besides I had used all the little money I had saved and the loan interest had accumulated". A member of AGAPE association 2 /August /2008.*

Getting ill or spending time caring for the sick has an implication that the businesses are disrupted, resulting in higher rates of default when clients are too ill to work or are caring for ill family members. As seen in the case above by a client, loan funds and savings are diverted for health care costs, to sustain the health and nutritional requirements of a sick member or when clients succumb to the disease, leaving behind unpaid loans.

A widow member of Ihumure association for PLWHA pointed out that;

> *"I consider my health first, if I don't make money for food from the charcoal I sell in the market, I would rather divert the capital, because I cannot take ARVs on an empty stomach" Ihumure member, 7th/Aug/2008.*

The above finding harmonize with literature by Rutherford's' (2000) who stated that, while microfinance providers emphasise investments of working or fixed capital in micro-enterprises, the reality is that many clients use the credit for consumption, smoothing, especially as most funds are fungible within a household. Such consumption-smoothing can allow households to cope more effectively, but it also runs the risk of pushing them further into debt if they cannot repay the loan out of enhanced income streams. He argues further that, more appropriate financial products for this purpose are savings, insurance and loans to allow poor people to repay the loans and interests. And yet these have received far less attention than micro-credit for micro-enterprises.

The findings suggest that, chronic illness and death of a group member or a relative of a group member influence amount of income of a household which in turn affects the loan repayment requirements and in some cases leading to the loan default. On the part of Vision Finance, the late repayments, increasing default and write-offs of loans have a negative impact on its capital base. Key respondents from Vision Finance revealed that, the costs for monitoring and follow up on late loan repayments have increased. The special program has generated less interest than expected and this has led to the write-off substantial amount of uncollectible loans. It is argued that, while write-offs are often a last resort, they have increased the financial risk of Vision Finance, particularly because the loans are not priced to cover the cost of write-offs moreover, the write-offs have not been adequately provided for in the program.

## b) Propaganda among clients

This is probably the peculiar aspect of the study findings. Propaganda was evident among Ihumure association and the odd thing is that it was perpetuated by leaders. Through interviews with Vision Finance staff, the high rate of defaulting among Ihumure association was attributed to rampant propaganda that money disbursed as loan was free money from good Samaritans, yet Vision Finance was trading it to make a profit. Clients agreed also that propaganda contributed in one way or another to the defaulting of loans as one respondent of Ihumure association member revealed;

> *''The president of our association repeatedly said in meetings that, there is no point of paying back the loans and we believed him because as our leader we respect and trust him, I remember one of our group member got large sums of loan, and he decided to go back to Uganda, where had come after the war'' anonymous respondent, Ihumure association 7 August 2008.*

The above finding serves to prove that, leadership is paramount in any initiative. Urukundo rw'Imana association which has rather organised leadership with functional structures has relatively a better record in paying back loans. Its defaulting cases were attributed to other factors rather than weak leadership.

## c) Group Delivery Methodology

Vision Finance practice solidarity lending method to serve PLWHA clients. Group lending methods are based on risk management that relies on peer pressure and the solidarity of members who support each other. Solidarity lending method means that if a borrower dies, loan group members are responsible for payment if the deceased person's relatives do not repay the loan. When a group member is unable to meet the monthly loan requirement, other members of the group normally pay for her, but expect to be repaid.

Solidarity however, has its limits. Through focus group discussions and interviews, respondents revealed that, as some of members from credit groups became chronically ill many loan groups disintegrate, some group members started to default repayment because the debt had accumulated beyond their capacity to repay.

They further revealed that, as PLWHA clients they have different needs; some are taking care of many orphans, others are single mothers, there are those which are chronically ill among others. They argued that, if one member fails to meet the repayment requirement, it affects the group morale and in severe cases leading to breakdown in group cohesiveness and increasing attrition rates as groups disintegrate, this affects their capacity to pay back the loans as one association president remarked;

> *''At the beginning of this special program we formed 126 credit groups, but now we have only 82 groups, 44 groups disintegrated on the second and third loan leaving unpaid sizable sums of money'' Urukundo association of PLWHA, 8th/Aug/2008.*

The above findings implies that, though group lending method serves as a security for the loan repayment, when the burden to pay for members (who are unable to meet their loan requirement) become too much, it affects group cohesiveness the same reason upon which they were formed, thus leading to loan default.

### 4.3.2 Vision Finance Institutional related factors

This section presents a discussion for the factors which contribute to loan default from Vision Finance side. They range from the products and loan requirements, the size of disbursed loan, inadequate business management training, and lack of insurance scheme to cover the risks involved in businesses.

### a) Loan products and requirements

The dynamics, which underlie the operation mechanisms of Vision Finance special program, is critical in order to understand factors for poor loan repayment. The dynamics here included the nature of special program, interest charged, and late fee among others. Under Vision Finance special program, the interest charged of 15% annually is half the normal rate charged. Under the scheme, clients are given short term loans for a maximum period of six months, and slowly graduate to slightly better loan.

Through focus group, it was found out that some requirements are too rigid therefore contributing to loan default. Respondents argued that, many have not been able to meet those requirements, because products are not flexible enough to adjust to suit conditions that affect their businesses. Urukundo Rw'Imana association remarked that;

> *''My husband got chronically ill a few months after I had taken my first loan. I requested for a grace period to take care of my ill husband. Loan recovery officials did not take into consideration my request, moreover they went a head and calculated 100% money due, which I failed to raise'' Anonymous respondent, 6th/08/2008.*

The interest charged of 15 % annually, clients claimed that it is still too much for them these days, because of unfavourable political, social and economic circumstances in urban Kigali. However it is important to note that, Vision Finance as a microfinance

institution offers loans as commercial financial transaction. They need to cover for the risks involved, make a profit and maintain their capital base, its therefore doubtable whether they can sustain their business while charging much less interest.

## b) Lack of initial capital

Vision Finance serves poorer populations that cannot afford to take big loans. Under the special program clients living with HIV/AIDS take out smaller loans, and slowly graduate to better loan. Through focus group discussions it was revealed that lack of initial loan to fund the start-up activities is affecting the real loan investment value; because substantial amount of loan is used for start up activities as per the new Kigali city requirements.

**Table 4.6 Average Loan size as of July 2008 in frw**

| *Association* | *Loan value* | *Members* | *Credit groups* | *Average loan size* |
|---|---|---|---|---|
| ***AGAPE*** | 2,470,000 | 82 | 8 | 308,750 |
| ***Urukundo*** | 3,315,000 | 88 | 7 | 473,571 |
| ***Ihumure*** | 9,320,000 | 61 | 6 | 1,553,333 |

*Source: Vision Finance, 2008*

Secondary data from Vision Finance indicates that the average loan size disbursed to credit groups was between 308,750frw and 1,553,333frw as indicated in table 4.6 above. Clients pointed out that the new city laws is impinging on their businesses operation.

The new city law according to the findings requires all entrepreneurs to have a permanent stall in a market and many PLWHA clients said they could not afford to pay for rent. In focus group discussion it was also found out that, permanent business also meant that, they are required to pay for the working licence and other taxes which were previously not paid because their businesses were mobile. The new law is difficult for them to observe, because it requires substantial amounts of initial investments of capital which Vision Finance special project do not provide.

Previously many groups used to hawk their goods around the markets in the city, but the new city laws abolished hawking on the streets, citing hygienic reasons. Following the city law, respondents revealed that on many occasions their goods were confiscated by the law enforcement officers, making it very had for them to transact their businesses. Indeed from the researcher's experience as some one who lives in Kigali, it is a common scene to see the law enforcement officers tussle it out with hawkers on the streets, arresting them, demolish illegal stalls along the streets and confiscating their items.

*Women hawking fruits in Kigali, file photo, 2007*

Chen et al. (2001) recognised the above findings by asserting that, sorting out when microfinance is - and is not - an effective tool is the first step in properly mobilizing microfinance practitioners in the fight against HIV/AIDS.

Hulme and Mosly (1996) correspond with Chen et al. (2001) observation that, by delivering financial services at a scale, and by mechanisms appropriate to them, micro-credit can reach poor people. By providing the poor people with credit for micro-enterprises it can help them work out their own way and by providing loans rather than grants the micro-credit provider can become sustainable by recycling resources over and over again.

Basing on the above findings, it can be concluded that, political, social and economic factors are important in the sustainability of any business which would allow clients to transact their business, make a profit and repay the loans.

## C) Business management training

By exploring the training offered to beneficiaries, the researcher sought to understand, how it is conducted, and its relevance to manage their businesses. Business and loan management training is one the products offered under Vision Finance special program. According to the findings training offered constitutes the strategies to build the capacities of vulnerable association members to use effectively the disbursed funds and make the activities sustainable using small capital funds. Through training, entrepreneur and business skills are imparted to beneficiaries. The research findings revealed that despite the fact that beneficiaries value and benefit from the training the period of training is too short especially to most clients who lack prior experience in undertaking economic.

**Table 4.7 Prior Entrepreneurial skills of Clients**

| *Response* | *Frequency* | *Percentage* |
|---|---|---|
| ***Yes*** | 9 | 30% |
| ***No*** | 21 | 70% |
| ***Total*** | 30 | 100 |

*Source: Field Data*

Table 4.7 clearly shows that, 70% of respondents did not have entrepreneur skills before joining Vision Finance special program. They revealed that, a one-hour training session a week for a period of six weeks prior to the beginning of the businesses is not enough to start a business, which may require some technical skills of making a business plan, book keeping, calculating profits and losses. They claimed that their level of understanding business technical skills would require them ample time depending on their level of education and experience. From the above

findings it can be concluded that, there is an unmet demand for the training which is appropriate to new members who have not done any business so far.

Moreover in a focus group discussion, respondents argued that business training and financial advice provided, lacks strategies for coping with the possibilities of illness and death which are affecting the sustainability of their businesses as one respondent from a fish selling credit group asserted:

> *"If I die today, I would die with my business. No one would take over my business because no one among my three children has the skills to make business transaction, how to buy and bargain for better prices and preservation method of fish". Anonymous respondent, AGAPE association, 6th/August/2008.*

In such circumstances, members have found it extremely hard to sustain their income generating activities, in a situation when a client becomes chronically ill, takes care of ill family member or dies, meeting loan requirement becomes difficult.

### d) Savings and Insurance Products

Literature on microfinance highlights the importance of savings and insurance products in covering the risks that affect clients. Savings are an important product for HIV/AIDS affected households. If initiated when the household is still able to put aside money for future use, then the household can draw on those savings during financially stressful times: when medical costs rise, when expenses go up as orphans are absorbed, and as income streams fall (Thomas et al., 2002).

Despite the importance of savings and insurance products, Vision Finance has not introduced it to its clients. Through interviews with Vision Finance officials they revealed that insurance usually works well at a low risk incidence rate which allows many small premiums to pay for a few large payouts. HIV/AIDS is not a random event; they argued that having PLWHA as clients mean that insurance will be too expensive.

With saving, Vision Finance initiated a compulsory saving scheme, from which clients are required to make small regular deposits. The interviews with Vision Finance key informants revealed that compulsory savings are held out of reach of the client until he or she exits the program. These funds serve as an individual or group guarantee against default, and are used by the institution as a source of lending capital.

Because of extreme financial hardship for PLWHA clients, it was found out that, very few have been able to meet their saving requirements. In fact many clients in extreme crisis (chronic illness or death) are asking for access to compulsory savings, and others decide to leave the programs in order to retrieve those funds. Table 4.7 below shows the savings made by different credit group groups.

**Table 4.8 Savings by clients as of June 2008 in Rwf**

| *No* | *Associations* | *Amount disbursed* | *Savings* |
|---|---|---|---|
| ***1*** | Ihumure | 9,320,000 | 79,153 |
| ***2*** | Agape | 2,470,000 | 126,625 |
| ***3*** | Urukundo | 3,315,000 | 208,970 |
| ***Total*** | | 15,105,000 | 414,748 |

*Source: Vision finance, 2008.*

The savings made as seen from table 4.7 above by three associations under the Vision Finance special project are very little when compared to the disbursed loans. This has limited their capacity to hoist liquidate savings which would otherwise be used as a loan default fund. At the end of July 2008, one half of the outstanding loans were written off.

McDonagh (2001) argues that, Insurance products have traditionally worked well to provide coverage for risks that affect individuals. However, adding such new financial products like linking clients to burial societies, creating trust and savings funds, or linking clients to insurance may not be appropriate to households severely affected with HIV/AIDS. McDonagh (2001) makes a cautionary note that, health and life insurance products are very difficult in an HIV/AIDS environment, as the necessary premiums are generally too costly for poor households to bear.

### 4.3.3 External factors

During the study, the researcher came up with external factors which neither are controlled by Clients nor by Vision Finance, yet have greatly contributed to the clients' failure to repay loans. These factors include the influence of macro-environment to their businesses, urbanisation plan of Kigali city, discrimination and rampant stigma as discussed in this section.

### a) Discrimination and Stigma of PLWHA

Vision Finance special program offers special micro-financial products to PLWHA clients. Because of their special needs in relation to microfinance products, and their depleted assets, Vision Finance officials revealed that, it is more difficult for them to benefit from standard microfinance services. It is in this regard that they have taken account of their particular needs and started a special program.

The focus group discussion of the study revealed that the program has recorded some positive impacts in empowering PLWHA to cope with the impacts of the disease and improving their resilience. However through focus groups, respondents revealed that explicit targeting of them as clients with AIDS has in some cases increased discrimination and stigma, therefore impacting negatively on their businesses. Clementine, from Urukundo association bears testimony to this phenomenon;

> *''We are a group of six widows; we decided to invest the loan from Vision Finance in the selling of vegetables in open central market. After a few months we realised that no one would buy our vegetables any more as they used to. The low turn up followed our involvement in raising awareness on HIV/AIDS in the market, and we testified that we are HIV positive. The business made a loss, and in the two months we could not get money to pay the loan, until we relocated and changed our business''. Clementine Urukundo association, 6th/Agust, Gikondo district – Kigali.*

The story above implies that, many people do not have enough basic knowledge about HIV/AIDS. They still have the perceptions that they can contract the disease from even coming near such a person. Such ignorance isolates Vision Finance beneficiaries as people incorrectly think that HIV/AIDS can be passed on though products sold. This has helped in promoting the stigmatization of PLWHA under Vision Finance special project making their business vulnerable to losses. In such cases meeting the loan repayment is very difficult.

The findings correspond with the views of Fernando, N. A. (2004). He acknowledges that a person with HIV/AIDS who is still able to participate in the workforce might encounter discrimination in the workplace or even when trying to begin income generating activities. Taking on HIV/AIDS in the context of micro entrepreneurship poses special challenges especially in Africa as many traditional African societies ostracize people with AIDS, making it difficult for them to run their micro-enterprises.

It is necessary to note that high levels of structural stigmatization do not only harm the health and well being of those living with AIDS but are also damaging to the welfare of the community and can create obstacles in communicating key prevention messages.

## b) Influence of Macro Environment

High rates of inflation place economic stresses on households' income generating activities and limiting clients the ability to respond to the impacts of HIV/AIDS also affecting their capacity to meet their loan repayment requirements. The study found out that high inflation over the last three years has adversely affected their small businesses. Through in-depth interviews and focus group discussions, respondents argued that high inflation has put economic stress on their income generating activities, which makes it difficult to increase the real value of their businesses net revenue, which in turn affects prices. Table 4.6 below shows the change of prices for selected commodities in 2007.

**Table 4.9 Change of prices for selected commodities in 2007**

| *Commodities* | *Jan.* | *Feb.* | *Mar.* | *April* | *May* | *June* | *July* | *Aug.* | *Sept.* | *Oct.* | *Nov.* | *Dec* | *% Change* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Food*** | 161.9 | 166.5 | 167.6 | 165.6 | 155.5 | 153.3 | 155.7 | 161.2 | 163.4 | 163.9 | 163.6 | 154.9 | **8.9%** |
| ***Housing, water and electricity*** | 166.5 | 166.2 | 189.6 | 187.9 | 192.0 | 191.1 | 192.5 | 192.0 | 192.4 | 191.9 | 192.1 | 191.3 | **17.7 %** |
| ***Transport*** | 114.0 | 113.8 | 114.0 | 114.2 | 114.2 | 114.2 | 114.2 | 114.2 | 114.2 | 114.2 | 114.5 | 120.5 | **4.4%** |

*Source: BNR, 2007.*

Table 4.6 indicates that the cost of selected commodities increased substantially from January to December of 2007. There has been an annual change of food prices with 8.9%. Housing, water and electricity recorded a very big annual change of 17.7%. Transport which is also very important aspect in daily life changed with 4.4%. The change has affected all Rwandese, differently depending upon their livelihood strategies. The poor are have been the most affected ones, PLWHA clients of Vision Finance special program fall into this category.

Rwanda's inflation rate now stands at 10.8 percent, manifesting serious hurdles to the overall economic performance. An article by Rwandese only English daily news paper The New Times of 3rd/August/2008 quote the Governor of the National Bank of Rwanda on inflation;

> *"Inflation is due to the increase in global oil prices, global food crisis, and the Kenyan post-election crisis. The sudden price increase of imported commodities like oil and food stuffs to a rate of about 36 percent, are some of the serious factors that have lead to the rise in the country's inflation to about 10.8 percent. Although monetary policy implementation is improving steadily, it will not be enough to contain inflationary pressures effectively, and average*

> *annual inflation is forecast to rise to 9.5% in 2008, before easing slightly, to 8%, in 2009".*

Vision Finance officials revealed that, the inflation rates in the country has also affected their capital base, since the money repaid has a lower real value than the money borrowed. The charged interest rate also has not been able to offset the losses generated through inflation.

One can argue that Inflation in Rwanda, has not only affected micro-financial sector. True all businesses and sectors in the country have been severely affected by inflation partly because of rising fuel prices, in some cases prices of some products have tripled in few months. What makes PLWHA entrepreneurs more vulnerable to the inflation is that it has exacerbated their already weaker position to compete for market; moreover they have special needs like good food to balance for their diet, health care, psychological care etc. With prices going up especially for food, respondents argued that, coping with illness has become difficult thus diverting loans for their most pressing and urgent need which is ''survival''.

## c) Relocation of clients

Many clients were forced to relocate under the new urbanisation plan of Kigali city. In the focus group, it was found out that, many clients live in slums on the outskirts of the city and recently an urbanisation plan to clear all slums and build new homes for middle income earners was launched. The houses are given mostly to civil servants on along term mortgage. This has affected the poor city dwellers who cannot afford the houses as Ihumure respondent narrated her ordeal;

> *''Last week the city enforcement officers came and demolished 15 houses in our area, after a month of negotiation to be properly compensated. I took my complaint even to the ombudsman (The highest office for solving conflicts) but nothing has done to solve my problem, now I don't have any where to go with my five children'' Ihumure association member, 7 August 2008.*

Relocation of clients has contributed to the poor loan repayment in one way or another as some credit group member's move out side the catchement area of the program making it very hard for loan recovery officers to monitor and recover the loan. However it should be noted that, relocation was not only attributed to the city urbanisation plan only. The focus group discussion revealed further that some members abandon their businesses temporarily went to the villages especially for care from relatives with the hope of coming back in the future when they get back on their feet. Many of such clients, as it was found out, never came back, making credit group members incur the burden and sometimes fail to repay back.

According to Hulme and Mosley (2001), microfinance cannot serve the most needy. It is premised on the explicit agreement between MFI and client that loans will be repaid in full and on time. In short, each micro loan is a commercial financial transaction. For this reason, households most negatively affected by HIV/AIDS may need to leave the microfinance institution until they are back on their feet. Indeed, accepting additional loans under those conditions may further exacerbate the already weaker household's economic position. At this point, a household may shift from microfinance to a grant or other form of relief, often provided by churches, community groups, governments, or non-governmental organizations leaving behind unpaid loans (Ibid).

# 5.0 CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

This chapter presents the summary of major findings and conclusions derived from the study. The recommendations are made on the basis of research findings. The objective of the study is to examine factors that have contributed to the loan defaulting by PLWHA clients of Vision Finance special program. Basing on the findings, the following conclusions are made.

## 5.1 Conclusions

There was general agreement among Vision Finance clients and staff that a loan a client who is chronically sick or attending to a sick household member can be a burden rather than, than a help. From the findings, it is clear that PLWHA clients of Vision Finance had difficulties making their loan payments due to chronic illness or death in the household. Loans tend to be a burden when the clients are in the midst of a crisis. Indeed, the study found out that, clients who become ill or care for ill family members often are unable to devote adequate time to their income generating activities moreover they have extra expenses to meet.

The study has also highlighted that there is a burden and problems associated with the group co-guarantee. For example instances in which members of the group became chronically ill or die. This makes the loan to accumulate beyond their capacity to repay. As a result, some credit groups disintegrated because they could no longer put up with the burden of paying for other members.

In the opinion of Vision Finance clients and staff, loan repayment problems are partly due to inflation. The high inflation and increasing food prices in Rwanda and other basic needs have affected clients of Vision Finance more, because they are battling with HIV/AIDS. Less attention has been paid to linking them to the growing market opportunities and to enhancing control they can exercise over their economic environment such that they can cope with fluctuating incomes and increasing demands. Many PLWHA clients have remained as vulnerable as they were before taking loans. Inflation and Increasing prices meant that clients hardly meet the loan repayment requirement. It was also found out that, Inflation has affected Vision Finance capital base, since the loan repayments carry a lower real value than the money borrowed.

Discrimination and stigma are an omnipresent corollary of the HIV/AIDS epidemic. It was discovered that, loan defaulting in some cases has been due to discrimination and stigmatisation of PLWHA businesses. This is out of the recognition that customers snub their businesses. It is a great challenge for them to operate in an environment where discrimination and stigma are still rampant. This has affected the profitability of their businesses consequently impeding them to meet the loan requirements.

The majority of Vision Finance clients are poor women and most of them lack formal education experience in undertaking economic activities. The study revealed that many loan clients lack appropriate technical business skills, moreover training offered prior to the start of businesses is too narrow to make them understand all business dynamics. It is important to note further that, the training program offered to clients lacks strategies for coping with the possibilities of managing risks as an important aspect in sustaining the business, and repay back the loan promptly.

The ongoing urbanisation plan in Kigali city has exacerbated the already poor working environment of PLWHA businesses. Many are poor and they have been driven out side Kigali which is the program catchment area to rural areas. This meant that many lost their business as a result and others shifted to rural areas where it was practically impossible for loan recovery officers to monitor on their activities.

Related to issue of urbanisation plan, are new laws for businesses operating in Kigali city which banned hawking. The study revealed that, PLWHA clients just had to give up their businesses, as many were operating simple businesses involving hawking goods around Kigali city. With increasing battling with the police in the city, products were often confiscated. In such a situation totally clients lost their businesses making it very hard to promptly meet the loan repayment requirement.

It was learned from the study that some rigid requirements and loan products impinges on loan repayment resulting in default on loan. The study revealed that, in a situation where a client falls ill or taking care of a household member it becomes difficult for clients to repay the loans because the loan requirements are not flexible enough to adjust to suit conditions that affect their businesses. The repayment requirement would rather be suspend until a client gets back on the feet.

Poor savings and lack of insurance products impacted on the repayment of loans. The study elucidated that poor savings to draw from during financially stressful times: when medical costs rise, when expenses go up as orphans are absorbed, and as income streams fall, meant that there are no funds to serve as a guarantee against default of clients.

## 5.2 Recommendations

In view of strategic importance of low interest loans to PLWHA and their households, the following are recommended to enable Vision Finance become more effective in recovering the loans.

Special attention should be put more to new innovations rather than developing new products because it is a lower cost option both for the PLWHA clients and Vision Finance. One option would be to observe the methods that solidarity groups already use that mitigate the economic impact of HIV/AIDS on their members as well as the risk posed both to the group and Vision Finance.

Attempt should be made by Vision Finance to put more attention on how to manage risks. They need to focus on a household not just an individual when giving out loans and explore the possibility of granting a grace period, differing a loan instalment or accept a certain percentage of a loan instalment repayment especially to the clients who falls chronically ill or clients attending to ill member of the house. Such flexible products will allow clients to cope with the situation and be able to repay loans when they get back on their feet. However such concessionary loan terms should be clearly defined in the policy of Vision Finance.

To ensure sustainability of businesses, regular and relevant training to clients is paramount not only to clients, but also to other members of a family and encourage clients to train some one else in a family especially a child to operate the business. The objective would be twofold. First, if successful it would provide a fallback position if the client has to take time away from the business due to illness or death. Second, it would help to teach business knowledge and skills that could assist the child in

future years, especially if economic hardships befall the client due to the death. This would mean that a child will be able sustain the business and repay the loans.
Owing to the prevailing economic conditions in Kigali city, one initial loan is vital to fund the start-up activities and different requirements before the start of the business. This is important for the clients to meet the city requirements, compete for market and sustain the income generating activities.

PLWHA clients need easily accessible savings services. There is a need to encourage them to start and commit to a voluntary savings scheme before they start to fall ill in order to accumulate cash reserves for specific purposes. They would draw on these savings when HIV/AIDS-related costs rise to cover for medical and funeral expenses especially when the income streams diminish. Such a saving scheme would reduce the client exit rate and reduce the diversion of enterprise loans to emergency expenses.

Introducing a health insurance reduces the risk of serving clients who have HIV/AIDS. To keep the insurance affordable for poor clients, Vision Finance has to carefully set premiums, co-payments and limits of coverage. However, the provision of insurance to clients with HIV/AIDS is a big challenge as premiums are generally costly in Rwanda although an attempt should be made through partnerships. The Insurance is a prudent measure to cover outstanding loans, by protecting Vision Finance's portfolio against non-repayment due to death of a client or a chronically ill client. It also removes the debt burden from other credit group members.

Formal training of Vision Finance loan officers regarding the specific financial issues relevant to AIDS-impacted households is vital so they can provide on-going financial advice to clients. MFI loan officers ought to be aware of counselling services, nutritional centres, and other services available to PLWHA clients and formally refer their clients to these service-providers. While those services are HIV/AIDS work, Vision Finance should be part of a collaborative effort to assist their clients in making pro-active financial decisions which would assist them to manage their businesses.

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# APPENDICES

## Appendix 1: Check lists for Interview guide and focus group discussions

### Section One: Background information

1. Sex of respondent

| | |
|---|---|
| Male | |
| Female | |

2. Age group

| | |
|---|---|
| under 20 yrs | |
| 30 – 39 | |
| 40 – 49 | |
| 50 – 59 | |
| 60+ | |

3. Marital status

| | |
|---|---|
| Single | |
| Married | |
| Divorced | |
| Widowed | |

4. Education level

| | |
|---|---|
| No formal education | |
| Completed primary | |
| Completed secondary | |
| Diploma | |
| University degree | |

5. When did your group start operating?
……
……
……

6. How many members and active credit groups in your association?
……
……
……

7. How are loan co-guarantee groups formed and reformed? What criteria are used by members for accepting or dropping a member?
……
……
……

8. What were your main objectives when you joined the association and were these achieved?
……
……
……

9. What are the sources of funding for your activities?
   (a) Member subscriptions……..
   (b) Micro finance……..

10. Have you benefited from Vision Fiaince special Program? If yes how have you benefited from the scheme?

……
……
……

11. What is the nature of the loan? Is it short term? Medium term? Or long term loans? Are they small? Or big loans?

……
……
……

12. How do you use the disbursed loan? Invested Individually or as a group?

……
……
……

13. What are the terms and conditions for the loans?

……
……
……

14. What is the nature of activities invested in the loan disbursed? Service, commerce or Production? And why?

.....
.....
.....

15. Apart from micro-credit what other products offered?

……
……
……

16. Is there any interest charged on the loan? Yes/No
If yes what is the interest charged annually?

……
……
……

17. Is there a late fee charged? Yes/No. If yes how much?

……
……
……

18. What is the duration of the loan repayment?

……
……
……

19. How do you meet the loan repayment requirements?

……
……
……

20. Do u receive training? Yes/ No
If yes, what is the nature of the training and how often does Vision Finance provide?

……
……
……

21. Is the training offered relevant and sufficient for your training needs? Yes/No if yes how is it relevant?

……
……
……

22. If no, what should be improved and how should it be improved?
……
……
……

23. What happens if a group member fails to repay the loan?
……
……
……

24. What are the main reasons clients had difficulty repaying their loans on time?
……
……
……

25. Have experienced a case where a member drops out of the group? If yes, why do they leave? How has it affected the group loan repayment?
……
……
……

26. Who runs the business if a member falls ill or taking care of an ill household member?
……
……
……

27. What happens to the group if a member (s) fails to repay the loans?
……
……
……

28. How does your credit group cope with illness or death of a member or a household member?
……
……
……

29. Does your association have a savings and insurance schemes? Yes/No
……
……
……

30. If yes how do you use your savings?
……
……
……

31. If no, How hast affected the loan repayment?
……
……
……

32. What current and possibly future policies to mitigate the potential negative impact of HIV/AIDS on the financial portfolio?
……
……
……

33. What measures has Vision Finance program taken to address the risks involved in the program?
……
……