Paving the Way Forward for Rural Finance
An International Conference on Best Practices

Case Study

Rural Finance in the Age of HIV/AIDS

Response Required: Mitigating Risk in African Credit Unions Serving HIV/AIDS-affected Communities

By: Anna Cora Evans
(World Council of Credit Unions, Inc)

This case study was made possible by support provided in part by the US Agency for International Development (USAID) Agreement No. LAG-A-00-96-90016-00 through Broadening Access and Strengthening Input Market Systems Collaborative Research Support Program (BASIS-CRSP) and the World Council of Credit Unions, Inc. (WOCCU).

"HIV/AIDS only has negative spin-offs. When we feel the full impact, it's going to be a completely different negotiating table."

Board President, Cape Member & Employees SACCO, South Africa

The World Council of Credit Unions (WOCCU) has conducted research on HIV/AIDS and credit unions in four countries. In Kenya, Botswana, South Africa and Zambia, WOCCU has conducted interviews with credit union staff and board members and held focus group discussions with credit union members. The intent of the research has been to: (1) study how the financial performance of credit unions may be affected by operating in HIV/AIDS-affected communities; (2) examine members' financial demands stemming from HIV/AIDS such as paying for medical, hospital, funeral and burial expenses or paying additional school fees for orphans under members' care, so that products and services can be adapted or introduced to meet those circumstances; and (3) consider partnering or forming alliances with health service providers so that through referrals or peer education volunteers, members and their families can be reached with prevention, testing, care, support and treatment services.

The institutions studied in Botswana (two in August 2002), Kenya (six in April), South Africa (five in March 2003[1]) and Zambia (five in August 2002) are located in both urban and rural locations. In Southern Africa, many credit union members in urban areas have left rural villages for employment in towns or cities. The nuclear and extended families of these members reside in the rural villages and depend on the earnings of the urban-employed family members. The financial needs of the rural family, such as paying school fees, are serviced through the primary breadwinner's membership in an urban-based credit union.

The sizes of the institutions vary. The largest credit unions are in Kenya, ranging from 818 to 40,070 members. The smallest credit unions are in Zambia, ranging from 106 to 813 members. In South Africa, membership varies between 504 and 1300. In Botswana, the memberships stand at 298 and 943, respectively. The youngest credit union was established in 1994, while some others have been operating since the 1970s. The percentage of female members varies from 5% to 64% among the different credit unions. Overall, the membership in the employer-based credit unions is largely male while the community-based credit unions tend to have higher percentages of female members.

This paper examines credit unions or savings and credit cooperatives (SACCOs) serving HIV/AIDS-affected communities in East and Southern Africa. Section I describes the challenges facing credit unions and their members stemming from the financial impact of HIV/AIDS. Section II discusses existing savings, credit and insurance products. Section III offers policy recommendations for donors to support technical assistance to enable credit unions to mitigate risk by: a) diversifying credit union membership beyond the workplace and creating the corresponding loan loss provisions, improving credit administration and strengthening existing insurance products; b) introducing new demand-driven products such as programmed savings for health emergencies; and c) facilitating linkages between credit unions and health service providers.

[1] Seven Savings and Credit Cooperatives (SACCOs) were visited in South Africa; however, given that detailed product information was obtained for five, this case study will only consider five of the South African SACCOs.

I. CHALLENGES FACING AFRICAN CREDIT UNIONS AND MEMBERS

With the exception of the two SACCOs in Botswana, the credit unions have contended with multiple waves of retrenchment that began in the mid and late 1990s. In addition, in the case of two Zambian credit unions, both private and Government employers pay their employees or remit member loan repayments via salary deduction to the credit unions with a delay of one to five months; hence, contributing to a lack of liquidity.

All of the credit unions began as employer-based credit unions. Of the total 18, the five South African credit unions and one Zambian credit union have changed their bylaws within the last four years in order to expand to serve community members. The six Kenyan SACCOs capture deposits from non-member clients. The move to diversify membership stemmed primarily from losses in membership as a result of worker retrenchment.

WOCCU encourages broad diversification of credit union members. Member diversification decreases the covariance credit risk to credit unions. Community-based credit unions develop a membership base diversified in economic activity and socio-economic condition so that not all of the membership (the financial base) would be affected by a sectoral economic crisis.

In an environment characterized by illness, death and unemployment in the households of credit union members, are credit unions in the position to operate on a self-sustaining basis? **The credit union visits in all countries displayed a disturbing pattern of insufficient or non-existent loan loss provisions, inaccurate measurement and classification of delinquency (portfolio-at-risk at 30 days calculated on the total outstanding loan balance) and weak, if not negative, institutional capital.** The employer-based credit unions have relied on automatic salary deduction for loan repayments; historically, delinquency was essentially zero and the financial discipline of provisioning for loan losses has not been an integral part of SACCO development.

The repayment of credit approved on the basis of the amount of savings or shares that a member has at the credit union and the amount of the member's monthly earnings is compromised when a member is laid off, cannot work due to illness (self or immediate family member which requires care giving) or dies.

> *"It becomes a problem when someone is ill. If someone is not working, then that person won't manage to pay back. That's why we're having a problem."*
>
> Acting Manager, Motswedi SACCO, Botswana

Even if a loan has been approved based on credit history and repayment capacity, a member may be unable to repay a loan borrowed for a productive income-generating purpose if the loan funds must be diverted to pay for an expensive household emergency such as urgent medical treatment. **Loan loss provisions** offer initial protection against observable risks (delinquency) to the credit union. The 18 credit unions do not have adequate, if any, loan loss provisions to confront defaults associated with increased illness, death and retrenchment among members.

If **delinquency** is not monitored and measured properly, then adequate loan loss provisions will not be set aside to protect the institution; e.g., at Motswedi SACCO in Botswana, only the late payments of a loan are considered delinquent at 90 days on ordinary and emergency loans and there are no loan loss provisions. As the number of delinquent loans increases in all SACCOs due to HIV/AIDS-related illnesses and uninsured deaths, without loan loss provisions, the SACCOs will not be protected from unsustainable loan portfolio losses.

Given the responses from staff, directors and members concerning retrenchment, chronic illness and deaths among credit union members, it would seem logical that the SACCOs would have some notable increases in delinquency. **These increases in delinquency are difficult to detect on the financial statements due to lack of consistent and transparent treatment of delinquency**; e.g., in some credit unions, delinquent loans appear as problem assets or accounts receivable and there is no accompanying counter-asset loan loss provision. Credit life insurance offered by an external provider or through credit union self-insurance schemes (in the circumstances where these schemes are viable) would immediately cover the write-off of the loan of a deceased member; therefore, member deaths covered by credit life insurance would not increase losses on the balance sheets.

Institutional capital or reserves, a second line of defense after loan loss provisions, protect the institutions from external shocks such as losses associated with HIV/AIDS. Indicator E9, from the WOCCU PEARLS Performance Monitoring System measures the ratio of institutional capital (net of what should have been set aside for loan loss allowances) to total assets. The Kenyan SACCO table below demonstrates that four of these SACCOs are ill-prepared to sustain the losses that will occur due to the financial impact of HIV/AIDS.

KENYA FIVE SACCOs E9 Net Institutional Capital/ Total Assets	GOAL	12/31/99	12/31/00	12/31/01
COMOCO SACCO	Minimum 10%	2.3%	2.4%	-16.0%
Ukulima SACCO	Minimum 10%	14.1%	12.9%	12.9%
Kisumu Teachers SACCO	Minimum 10%	1.1%	-3.8%	-0.1%
Kipsigis Teachers SACCO	Minimum 10%	0.6%	0.3%	0.9%
Maseno University SACCO	Minimum 10%	0.4%	0.5%	1.4%

Credit unions require adequate capital to survive the pandemic. In many rural locations, the credit union may be the only financial service provider other than moneylenders. The majority of the 18 SACCOs have low, if not negative, net institutional capital. Lack of institutional capital stems, in part, from **improper pricing**. Many of the credit unions do not differentiate interest rate prices charged on loans by the risk associated with the borrowing term or the loan purpose. Also, where transactions such as direct deposits of member salaries or even electronic member deposits incur fees from the bank intermediaries, it appears that some of the credit unions may not be passing on the full cost of these banking charges to their members. The credit unions can increase their rates and/or fee structures today and still offer affordable credit and attractive rates on savings deposits to their members while building reserves to strengthen the institutions simultaneously.

Retrenchments combined with health-related emergencies harm the credit unions on both sides of the balance sheet. The example of South Africa's Cape Member & Employees SACCO (formerly Cape Metal Employees SACCO) provides an illustration of this phenomenon. Retrenchment in the metal and welding factories that were the original field of membership for CME SACCO peaked in the year 2000. On the assets side, while delinquency had been previously unknown to the balance sheet of CME SACCO, in February 2000, portfolio-at-risk at 30 days was recorded as 13.4%.

On the liabilities side, retrenched employees flocked to the credit union to take out their savings and to draw down their shares. Many of the retrenched members used this money to carry them through the period in between leaving work and receiving a delayed severance package. CME SACCO lost many of these members as, unemployed, they returned without job prospects to their distant homeland villages where the services of CME SACCO would no longer be accessible to them. Were departed retrenched members to return to the area of the CME SACCO to pursue other income-generating activities, then given the universal credit union motto "once a member, always a member," these individuals could continue to conveniently access financial services from their credit union.

Year	Amount of Shares & Savings Withdrawn from CME SACCO – South Africa
1998	R 702,000
1999	R 728,000
2000	**Peak Year of Retrenchment R 927,000**
2001	R 518,000
2002	R 650,000

Regardless of their size, location, age or the precise prevalence rate of HIV in a given community, the 18 credit unions or SACCOs and their members are being negatively affected by HIV/AIDS. All of the credit unions are losing young productive adult members to death. Although, the causes of death of credit union members are not specified, staff and directors presume that many deaths are AIDS-related.

ZAMBIAN CREDIT UNIONS 4/01-3/02	NUMBER OF DEATHS in previous financial year	PERCENTAGE OF MEMBERSHIP
Luanshya Mineworkers	22	2.7%
Chibuluma Mineworkers	1	0.7%
Mufulira Mineworkers	5	4.7%
Mufulira Teachers	20	7.7%
Aviation Workers	19	8.6%

Data collected 8/02.

Members, salaried, self-employed or retrenched, are confronted with increasing financial pressures stemming from the needs to pay for school fees, medical and funeral expenses and expand their shelters to accommodate orphans. The financial demands are reflected in the declared borrowing purposes of credit union members in Botswana, Kenya, South Africa and Zambia. These countries are vastly different, not only in their wealth levels, but also in their national treatment of HIV/AIDS, yet the borrowing needs of members remain somewhat

similar. The credit unions need to adapt their existing products and consider introduction of new products to assist their members to meet these financial needs.

> *"Quite a number of pressing problems for our members range from economic factors to social factors. Job security is a critical issue. You never know what will happen. People are trying to put measures in place for when they will be retrenched. They establish themselves asking for loans to put up shelter, get a plot to have food. Of course, with the current HIV problem, we are losing members. Emergencies are prevalent. Death has become such a problem that we see it every day."*
>
> Board Vice Chair, Aviation Workers S&CU, Zambia

In Botswana, Motswedi SACCO serves any employee of the Ministry of Agriculture and Bank of Botswana SACCO serves any employee of the Central Bank. An analysis of emergency and ordinary loans granted by Motswedi in July 2001 reveals that the three primary purposes for borrowing were: housing (27.0%), school fees (24.3%), and medical expenses (20.3%). Given that the Government of Botswana provides substantial healthcare for free, evidence suggests that the medical expenses reflected here are for private purchases of antiretroviral drugs.

The managers of Motswedi and Bank of Botswana SACCOs noted that their most popular loan product, the quick loan (for which no purpose is given) is often destined for emergencies and for member-owned microenterprise activities that supplement members' monthly salaries.

> *"School fee needs have always been there. Medical needs have increased since 1999 mainly because of this thing we have, this HIV/AIDS thing. Most people want to test themselves or there are those that take tablets [antiretroviral drugs], they borrow for that."*
>
> Acting Manager, Bank of Botswana SACCO, Botswana

In Kenya, the primary reasons for borrowing are for emergencies (medical fees was the most common emergency) and school fees. The "instant" cash advance, the Kenya equivalent of a quick loan in Botswana or South Africa, for which the loan purpose is unknown, has become increasingly popular for the speed of disbursement despite the higher interest rate charged.

In South Africa, an analysis of the number of loans granted by purpose among the five credit unions from March 2002-February 2003 indicated that the five primary purposes for borrowing were: debt consolidation (21.5%), school fees (18.6%), microenterprise (17.9%), housing (12.2%) and emergencies (8.2%). South Africa is characterized by a wide prevalence of consumer lenders that charge high rates of interest. Depending on the source, unemployment rates for South Africa are in the 30%-40% range. Only a salaried person or an established business owner is typically eligible for credit from these "microlenders".

It is common for an employed person, albeit a meager salary earner such as a low-skill factory worker, to have multiple loans at any given time. The borrowed funds may be channeled to self-employed family members. Yet, even though there may be multiple streams of income coming into a household for repayment, individual borrowers very often become

overwhelmed with the exorbitant interest rates and fees piling up on their debts and try to consolidate their debts with a loan from their credit union.

In Zambia, the two primary reasons for borrowing named by staff and directors at all five credit unions were to pay school fees and to launch or expand a member's income generating business activity (typically agriculture or livestock related). Other popular reasons given were hunger, medical expenses and funeral/burial expenses.

> *"The biggest problem is poverty. Food is not accessible for people to stay healthy."*
> Board President, Chibuluma Mineworkers S&CU, Zambia

Given job instability and increased expenses in HIV/AIDS-affected communities, credit union members – especially those in Zambia, are pursuing income diversification strategies that rely heavily on agriculture. Given that two-thirds of these 18 credit unions are employer-based, access to the financial services offered by the credit union is first gained through proof of employment, no matter how modest the salary. Once the individuals become members, they then use their access to financial services to pursue agriculture and livestock-related subsistence and income generating activities.

In Zambia, at Mufulira Mineworkers, the staff and directors estimated that at least 90.0% of the mineworker members are engaged in farm activities. Similarly, the number of outstanding loans at Chibuluma Mineworkers in August 2002, indicated that 57.2% of those loans were financing agriculture or livestock activities.

ZAMBIA: CHIBULUMA MINEWORKERS SAVINGS & CREDIT UNION MEMBERS

Total Membership:	**138**
Number of Members Engaged in the Following Agricultural or Livestock Business Activity:	
Ground nuts	27
Chicken raising "layering"	18
Cabbage rape	12
Onion	9
Goats/Sheep	3
Sweet Potatoes	3
Pig farming	2
Paprika	2
Cattle ranching	1
Cassava	1
Dairy Farming	1
TOTAL:	**79**
Percentage of Total Members	**57.2%**

SOURCE: Board of Directors based on tally of credit union's outstanding loans 8/02.

II. EXISTING PRODUCTS & PARTNERSHIPS

Credit unions in Botswana, Kenya, South Africa and Zambia offer an array of savings, credit and insurance products that will be discussed in this section of the paper.

SAVINGS: The two credit unions in Botswana are the only ones that require mandatory savings. Both of the Botswana SACCOs require every member to save 50 pula or USD$8.3 ($1=6 pula in August 2002) per month. In addition, they have voluntary savings that are fully withdrawable.

In Kenya, the SACCOs launched voluntary withdrawable savings in 1998. By 2001, they offered a variety of voluntary withdrawable savings products. All members need to maintain a minimum balance in a savings account ranging from US$6-$13 in order to access these voluntary savings products. The SACCOs are authorized to take non-member deposits. The voluntary savings products are: passbook savings (regular fully withdrawable savings); programmed (contractual) savings; and fixed certificates of deposit. The programmed savings are for Christmas, school fees, motorcycle, medical fees and retirement. As of April 2002, Kipsigis Teachers SACCO was the one credit union that had introduced programmed savings for medical expenses.

In South Africa, all five SACCOs offer passbook savings and programmed savings for school fees and Christmas. Four of the five offer term deposits at positive market interest rates and two of the five offer youth savings for the children of adult members. In addition to offering savings services for individuals, two of the SACCOs provide deposit services to burial societies (each burial society group is one member of the credit union).

Only one of the five Zambian credit unions offers voluntary withdrawable savings. Luanshya Mineworkers, having opened its field of membership to the community and facing a severe liquidity crisis, was considering offering a scholarship prize for school tuition (using a lottery model) to promote voluntary savings. Aviation Workers Savings and Credit Union had identified the need for programmed savings for medical and funeral expenses in August 2002 and had included the introduction of those programmed savings in its business plan for 2003.

CREDIT: Given the urgent nature of many expenses related to HIV/AIDS (such as travel to the rural home village to attend and contribute financially to a family member's funeral), fast access to credit has become an important consideration for borrowing. In Botswana, the most popular loan is the quick loan. South African SACCOs also offer quick loans and Kenya offers a similar "salary cash advance." The purpose of a quick loan in Botswana or a cash salary advance in Kenya is not specified on a loan application.

In Botswana, the quick loan (a maximum of $83 for a 30-day term disbursed within one day) is by far the loan most in demand. In July 2001, 165 quick loans were disbursed, in comparison to a combined total of 74 emergency and ordinary loans. The quick loan is a cash transaction not based on a multiple amount of savings or shares, but approved based on monthly salary. Motswedi SACCO faced delinquency of 28% on their quick loans granted in July 2001. The credit union response to delinquent quick loans is to have repayment, in addition to a late fee, automatically deducted from the member's salary and electronically deposited in the credit union one month after payment is due.

The Botswana credit unions also offer emergency loans for a maximum of 4000 pula (USD$667) for a maximum term of twelve months, and ordinary loans for a maximum of five years. While the quick loan is priced at 10% per month for a one-month term, ordinary and emergency loans are priced at 20% per annum in an environment of 5% inflation.

In Kenya, the aforementioned cash salary advance loan is the most expensive and most rapidly available loan product. The SACCOs typically price the salary advance between 5%-20% per month with the maximum term ranging from one to five months. In addition, all of the six SACCOs offer three types of back office or "traditional" loans (loan size is determined by a multiple of a member's total share contribution) at interest rates of 1-1.5% per month. Most of the SACCOs have recently reduced their maximum lending term from 48 to 36 months due to liquidity constraints. The loan types are: the normal or development loan for a 36- or 48-month term; the school fees loan for a 10- or 12-month term; and the emergency loan for a 10- or 12-month term.

In South Africa, the five SACCOs offer quick loans with repayment periods varying from two to six months and amounts between R300-R600 or $38-$77 ($1=ZAR7.8 in March 2003) for a cost varying between R10 and R15 ($1.28-$1.9) per R100 ($12.8) per month. The most common reasons for members taking out quick loans (loan purposes for quick loans are declared in a few of the five SACCOs) are for medicine, other emergencies, food, funeral, and travel to homelands.

> *"In the past two weeks we had two guys who lost their wives. All along, they've been coming for quick loans for medicine."*
>
> Manager, Anchor/Tshiya SACCO, South Africa

The Zambian credit unions are characterized by a liquidity crisis and also by their engagement in non-financial side businesses that are often consolidated on the same financial statements as the savings and credit activities. As a result of the lack of liquidity, caused by delayed employer remittance of member salaries or withdrawal of member shares and savings due to member departure upon being retrenched and the overall stark economic environment, most Zambian credit unions had greatly shortened the terms of their loan products. Despite the shift to shorter-term lending, at certain credit unions such as Luanshya Mineworkers, the waiting time for loan disbursal is five months.

> *"It's a pathetic situation. Here we are 'employed' but there's no money. If you don't get your salary, then how can you have savings? Today we're living borrowing."*
>
> Member, Luanshya Mineworkers S&CU, Zambia

The Zambian credit unions offer in-kind loans for blankets or clothing items from their "tuck shops" that are on the credit union premises as well as cash loans for short-term (between one and four months for school fees, funerals and other emergencies), medium-term (up to twelve months for income generating activities and personal needs) and long-term (up to 24 months, reduced from 36 months generally for farming, livestock or larger business investments). Two of the credit unions offer a two-month loan for 100,000 kwacha ($22) for fertilizer ($1=4550 kwacha in August 2002).

INSURANCE: Credit unions in three of the four countries offer insurance products, credit life (debt dies with the debtor) and funeral/burial insurance. Particularly in the current absence of loan loss provisions, credit life insurance is imperative for credit unions to continue their operations in HIV/AIDS-affected communities. The credit life product not only protects the institution, but also protects the household of the deceased from the responsibility of paying the debt of the deceased.

There is a disturbing tendency in Kenya and Botswana wherein the SACCOs have determined that their external insurance provider has raised the SACCO premium too high and they have decided to self-manage the insurance products in-house. Given the democratic nature of the credit unions, several of the Kenyan SACCOs have had members vote on the amount of monthly premiums. Without actuarial expertise, the members are voting to pay premiums that are insufficient to cover the claims for increasing deaths.

Motswedi SACCO in Botswana self-insures for credit life and funeral insurance. Prior to deciding to internally manage these insurance products, Motswedi had a policy with an external insurance provider. The credit life insurance is applied to all loans granted. The price is calculated as follows:
Credit Life= loan amount * 1% of amount of loan * number of repayment periods

> *"We previously worked with a private insurer, but the board decided that the credit union was paying too much. Now we're managing it internally."*
>
> Acting Manager, Motswedi SACCO, Botswana

Funeral cover is an optional insurance product, 600 of 943 members pay premiums as of August 2002. The base premium for an individual member consists of a monthly payroll deduction of ten pula ($1.7). For a member to add relatives, the premium increases based on the amount of coverage ranging from four to twelve additional pula per month. Claims are paid upon receipt of the death certificate of the deceased individual, with payout ranging from 2000 pula ($333) to 3000 pula ($500), depending on the package selected. According to the Motswedi SACCO Manager, this amount of money will not cover full funeral costs, but it will be contribute substantially to the overall expense.

Although funeral claims for extended family increased 30.7% from 2001 to 2002, the Motswedi Manager stated that claims paid have not yet exceeded premiums contributed. The matter of studying an increase of premiums was relegated to the auditors of fiscal year 2002, to be discussed at the Annual General Meeting.

MOTSWEDI S&CU – BOTSWANA FUNERAL INSURANCE	NUMBER OF DEATHS CLAIMED FOR EXTENDED FAMILY MEMBERS
May 2000-April 2001	18
May 2001-April 2002	26

In Kenya, four SACCOs (COMOCO, Ukulima, Nakuru Teachers and Kipsigis Teachers) offer self-insurance for credit life insurance and burial insurance. Two SACCOs (Kisumu Teachers and Maseno) have private insurance to cover loan losses. The internal revolving

benevolent funds require a monthly member contribution between 40 (US$0.5) and 100 Ksh (US$1.3) and offer benefits that range from: a) the SACCO writing off the loan of the deceased member; to b) the loan write-off in addition to a payment of two times the value of the share contribution of the member and up to 20,000 Ksh (US$256) for burial expenses to the beneficiary.

The monthly contributions for these self-insurance schemes are not adequate to cover the payments that will be required with increased death rates. The intent of introducing various revolving benevolent or welfare funds was to protect the institution from losses incurred by defaults due to death and to assist the surviving family members. In their current designs, these insurance schemes provide a false security to the SACCOs.

> *"Previously this scheme was on for a long time [since 1997]. We always wrote off loans when members died. Last year, the fund had six million [Ksh] and we paid out five million [Ksh]. If it [payout money] wasn't there, it means we could be in problems. We will need to charge 100 Ksh [instead of 50 Ksh per month] or insure with CIC [Cooperative Insurance Company]. We're going to take this to the members because surely it's becoming a threat."*
>
> General Manager, Kipsigis Teachers SACCO, Kenya

As deaths associated with HIV/AIDS invariably increase, the SACCOs, unfamiliar with delinquency problems thanks to the salary deduction system and unprepared for defaults stemming from chronically ill and dying members, will face tremendous challenges to continue their operations. These challenges threaten the solvency of the SACCOs at a time when their members most need the SACCOs for access to financial services; e.g., in 2001, Ukulima SACCO in Kenya had amassed 1.5 million Ksh in member contributions for its benevolent fund yet it paid out 5.5 million Ksh in benefits. The African credit unions are not prepared to absorb these types of losses.

The Zambian credit unions do not offer insurance products. All credit unions visited responded that the employers of the employee members offered funeral insurance; however, it was specified that these employer programs do not cover orphans under member care or extended family. There is no funeral insurance available to members that have been retrenched but continue their credit union membership as self-employed members; therefore, the credit union members have a need not only for loan loss protection insurance, but also for funeral/burial insurance since the cost associated with a funeral cannot be understated.

In South Africa, since August 1999, the Savings and Credit Cooperative League (SACCOL) of South Africa has partnered with Zimisele, an underwriting management company, to offer credit life (loan loss protection) and funeral cover insurance to individual members of SACCOs and their extended families through computerized SACCOs affiliated to SACCOL.

As of year-end December 2002, there are approximately 10,000 members of 28 SACCOs affiliated to SACCOL. The offering of credit life insurance in computerized SACCOs is compulsory for affiliation to the national association, SACCOL. Five of the SACCOs, serving over 45% of South Africa's credit union members, offer both credit life and funeral cover. All

of their outstanding loans are covered by credit life insurance. A total of 900 member funeral cover policies are in effect as of year-end December 2002 at these credit unions.

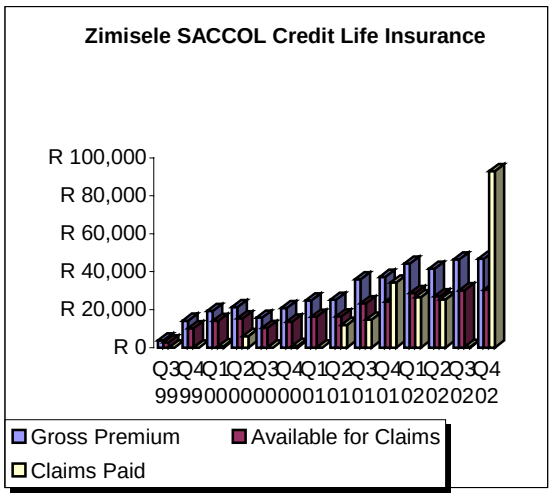
While the oligopoly of South Africa's four leading banks (ABSA, First National Bank, Nedcor and Standard Bank) charge an unspecified or hidden fee for credit life in addition to the interest rate on loans, the credit life product offered through SACCOs is included in the interest rate charged on loans. The current price for the SACCO/Zimisele credit life product is R1.33 per R1000 per month. It is not possible to compare this fee with the leading banks since the price for credit life is not prominently disclosed on the loan applications of these banks.

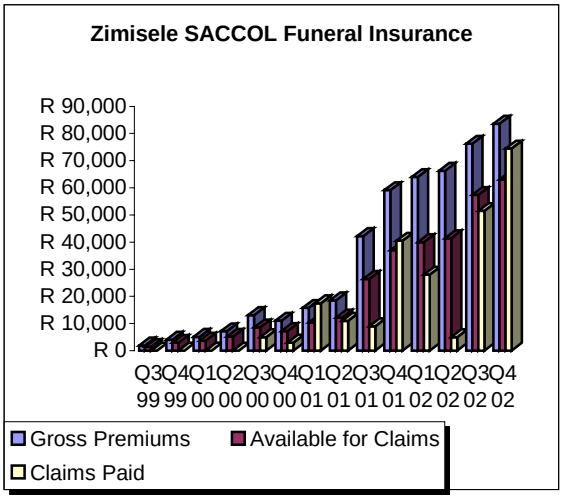
The funeral cover insurance has become a product that attracts new SACCO members in and of itself, outside of access to savings and credit services. This product, unlike the credit life, is an elective product rather than a compulsory product.

> *"It seems that this funeral insurance is a selling point for the community members. From my perception, they are more interested in funeral insurance."*
>
> Manager, Alrode SACCO, South Africa

The SACCOs currently charge monthly premiums of R12.50 for self-cover and R18 for an extended family policy. The credit union system earns fee income (R1 for SACCOL and R1 for the individual SACCO for each policy taken out) for offering the insurance products.

As the charts below demonstrate, there has been a steady increase in the volume of premiums paid (which reflects new policies being taken out for funeral cover and more and larger loans being granted requiring credit life) and a dramatic increase in claims paid, particularly in the last quarter of 2002. Assessing the situation, Zimisele is in discussions with SACCOL to increase the premiums by 33% as of July 1, 2003, because, in the words of Mr. Mpumi Tyikwe, Managing Director of Zimisele, "we must price for HIV/AIDS."





Since the Zimisele/SACCOL partnership began in 1999, it has served the purpose of protecting individual credit unions from defaults caused by member deaths and has benefited

the members and their extended families by supporting funeral costs. As the pricing for HIV/AIDS invariably increases, the challenges are to see if: (1) the SACCOs will increase lending rates accordingly in order to pass on the increased cost of the credit life product to the borrowing members; and (2) members will continue to subscribe to the funeral policy at increased rates.

The current price of funeral cover was reported by member focus group discussion participants as the lowest price product of its kind; therefore, there appears to still be some margin for increasing the cost. On the other hand, the viability of a credit life product, essential for credit union survival, is in question given that already the interest rates charged on loans do not always cover bank charges associated with a "cash-free" credit union.

REMITTANCES: Questions regarding remittances and money transfers were only asked in South Africa in March 2003. One of the five SACCOs, Cape Met SACCO, located in downtown Cape Town, serves refugees and immigrants from elsewhere in Africa. Non-residents, particularly illegal immigrants, are not allowed to open bank accounts in South Africa; therefore, this credit union provides financing to these individuals and a place where they can establish a credit history that can allow them to open a bank account. Given its international membership, Cape Met offers remittance wire transfer services through a bank so that immigrants can send to and receive money from family members abroad. The fee for the service is R80 ($10.25).

Two other SACCOs in the industrial hub areas south west of Johannesburg revealed that they frequently wire money through their credit union (through a bank) to their families in rural areas in other provinces. At Alrode SACCO, 70% of the 27 participants in a focus group discussion were from other provinces and supporting their families in their homeland villages.

III. POLICY RECOMMENDATIONS

Although initially considered a health emergency, private, public and non-government sector entities around the world, are opening their eyes to the multi-sectoral repercussions of HIV/AIDS. This paper has considered the financial needs stemming from HIV/AIDS to which credit unions and their member-clients need to respond.

> "*The illness, progressive disability, and death of one or more family members from HIV/AIDS affect not just the individual but the entire household in multiple ways. The most immediate impact is financial – loss of income and increased medical expenditures, particularly when the ill family member is the principal breadwinner.*"
>
> Report to Congress: USAID's Expanded Response to HIV/AIDS, June 2002, p. 1.

Given the findings from field research conducted in Botswana, Kenya, South Africa and Zambia, there are a number of technical assistance interventions that require donor support in order for credit unions in rural and urban areas to meet member demands for financial services throughout the duration of the heightened stages of the HIV/AIDS pandemic. In summary, these interventions include support for:

- Credit union membership diversification accompanied by adequate loan loss provisions and training in credit administration independent from payroll deduction.
- The rollout of programmed savings products for health emergencies and funerals in well-managed credit unions that meet prudential standards to protect savings and introduction of other new demand-driven products such as wills.
- A comprehensive review of existing credit union insurance arrangements for credit life (self-insured programs and external provider services) and an assessment and evaluation of need for an operating subsidy for the credit life product in severely-affected areas.
- Facilitating linkages between credit unions and health service providers so that rural-based credit unions can disseminate language-appropriate resources on prevention, testing, treatment, care and support provided by health service providers.

TECHNICAL ASSISTANCE: Diverse outreach among credit union members and diversified loan portfolios by term and purpose have characterized successful credit unions outside of Africa. The fact that most of the African SACCOs reviewed in this paper are employer-based puts them at risk for a number of reasons. First, if the primary employer downsizes or delays payment of salaries, then most members face similar needs for credit and display decreased capacity to save. Second, the prevalence of HIV/AIDS is notably higher in certain population groups such as miners or teachers.

SACCOs for industrial workers, including miners, and teachers are prevalent throughout Sub-Saharan Africa; therefore, converting to a community-based membership could help to mitigate the risk of serving a closed membership that is more vulnerable to illness. There are many people in a community, especially self-employed individuals that have farm and off-farm businesses that desire access to financial services. Their demands of and contributions to a credit union will differ from salaried members.

In the context of HIV/AIDS where employed members are falling sick and cannot keep steady jobs, the credit unions need to be able to operate in such a way that they can continue to serve these members. In order to effectively serve community non-salaried members, the credit unions need to relinquish the practice of simplifying credit union administration to salary deduction and leveraged multiples of savings and shares. It is not prudent anywhere in the world to make a loan based solely on salary instead of looking at credit history, household repayment capacity or collateral. It is reckless to make a 36-month loan to a salaried credit union member based on repayment via salary deduction in an environment where the employee may not be working within six months due to illness.

In order to build both rural and urban community-based institutions that can administer credit wisely, measure delinquency properly, make appropriate loan loss provisions and build capital, donors should support technical assistance and training for African credit unions. Continued staff training and staff rotation will be essential given staff turnover due to HIV/AIDS. Because of the dynamic of urban workers supporting rural families prevalent throughout Southern Africa, it is as important to strengthen urban-based as it is to strengthen rural credit unions in order to support the flow of funds to rural areas.

NEW PRODUCTS: The SACCOs discussed in this paper very often had borrowing demands for medical, funeral and school fees expenses among the primary reasons for borrowing; however, while school fees programmed savings exist, the corresponding programmed savings products for medical or funeral needs are not yet offered in these same credit unions with the exception of one Kenyan SACCO.

> *"Funeral is a very big need. It's because of this that we want our members to save exclusively for this purpose."*
>
> Board Chair, Aviation Workers S&CU, Zambia

Interest in programmed savings for medical and funeral needs was expressed in numerous focus discussion groups in several countries. While members in all other regions of the world have expressed that fully withdrawable voluntary savings are their preferred type of savings product, many African credit union members expressed a preference for not being able to access savings so that they can build up a safety net bit by bit for a substantial expense which members recognize as inevitable. It behooves donors to support technical assistance to help the credit unions rollout programmed savings for health emergencies, study the use of this product in terms of both of client demand and satisfaction and examine the levels of liquidity that the product may provide to the credit unions.

WOCCU is exploring a pilot rollout and subsequent research on the use of the programmed savings for health emergencies product in Rwanda. While WOCCU maintains that savings-driven growth is the most sustainable type of long-term growth, HIV/AIDS is ravaging communities at a pace that may well have raced ahead of what can be accomplished with a development approach that relies exclusively on internally-generated funds – member savings.

In addition to programmed savings for medical and funeral needs, WOCCU is considering working with African credit unions to offer the members a last living will and testament. Influenced by the focus group discussion responses in Kenya and Zambia that credit union members would like to receive legal advice about inheritance rights, in South Africa WOCCU asked all focus group discussion participants if they had a last living will and testament. Exceptionally few respondents had wills and participants expressed a desire for a basic will to be offered at their SACCO.

In many parts of East and Southern Africa, if the deceased does not have a will, then customary law (also known as the primogenity rule) will determine inheritance. Customary law dictates that when a husband dies, all assets will be passed on to the eldest brother in the husband's family of origin. The wife and children of the deceased are placed in the care of the husband's family without any ownership of assets. Given the uncertain fate of a widow and her children without a will, offering a basic will that can be completed and left for safekeeping at the credit union for a small fee would allow those members who do not want their wives' fates determined by customary law to clarify what assets should remain with the surviving nuclear family. More investigation is required in each country to ensure the legality of such a document and the feasibility of credit union staff being able to offer that service.

INSURANCE: There is a need for careful examination of existing insurance arrangements. It is critical that actuarial experts assess the existing insurance programs offered by credit unions (self-managed or with external partners) to determine what pricing adjustments and program modifications are required in order for the offering of credit life and funeral cover not to drain credit unions' resources or expose them to unsustainable losses.

ALLIANCES: Urban areas in the countries visited appear to be saturated with written advertising for basic prevention messages and indications of where individuals can acquire condoms and be tested for their status. The prevalence of these messages in rural areas is far less. The written messages are not useful to illiterates and the written materials in English are not useful to those that only speak the local language. Focus group discussions elucidated substantial member misconceptions about HIV/AIDS in rural areas and urban centers.

> *"The SACCOs can be very useful once they get in touch with those organizations that have activities…if some members could be trained to sensitize others, then they could make a difference."*
>
> Project Coordinator, Kenya Professional Association of Counselors, Kenya

Given that credit unions, especially those that are community-based, are grassroots organizations located throughout sub-Saharan Africa, they are well placed to disseminate published materials in their offices, and/or attach them to their member loan applications and print referrals on withdrawal receipts. All credit unions have annual meetings, many have quarterly education days, these gatherings are venues for outside health service providers to gain access to groups for outreach and promotion of their services. Also, since credit unions have volunteer boards, the culture exists that would lend itself to health service providers easily being able to identify volunteers to be trained as peer educators to sensitize and train the credit union members and their families.

The role for donors is to facilitate linkages, to create an interface between their AIDS prevention, testing, care, support and treatment initiatives and the rural financial institutions that they support so that referrals to access to financial services can be offered to clients receiving services from health organizations and referrals for health services can be offered at rural financial institutions.

> *"The AIDS issue is a challenge. Looking at the trends, the young people, they're the ones that will take the SACCO far, but they've been dying."*
>
> Anchor/Tshiya SACCO Manager, South Africa

REFERENCES

Branch, Brian and Anna Cora Evans. 1999. “Credit Unions: Effective Vehicles for Microfinance Delivery.” Madison, WI: World Council of Credit Unions, Inc.

Evans, Anna Cora. 2002. “HIV/AIDS & Microfinance: Kenyan Credit Unions Face the Crisis.” Washington, DC: World Council of Credit Unions, Inc.

Evans, Anna Cora and Lucy Ito. 2003. Forthcoming report on HIV/AIDS and credit unions in South Africa. Madison, WI: World Council of Credit Unions, Inc.

U.S. Agency for International Development. 2002. “Report to Congress: USAID’s Expanded Response to HIV/AIDS.” Washington, DC: U.S. Agency for International Development.